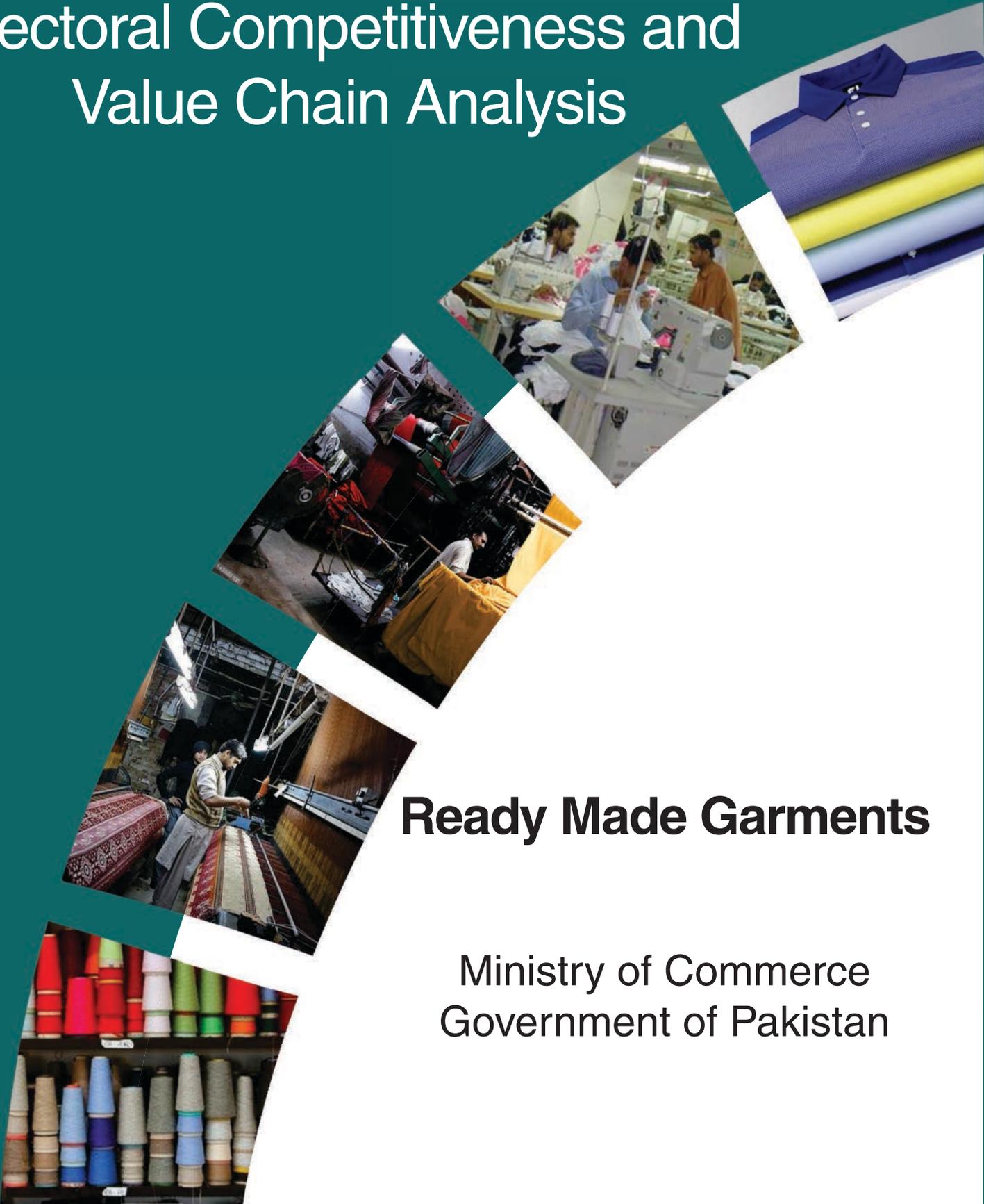




**Trade Development Authority Of Pakistan**

# Sectoral Competitiveness and Value Chain Analysis



**Ready Made Garments**

Ministry of Commerce  
Government of Pakistan

**Disclaimer:**

This report was prepared jointly by the Trade Development Authority of Pakistan (TDAP) and European Union (EU) funded Trade Related Technical Assistance (TRTA II) Programme, implemented by UNIDO in association with ITC and WIPO.

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This study was carried out under EU funded TRTA II Programme which is implemented by UNIDO in association with ITC and WIPO



# **Sectoral Competitiveness and Value Chain Analysis**

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Readymade Garment Value Chain  
Analysis in Pakistan

April 2016

## Acknowledgments

This study was carried out as part of the European Union funded Trade Related Technical Assistance (TRTA II) Programme, implemented by UNIDO in association with International Trade Centre (ITC) and World Intellectual Property Organization (WIPO). This initiative was led in collaboration with Trade Development Authority of Pakistan (TDAP), Ministry of Commerce.

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## Message from Trade Development Authority of Pakistan



The era of import substitution is now in the past. Today's world is shaped by trade integration--the ability of countries and companies to be part of an ever-expanding Global Value Chain (GVCs). These GVCs are governing features of global trade linking developing, emerging, and developed economies. Through GVCs, industrial nations connect as part of a huge economic chain focusing on specialization and high value addition in order to ensure maximum economic benefit.

Firms take advantage of this specialization and try to optimize production processes by locating various stages of their business across different sites. They therefore, manufacture goods wherever the necessary skills and materials are available at competitive costs and quality. The past decades have witnessed a strong trend towards this international dispersion of value chain activities such as design, production, marketing, distribution, etc. The result is a chain of production crossing borders throughout the globe.

GVCs make a strong contribution to international development. The level of participation in GVCs is associated with stronger levels of GDP per capita growth. They have a direct impact on the economy and employment as well as creating opportunities for national development. Global Value Chains can also be an important mechanism to enhance productive capacity by increasing the rate of adoption of technology and through workforce skill development they can help build the foundations for long-term industrial upgrading.

Pakistan's trade policies need to be formulated to ensure that our country is strategically placed within this global chain. The higher the placement, the higher the value addition provided and, so too, the higher the amount of revenue generated. Such interconnectivity however necessitates an open, predictable, transparent trade and investment regime. It is also necessary to highlight complementary policy agendas that leverage engagement in Global Value Chains into more inclusive growth and employment strategies.

To keep abreast of market trends and to motivate companies to restructure their operations internationally through outsourcing of activities involves developing a Global Value Chain Analysis for almost every product. Sadly, there is a dearth of good research in Pakistan, especially in this increasingly important area. And although Pakistan does have the expertise and ability to be firmly integrated in several fast growing sectors, data and focus is lacking.

Keeping this point in mind, the Trade Development Authority, in collaboration with UNIDO, under the EU funded Trade Related Technical Assistance (TRTA) Programme,

has developed value chain analysis for four products that have the ability to raise Pakistan's exports at a fast rate. They are; Gems and Jewellery, Leather Gloves, Rice and Readymade Garments.

Readymade Garments are the final product of the entire textile value chain. Textile is a major sector of Pakistan's economy comprising some 50% of total exports. USA and the EU are major export destinations. The advent of GSP plus status allows almost 20% of Pakistani exports to enter the EU at zero rated tariffs and 70% at preferential rates. To take advantage of the GSP plus status it is essential for the government to provide information about global trends and standards to stakeholders to compete in the global trade. This report identifies value capture opportunities and value capture bottlenecks; and suggests measures to overcome the constraints in the readymade garments value chain.

TDAP's report is the beginning of a series of research studies focused towards export enhancement. It is time that Pakistan becomes an important sector in Global Value Chains. It is time that we maximize national profit through highest value addition in the resources that our country is blessed with!

**Rabiya Javeri Agha**  
**Secretary**  
**TDAP**

## Foreword



The Global Value Chain (GVC) initiative was launched under the EU funded Trade Related Technical Assistance (TRTA II) Programme in collaboration with Trade Development Authority of Pakistan (TDAP) with the aim to assess the sectoral competitiveness and value chain analysis of the four selected sectors; Rice, Gems and Jewellery, Readymade Garments and Leather Gloves.

The TRTA II Programme is funded by the European Union (EU), implemented by United Nations Industrial Development Organization (UNIDO) in collaboration with International Trade Centre (ITC) and the World Intellectual Property Organization (WIPO). This Programme aims at strengthening the capacities of Pakistan to participate in the international trade. The overall objective of the Programme is to support economic integration of Pakistan into the global and regional economy.

A two weeks training on 'Sectoral Competitiveness and Value Chain Analysis' was held in Vienna, Austria. The training was attended by officials from Trade Development Authority of Pakistan (TDAP) and United Nations Industrial Development Organization (UNIDO). The central objective of the training was to guide professionals to independently carry out value chain analysis in different sectors.

TDAP selected four sectors; Rice, Gems & Jewellery, Leather Gloves and Readymade Garments to conduct value chain analysis. These export sectors are vital for the economy of Pakistan. They contribute around 20% to the export of the country. In recent years, exports share of Pakistan in the global markets has registered a decline, which can be attributed to quality and production constraints in the domestic production value chain. High prices, production constraints and quality constraints have led to reduced market share for Pakistan's exports products. It is imperative for Pakistan to take steps to strengthen the local production value chain to boost its exports and remain competitive in the international market.

This has been possible with the continued support of the European Union that has funded the TRTA II Programme.

**S. M. Muneer**  
**Chief Executive**  
**TDAP**

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## List of Acronyms

AAGR - Annual Average Growth Rate

CEPA - Closer Economic Partnership Agreement

ECI - Export Competitiveness Index

EU - European Union

FDI - Foreign Direct Investment

FTA - Free Trade Agreement

GVC - Global Value Chain

PCFAMEA - Pakistan Cotton Fashion Apparel Manufacturers & Exporters Association

PRGMEA - Pakistan Readymade Garment Manufacturers and Exporters Association

PTA - Preferential Trade Agreement

R&D - Research and Development

RMG - Readymade Garments

RMGVC - Readymade Garments Value Chain

TDAP - Trade Development Authority of Pakistan

UNIDO - United Nations Industrial Development Organization

WTO - World Trade Organization

## Executive Summary

The textile and clothing industry has traditionally been a major source of foreign exchange earnings, Gross Domestic Product (GDP) contribution, and employment of skilled and unskilled labour for economies. Readymade garment is a major industry within the textile value chain, and it has been an engine of economic growth for several countries such as Bangladesh, Sri Lanka, Turkey and China. It is considered a low fixed cost industry which results in speedy industrialization and high export earnings. Trade statistics indicate that in 2014, the global exports of readymade garments were valued at US\$ 412 billion.

Pakistan's exports of readymade garments increased from US\$ 1,426.826 million in 2013 to \$1,548.282 million in 2014, registering an increase of 8.51% in terms of value (Economic Survey of Pakistan). The readymade garment exports account for 54% of the export revenue within the textile and clothing industry. The sector is a significant source of employment generation and employs 2.38% of the manufacturing labour force in the country. It is necessary for Pakistan to develop its competitiveness in the readymade garment sector in order to grow its exports and increase its share in the global market and stimulate economic growth.

This report analyses the readymade garments value chain in Pakistan with the aim to identify the value capture opportunities in the sector, attractive international markets, and the key constraints in the readymade garment value chain and possible solutions to address them. Six products have been selected for the analysis; men's cotton ensembles, men's cotton trousers, men's trousers of non-cotton, women's cotton trousers, women's synthetic trousers and women's trousers of other textiles. The tools used in the analysis include: value chain

mapping, value distribution analysis, world and regional dynamism analysis, value chain performance evaluation, and attractive markets identification.

The value chain mapping of the apparel industry aptly describes the dynamics of the global industry. The value chain mapping analysis revealed that the RMG industry in Pakistan is governed by the Cut-Make-Trim (CMT) and Original Equipment Manufacturer (OEM) operations, which are the lower segments of the readymade garment value chain. The readymade garment value chain in Pakistan is buyer driven and does not engage in branding and retailing activities.

The value distribution analysis for the selected products reveals that as the level of processing increases, the profit margin increases. Raw cotton captures the lowest export unit value. Semi-processed products namely cotton yarn and cotton fabric capture higher export unit value. Manufactured products such as readymade garments have the highest return on investment. Within the global value chain of readymade garment products, marketing activities such as retailing and branding are the most profitable activities.

The global and regional dynamism analysis of the readymade garments sector indicates that the demand of articles of apparel and clothing as a percentage of the world total trade grew significantly between the periods 2009-2014. Men's cotton ensembles and women's synthetic trousers were identified as highly demanded products. The demand of men's cotton trousers, men's trousers of non-cotton, women's cotton trousers and women's trousers of other textiles were identified as static products; world demand for these products is growing at a lower rate than that of the sector.

The regional market share and regional growth rates identify the main importing and exporting regions for the selected products. East Asian and South Asian

countries such as China, Vietnam, Bangladesh, Sri Lanka, Pakistan, and India are the main suppliers of readymade garments. EU, East Asia and United States and Canada are the main importing regions for readymade garments.

The value chain performance indicates that Pakistan needs to develop its competitiveness for the readymade garment sector. In order to gauge the performance of Pakistan, it is imperative to compare its export performance with other countries that have a similar business environment. Pakistan's export competitive performance for readymade garments is compared with Sri Lanka, Bangladesh, Vietnam, Turkey, China, Hong Kong and India.

USA, Canada, and the EU are the most attractive markets for the readymade garment industry. Netherlands, Panama, USA and Austria are the main importers in terms of quantity while Switzerland, Austria, Canada, Belgium, Hong Kong and Israel are the important importers with respect to price. This trend is evident for the six selected products as well.

There are several key factors that affect the competitiveness level of the readymade garment sector in Pakistan. The actors and institutes in the value chain are not well integrated, resulting in constraints for the manufacturer at each stage of production. The readymade garment industry is also facing some major problems regarding the supply of raw materials, availability of skilled labour, technology constraints, marketing constraints and product mix.

In order to improve the export performance of the readymade garment sector, appropriate policy measures and institutional changes need to be introduced that can help resolve the bottlenecks that affect the competitiveness of the sector. Pakistan exports a limited range of products; the country should expand the product base for readymade garments. Training institutes and programmes

should be launched through public-private collaborations to address the skill shortages in the industry. Pakistan should also focus on the production of environment friendly products to capture high price markets like the USA, Canada and the EU countries. Backward and forward linkages ought to be strengthened to ensure the competitiveness of the readymade garment sector. Infrastructure facilities such as the rail and road network should be improved to ensure access to raw materials. Furthermore, the public sector should assist the industry leaders to create bilateral Free-Trade Agreements with the major importing countries.

## Introduction

The textile sector of Pakistan contributes 57% to the exports of the country and employs 40% of the country's labour force. The industry generated US\$ 1.22 billion in foreign exchange earnings in the year 2014 and is expected to continue doing well, given that Pakistan has the GSP-plus status by the EU, giving the country's exports access to a large consumer market. Within the textile industry in Pakistan, the readymade garment is a significant and growing industry. Exports of readymade garments increased from US\$ 1,426.826 million in 2013 to \$1,548.282 million in 2014, witnessing an increase of 8.51% in terms of value (Economic Survey of Pakistan). The readymade garment makes up 54% of the export revenue within the textile and clothing industry in Pakistan. It is a significant source of employment generation and, at present it employs 2.38% of the manufacturing labour force in Pakistan.

This report aims to analyse the readymade garment value chain in Pakistan. Readymade garment value chain is described as a full range of activities, stages, and actors that are directly or indirectly involved in the production process of readymade garments. Readymade Garment Value Chain Analysis will provide a holistic view of the global and local RMG industry, by examining the significance and performance of all relevant actors, technologies, standards, regulations, products, processes and markets (Gireff & Stark). This analysis will also identify the key constraints in the readymade garment value chain in Pakistan and make recommendations to address these constraints by introducing measures such as policy reform, infrastructural investment and institutional change.

The first section of this report will compile and assess the information with respect to the readymade garment sector in Pakistan. The second section will map the main characteristics such as the processes and products involved; the main actors, governance, and value distribution of the readymade garment value chain in Pakistan. The third section of the report will assess the global and regional trends of the readymade garment value chain. The fourth section presents the performance of the value chain by identifying and examining the opportunities and the constraints within the mapped value chain. The final section of the report will identify the policy and institutional issues affecting the competitiveness of the readymade garment value chain and provide recommendations accordingly.

### **Scope and Methodology:**

The global economy is increasingly structured around Global Value Chain (GVCs), whereby the production of goods and services takes place in a global setting, divided in a number of stages spread across different countries. Each firm, producer and worker is integrated in the global economy and global value chain, and is most likely to be affected by global events.

Value chain analysis is a tool that enables industrialists and policy makers to identify industrial value capture opportunities. It also helps public and private sector stakeholders to devise strategies for business growth, such as improvement in the quality of product, process up-gradation, engagement in new activities, or participation in new value chains. This methodology is particularly useful for policy makers to identify the priority sectors where

government efforts such as policy regulation, direct intervention, provision of information and budgets ought to focus. The identification of value added products and the market analysis is beneficial for the private sector, as it identifies the potential attractive markets, the gaps local firms face and possible solutions to overcome them. Most importantly it points out the winners and losers in the chain, therefore, signalling towards lucrative investment opportunities. This methodology has been adopted by a range of institutions and governments in order to understand global industries and to help guide on the formulation of new programmes and policies. In this way countries can insert themselves in the most strategic component of the value chain and achieve economic growth.

This report has adopted the UNIDO value chain methodological approach. This methodology maps the readymade garment value chain to identify the processes, actors and linkages in the value chain. The value distribution analysis for the selected products reveals the export unit value and identifies the product that generates the highest revenue. The global and regional analysis employs two tools to assess dynamism; annual average growth rates and global demand. The Export Competitiveness Index (ECI) is calculated to assess the performance of Pakistan and benchmark its performance with other countries. The import dependency index, calculated, identifies the attractive markets according to the market size and the prices. The results of the quantitative analysis are complemented by industry insight obtained through published reports, surveys and group discussions carried out with exporters, associations and industrialists.

## Value Chain Overview

Textile and all textiles-related industries are the backbone of the Pakistan's economic growth. The textiles and garments (T&G) sector accounts for 48% of Pakistan's total exports, 30% of value-added in large-scale manufacturing, and 40% of industrial employment (Hamid, Nabi, & Zafar, 2014). Pakistan mostly exports low or intermediate value added products. In 2012, Pakistan's share of world exports of cotton yarn, cotton fabric, textile made-ups, and garments (knitted and woven apparel) was 15.3%, 8.8%, 6.1%, and 1.0%, respectively. The figures indicate that instead of moving up the value chain, Pakistan seems to have moved downward by exporting semi-processed products (Hamid, Nabi, & Zafar, 2014).

The global market for textile and ready-made garments is growing exponentially but Pakistan's share in the total global export has deteriorated. Pakistan is continuously losing its market share in the global garment industry to rivals. The value-added garment sector has grown marginally due to its limited product range, low usage of manmade fibres and inability of manufacturing units to restructure themselves to meet changing international requirements.

The garments industry can be broadly divided into two categories; knitted and woven apparel. In 2014 Pakistan's exports of knitted and woven apparel totalled \$2 billion and \$1.9 billion respectively. Table 1 lists the products selected for the value chain study of readymade garments in Pakistan. 70% of the readymade garment exports from Pakistan consist of the products mentioned in

Table 1. The major markets for these products are the United States, United Kingdom, Germany, Spain, Italy and China; countries which are huge markets for denim, because the medium-staple cotton grown in Pakistan is particularly suitable for denim production; the country is also a major exporter of denim cloth.

**Table 1: Products Selected for Readymade Garment Value Chain Analysis**

HS Code	Product Description
620322	Men's cotton ensembles
620342	Men's cotton trousers
620349	Men's trousers of non-cotton
620462	Women cotton trousers
620463	Women synthetic trousers
620469	Women's trousers of other textile

It is necessary for Pakistan to develop its competitiveness in the readymade garment sector in order to grow its exports and increase its share in the global market and stimulate economic growth.

Globally, the readymade garment industry is regarded as a buyer driven value chain whereby retailers and brands decentralize the production processes. The production of goods takes place in the developing countries. Decisions on what to produce, where to produce and the price are determined by retailers located in the developed countries.

Readymade garment industry is a labour intensive industry. More than 25 million workers in the developing countries are employed in the industry (ILO report). Female participation is evident in production related activities.

In 2005, World Trade Organization (WTO) introduced a trade agreement, which lifted import quotas on textile and clothing, and importers were no longer required to discriminate between exporters. As a result, China, India and Bangladesh emerged as the global leaders in this industry. Lower labour cost and Preferential Trade Agreements (PTAs) in the garment sector gave an edge to developing countries. Bangladesh and Sri Lanka greatly benefited from the PTAs and FTAs with Western countries. Turkey and Sri Lanka upgraded within the garment value chain through labour reforms and skill development.

South Asia emerged as a regional hub for the production and export of readymade garments. Bangladesh captured a major share of the readymade garment industry and became the second largest producer of textile garments. The textile garments of Bangladesh contribute 18% to the GDP and 85% to the exports of the country.

European Union, USA and Japan are the main importing markets. EU's imports account for 40.2% of the total imports followed by USA (20.8%) and Japan (8%). The aforementioned countries import 69% of the total imports in the garment industry (Maximillian, 2013).

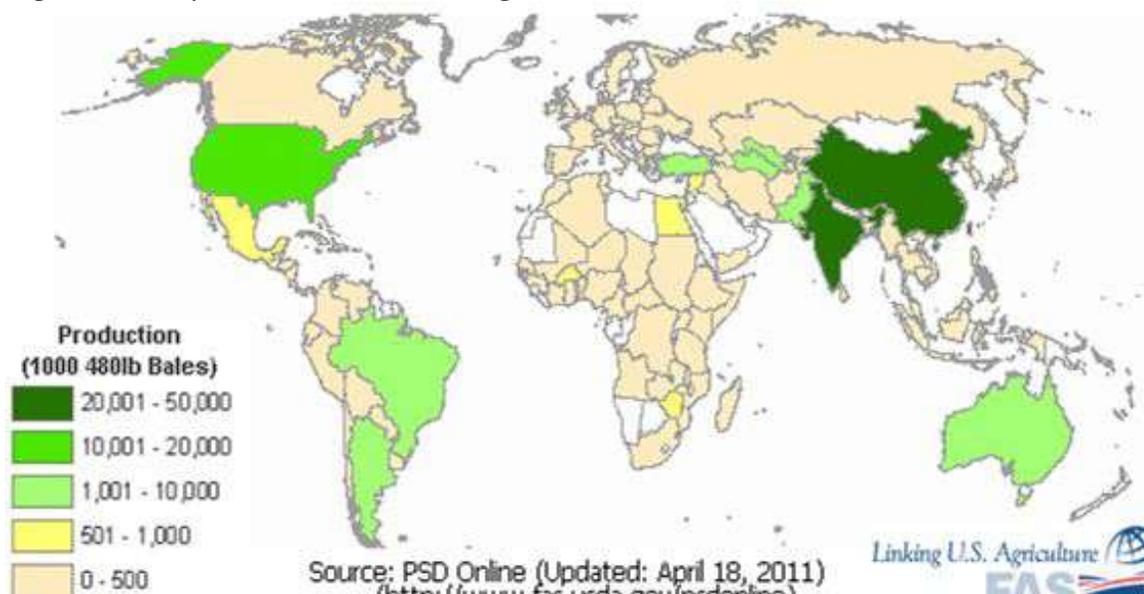
The table below shows the top producers, exporters and emerging producers of the readymade garment industry. China, Bangladesh, India, Turkey and Vietnam are the major producers of readymade garments while EU countries, USA, Japan,

Hong Kong and Canada are the main importers. The emerging producers in this sector are Panama, Mali, Samoa, Burundi and Ethiopia.

**Table 2: Major Producers, Importers and Emerging Producers**

Top producers	Importers	Emerging producers
China	EU-28	Panama
Bangladesh	US	Mali
India	Japan	Samoa
Turkey	Hong Kong	Burundi
Vietnam	Canada	Ethiopia

Figure 1: Major Cotton Producing Areas



The value chain of the readymade garments is an extensive one. It begins with the production of cotton and ends at marketing and branding activities. The figure above shows the major cotton producing countries. The area highlighted in dark green indicates that Pakistan, India, China and Bangladesh are major cotton producers as well as the major exporters of readymade garments.

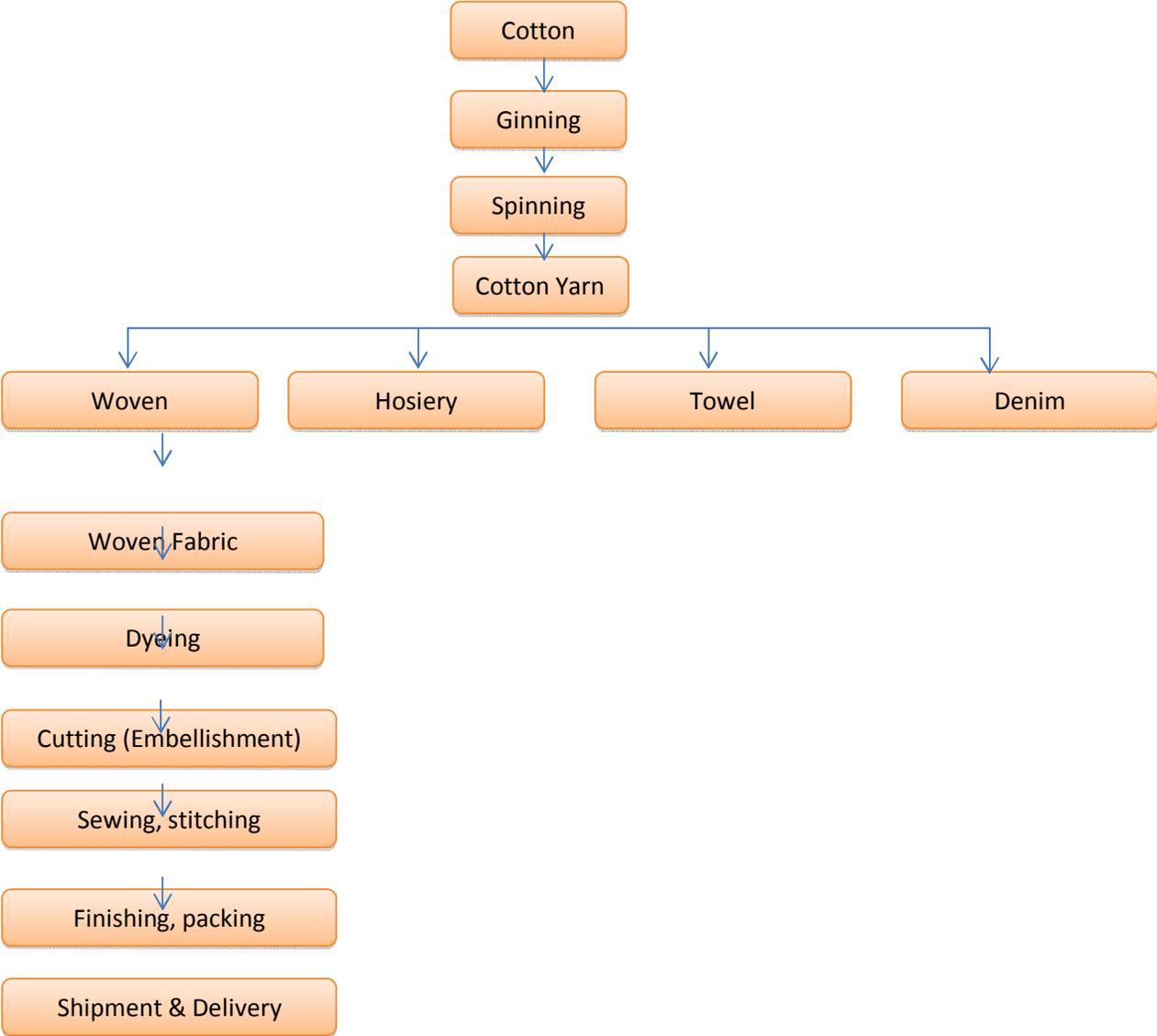
## Value Chain Mapping

This value chain mapping exercise covers three fundamental aspects of readymade garment manufacturing. The first aspect defines the processes that are involved in the transformation from raw material to the final product. The second aspect identifies the chain actors, for example the processing firms, suppliers, service providers and institutional players. The third aspect identifies the linkages and relationships between the participating actors in the readymade garment value chain.

The textile value chain consists of ten industrial sub-sectors and is highly integrated and interdependent. The value chain is quite long starting from cotton picking and ending with the production of a finished garment (Textile Policy 2014-2019). The final product of one sub-sector is the basic raw material for the other. The ready-made garment industry in Pakistan is linked to the agricultural and textile sector. The process initiates with cotton production, which is then manufactured into fabric through ginning and spinning procedures. The fabric obtained is dyed according to the buyer's specifications and then cut, made in to the readymade garment and trimmed. The product is then packed and ready for shipment to the customer. The readymade garment value chain in Pakistan is buyer driven and therefore, it does not carry out branding and retailing

activities. Figure 3 shows the processes and activities involved in the readymade garment value chain in Pakistan.

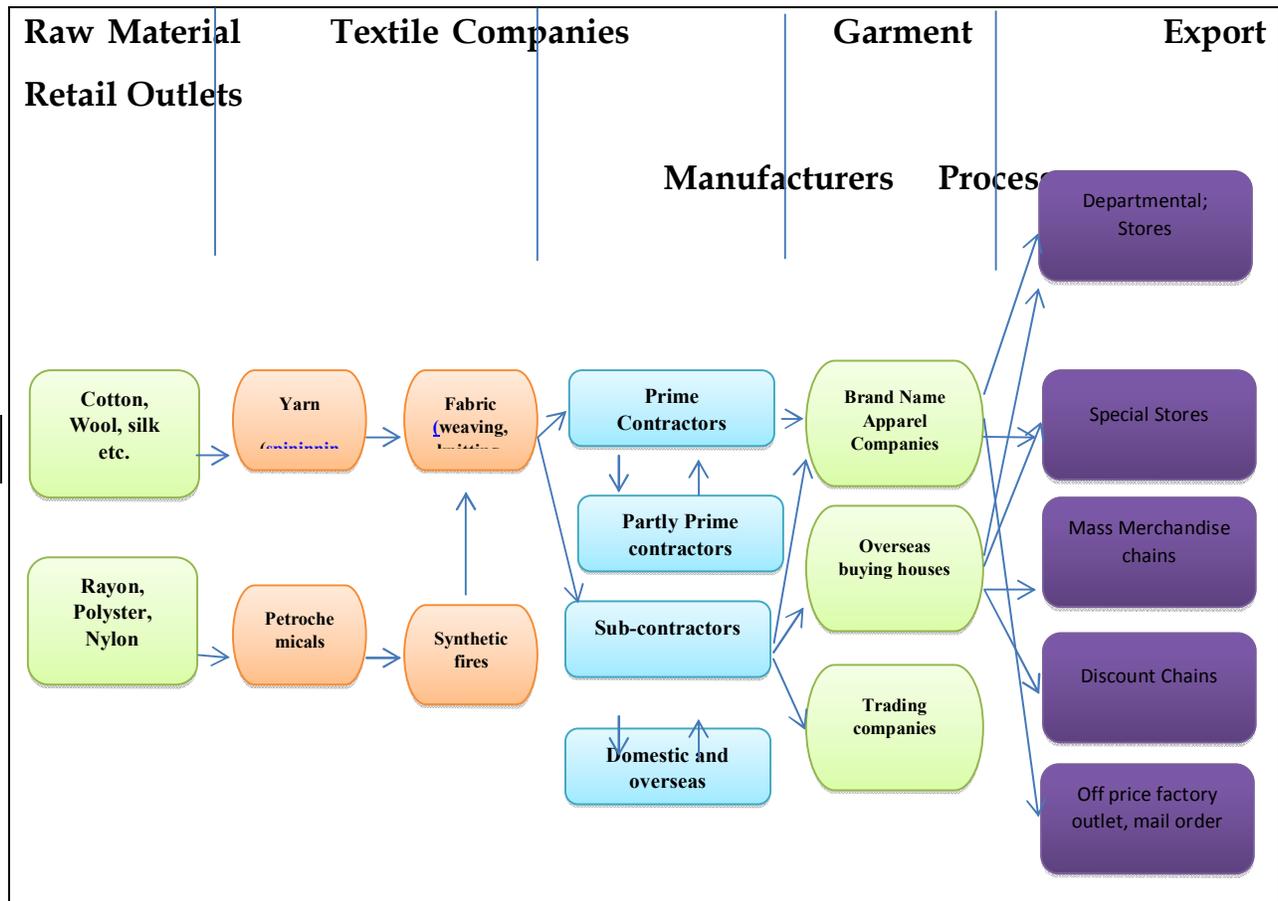
Figure 2: Processes Involved in Readymade Garment Value Chain in Pakistan



The readymade garment (RMG) value chain consists of five major networks: raw material, intermediaries, producers, exporters and marketers. The natural fibre

(cotton & wool) inputs are received from the agriculture sector and are the raw material of textile garment. The artificial fibre and chemicals are the inputs received from the chemical sector and are used in the process of dyeing. The yarn and fabric goes through the process of designing, cutting, sewing, buttoning and ironing to manufacture readymade garments. The readymade garments are then exported through different channels such as brand name companies, trading companies and overseas buying homes. Readymade garments are marketed through different channels such as department stores, specialized stores, mass merchandized chains, factory outlets and discount chains. Figure 2 shows the major actors and their duties that take place during the manufacturing of readymade garments.

Figure 3: Main Activities in Readymade Garment Value Chain



**Raw Material Network-----Intermediate good Network-----Production Network-----Export Network----- Marketing Network**

### **Value Chain Actors:**

The direct actors involved in the readymade garment value chain in Pakistan are the raw material suppliers, producers, skilled labour and the global buyers.

The readymade garment industry in Pakistan is linked to both agriculture and textile sectors. Raw cotton is processed into fabric, which is then used to manufacture readymade garments. Inputs required for the readymade garment industry are supplied locally. The inconsistent supply and quality of the fabric is a major concern for the readymade garment manufacturers in Pakistan. Therefore, it is essential that strict quality controls are put in place in the textile and agriculture sector to ensure the quality of the readymade garments.

The readymade garment industry employs skilled labour at all stages of production. Cutting, stitching and designing are highly specialized activities that need skilled labour to produce quality products. The industry is concentrated in Karachi and Lahore - cities that have access to skilled labour. According to market sources, the rate of female participation in the readymade garment industry in Pakistan is significantly high.

The global buyers or the retailers are the intermediaries between the global consumers and the local manufacturers. Retailers directly deal with the manufacturers and make decisions regarding the inputs, design, stitching, and

other production related functions. The retailers in the global value chain are the most powerful actors. They are an essential source of knowledge, skills and technology. Most of the retailers are located in developed countries. Prominent retailers in the readymade garment sector in the United States are Wal-Mart, Kmart, Dayton Hudson Corporation and JC Penny. Marks and Spencer is the leading retailer of United Kingdom with 134 franchises in 25 countries. C&A, Quelle, Metro/Kofhof, Kardstadt and Otto are the biggest apparel retailers in Germany.

There are two private sector associations in the readymade garment industry: Pakistan Readymade Garments Manufacturers & Exporters Association (PRGMEA) and Pakistan Cotton Fashion Apparel Manufacturers & Exporters Association (PCFAMEA). PRGMEA is actively involved in the development of the readymade garment industry and assistance to the exporters. The association has an impressive membership and is functional in all major cities of the country. The association keeps its members informed about the attractive markets, government policies and various trade fairs. Additionally, PRGMEA also runs a technical training institute.

Pakistan Readymade Garments Technical Training Institute (PRGTTI) offers a number of management related courses relevant to the readymade garment industry in Pakistan. Such management practices can greatly improve the productivity of the readymade garment sector. A course on merchandising has gained immense credibility within the industry. Firms send their employees for Merchandiser Training to PRGTTI.

Government institutions such as the Trade Development Authority of Pakistan (TDAP) facilitate exporters to participate in international exhibitions. Most importantly, TDAP assists garment exporters to obtain the Certificate of Origin, which is essential for concessions in markets which have unilateral and bilateral trade agreements with Pakistan.

### **Global Governance:**

The readymade garment industry is governed through the following operations that define the power relationships between different actors:

#### **Cut Make Trim (CMT):**

This is the most basic form of operations in the RMG industry. Input and product specifications are provided by the retailer. This form of governance is evident in countries where the tariff rates and cost of labour is low but the manufacturer does not have access to good quality inputs.

#### **Original Equipment Manufacturing(OEM):**

Under this operation, firms manufacture products that bear the buyer's brand name. The manufacturers are responsible for purchasing raw material and all other inputs required during the manufacturing and distribution process. The firms involved in these operations have little say in what inputs to use.

#### **Original Design Manufacturing (ODM):**

The manufacturer is responsible for designing along with production processes. The product will bear the buyers brand. Designing is the main component of this model.

### **Original Brand Manufacturing (OBM):**

Firms design, manufacture and brand under the operations of this business model of readymade garments.

Under the aforementioned rules of governance prevalent in the readymade garment industry, Sri Lanka emerged as an Original Design Manufacturer (ODM). The country is involved in purchasing raw materials, designing, cutting, sewing, trimming, and packaging and distribution operations. Bangladesh follows the Original Equipment Manufacturing (OEM) model which includes production processes such as cutting, sewing, making, and packaging and distribution operations of the final product at a pre-determined price. The readymade garment industries in Turkey and East Asia have upgraded in the readymade garment value chain. Firms in these countries are governed under the principles of Original Brand Manufacturing (OBM).

The value chain in Pakistan is governed on the cut-make-trim (CMT) and original equipment manufacturer (OEM) operations that are the elementary segments of the readymade garment value chain. Moreover, the readymade garment industry has to fulfil stringent requirements for certification and compliance. The quality and standard management of the products, as per the EU buyer requirement, is done in two different ways: internal quality control system, for which producer/exporter submits an undertaking for quality assurance; and through an external audit firm (SGS is an important auditing body

in Pakistan). Exporters also have to fulfil the labelling and packaging requirement as per the buyer's instructions. Exporters need to fulfil certain internationally set compliances. The compliances are made usually six months prior to the export order, which is renewed annually. Export companies in Karachi and Lahore usually obtain their certification from British Standard Institution (BSI) for compliance. Compliance certificates cover issues relating to national minimum wage, working hours, child labour, fire fighting system at the factory area, good working environment, treatment plant, disposal of hazardous waste, record keeping as per international standard, etc. Some of the renowned retail chain stores require additional compliance, which the exporters have to fulfil in order to continue their exports. According to market sources, if a buyer is a middleman or a wholesaler, the requirements are relatively less stringent; however if a buyer is a chain store or a retailer, it is much strict in its dealing.

## Value Chain Distribution

The 'value distribution' indicator analyses the level of revenues and profits captured by the textile and clothing products as they move from lower segments of the value chain that have the minimum level of processing to the higher segments that have a greater level of processing. By identifying the stages where most value is created and profits are maximized; this section of the value chain analysis helps to identify the 'winners' and the 'losers' in the readymade garment value chain in Pakistan.

The following graph shows the unit value of the entire readymade garment value chain. The export unit value identifies the product, which earns maximum revenue. The graph shows that raw materials, namely cotton, capture the lowest export unit value. Semi-processed products namely cotton yarn and cotton fabric capture higher export unit value. It is evident that the unit value of cotton yarn is higher than that of cotton fabric. This trend is evident due to the difference in the unit of measurement. Fabric is measured in 'yards' but the data available for the analysis was in 'kgs'. Processed products such as readymade garments capture the highest export value.

According to market sources, in Pakistan the profit margin on fabric is around 6 to 8% whereas on readymade garments it is around 12 to 15%. It is pertinent to mention that the turnover for fabric is double that of readymade garments. Order disbursement of readymade garments takes around 60 to 90 days while order disbursement for fabric only takes 20 to 40 days. This leads to equal generation of profits in both industries.

Figure 4: Value Distribution of Readymade Garment Industry

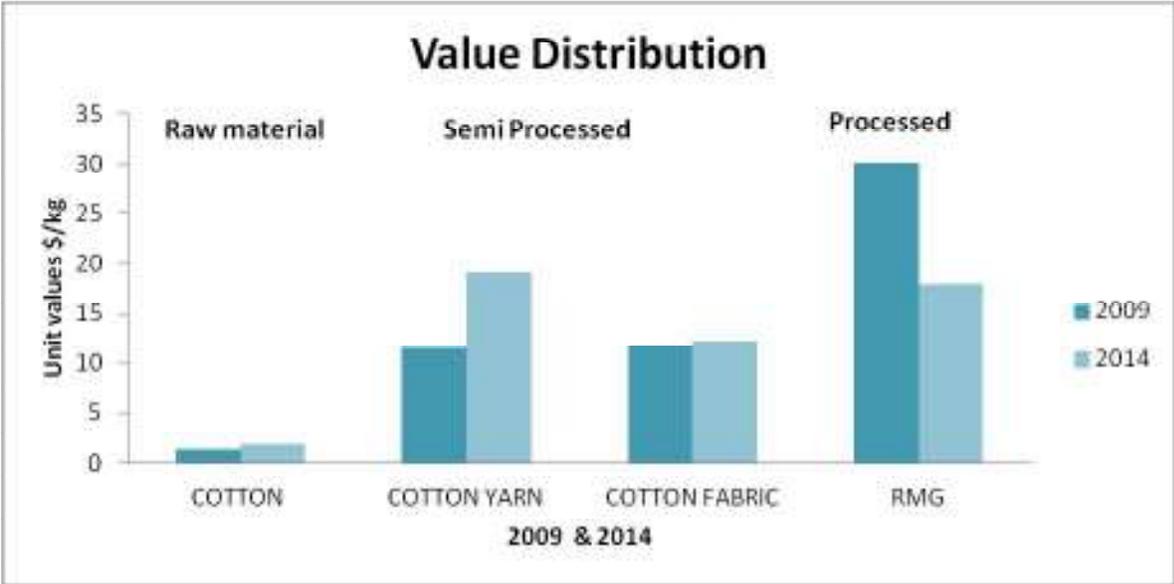
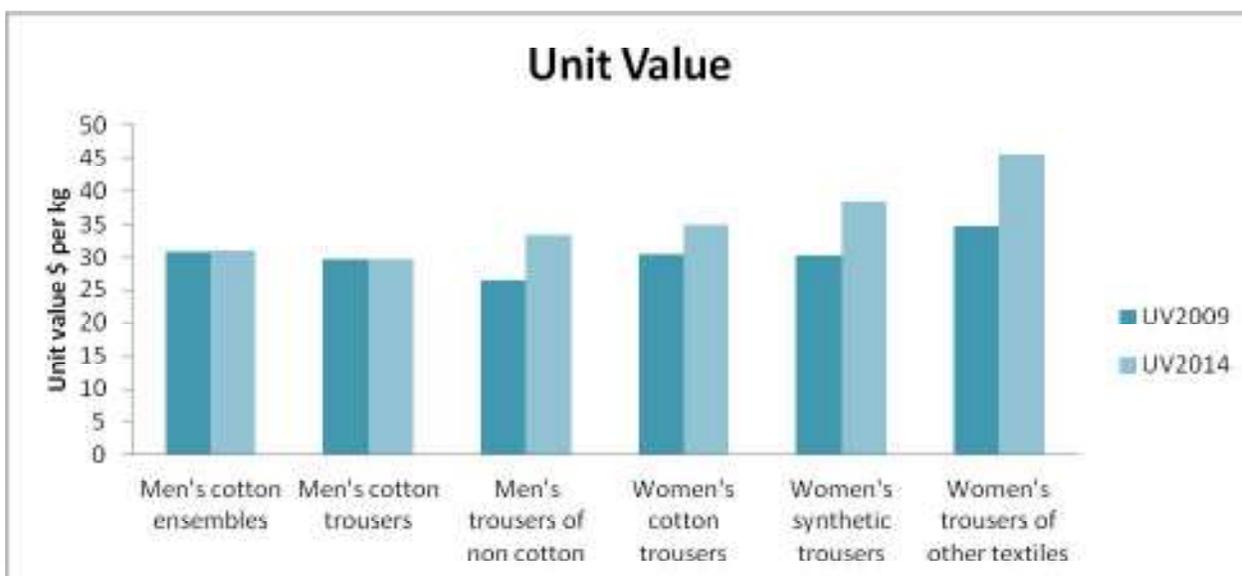


Figure 5: Export Unit Value of Selected Products



The export unit value provides the price trends of the products selected for the RMG Value chain between 2009 and 2014. The export unit value represents the most profitable product in value chain.

Figure 5 shows the unit value of the six ready-made garment products selected for this study. The export unit value indicates that the value of women's articles is higher than men's ready-made garment articles. The unit value of women/girls trousers of other textile is the highest while the value of Men's trousers of cotton is the lowest. Between 2009 and 2014, the export unit value of men's trousers of non-cotton, women's cotton trousers, women's synthetic trousers and women's trousers of other textiles increased.

## Global and Regional Dynamics

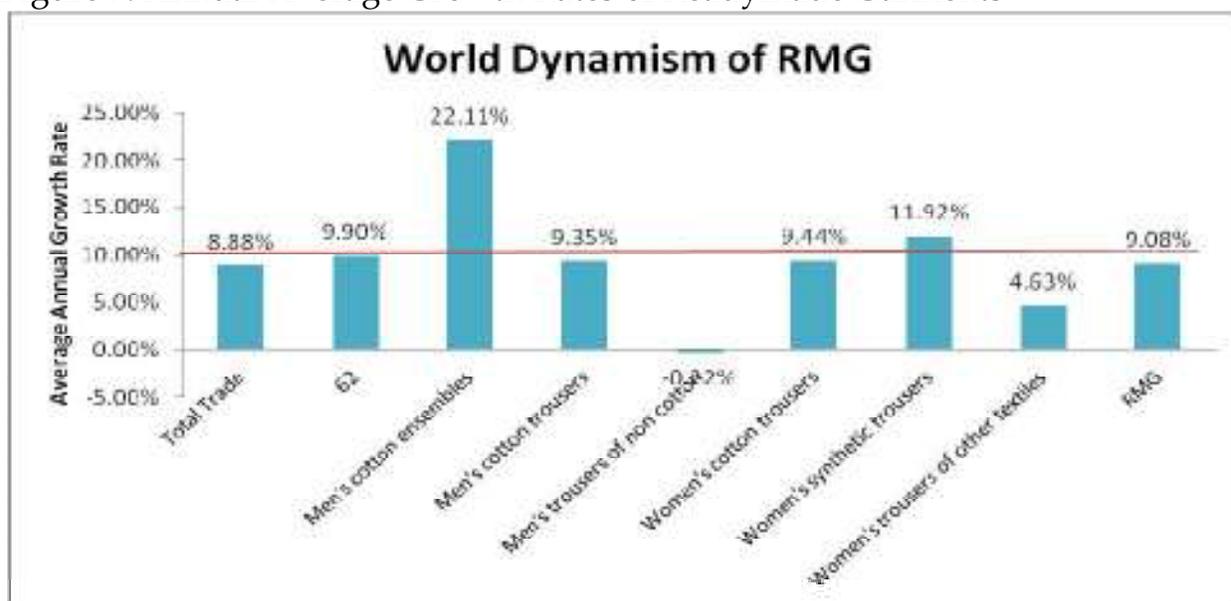
The global expansion of the readymade garment industry has been driven by a trade policy introduced in 2005. The Agreement on Textiles and Clothing by the World Trade Organization (WTO) removed the quotas that had previously regulated the industry. This policy led to major restructuring of the global apparel industry. Countries such as China, India and Bangladesh emerged as the leaders in lower value added products and developed countries such as the United States, United Kingdom and the European Union countries concentrated on marketing and branding activities.

The countries most reliant on the exports of apparel are Bangladesh (78%), Mauritius (63%), the Dominican Republic (48%) and Sri Lanka (46%), while in Tunisia and Morocco apparel represents more than 30% of total exports, and in Pakistan, Turkey and Romania 20-25% of the total exports. In Northeast and Southeast Asia, apparel has declined in importance, except in China where it remains the top export item (UNIDO, 2013).

### **World Dynamism:**

The indicator for world dynamism identifies whether the sector has an impressive growth rate and is highly demanded in the global market. This methodology employs two tools to assess world dynamism: annual average growth rates and global demand.

Figure 7: Annual Average Growth Rates of Readymade Garments



The annual average growth rates of the selected products are analysed over a period of time. Figure 7 indicates the annual average growth rates of the selected products: men's cotton ensembles, men's cotton trousers, men's trousers (non-cotton), women's cotton trousers, women's synthetic trousers and women's trousers of other textiles. The growth rates of the selected products are compared with the growth rate of the total trade<sup>1</sup>, growth rate of items in Chapter 62<sup>2</sup>, and the growth rates of items in the readymade garment value chain<sup>3</sup> between 2009 and 2014. The graph indicates that over the course of five years, trade in chapter 62 grew at around 9.9%, as opposed to the world total trade that grew at a rate of 8.88%, making articles of apparel and clothing a dynamic sector for which the world demand is rapidly increasing. The annual average growth rates of the six readymade garment products and the total readymade garment value chain have been benchmarked with the broader category of Chapter 62. It is evident that the

<sup>1</sup> Total trade includes agricultural and manufactured products

<sup>2</sup> Articles of Apparel and Clothing

<sup>3</sup> Includes the six selected products

annual average growth rate of the total readymade garment value chain is lower than that of Chapter 62, indicating that within the category of articles of apparel and clothing the readymade garment value chain is growing at a slower rate. Further interpretation of the graph highlights that men's cotton ensembles with an annual average growth rate of 22.11% and women's synthetic trousers with an annual average growth rate of 11.92% are the two products which are rising above the annual average growth rate of Chapter 62 and the total world trade. These statistics entail that these two products are in great demand in the global market. The other four products are growing well below the annual average growth rate of Chapter 62 and the total world trade, making them 'static products', implying that world demand for these products is decreasing or growing at a lower rate than the sector.

The world market share of the product measures the importance of the product in world total trade. By comparing the demand trends in two years it is possible to determine if the product has gained or lost relevance. For the purpose of this study, we will assess the market share of the readymade garment products in Chapter 62.

Figure 8: World Market Share of RMG

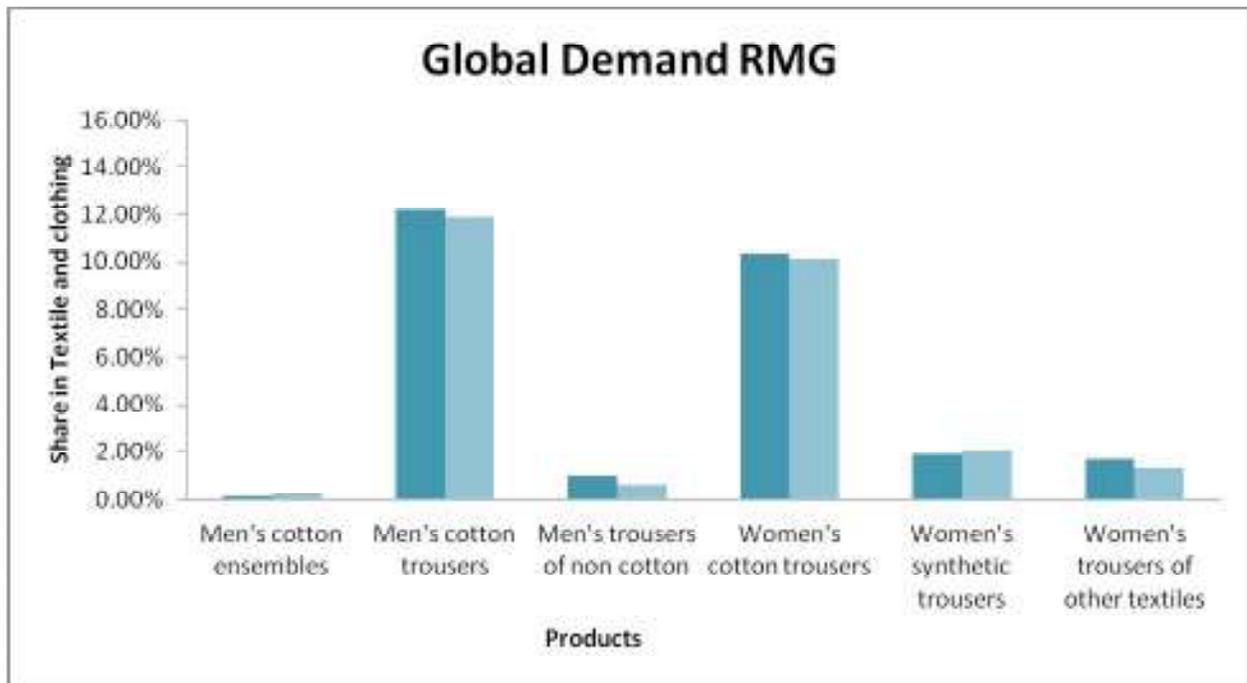
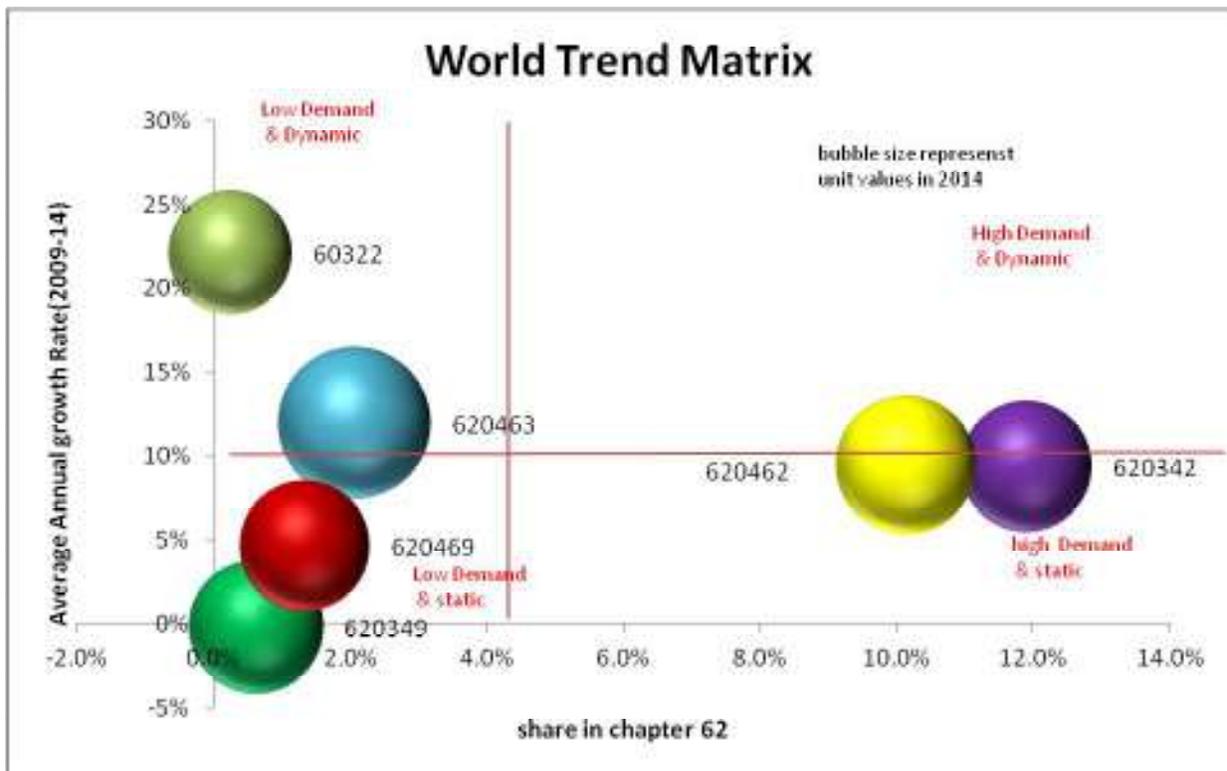


Figure 8 shows the global demand of six products of readymade garments selected for the analysis. The diagram indicates that in 2009, the demand of men's/boys' ensembles in Chapter 62 was negligible but has improved slightly by 2014. Men's cotton trousers were highly demanded in 2009 and they captured a share of 12% within articles of apparel and clothing; in 2014 this share registered a slight decline. Women's cotton trousers are also a highly demanded product and its share in Chapter 62 remained constant between 2009 and 2014. Share of women's/girl's trousers and shorts of synthetic fibre (not knitted) was 2% in 2009 but increased to 3.5% in 2014 while the share of women/girls trousers and shorts of other textile not knitted in Chapter 62 was 2% in 2009 but decreased to 1.8% in 2014. The analysis shows that Men's cotton trousers and Women's cotton trousers are highly demanded products in the global market.

Figure 9: World Trend Matrix for RMG

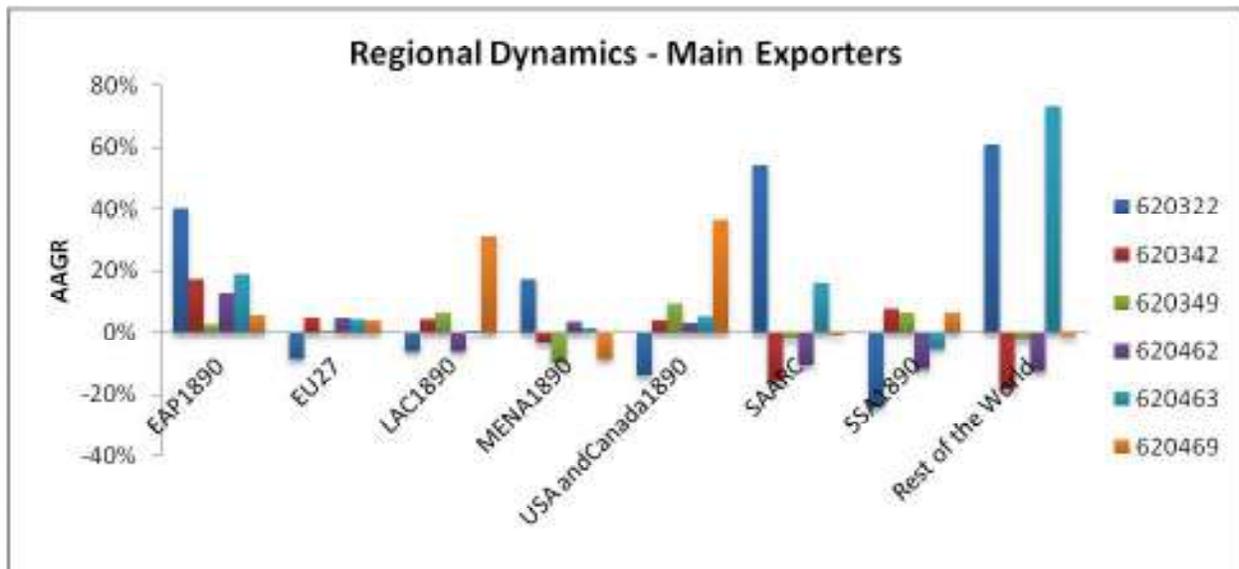


The world trend matrix for readymade garments classifies the export products in four categories according to their dynamism and world market share. The size of the bubble represents the unit value for each of the readymade garment products. If a product falls above the average annual export growth rate of readymade garments, it will be considered as dynamic, otherwise static. Furthermore, if a product's share in the total RMG value chain is greater than the average, the product will be considered as highly demanded. The graph shows that Men's cotton ensembles and Women's synthetic trousers and shorts of synthetic fibre are dynamic products. Women's trousers of other textile and Men's trousers of other textile material are static and low demanded products. Women's cotton trousers and Men's cotton trousers are on the average line, whereby the products are static but have a high demand.

## Regional Dynamics

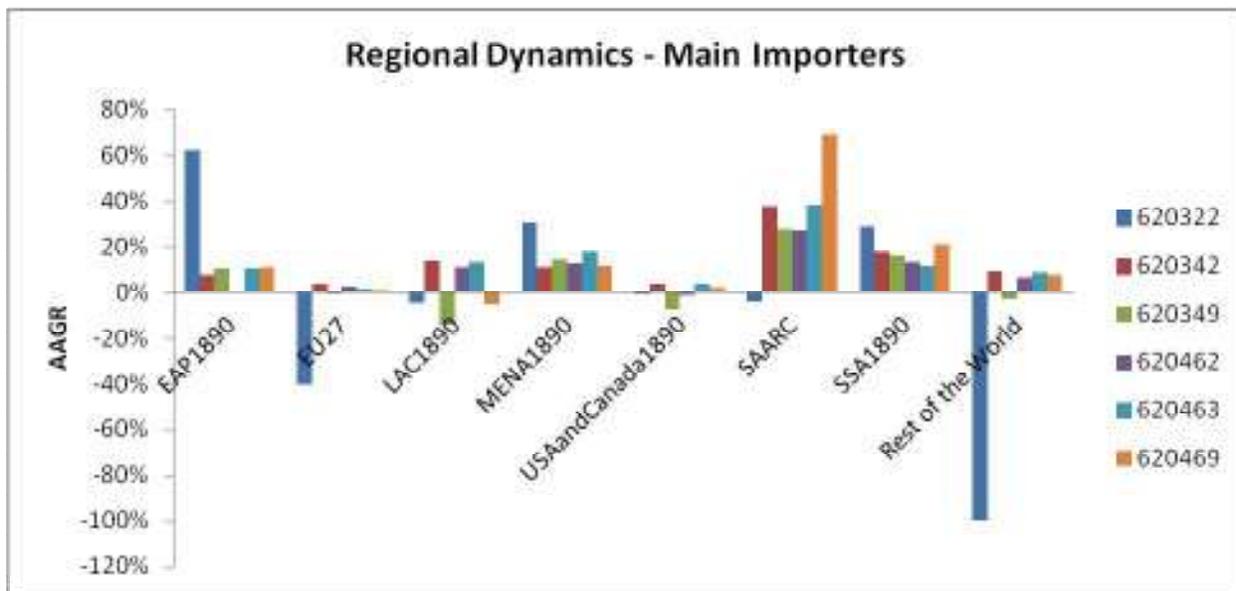
Regional trends indicate the geographical concentration of the imports, exports, and demand for a product. Regional trends can be measured using two indicators: the regional market share and the regional growth rate. The market share identifies the major importing and exporting regions of each product and the regional growth rate indicates growth patterns in each region.

Figure 10: Annual Growth Rate of RMG in Export Regions



The graph in Figure 10 highlights the average annual export growth rates of the selected products. East Asia is the only region that has a significant growth rate for all the selected products. SAARC has impressive export growth rates for two products namely, men's ensembles of cotton and women's/girl's trousers, and shorts of synthetic fibre. USA is the biggest exporter of women/girls trousers and shorts of other textile materials, not knitted. EU, USA and South Asia are also important export regions.

Figure 11: Annual Average Growth Rate of RMG in Import Regions



The import growth rates of the selected products show the rate at which the demand of the product has increased in different regions. The import growth rate of the selected readymade garment products is high in SAARC, Middle East, and Sub-Saharan Africa. The import growth in EU and Canada is exceptionally low. A marginal increase in the imports of the SAARC region resulted in a higher change in terms of growth rate.

The regional market share identifies the main exporting and importing regions of each product. Figure 12 shows the exporting regions for men's cotton ensembles. In 2009 EU was the main exporting region followed by East Asia and South Asia. However, within a span of five years South Asia became the biggest exporting region followed by East Asia and EU. Pakistan is the top supplier of this product and its exports represent 42.15% of the world exports.

Figure 12: Regional Exporters of Men's Cotton Ensembles

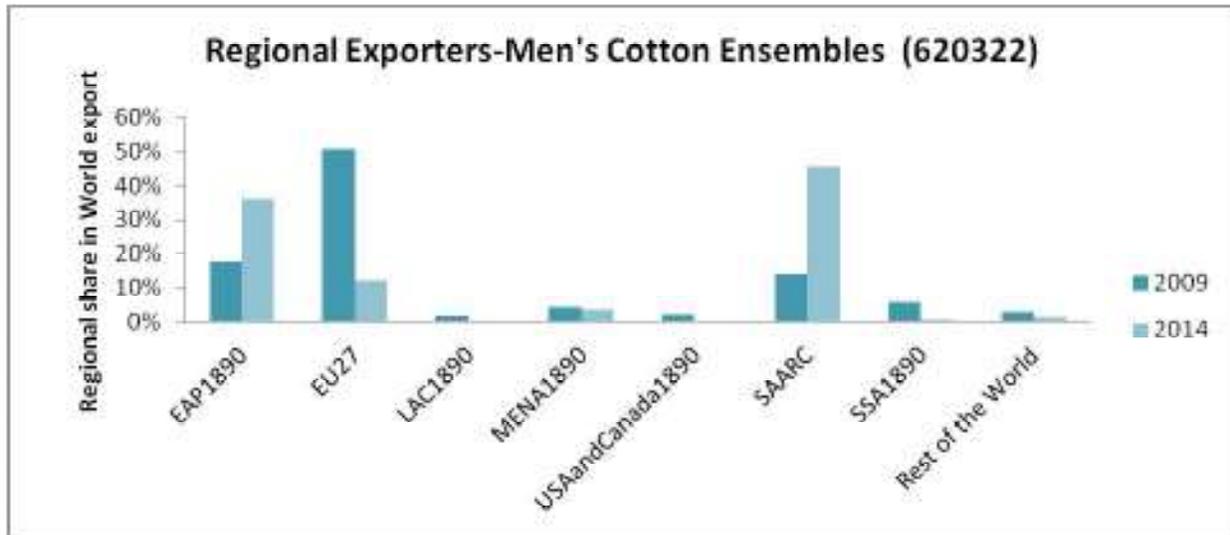
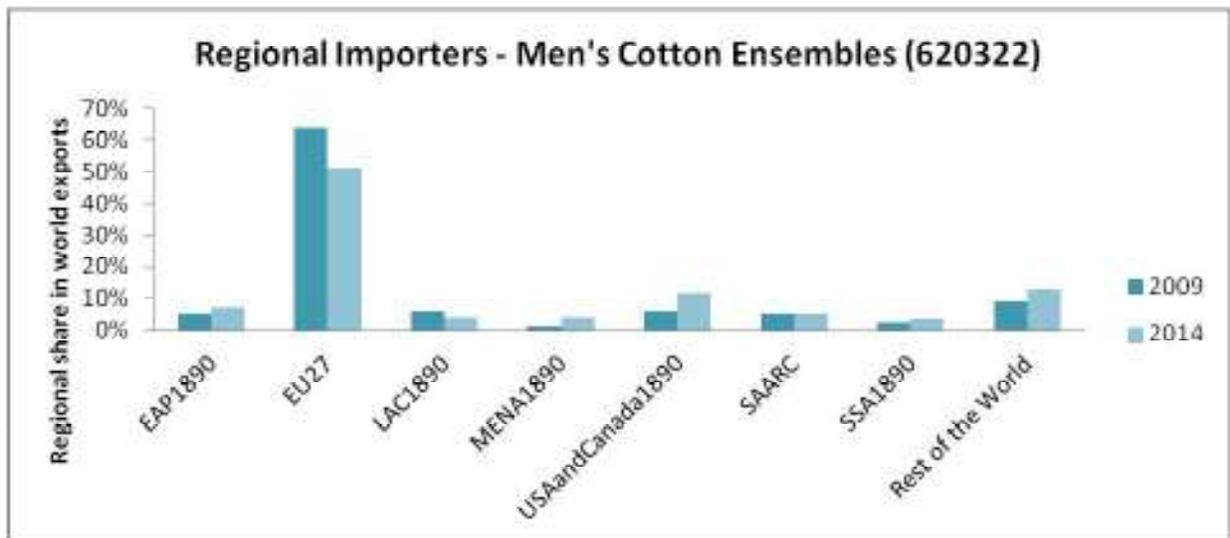
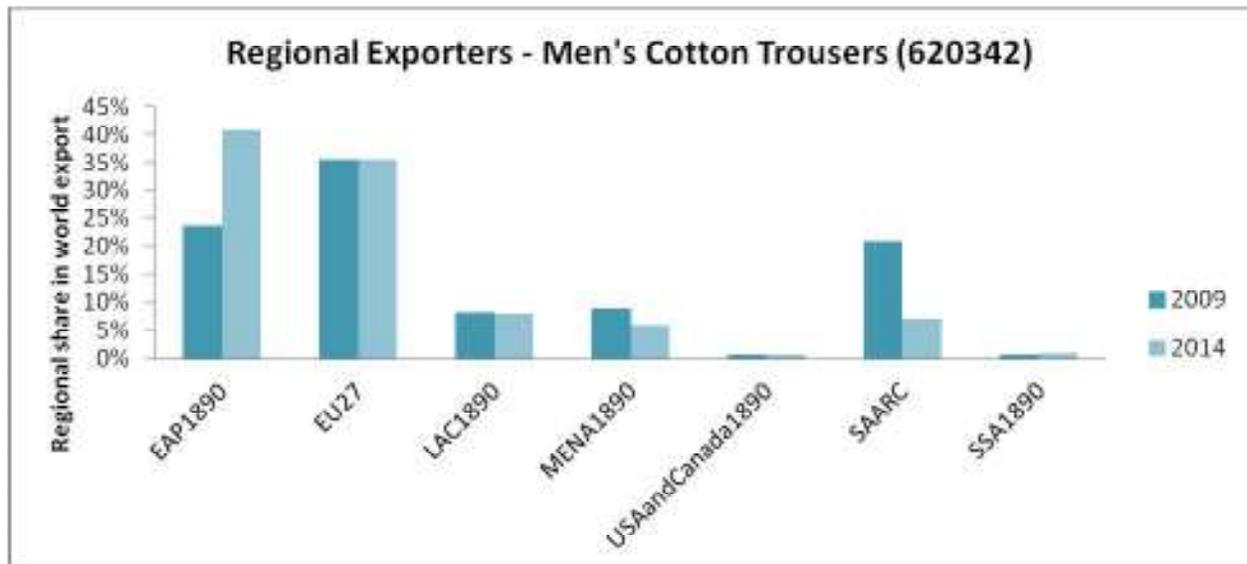


Figure 13: Regional Importers of Men's Cotton Ensembles



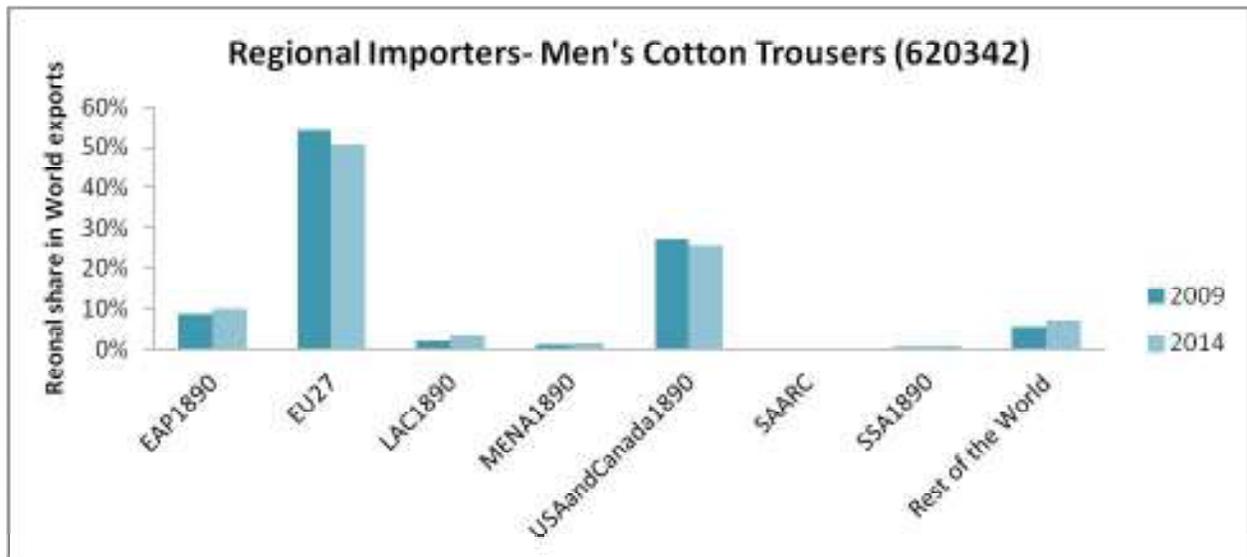
EU is the main importing market for men's cotton ensembles. Within the last five years, the EU's regional share in the world exports declined from around 64% to 51%. The market trend of the product remained constant for the rest of the regions.

Figure 14: Regional Exporters of Men's Cotton Trousers



East Asia and EU are the major exporting regions for men's cotton trousers. Most of the global buyers are located in the EU and USA, therefore, the exports from EU most likely denote the re-exports. The regional share of East Asia increased from 24% to 41% between 2009 and 2014. SAARC's share reduced from 21% to 7% between the selected years. Pakistan's exports of this product represent 2.36% of the world exports.

Figure 15: Regional Importers of Men's Cotton Trousers



The main importers of men's cotton trousers are the EU countries, followed by USA and Canada. The share of the product decreased marginally in 2014 in both regions.

Figure 16: Main Exporters of Men's Trousers Non-Cotton

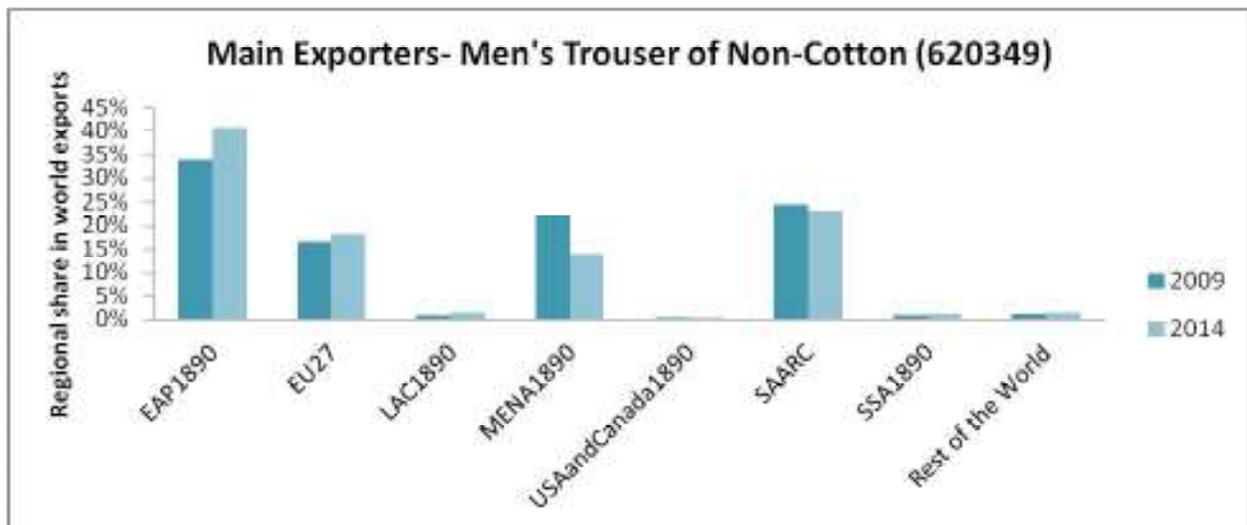


Figure 16 shows the main exporting regions of non-cotton men's trousers. East Asian countries are the major suppliers in the global market, followed by SAARC

and the EU. Pakistan's exports represent 5.74% of the world exports for this product.

Figure 17: Main Importers of Men's Trousers of Non-Cotton

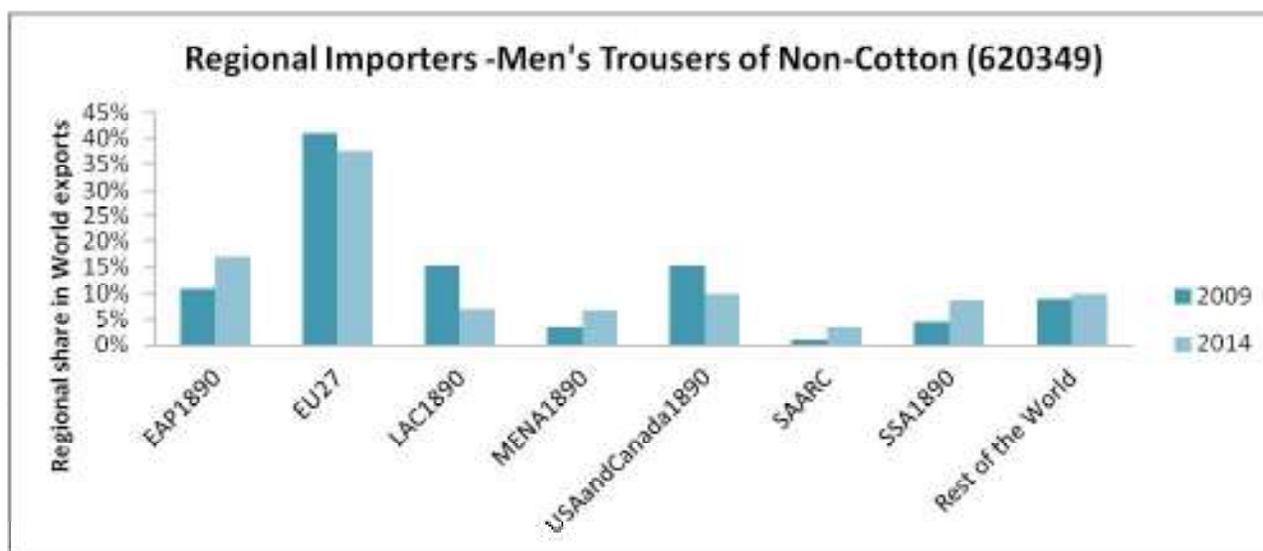
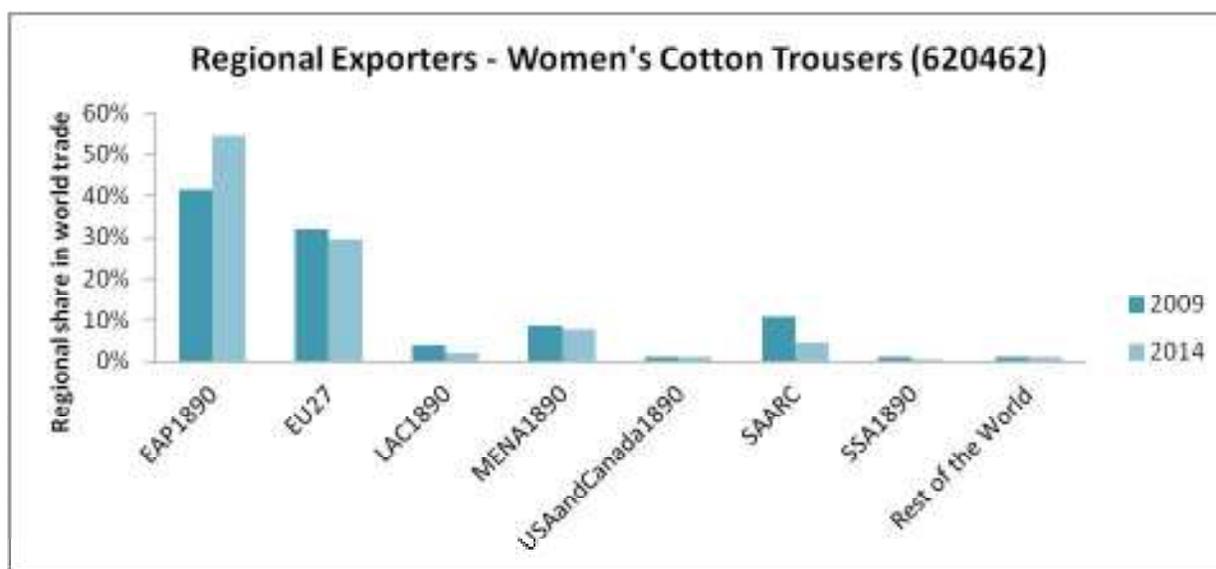


Figure 18: Main Exporters of Women's Cotton Trousers

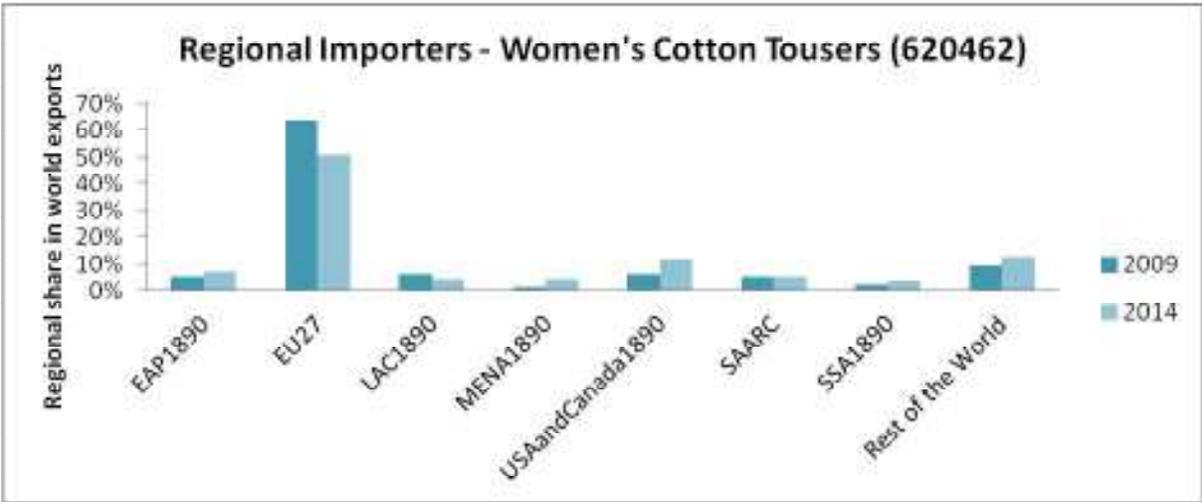


EU countries are the biggest importers of men's trousers of non-cotton. East Asia and USA and Canada are the second biggest markets for this particular product.

The demand for this product decreased in EU and USA & Canada between 2009 and 2014.

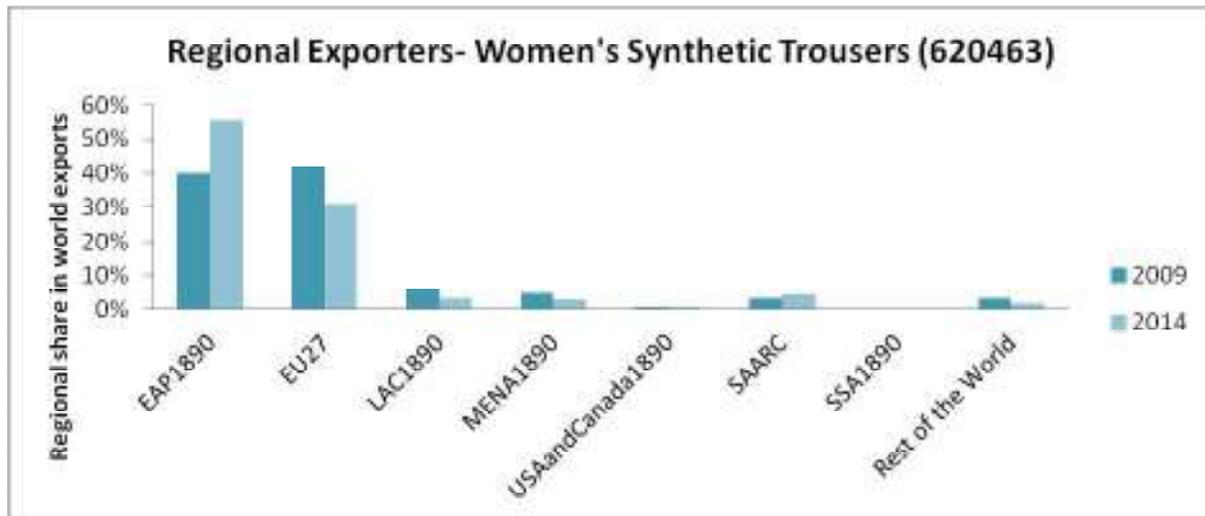
East Asia Pacific and EU are the main exporting regions for women's cotton trousers. The high exports of EU denote the re-exported value. SAARC's share in the exports of women's cotton trouser decreased from 11% to 4% between 2009 and 2014. Pakistan's exports of women's cotton trousers represent 2.04% of the world exports.

Figure 19: Main Importers for Women's Cotton Trousers



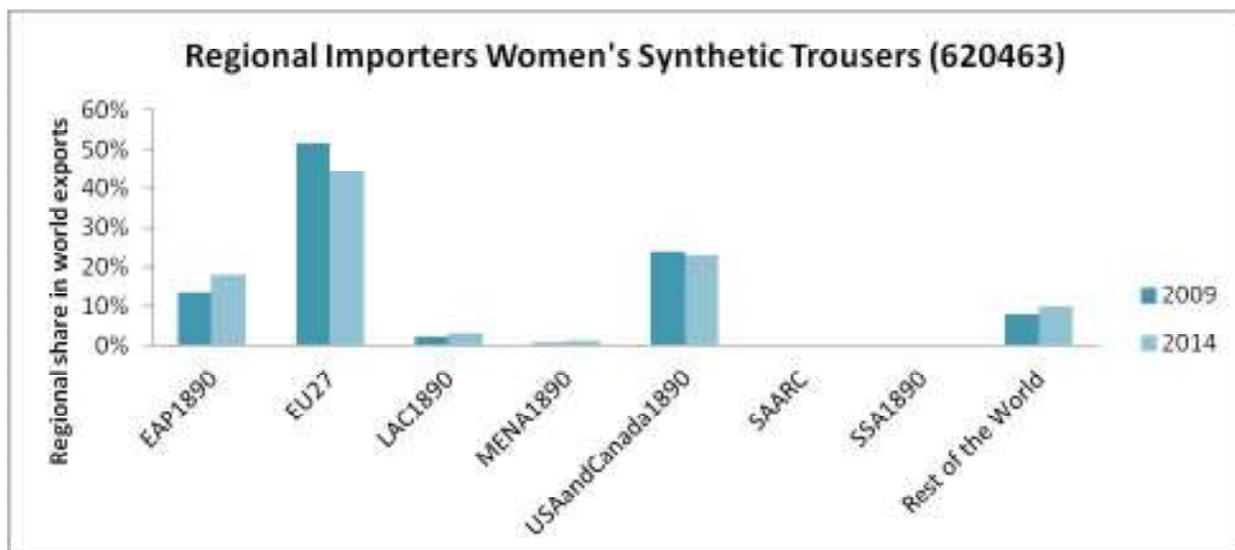
EU countries are the biggest markets for women's cotton trousers, but the share of this product in the world exports decreased between 2009-2014.

Figure 20: Regional Exporters of Women's Synthetic Trousers



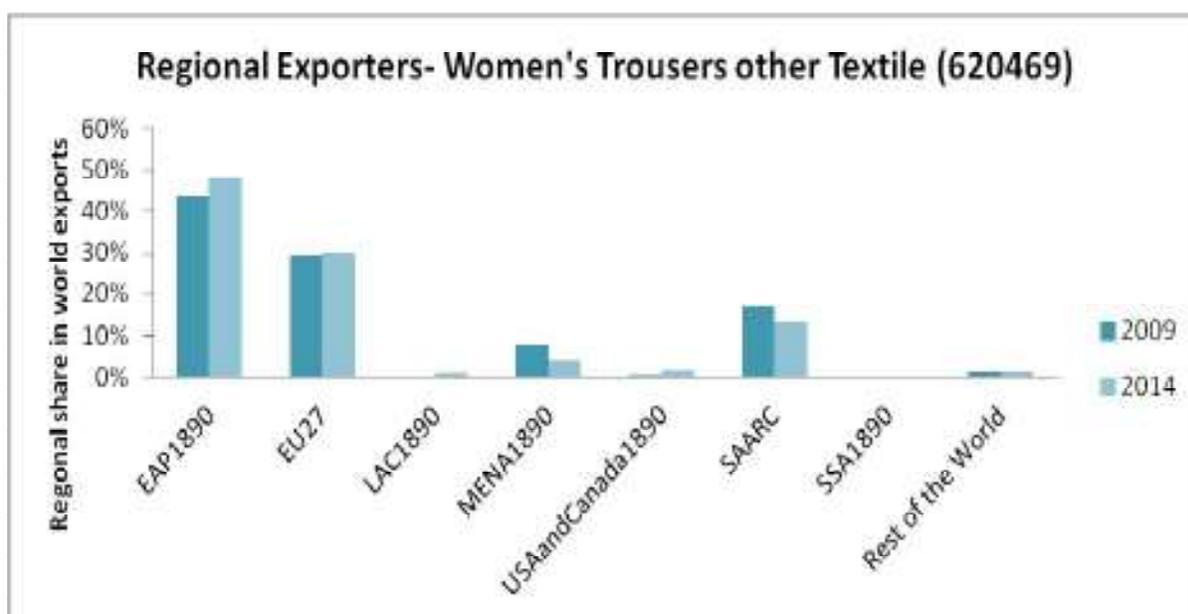
The main suppliers of women's synthetic trousers are East Asia and the EU. SAARC's share in the regional exports for this product category is marginal. Pakistan's exports represent 1.17% of the world exports for this product.

Figure 21: Regional Importers of Women's Synthetic Trousers



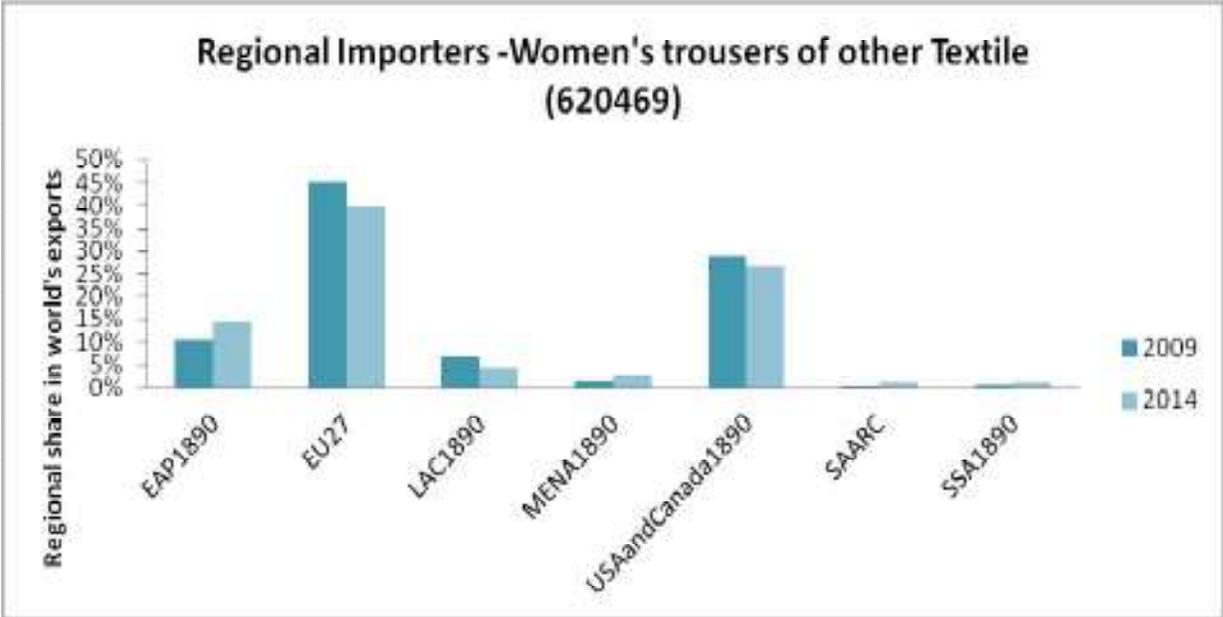
EU, USA and Canada are the main markets for women's synthetic trousers. The share of the product in the global market has decreased between 2009 and 2014.

Figure 22: Regional Exporters of Women's Trousers-Other Textile



East Asia Pacific and EU and SAARC are the major exporters of this product. East Asia's exports are the highest for this product category. Pakistan's exports of women's trousers of other textile represent 2.99% of the world exports.

Figure 23: Regional Importers of Women's Trousers-Other Textile



EU, USA and Canada are the largest importers of women's trousers of other textiles. The percentage share of the EU, USA and Canada decreased between 2009 and 2014, while the percentage share of East Asia increased.

## Value Chain Performance

This section of the report will analyse the performance of the Pakistan readymade garment value chain in comparison with the top exporters in the market. The export competitiveness index analyses the international dynamics of the value chain to evaluate the export competitiveness of the country at each stage and benchmark its performance with other countries.

The textile industry is the backbone of Pakistan's economic growth. The textile sector of Pakistan contributes 57% to the exports of the country and employs 40% of the country's labour force. The textile industry of Pakistan generated US\$ 1.22 billion in foreign exchange earnings in the year 2014 and is expected to continue doing well, given that Pakistan has the GSP-plus status by the EU, giving it access to a large market for readymade garment exports. Furthermore, rising labour costs in China of its manufactured exports have significantly reduced the Chinese share of the world garments market. This has paved the way for other Textile and Garment exporters, including Pakistan to expand their share of the market (Hamid, Nabi, & Zafar, 2014).

The Export Competitiveness Index (ECI) shows the top suppliers of men's cotton ensembles (Table 3). Pakistan is the most competitive country to export the product; the country has been able to improve its performance and capture a greater market share between 2009 and 2014. China is the second most competitive country to export men's cotton ensembles and it has been able to maintain its position in the last 5 years. The export performance of Turkey and Mauritius improved by 8 and 7 positions respectively. Eastern European

countries are also important players for this particular category. China, Turkey and Mauritius have been selected as the main competitors for Pakistan.

**Table 3: ECI of Men's Cotton Ensembles**

<b>Table: Men's cotton Ensembles 620322( ECI and Rank)</b>				
	ECI		Rank	
Countries	2009	2014	2009	2014
Pakistan	0.1647	0.9284	4	1
China	0.1992	0.3954	2	2
Italy	1.0000	0.2249	1	3
Bulgaria	0.1051	0.1445	9	4
Turkey	0.0694	0.1389	13	5
Belarus	0.1185	0.1266	7	6
Latvia	0.0124	0.1138	48	7
Belgium	0.1639	0.1072	5	8
Macedonia, FYR	0.0479	0.1008	21	9
France	0.0819	0.0946	12	10
Hong Kong, China	0.0001	0.0914	83	11

Figure 24 compares the value chain performance of China, Pakistan, Turkey and Mauritius. The graph analyses the share of the product in the total trade and within articles of apparel and clothing. It is evident that Pakistan's share of men's cotton ensembles as a percentage of the total exports is quite high, which means Pakistan's exports are heavily dependent upon this particular product. Secondly, the country exports the highest value added product within the readymade garment value chain. Lastly, the export per capita, which is represented by the bubble size, has also increased between 2009 and 2014. China and Turkey have

decreased their dependency on the exports of men's cotton ensembles. The export per capita of both countries increased in 2014. The value chain performance of China has remained stagnant between 2009 and 2014, while that of Turkey has improved slightly. Mauritius is highly dependent on the export of men's cotton ensembles however its value chain performance remained unchanged.

Figure 24: Value Chain Performance of Men's Cotton Ensembles

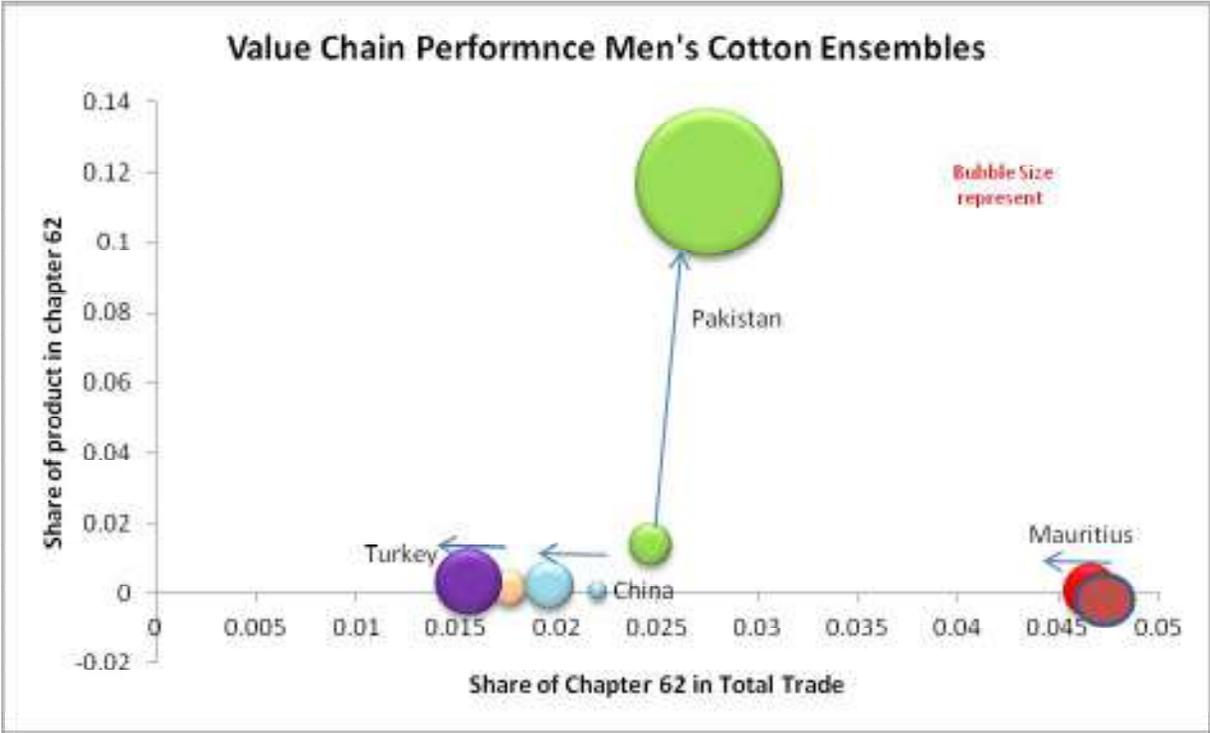


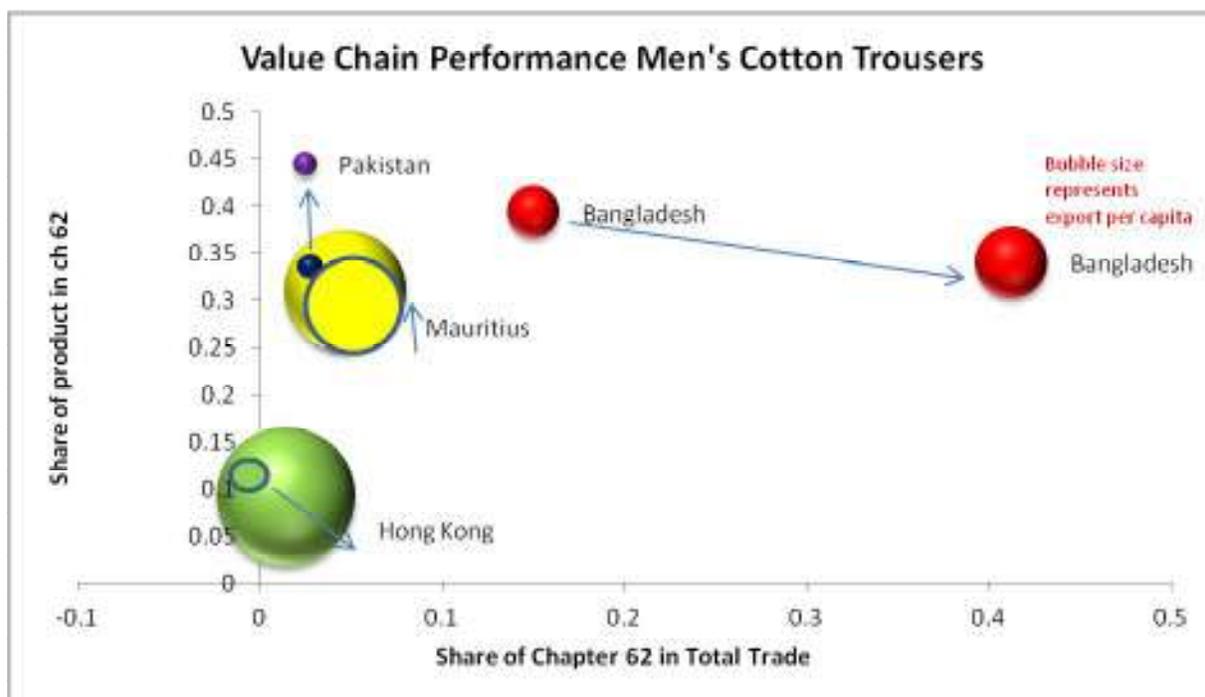
Table 4 shows the ECI for men's cotton trousers. The table shows that Hong Kong, Bangladesh, China and Mauritius are the most competitive countries to export this product. Hong Kong has improved its export performance manifold. The country jumped from 36th position in 2009 to 1st in 2014. Bangladesh and

Mauritius have improved their export performance. China's export performance has slightly oscillated between the selected time periods. Pakistan's export performance significantly improved in the period 2009-2014. The country jumped from 30<sup>th</sup> place to the 19<sup>th</sup>, indicating a promising growth for this particular category in the near future. The world competence for this product is geographically concentrated in East Asia and South Asia.

**Table 4: ECI Men's Cotton Trousers**

<b>Table: Men's Cotton Trousers (620342)(ECI and Rank)</b>				
	ECI		Rank	
Countries	2009	2014	2009	2014
Hong Kong, China	0.04388	0.53063	36	1
Mauritius	0.51103	0.39223	3	2
Bangladesh	0.44585	0.31490	5	3
China	0.52124	0.28430	2	4
Denmark	0.39724	0.27443	6	5
Belgium	0.54381	0.25286	1	6
Netherlands	0.34718	0.23095	7	7
Germany	0.32942	0.16044	8	8
Italy	0.28129	0.13789	9	9
Czech Republic	0.22995	0.12726	12	10
Turkey	0.23169	0.10914	11	11
Pakistan	0.10149	0.04165	19	30

Figure 25: Value Chain Performance of Men's Cotton Trousers



The above figure compares the export performance of Pakistan with Bangladesh, Mauritius and Hong Kong. The share of Chapter 62 as a percentage of the total trade is significantly high for Bangladesh, which indicates high dependency of the sector in the total trade of the country. The share of men's cotton trousers in the apparel value chain has decreased slightly. The export capacity of the country has increased. The export performance of Mauritius improved slightly between 2009 and 2014. The share of men's cotton trousers within apparel value chain has also witnessed an improvement in 2014. Mauritius has been able to slightly reduce its dependency on the apparel sector. The value chain performance graph indicates that Hong Kong is highly dependent on the export of men's cotton trousers. The value chain performance of Pakistan for this particular product is not so impressive. The share of the product within the apparel value chain has increased substantially while its apparel value chain share in total trade is the same as its competitors Hong Kong and Mauritius. The

bubble size that indicates the export per capita has remained the same between 2009 and 2014.

**Table 5: Men's Trousers Non-Cotton**

<b>Table: Men's Trousers of Non-Cotton (620349) (ECI and Rank)</b>				
	ECI		Rank	
<b>Countries</b>	2009	2014	2009	2014
Fiji	0.2524	0.5041	6	1
Vietnam	0.7028	0.4033	1	2
Hong Kong, China	0.0097	0.3840	52	3
Sri Lanka	0.1789	0.2943	7	4
Egypt, Arab Rep.	0.5842	0.2223	3	5
Singapore	0.0709	0.1769	18	6
Bulgaria	0.1072	0.1442	13	7
China	0.3508	0.1383	5	8
Romania	0.1152	0.1339	12	9
Nicaragua	0.0003	0.1266	90	10
India	0.1056	0.1241	14	11
Botswana	0.0000	0.1052	110	12
Pakistan	0.1742	0.0980	8	13

Table 5 shows top exporters of men's trousers of non-cotton. Fiji replaced Vietnam as the most competitive country to export the product in 2014. Vietnam is the second most competitive country followed by Hong Kong, Sri Lanka and Egypt. Hong Kong showed remarkable improvement between 2009 and 2014. China's ranking decreased to 8<sup>th</sup> position in 2014 from 5<sup>th</sup> in 2009. Pakistan's rank also deteriorated between the selected years. China, Hong Kong, Vietnam, and Sri Lanka have been selected to compare Pakistan's performance with.

Figure 26: Value Chain Performance for Men's Trousers of Non-Cotton

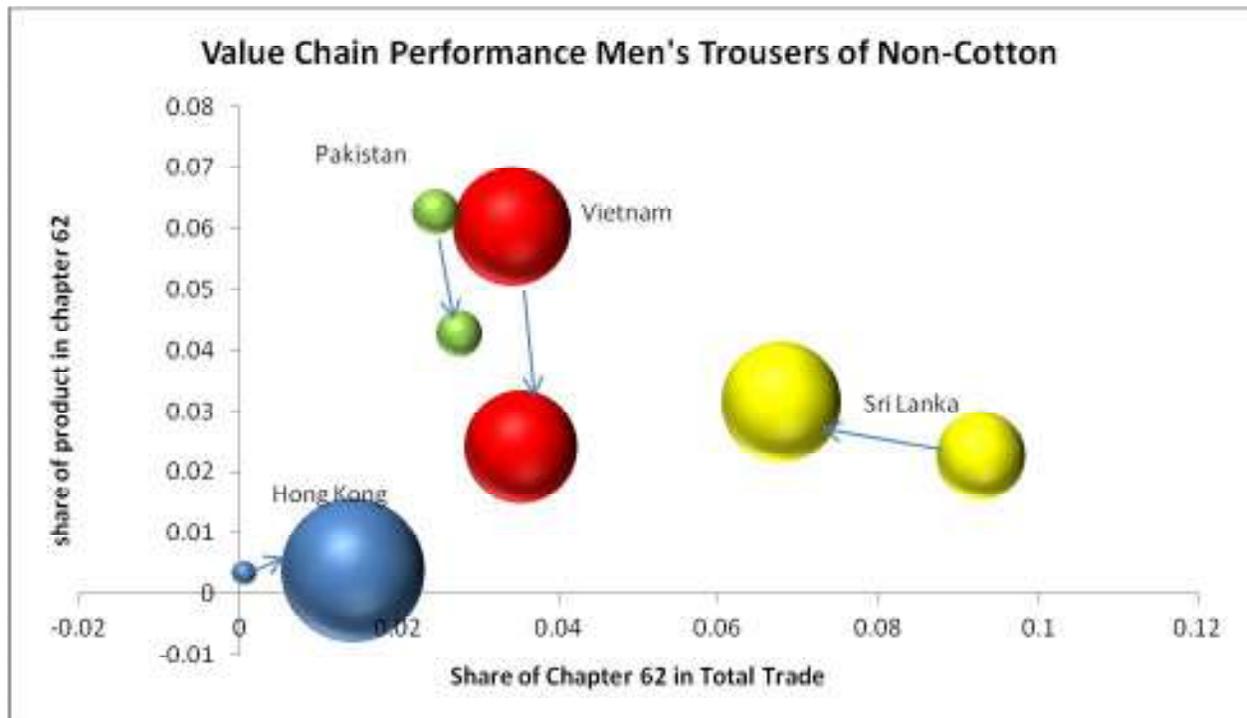


Figure 26 indicates that the value chain performance of Sri Lanka is remarkable. The share of apparels in total trade has decreased in 2014 while the share of non-cotton men's trousers within the apparel value chain has increased. The export per capita of Sri Lanka has also increased indicating that the country has a greater capacity to compete in the world market. The export performance of Hong Kong is also impressive. The share of apparel in total trade has increased in 2014 and so has the share of the product within the value chain. The size of bubble has also increased substantially indicating that the country has a higher export orientation and capacity to export this particular product. Pakistan's export performance of the selected product within the value chain has

deteriorated between 2009 and 2014. More importantly, the export capacity of the country to export men's cotton trousers has also decreased.

**Table 6: ECI of Women's Cotton Trousers**

<b>Table: Women's Cotton Trousers (620462) (ECI and Rank)</b>				
	ECI		Rank	
<b>Countries</b>	2009	2014	2009	2014
Hong Kong, China	0.0341	0.5559	29	1
China	0.5234	0.3967	1	2
Bangladesh	0.1049	0.1676	13	3
Denmark	0.3139	0.1534	3	4
Netherlands	0.1495	0.1259	8	5
Turkey	0.1640	0.1164	6	6
Spain	0.1171	0.1150	12	7
Belgium	0.2731	0.1066	4	8
Mauritius	0.1522	0.1040	7	9
Italy	0.1733	0.0796	5	10
Germany	0.1289	0.0755	11	11
Pakistan	0.0280	0.0293	31	23

Table 6 shows the top exporters of women's cotton trousers. Hong Kong jumped to the 1<sup>st</sup> position in 2014 from 29<sup>th</sup> in 2009. Similarly, Bangladesh gained competence in the global market and jumped from 13<sup>th</sup> position in 2009 to 3<sup>rd</sup> in 2014. Pakistan was also able to improve its standing in the global market for women's cotton trousers. The countries selected for comparison are Hong Kong, Bangladesh and Turkey.

The value chain performance of Bangladesh indicates that the country has increased its reliance on the export of women's cotton trousers as a percentage of the relevant chapter i.e. Chapter 62. Moreover, the country has also upgraded within the value chain indicating that the country is exporting higher value added products. The export per capita, which is indicated by the bubble size, has

also increased. Turkey's share of women's trousers within the apparel value chain is quite significant. The share of total apparel value chain and the export per capita remained stagnant for Turkey between the selected years. The export value chain performance of Hong Kong has improved significantly. The share of women's cotton trousers in the total trade of Hong Kong has improved, however the country is not as reliant on it as Bangladesh is. The export capacity of the product has increased significantly for Hong Kong. Export orientation and capacity of Pakistan's exports of women's cotton trousers has improved between 2009 and 2014.

Figure 27: Value Chain Performance Women's Cotton Trousers

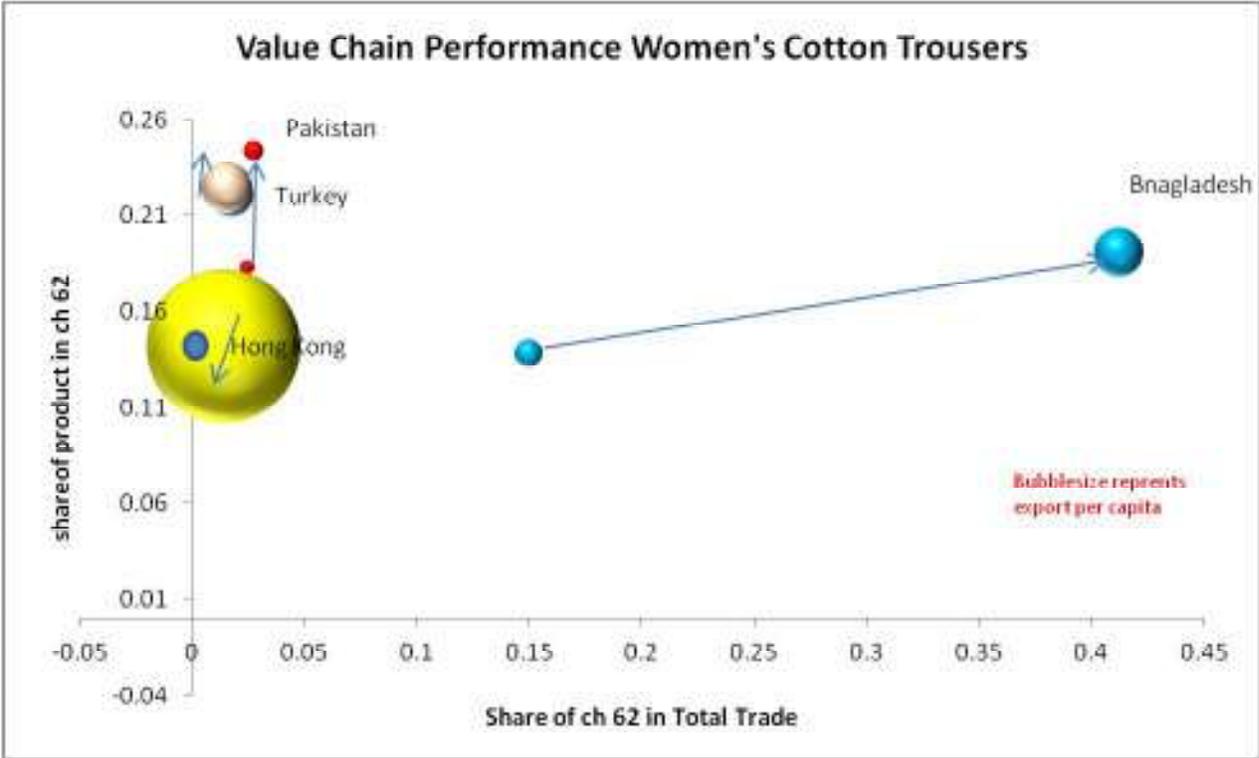


Table 7 shows the ranking of the countries with the highest export competitiveness of women's synthetic trousers. Hong Kong is the most competitive country to export the selected product. Vietnam, China, Belgium, and Denmark are among the most competent countries in the world to export women's synthetic trousers. Pakistan has been able to improve its global ranking substantially between 2009 and 2014.

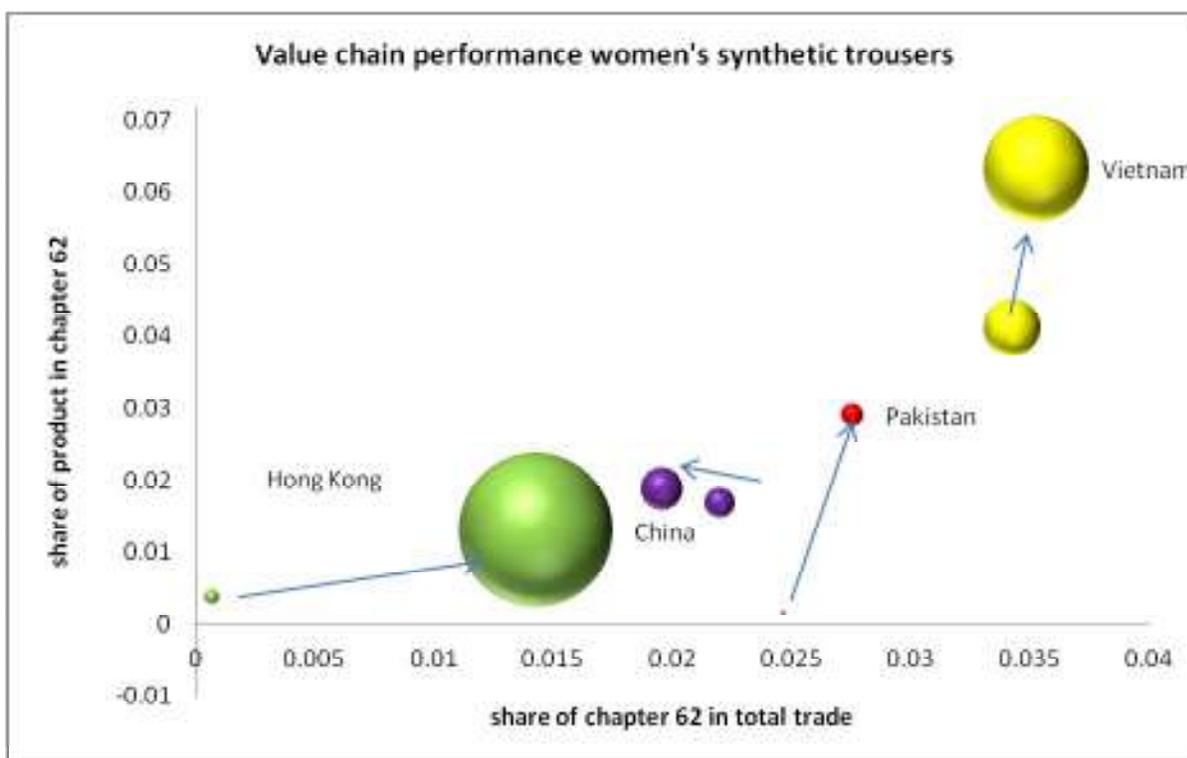
**Table 7: ECI of Women's Synthetic Trousers**

<b>Table: Women's synthetic trousers(620463)(ECI and Rank)</b>				
<b>Countries</b>	<b>ECI</b>		<b>Rank</b>	
	2009	2014	2009	2014
Hong Kong, China	0.0054	0.5251	27	1
Macedonia, FYR	0.5191	0.4770	3	2
Vietnam	0.1855	0.3801	9	3
China	0.5202	0.3721	2	4
Belgium	0.5530	0.2930	1	5
Denmark	0.2565	0.2834	6	6
Bahrain	0.0001	0.2295	39	7
Guatemala	0.2930	0.2148	4	8
Spain	0.1009	0.2062	17	9
Lithuania	0.2042	0.1973	7	10
India	0.0157	0.0245	43	34
Malaysia	0.0348	0.0228	32	35
Pakistan	0.0014	0.0226	72	36

Pakistan's export performance of women's synthetic trousers is compared with that of Hong Kong, China and Vietnam. Hong Kong has increased its dependence on the export of women's synthetic trousers. Moreover, the country has also upgraded its production process within the readymade garment value chain. Vietnam is highly dependent on the export of women's synthetic trousers. It is also the only country which has witnessed the highest upgrade within the

value chain. The export per capita of Vietnam has also significantly increased. China has decreased its dependence on the exports of women's synthetic trousers while its capacity to compete in the world market has increased. Pakistan's export per capita has significantly improved. The country has also managed to participate in the high value added activities within the readymade garment value chain. The country has also increased its dependence on the exports of this particular product.

Figure 28: Value Chain Performance Women's Synthetic Trousers



The export competitiveness index of 'women's trousers-other textiles' indicates that Hong Kong, Sri Lanka, China, and Vietnam are the most competitive countries to export the product. A few European Union countries such as Spain and Italy are also significant players in the global market. Pakistan's global

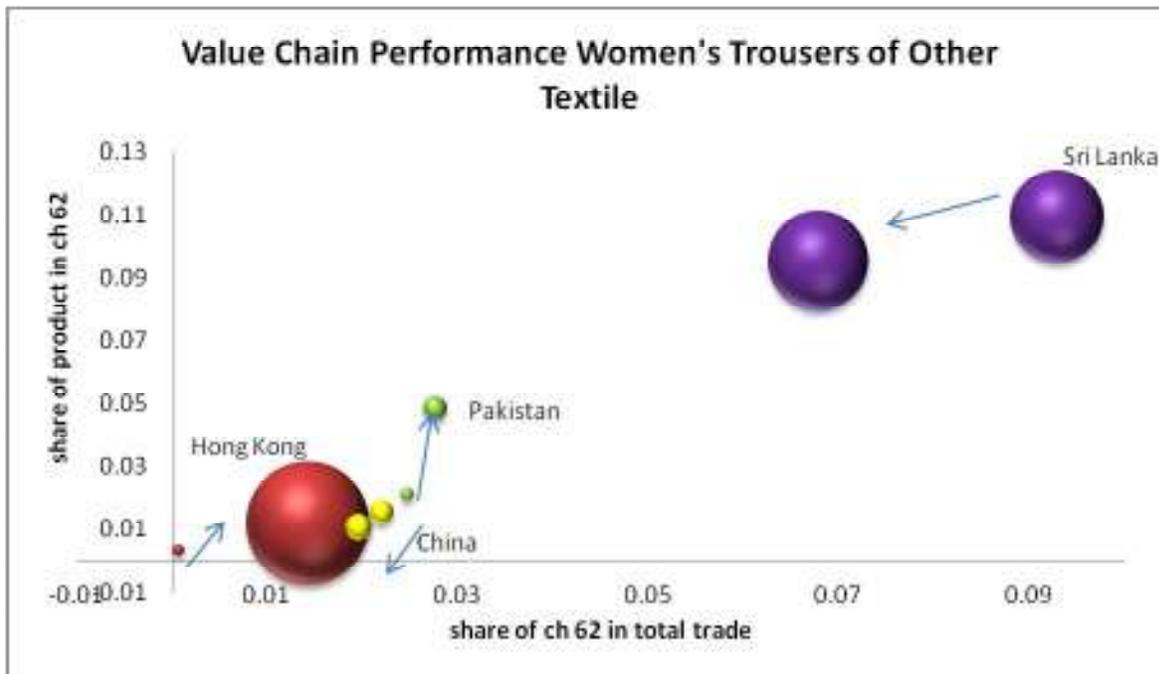
ranking for women's trousers-other textiles improved by 10 positions between 2009 and 2014.

**Table 8: ECI of Women's Trousers- Other Textile**

<b>Table: women's trousers of other textile(ECI and Rank)</b>				
<b>Countries</b>	<b>ECI</b>		<b>Rank</b>	
	2009	2014	2009	2014
Hong Kong, China	0.0078	0.4606	55	1
Sri Lanka	0.6179	0.3471	1	3
China	0.5326	0.3064	2	4
Denmark	0.2328	0.2812	6	5
Vietnam	0.4047	0.1959	3	6
Spain	0.1222	0.1349	16	7
Italy	0.2238	0.1289	7	8
Macedonia, FYR	0.1794	0.1165	11	9
Lithuania	0.1738	0.1026	12	10
Turkey	0.0687	0.0547	25	21
Pakistan	0.0271	0.0477	34	24
United Kingdom	0.0563	0.0401	29	25

The value chain performance graph compares the performance of Pakistan with important players such as Sri Lanka, Hong Kong and China. Sri Lanka participates in the highest value addition activities within the value chain. It has reduced its reliance on the exports of this product. The capacity of the country has remained the same over the years. Hong Kong has also increased its reliance and capacity to compete in the global market. China has reduced its export orientation on the product but maintained its export capacity. Pakistan has improved its export performance in the last five years. The country has increased its export reliance on the product and participates in high value added activities. The export per capita of the country has also improved.

Figure 29: Value Chain Performance of Women's Trousers-Other Textiles



**Pakistan’s Competitors’ Strategies in RMG Industry:**

**Sri Lanka**

Sri Lanka emerged as one of the global leaders of the readymade garment industry. The industry accounts for 60% of the country's exports. The major products exported by Sri Lanka are men's T-shirts, men’s cotton trousers, men’s cotton shirts, T-Shirts of other textile, women’s trousers of other textile, babies’ garments and foundation garments. The country has a competitive advantage in the production of value-added garments and has successfully targeted the niche markets.

The readymade garment industry in Sri Lanka relies on its image as a reliable quality manufacturer of garments. Sri Lanka has developed LEED (Leadership in Energy and Environmental Design) certified platinum rated production facilities. It is a rating system introduced by USA to evaluate environmental performance of factories. Sri Lanka is famous for the production of ethical fashion products and is known as the producer of garments without guilt. Production of readymade garments in Sri Lanka is free of child labour, forced labour and discrimination at any level.

The country has developed strong backward linkages in the garment industry. Most of the input required for the readymade garment industry is imported from countries like China, India and Pakistan. To facilitate the readymade garment industry the government of Sri Lanka has entered into a number of bilateral and multilateral trade agreements to offer market access for each other's exports on a duty-free basis and with concessionary tariff imports at zero rated duty.

The country has also been able to attract foreign direct investment in the readymade garment industry. Multinational firms are involved in cross-border transactions in investment, labour, technology, materials and finished products. Major investing countries are: Hong Kong, Germany, UK, Singapore, Belgium, Japan, US, China, South Korea and Australia (Jayawickrama & Thangavelu, 2011)

### **Bangladesh:**

The readymade garment industry in Bangladesh is a multibillion dollar industry. It has greatly contributed to the foreign exchange earnings and the social and economic development of the country. The annual growth rate of the industry is around 12%. Bangladesh has more than 5000 apparel industries wherein more

than 4.2 million workers are employed. 85% of labour employed in the readymade garments sector is female.

The strength of Bangladesh's readymade garment industry lies in its performance, capacity, prices and high quality of the product. Competitive prices and increased capacity are the main features of Bangladesh's RMG sector. The main products exported by Bangladesh are cotton T-shirts, men's cotton trousers, women's cotton trousers, pullovers, cardigans, men's cotton shirts and babies' garments etc.

The readymade garment value chain in Bangladesh is well integrated and effective. The country has developed strong backward linkages that provide access to quality inputs. The country's strategy has also focused on increased labour productivity, research on new product mix, product diversification, and market diversification.

The Government of Bangladesh assisted its readymade garment industry by establishing special economic and export processing zones, duty relaxation on imported raw materials, concessional duty on the import of machinery, encouraging foreign direct investment and organizing trade fairs within and outside the country. The government of Bangladesh has also been able to participate in trade agreements with the western countries. The inclusion of Bangladesh in the EU GSP status has allowed the country to expand its market.

Bangladesh has become a major source of apparels for European and USA buyers(Younus & Yamagata).

### **Vietnam:**

Vietnam has emerged as one of the main competitors for Bangladesh. The growth rate of the readymade garment industry was around 13% in the year 2014. The country heavily relies on the imports of raw materials for the manufacturing of readymade garments. Moreover, the country is mostly involved in the cut-make-trim (CMT) operations of the readymade garment value chain, leaving little room for innovation and development.

The Vietnamese government issued a development plan for the textile and garment industry known as “The Speed-up Strategy for 2010” in 2010. The key objectives of this strategy were to promote backward linkages by encouraging investments in the upstream sectors (including raw material and fibre production, weaving, knitting as well as processing), and to rapidly increase high value-added garment export. The strategy also included initiation of specific programmes for upgrading technology, export marketing and promotion, and for preparing human resources(DIB, 2012).

The government of Vietnam has also established an Export Promotion Fund, which provides subsidies in the form of interest rate, direct financial support, export reward and bonuses and support to enterprises to participate in trade fairs (DIB, 2012).

### **Turkey:**

Readymade garment industry is the largest economic sector of Turkey and employs more than 2.5 million individuals. The main products being exported by Turkey are knitted T-shirts, women's skirts, T-shirts of other textile and men's cotton trousers. Turkey has an advantage over the East Asian and South Asians countries due to its geographical proximity with the major markets. High skilled labour and integrated value chains have allowed Turkey to develop its readymade garment industry.

Turkey has focused on the production of readymade garments that comply with the ecological and social standards. Carcinogenic AZO dyes are prohibited in fabric manufacturing. The country participates in the high value added activities of garment manufacturing and has entered the original brand manufacturing operations.

### **China:**

China is the world's largest exporter of readymade garments. Its readymade garments sector employs more than 10 million individuals. Pullovers, cardigans, women's cotton trousers, men's cotton trousers, women's anoraks, T-shirts of other textile, women's cotton jackets are the major readymade garments exported by China. The country has more than 100,000 factories of readymade garments. Some famous brands located in China are Adidas, Calvin Klein, Nike, Lacoste, Puma, etc.

The Chinese government has launched several support programs for the textile industry. The 'Special Fund to Support the Restructuring of the Textiles Industry and the Efforts of Chinese Textile Companies to Go Global' has been launched to

provide direct grants for technological innovation, subsidized infrastructure facilities such as lands and manufacturing units and subsidized distribution channels. Moreover, China has also created a special fund for brand development to encourage firms to participate in high value added activities (DIB, 2012).

China has been able to upgrade its processes and products in the readymade garment industry. The country is leading the industry in terms of technological innovation. Moreover, the industry has benefited from access to low cost labour. However, the strict government regulations for joint ventures have encouraged production facilities and foreign investment to shift to countries like Myanmar and Cambodia.

USA, EU and Japan are the major export markets for China. These countries have strict regulations in place regarding the environment, child labour, and production.

### **Hong Kong:**

The readymade garment industry in Hong Kong is highly developed. Hong Kong produces readymade garments based on the ODM and OEM operations of the value chain. JCPenny, Federated, C&A, KarstadtQuelle, Gap, Sears, Otto and the Great Universal stores are some of the famous chain stores of EU and USA that import garments from Hong Kong. There's also a strong presence of international designer stores like Calvin Klein, Donna Karen, and Ralph Lauren in Hong Kong. The strength of the industry lies in its professionalism in procurement, marketing, designing and shipment of the products.

The Hong Kong Trade Development Council has established strong forward linkages to explore and capture new market opportunities. Moreover the Closer Economic Partnership Agreement (CEPA), Hong Kong has access to low tariffs.

**India:**

The Indian readymade garment industry is one of the oldest industries in the country. Textile industry export earnings are approximated to be US\$ 4.14 billion. India produces high value added apparels.

India has promoted its handloom industry through social media to promote online businesses. Moreover, it has also developed world class testing facilities at eight labs. The Indian government grants special import concessions to import textile machinery. Promotion plans like Focus Product Scheme, wherein the products are entitled for duty credit script, are developed and implemented. Trade Agreements and MOUs are signed to strengthen the textile sector of India.

The high cost of labour in India makes the country incompetent as compared to Bangladesh and China. National Institute of Fashion Technology (NIFT) is a fashion design institute that provides the readymade garment industry with skilled labour.

## Value Chain Opportunities

The rationale for identifying the attractive markets is to incentivize enterprises to improve their productivity and guide their production to the external market. The import dependency index identifies the attractive markets according to the market size and the prices. Countries whose quantity is above the average quantity import of the world are reflected as big markets and the countries whose unit value is above the average unit price are reflected as high price markets and vice versa.

**Table 9: Top Attractive Markets for RMG**

<b>Top Attractive RMG Markets</b>				
<b>S.No.</b>	<b>Countries</b>	<b>Import value thousand US\$</b>	<b>Unit value in US\$/Kg</b>	<b>Imported quantity 000 Kg</b>
1.	Australia	834727.8	17.51229	47665.26
2.	Austria	762505.4	40.39438	18876.52
3.	Belgium	1351565	34.66526	38989.03
4.	Canada	1204296	35.48012	33942.85
5.	Switzerland	798613.1	52.11215	15324.89
6.	Germany	5827504	28.56315	204021.8
7.	Denmark	797782.1	29.09229	27422.46
8.	Spain	2795544	22.84036	122394.9
9.	France	3168693	25.85643	122549.5
10.	United Kingdom	3258366	17.11557	190374.4
11.	Greece	236068.3	20.52497	11501.52
12.	Hong Kong, China	1803754	35.54401	50747.07
13.	Ireland	233140.7	23.94133	9738.002
14.	Israel	257968	35.54871	7256.747
15.	Japan	2680349	27.59824	97120.3
16.	Netherlands	1918609	21.75332	88198.47
17.	Panama	116516.9	14.00657	8318.732
18.	Russian Federation	941717.7	31.33699	30051.32

19.	United States	12298420	16.16434	760836.7
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The table above shows the most attractive markets of the readymade garment industry. Netherlands, Panama, USA, and Austria are the main importers in terms of quantity while Switzerland, Austria, Canada, Belgium, Hong Kong and Israel are the important importers with respect to price. The following section will analyse the attractive markets for each selected category.

Figure 30: Attractive Markets for Men's Cotton Ensembles

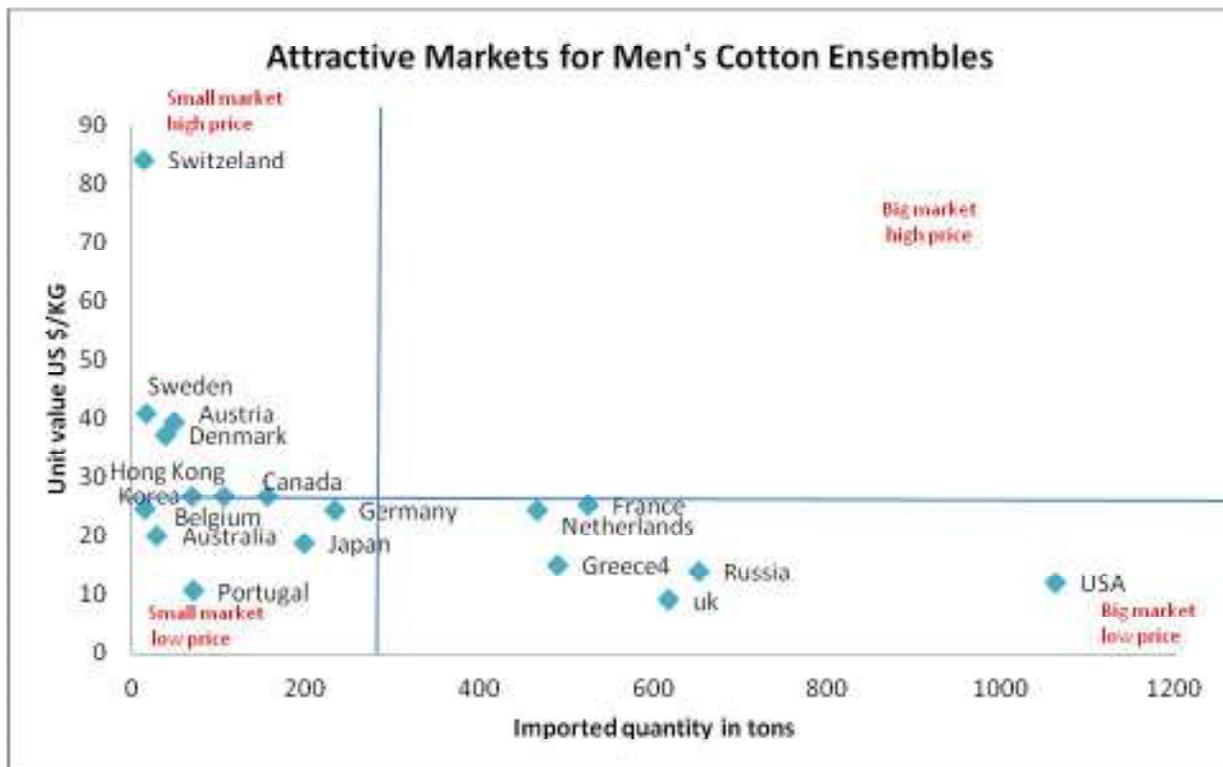
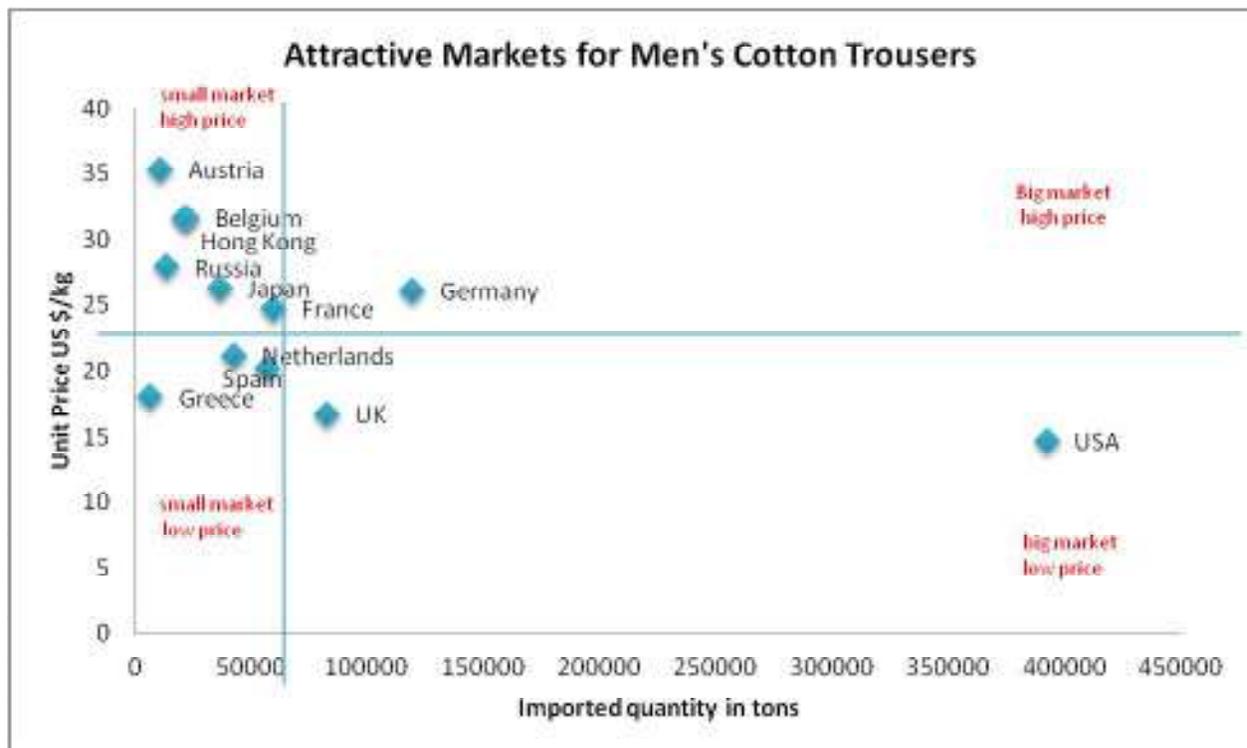


Figure 30 identifies the attractive markets for men/boys ensembles. The markets have been classified according to their sizes and the prices. The top importers for men/boys ensembles of cotton are Switzerland, Sweden, Austria, Denmark,

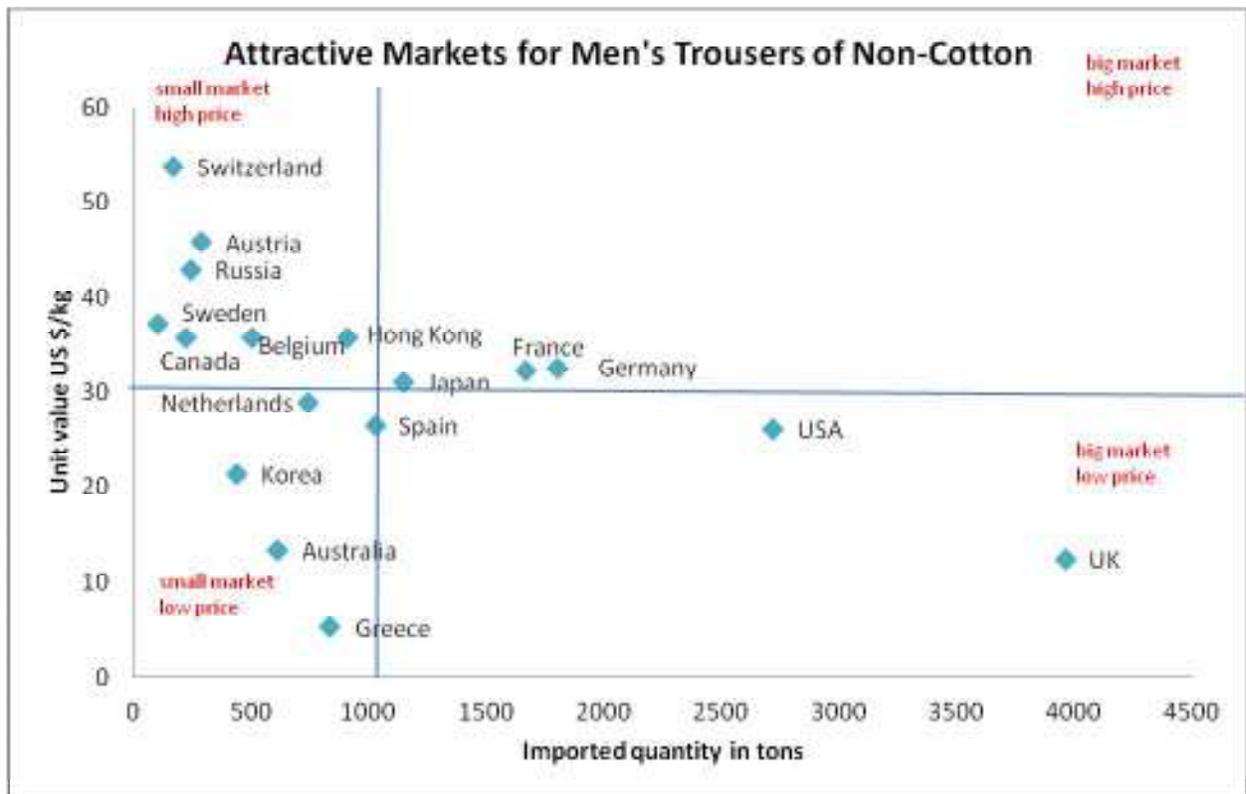
Hong Kong, and Canada. Our analysis indicates that the said attractive markets fall in the small market and high price category. Pakistan is the top exporter of the product globally. In 2014, Pakistan's exports were valued at US\$ 1,084.5 million while Bangladesh exported men/boys cotton ensembles worth US\$ 454.8 million. Pakistan exports men/boys cotton ensembles to UK, Spain, Netherland, and France. Germany and Belgium are also important markets for Pakistan. Pakistan has captured a significant market share in the countries that fall in big market low price category. The IDI Index shows that there are no big market high price countries identified for men/boys ensembles of cotton. Italy was identified as the main competitor for Pakistan in small market high price category. Italy is the main exporter to Switzerland, Hong Kong and USA.

Figure 31: Attractive Markets for Men's Cotton Trousers



Attractive market analysis for men's cotton trousers indicates that Austria, Belgium, Hong Kong, Russia and Japan fall in the high price small markets category. Germany is the only market which falls in the category of high price big market. Netherlands, Spain and Greece are small markets with low price while USA is big market with low price. China is the largest exporter of this product category. The export earning of China were valued at US\$ 6,841.7 million in 2014. Bangladesh's export value of the product in 2014 was valued at US\$ 3,549.6 million. Pakistan's export value in 2014 for men/boys trousers and shorts of cotton not knitted was US\$ 664.5 million. Pakistan's top importing markets are United States, Spain, UK and Germany. The analysis shows that Germany is the only high price big market. This market is mainly captured by China and Bangladesh. The high price market of Japan is also captured by China.

Figure 32: Attractive Markets for Men's Trousers Non-Cotton



France, Germany and Japan are high price big markets for men/boys trousers of non-cotton while Switzerland Austria, Russia, Sweden Canada and Belgium are high price small markets. Bangladesh and India are already exporting to the aforementioned countries. Korea, Australia and Greece are small markets with low price and USA and UK are big markets with low price. The value of Pakistan's exports of men's trousers-non cotton were valued at US\$ 1.97 million only. Pakistan's main importers of men/boys trousers and shorts of other textile material not knitted are USA and UK. Vietnam, China, India, Pakistan, Sri Lanka, Bangladesh and Turkey are the major exporters of men/boys trousers and shorts of other textile material.

Figure 33: Attractive Markets for Women's Cotton Trousers

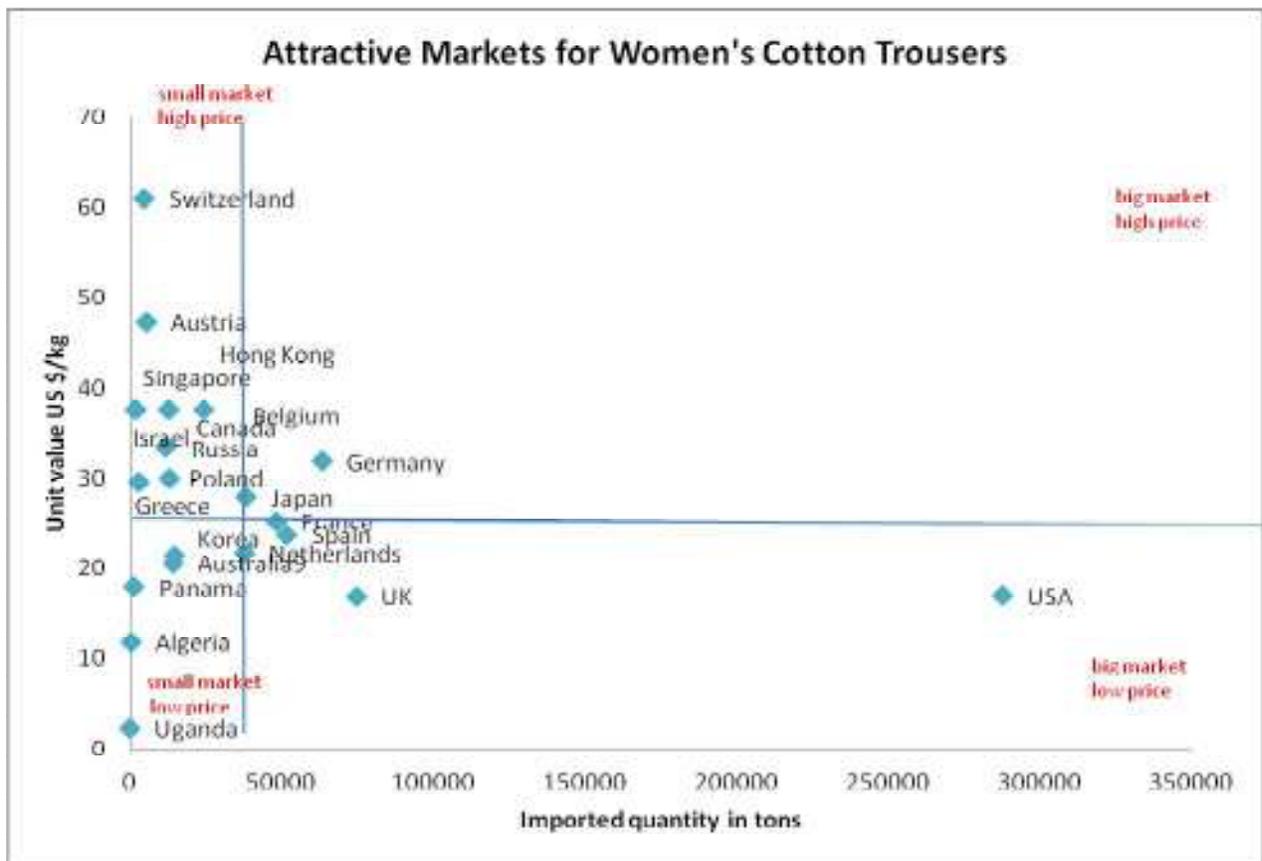
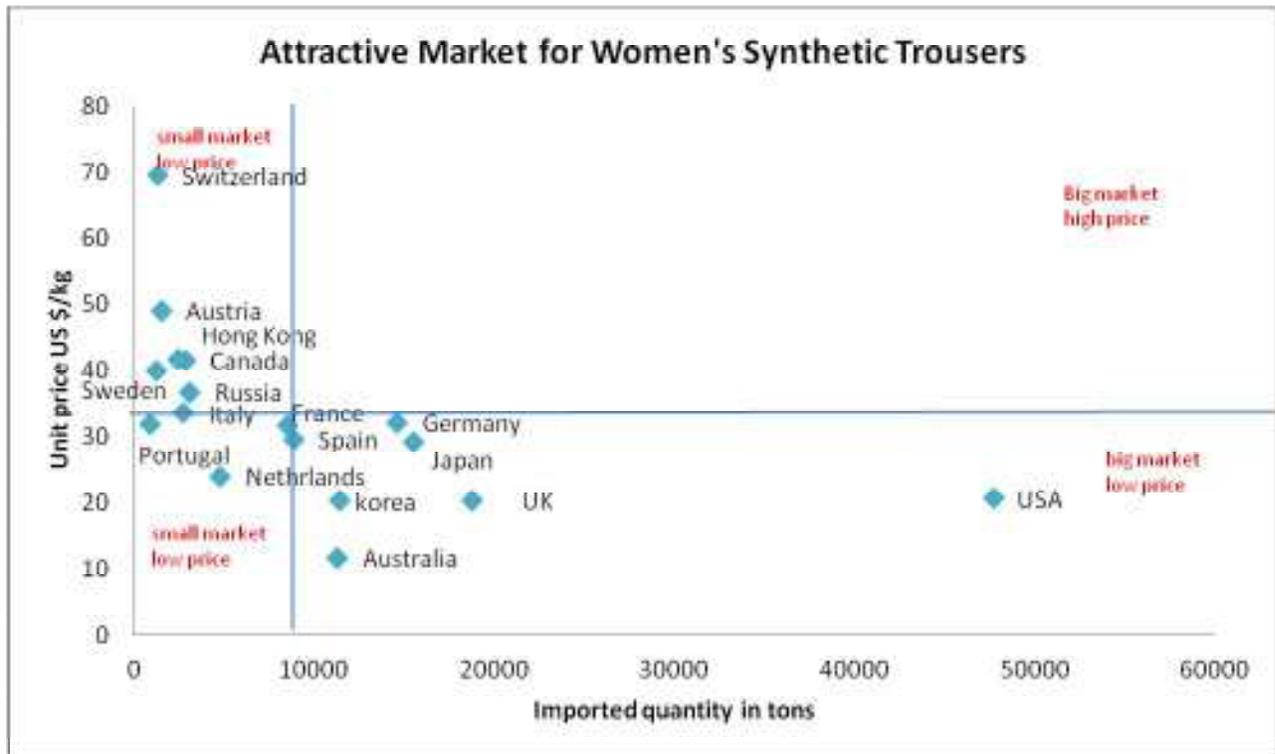


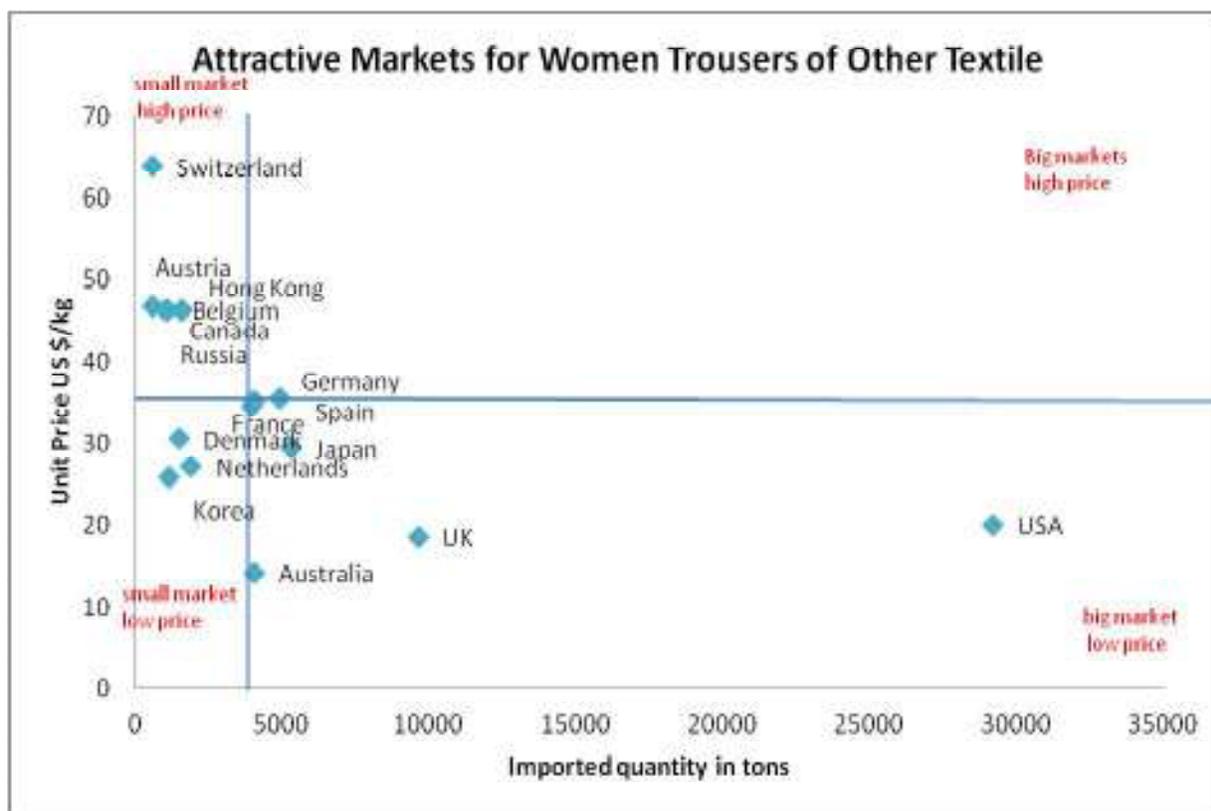
Figure 33 shows the attractive markets for women/girls trousers and shorts of cotton. Germany and Japan fall in the big markets high price category. Switzerland, Austria, Hong Kong, Singapore, Canada, Belgium, Russia, Poland, Greece and Japan are small markets with high price. France, Spain, Netherlands, UK and USA are big markets with low price. Pakistan's value of exports in 2014 was US\$ 482.9 million. Pakistan mainly exports to USA, Spain, Germany, UK, Belgium, Netherlands and France, which fall in the big markets low price category. The main competitors for this product in the big markets are China and Bangladesh. China's exported value of the product in 2014 was US\$ 8,439 million. The exports of Bangladesh were valued at US\$ 1,326 million in 2014, while India's exports were valued at US\$ 257.5 million.

Figure 34: Attractive Markets for Women's Synthetic Trousers



Switzerland, Austria, Hong Kong, Canada, Russia, and Sweden were identified as low price-small markets. France, Germany, Japan, Spain, Korea, UK, Australia and USA are big markets with low price. Portugal, Netherlands and Italy are low price small markets. The leading exporters of women/girls trousers and shorts of synthetic fibre not knitted are China and Vietnam. China's exports were valued at US\$ 1,526 million while Vietnam's exports were valued at US\$ 665.6 million. Pakistan's exported value of the product in 2014 was US\$ 57.6 million only. The main markets for Pakistan are USA, Belgium, Spain, Netherlands, UK, Germany and Canada.

Figure 35: Attractive Markets for Women's Trousers of Other Textiles



The above graph shows that Switzerland, Austria, Hong Kong, Belgium, Canada and Russia are small markets with high price. France, Germany, Spain, Japan, Australia, UK and USA are big markets with low price while Denmark, Netherlands and Korea are small markets with low price. Pakistan's exports of women/girls trousers and shorts of other textile (not knitted), was very low in 2014. The main importing countries are USA, Spain, UK, Germany and UAE. China, Vietnam and Sri Lanka are the main competitors in the market. China's exports were valued at US\$ 848 million followed by Vietnam and Sri Lanka.

#### **Trade Regimes for Attractive Markets:**

Pakistan's exports of the aforementioned products are concentrated in the European Union countries and United States. The European Union (EU) granted duty free access to Pakistan through the Generalized System of preference (GSP) plus system.

Bangladesh is Pakistan's main competitor and its RMG sector growth is remarkable. Its share of apparel in total exports has been growing steadily since 1986. The main reason for this growth is its comparative advantage in the apparel industry. Moreover, due to the Least Developed Country (LDC) status of Bangladesh, the tariff rate for its readymade garment exports is negligible.

EU has granted Pakistan free market access, but USA charges its normal MFN duty rate on RGM exports from Pakistan. Strict compliances and other Non-

Tariff Barriers have been levied in both markets. Non-Tariff measures include requirements for packaging, labelling, use of certain chemicals etc. Audit and certification facilities are available in the country.

**Table 10: Market Requirements for Attractive Markets**

<b>Table: Market Requirement of Attractive RMG</b>			
<b>Country/Region</b>	<b>Import Tariff for Pakistan</b>	<b>MFN Rate</b>	<b>Non-Tariff Measures</b>
USA	15-20%	15-20%	Standard, Packaging, Labelling, Compliances
EU	Zero under GSP+	MFN 15%	Standard, Packaging, Labelling, Compliances

## Value Capture Constraints

The readymade garment value chain faces a number of demand and supply side issues that affect value capture opportunities in Pakistan. The readymade garment industry is a buyer driven industry. The main importing regions include the EU and USA. Fashion trends in the attractive markets change frequently. Every export consignment is different and therefore, the readymade garment manufacturers struggle to adapt to the changing product mix.

Pakistan's garment exports have a relatively narrow base, with a few products accounting for the bulk of exports. The top six products it exports account for over 78% of the country's garment exports but only 41% of the world trade in garments. This implies that Pakistani exporters are not competing in about three fifths of the world market for garments (Hamid, Nabi, & Zafar, 2014). Unlike Sri Lanka and Bangladesh, Pakistan has been unable to develop a well-integrated value chain. Most of the inputs required for the readymade garment industry are locally available. However, the poor quality of yarn and fabric affects the quality of the readymade garments. Moreover, textile manufacturers are unable to ensure a timely supply of raw materials for readymade garments.

The most important constraint faced by the readymade garment industry is the energy shortage. The energy crisis has increased the cost of production in Pakistan and thus made them less competitive compared to Bangladesh, Sri Lanka and India. Moreover, it has increased uncertainty with regard to production planning by creating possibilities of delay at every stage (Hamid,

Nabi, & Zafar, 2014). To be a part of the middle to upper price range in a product's supply chain, it is essential for a firm to have its own design capacity for product development and to be able to ensure a quick turn-around for samples and trial orders (Hamid, Nabi, & Zafar, 2014). Readymade garment firms in Pakistan do not carry out research and development activities within their firms. There are only a few apparel companies which have R&D departments that work on product diversification. Most of the readymade garment factories rely on the R&D carried out by the international buyer. Due to a lack of R&D, Pakistan has been unable to diversify its product range.

The lack of educated and skilled labour has adversely affected the readymade garment industry in Pakistan. It is evident that there are very few training institutes in Pakistan. Most of the garment manufacturers rely on 'on the job training' to ensure the quality of the labour. Moreover, the existing training institutes are not well equipped with teachers, training courses and material.

Another major cause of the sector's poor performance is the import policies and customs procedures that discourage readymade garment manufacturers and exporters to import inputs such as fabric, yarn, accessories and specialized equipment required for the industry.

The delay in sales tax refund from the government reduces the working capital available for the readymade garment industry.

## Conclusion/ Policy Recommendations

The textile and readymade garment industry is the largest manufacturing sector of Pakistan. Its contribution to the exports, foreign exchange earnings, employment and GDP is significant. Under the GSP plus scheme, Pakistan has become eligible for duty-free export status to the European Union. Therefore, it is necessary for the country to capture a greater share in the rapidly expanding global market and move up the readymade garment value chain. The government of Pakistan has taken a positive step to integrate the local value chain by constructing the 'Quaid-e-Azam Apparel Park'. The park will be equipped with alternate sources of energy and will contain a labour colony, an exhibition centre, a few textile institutes, and some commercial centres to assist the readymade garment and textile manufacturers.

A number of constraints have prevented Pakistan's readymade garment exports from expanding rapidly. These have had an impact on both supply and demand, affecting all aspects of the industry, including costs, production volume, product diversity, and targeted price range. Keeping these constraints in mind, the following recommendations have been made based on the findings of this report:

- Pakistan exports a limited range of products; the country needs to expand its product base for readymade garments. Women's garments are highly demanded products and the readymade garment manufacturers need to develop and expand their capacity to produce and export a diverse range of products.
- The readymade garment industry ought to move up the value chain by taking the following steps:

1. Adopt Original Design Manufacturing (ODM) or Original Brand Manufacturing (OBM) operations. Readymade garment manufacturers will have to develop and improve the capacity of the R&D departments and export their products under a brand name to capture higher value for the exports.
2. Readymade garment manufacturers should move up the price range by targeting niche markets (small markets big price).
  - Training institutes and programs should be launched through public-private collaborations to address skill shortages in the readymade garment industry. Training institutes ought to be established in Korangi Industrial Area Karachi to ensure the supply of skilled labour.
  - Pakistan should also develop LEED (Leadership in Energy and Environmental Design) certified platinum rated production facility to target potential markets which prefer environmental friendly products.
  - Ensure compliance and standards during the production process of readymade garments. Avoid carcinogenic AZO dyes to ensure competitiveness in the international market.
  - Readymade garment manufacturers should reduce their lead-time period from 60-90 days to 30-45 days to compete with countries like China, Bangladesh and India. Lead time reduction can be ensured through developing effective linkages.
  - Following steps should be taken to improve the linkages of the readymade garment industry:
    1. Improve cotton production processes by using high quality seeds and fertilizers.

2. Improve the quality of yarn and fabric being produced in the country.
  3. Textile manufacturers should ensure timely availability of fabrics required by the readymade garment manufactures.
  4. Imports for re-export should be duty-free to assist the readymade garment industry and they Duty and Tax Remission for Exports (DTRE) should be speedy.
  5. Ensure the supply of highly skilled labour to the readymade garment industry.
  6. Develop adequate port and shipping facilities to ensure the timely delivery of consignments.
- Improve infrastructure facilities such as the rail and road network. Alternate energy sources should be developed to ensure uninterrupted supply of power. Port clearance procedures should be clean and quick.
  - Encourage foreign direct investment in the readymade garment manufacturing industry. Joint ventures with international readymade garment chains will position Pakistan in the higher value added segment of the value chain.
  - Enter Bilateral Free Trade Agreements and Regional Trade Agreements to facilitate the supply of raw materials and target potential markets.

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# Trade Related Technical Assistance (TRTA II) Programme

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