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Article — Published Version

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Journal of Economics Library

Suggested Citation: Wagan, Shah Mehmood (2015) : Export boost of Textile Industry of Pakistan by availing EU's GSP Plus, Journal of Economics Library, ISSN 2149-2379, KSP Journals, Istanbul, Vol. 1, Iss. 1, pp. 18-27,
<http://www.kspjournals.org/index.php/JEL/article/view/179>

This Version is available at:

<https://hdl.handle.net/10419/108384>

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Export boost of textile industry of Pakistan by availing EU's GSP Plus

By Shah Mehmood WAGAN[†]

Abstract. Pakistan is commonly known as agriculture based economy where vast areas of cultivated lands are producing cotton. This enabled to establish and flourish textile industries in Pakistan, therefore Pakistan is vital part of cheap and quality based textile products exporting country. Recently Pakistan is granted European Union's Generalised Scheme of Preferences (GSP) Plus status as a year from January 2014 by European Union because of that Pakistan's Textile exports surged to \$14.22 billion in the fiscal year 2013-2014. This study main focus is on EU's GSP Plus for textile industry of Pakistan to explore the effects and impact on the international trade, export and economy of Pakistan. The various issues and problems pertaining to the policy, strategy, trade, export and taxes are analyzed and discussed to come up with suggestions. Pakistan Textile sector made \$14.22 billion (2013-2014 Jul-Jun) compared to export value of the previous fiscal year, reaching from \$13.69 billion in the previous year (July 2012, June 2013). The country's textile exports have been shown in growth of 3.81% in fiscal year (2013 2014 Jul-Jun) as compared to fiscal year of (2012-2013 Jul-Jun). The key motive behind the growth of textile exports is the national GSP plus successful from Jan 2014 because of textile export to the EU which is increased by 18% to reach \$ 5 billion figure for the first time in Pakistan history because of the GSP plus status granted by the European Union, and textile exports to the left of the globe fell by 3.5%. Seeing this textile export Pakistan government is ready for a 5-year program to grant subsidies for the textile sector. Under the latest planned textile strategy (2014-19), textile industry will be rewarded. Followed by the strategy, textile exports will increase over the next five years, \$ 26 billion, in addition to the creation of employment opportunities.

Keywords. European Union's GSP Plus, Textile Export, Fiscal Year, Textile Industry of Pakistan.

JEL. C01, F13, F41, H12, L67, Q41.

1. Introduction

The main reason of the Generalised Scheme of Preferences (GSP) program is to aid developing countries by making it easier for them to export their goods to the European Union to reduce tariffs. In order to better focus on those countries most in need: in 2004, GSP was made regulated that was provided a level of GSP simplified systems: a) GSP standard b) GSP plus and c) everything but arms & ammunition (EBA). The program will no longer end of each three years, because of the current situation. Instead, it lasted 10 years, that will bring importers and exporters confidence. The appointment of a new GSP rules of the European Parliament to strengthen the supervision system (every two years instead of three years) of the Convention and review.

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It does not extend automatically GSP Plus, and the state must be eligible, if it qualifies eligible requirements. Extension of the GSP Plus to countries which measured 'vulnerable' in EU's profile of trade: a) export to the European Union are not altered b) 7 items less than or equal to made up its exports to the EU for at least 75%, and c) the total value of imports is less than 2% of the EU's GSP whole import. Pakistan qualifies these above condition standards, so Pakistan is eligible to apply into the GSP Plus. However, Pakistan will be terminated from GSP Plus if Pakistan export exceeds average value of textile goods 14.5% of total imports to European Union over back-to-back three years.

GSP Plus covers more than and above GSP standards 70 lines which are exempt from tax. Pakistan is presently eligible for the GSP Plus which started in January 2014 and its neighboring countries, such as India and Bangladesh has standard contract of GSP, which provides for them partial reduction of customs duties and Afghanistan has allowance of export of all EBA means everything but arms exempt from customs duties.

2. Historical Facts and Figures

Textile products in Asia, the world's fourth largest cotton maker nation and eighth largest exporter, Pakistan is a country that is even possible today which is still untapped capability of producing fiber.

Pakistan achieved to procure the lengthy expected tax-free access to the European Union markets for 4 years on Thursday, by succeeding with an striking add up of votes for Generalised Scheme of Preferences (GSP) Plus position. According to resources, 186 lawmakers voted not in favor of the status while 406 members of the EU Parliament stated their approval for Pakistan of status at a meeting arranged in Brussels. Single Delegated Act was passed by the European Parliament under that ten nations counting Pakistan are permitted to Generalised System of Preferences Plus (GSP Plus) plan. The existence of Act came into power from Jan 1, 2014.

Pakistani exports are permitted to enter approximately 20% at GSP Plus status for the market of European Union at zero duty and for preferential rates 70% till to 2017 for four years. We are informed by experts that under this scheme, majority of Pakistan textile products can be sent at concessionary tax rates or totally tax free to 28 EU countries, which creates cheaper products of Pakistan for importers of European Union.

According to industry resources, 91 percent of total tariff lines are covered on GSP Plus which are approximately 6,000. Under GSP Plus Pakistan is estimated that country is the beneficiary of 2,500 tariff lines from among are 900 which belong to textile industry of Pakistan. Recently, according to the GSP Plus standard, there are many different products, such as sports equipment, operation equipment, ethanol, PET, textiles and plastics were exported to the European Union. Although, in the case of Pakistan, the main attraction is the textile industry. The export of Pakistan's apparel and textile to the European Union formerly accounted for more than half of the nation's total exports of \$9.5 billion to the group of European union. The GSP plus results only in the textile sector is estimated to earn an annual profit of up to 1 trillion of rupees. Pakistan's textile exports have been reduced, as exporters and manufacturers had found tough to try to win with Sri Lanka and Bangladesh, in EU's market who had already tax-free entry to market. This special condition is offering free access or preferential tax rate imposed in 3500 Pakistan products to markets in the European Union, where previously 11% duty was drawn by Pakistani textile exports to the European Union market. This opportunity GSP Plus has provided jobs, nearly a million people in

Pakistan. Pakistan's textile exports to the now EU members countries, do not need to pay taxes until 2017, adding that increases exports of \$1 billions of dollars worth.

“The EU trade concessions can lift our textile exports and create important economic activity,” It was predicted textile exports to the European Union (EU) that to rush up to by \$1 billion per year for 28 nations of EU which granted the much chosen after Generalised System of Preferences (GSP) Plus position to the nation, Pakistan received from January 1, 2014. Although the brightest expectations of rising exports are after the grant of tax-free and 3,500 products at preferential tax entry to the EU market have kept afloat business of people - especially the textile and exporters of these products in the country - the rising energy crisis remains a main obstacle.

According to the textile industry, textile production capacity is at least 40% established in Punjab, where the total production capacity is irrelevant leftovers 75-80% in the province for Textile due to the energy crisis. For export tax was drawn 11% for European Union market by Pakistan's textile, this made it very tricky for Pakistan to struggle with like countries such as Bangladesh, which textile exports made more than 25 billion US dollars in the country comes after the EU's GSP plus receiving status from European Union. It is expected to twice the textile exports to \$26 billion in 4 years by All Pakistan Textile Mills Association (APTMA).

In the Pakistan's entire export was \$24.6 billion in which textile exports was \$13.1 billion in the second last financial year that covered 53 percentage of total export. Among the Pakistan's entire exports to the European Union imported nearly 27-30% during period. Pakistan can export approximately 20% to European Union at zero duty and 70% at discount rates under the GSP Plus allowances. It should be noted that textile products imported by European union from Pakistan such as home textiles, textile made-ups and so on- will be instant advantageous of allowances. Because of GSP Plus that Pakistan is used to export \$5 billion value of yarn, dyed fabric and plain to various countries which are being kept in use for manufacturing of textiles and exported to European union.

“The home textile industry is likely to get the advantage of adding value itself and boost direct exports to the European Union after GSP Plus status,”

It was suggested that Pakistani young people will get jobs around 1 million because of GSP Plus allowances that has supported the boost of Pakistan's exports. It was estimated that the textile exports of current financial year will climb \$16.3 billion by 5% and for previous financial year it has climbed 3% from \$14.2 billion higher than goal of to \$14.6 billion. To ensure great potential to improve the Pakistan's exports, exporters from different industrial sector were eager to enter the European Union market that was given to Pakistan in 2014. Sector is certainly essential to economy - it occupies of the national workforce of about 49 million of country 30% - before GSP Plus the overall performance of the industry in the past five years continued to leave a bad impression in people's thinking.

Although the "third largest Asian spinning capacity of Pakistan, and its entire exports of readymade garment - which is sitting in the upper part of the value chain - still floating around billion US dollars, which makes up less than 10% of the country 's total textile exports. To add that up, the country has about zero percent branded share, and the value of high fashion and sports apparel textiles in the worldwide market, despite the fact that these products in Europe and the United States huge public demand. So, this is a national demand is provided by direct rivals India and Bangladesh, which continue to take away the demand of high value-added textile products from Pakistan to meet demand. In contrast, rivals such as Bangladesh which has Russia, Malaysia, Europe and USA GSP duty-free access to export to markets, observed an increase of 6.5% from the total textile exports

rose over last years. The country's exports to the European market and the United States rise \$6 billion only in FY11-12 given by the Bangladesh Export Promotion Bureau.

GSP plus status is offering Pakistan 3500 products to the EU's market duty free access while Pakistan's textile sector exports used to draw 11% of tariff to the European Union. In the 2013 fiscal year, the textile industry contributed 53 percent of the 13.1 billion dollars to Pakistan's exports to total amounted of 24.6 billion dollars, the EU's share in Pakistan's textile exports to around 27-30% in FY12.

3. Current State of Art

Pakistan Textile exports has rushed to \$14.22 Billion primarily because of (EU) GSP Plus status given by the European Union to Pakistan in the previous fiscal year 2013-2014 Jul-Jun according Pakistan Bureau of Statistics (PBS). The Generalised System of Preferences Plus (GSP Plus) that was put into operation from the beginning of last year has driven the growth of Pakistan's textile and apparel in the first two months of 2014 because of exports to the European Union. In Jan-Feb 2014, the exports of textiles and apparel from Pakistan to the European Union jumped by 30.68 percent to US\$ 446.91 million, as compared to exports of \$342 million made during the related period of second last year 2013.

Under its GSP Plus plan, the EU approved duty-free access to Pakistani textiles for a duration of 10 years. Though, the extension of the scheme is subject to periodical reviews to discover out whether Pakistan is making improvement on more than two dozen conventions of the UN linked to human rights, labour rights, gender rights and freedom of expression. In the meantime, Pakistani textile and garments enterprises have started investing in new machinery to get profit from the most of the country's GSP Plus status. In April 2014, Pakistan's textile machinery imports jumped by 130.07 percent year-on-year to \$66.374 million, according to the (PBS) Pakistan Bureau of Statistics. Pakistan country made textile goods by exporting value of \$14.22bn (2013 July to 2014 June) of the previous fiscal year matched up to by \$13.69bn in the financial year (2012 July, 2013 June), related to the Pakistan Bureau of Statistics (PBS), published latest figures of statistics on August month 2014. The Pakistan's textile exports have been shown huge figure in the previous fiscal year of 2014, with an increment of 3.81%.

GSP plus valid state is the important reason for the increment in textile exports, from 2014 year increased of textile exports to 28-bloc EU which is 18% that reaches a figure of \$ 5 billion due to first time in history of Pakistan because of GSP plus status given by the European Union, while the remaining textile exports fell 3.5% for rest the world. Since July last year, the rupee has become stronger over 6% against the euro, which is eroding income margins of exporters. However, a important increase in quantities may help balance the negative impact to few extent. The country has suffered serious security and electricity challenges, resulting in decrement of the textile industry over the last some decades and whereas Bangladesh, which is a most important competitor in the EU market, has stayed relatively untouched by such challenges. Pakistan export's threshold level has grown from less than 1.0% of total imports increased to less than 2.0% of the EU's GSP. Pakistan's market share was 0.3 percent of EU imports.

4. Comparative Analysis

The government anticipated to accomplish its target of \$1 billion in supplementary exports to the EU by the end of December 2014. it looked at the data of the initial eight months, the goal appeared realistic. Pakistan textile industry made \$3.512bn by exporting to the European Union from January to August, with

growth of 21.4% judged against to \$2.894bn in the similar stage of earlier 2013 year.



Figure 1: Caption of figure

Pakistan Textile sector made \$14.22 billion (2013-2014 Jul-Jun) compared to export value of the previous fiscal year, reaching from \$13.69 billion in the previous year (July 2012, June 2013). The country's textile exports have been shown in growth of 3.81% in fiscal year (2013 2014 Jul-Jun) as compared to fiscal year of (2012-2013 Jul-Jun), given by the most recent information by Pakistan Bureau of Statistics (PBS) published on August.

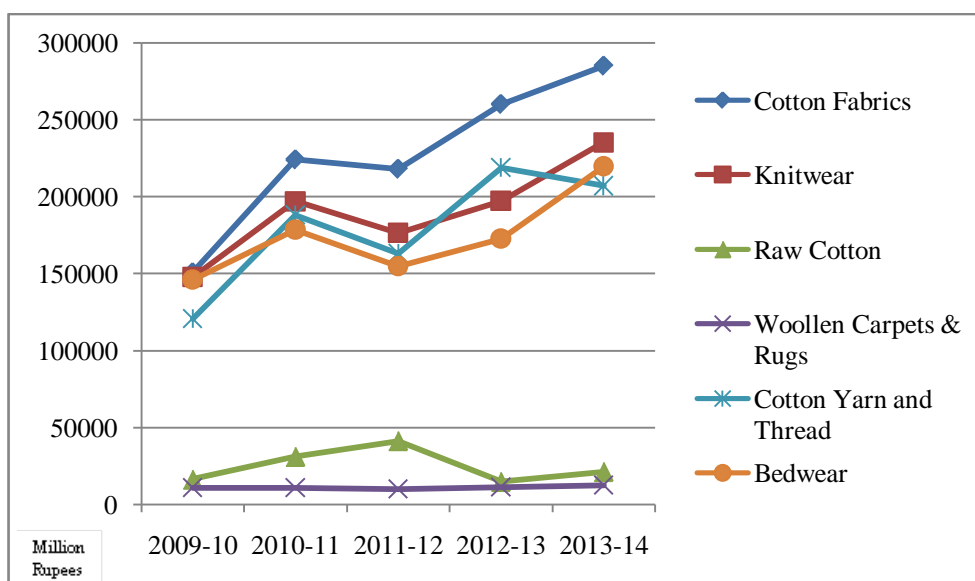


Figure 2: Caption of figure

As can we see in Figure 2 that Cotton Fabrics export is increased to 9.56% for fiscal year from 2012-2013 to 2013-2014, Knitwear 19.31% from FY 12-13 to FY 13-14, Bedwear 27.35% from FY 12-13 to FY 13-14, Raw Cotton 43.42% from FY 12-13 to FY 13-14 and Woollen Carpets & Rugs 9.85% from FY 12-13 FY 13-14 but Cotton Yarn & Thread is decreased to -5.40% from FY 12-13 to FY 13-14 because Cotton Yarn & Thread is used in country to make textile commodities that is why its export is decreased.

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Knitwear exports jumped by a attractive 19.31% from July to June FY 2013-2014 by judging against to the same period of fiscal year 2012-2013, according to the most recent government PBS data. likewise, export of cotton fabrics rose 9.56%, Raw Cotton 43.42%, Woollen Carpets & Rugs 9.85% and Bedwear 27.35% whereas Cotton Yarn & Thread is decreased to -5.40% respectively source Pakistan Bureau of Statistics (PBS).

By judging above data strategy can be followed as that as much as benefits can be taken from export to European Union by the duty free access of GSP Plus if the textile commodities are developed in large numbers by keeping raw material such as raw cotton and Cotton Yarn & Thread in use for production of textile commodities such as Knitwear, Cotton Fabrics and apparels.

5. Discussion and Suggestions

GSP plus given to Pakistan will be no meaningful if the Pakistan becomes unsuccessful to twice its exports to the EU (EU) under General System of Preference (GSP) plus plan of textile and other products. Difficulties faced by the Punjab's textile industry should be realized - especially given the growing energy crisis - and Government should make every effort to eliminate barriers to drag it down. Textile industry export creates richness and bring overseas currency to Pakistan; hence, it is the responsibility of the Pakistan government to solve textile industry problems and difficulties, in order to create new jobs, increase exports. The Government is working on to develop a policy as soon as possible, in order to expand the sector of textile.

“The textile industry is pillar of our economy and no government can risk to watch it by going down. According to Government we may not prove equal to your expectations but you will soon see results of our efforts,” The Government admired Pakistan Textile Mills Association Management (APTMA) for their endeavors to achieve the GSP Plus, saying alarm was triggered by APTMA well in time and informed the government in time about the disagreement in European Union towards the appeal of Pakistan for GSP Plus status for union of 28 nations of EU.

Government kept textile industry in faith that the energy crisis would be removed shortly for Punjab province textile producers and Pakistan's textile production in Punjab province is over three quarters, there is been a enormous job & export losses because rising crisis of gas and electricity. In this situation not any government can bear such a big loss of their economy. All Pakistan Textile Mills Association (APTMA) should appeal for resolving the energy problems of Pakistan's textile sector to the Prime Minister to get involved to bring to an end of these problems. Nation should take at look that textile industry is going through nightmares throughout few years because of energy crisis. APTMA is making maximum endeavors by not letting to destroy the future of textile sector because of shortage of gas and electricity. Textile sector do not know why the energy supplier has been shortened because of cricket match, political activities and religious festivals in the country, mills are designed on the continuous process of 365 days a year and millions of industry employees were reliant on nonstop production. It looks like murder of textile industry by shutting it down on the reason on energy crisis.

“It looks like the textile industry of Pakistan is being ruined under a pre-planned strategy and no one is there to take action against it.” 67% raise in electricity prices in 1 year had made Pakistan's textile sector regionally noncompetitive. “For textile industry is suggestible to raise their voice enthusiastically against any such maltreatment,” APTMA's can express their point of view against government is grossly taking care for over the last 5 months of the textile sector. "Cases against of

the textile sector members are being recorded because they are being abused in the industry, which has brought result of export decline in amount of \$1bn in the form of quantitative. If this existing condition carry on for the rest of the current fiscal year then export possibly will lose an additional \$2.3bn.”

Textile exports will be more advanced, if the government provides undisturbed electricity supply to industry. In the textile ministry sources notified that investment towards textile industry decreased as compared to other regional countries because of incompatible policies on tariff, unavailability of power, stuck up liquid assets on draw backs and return of funds and high interest rates. Seeing this textile export of Pakistan, government is ready for a 5-year program to grant subsidies for the textile sector. Under the latest planned textile strategy (2014-19), textile industry will be rewarded. Followed by the strategy, textile exports will increase over the next five years, \$ 26 billion, in addition to the creation of employment opportunities. Textile exports growth was welcomed by textile groups and they also suggested the government, if government wants to seek increase in export in upcoming twelve months then they need to work the electricity and security conditions. All Pakistan Textile Mills Association (APTMA) said in a the speech, export growth is could have likely been at least higher than 10 percent, if appreciation of the enormous evaluation of Pakistanis rupee compared to other foreign currencies and the US dollar to reduce the role of large-scale production costs, particularly gas and electricity bills. In the meantime, according to statistics of PBS, the Pakistan's export value of goods imported \$25.132 billion in the previous fiscal year from 2013 to 2014, US dollars worth \$45.113bn which has left a trade shortage of \$19.98bn.

About foreign investment, investments by Chinese and Japanese cause a big warning to local businesses in Pakistan, which without spending money on innovation will fail in competition war. These Chinese and Japanese companies spend money in product development and innovations to avail the new opportunity to explore their business. If Pakistani business society does not invest in development in the next few years, they will be driven out, losing global market contribution to local foreigners. Textile industry is estimated to grow up by 20 to 30 percent during the next three years. This growth must be transformed into more investment in the factories product improvement, innovation and energy. Only then, local business could fight in the world. Presently Pakistani businesses are struggling on price and focusing on only customary products selling against the smallest prices. “Reward of GSP-Plus status explains confidence of the international markets in the outstanding quality of Pakistani products,” Pakistan government main concern to attain entrance to European Union markets which was country's highest agenda of economic growth, The GSP Plus results only in the textile sector is estimated to earn an annual profit of up to 1 trillion of rupees which is supporting country to export to worldwide markets its products which value is over \$1bn.

6. Conclusion

“The GSP Plus is a doorway and that can bring a lot of positive adjustments in the textile industry. Our exports can grow up additional if we arrest the increasing cost of production specially the cost of electricity production.” Government should make every effort to eliminate barriers between export and drag it down. Textile industry export creates wealth and bring foreign currency to country; but Textile sector is going through energy crisis therefore, it is the responsibility incumbent upon the government to solve the energy crisis and problems, in order to create new jobs, increase exports. The Government is working on to develop a policy as

soon as possible, in order to expand the textile industry and the companies must be trained in exporting skills and fulfilling with the 27 UN conventions, condition to avail GSP Plus.

Although after passing through many difficulties the Pakistan Textile sector made \$14.22 billion (2013-2014 Jul-Jun) compared to export value of the previous fiscal year, reaching from \$13.69 billion in the previous year (July 2012, June 2013). The country's textile exports have been shown in growth of 3.81% in fiscal year (2013 2014 Jul-Jun) as compared to fiscal year of (2012-2013 Jul-Jun), given by the most recent information by Pakistan Bureau of Statistics (PBS) published on August, by seeing this we can suggest that Textile sector should be subsidized by Government to grow more its growth in manner of export to EU's by advantage of GSP Plus which can boost Pakistan Economy and bring many opportunities and jobs for youth. Pakistan textile's commodities should be developed in large numbers by keeping in use of raw material such as raw cotton and Cotton Yarn & Thread for production of textile commodities such as Knitwear, Cotton Fabrics and apparels. The country will only be competent of competing worldwide if it will spend money in product innovations, improved equipment and education. Pakistan is confronting a challenge to turn the GSP Plus requirements into an opportunity. Making everybody compliant in a manufacturing line is impossible. No country can resolve all its problems, but hoping Pakistan will succeed in GSP Plus attaining full benefits of EU's GSP Plus.

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Appendix

Fiscal Year	Pakistan's Textile Export
FY 12-13 Jul- Jun	\$13.69 Billions
FY 13-14 Jul-Jun	\$14.22 Billions

Top 6 Textile's Commodities for Export Growth Rate for 2012-13 to 2013-14 Jul-Jun

Commodities of Textiles	Growth Rate
Raw Cotton	43.42%
Cotton Fabrics	9.56%
Cotton Yarn and Thread	-5.40%
Knitwear	19.31%
Bedwear	27.35%
Woollen Carpets & Rugs	9.85%

Pakistan Textile's Industry Commodities Export to Worldwide by PBS

Top 6 Textile's Commodities for Export data				Value is Millions Rupees (PKR)		
Year	Raw Cotton	Cotton Fabrics	Cotton Yarn and Thread	Knitwear	Bedwear	Woollen Carpets & Rugs
2009-10	16365.5	150936	120768	147865	146195	11119.1
2010-11	31168.4	224257	188272	197145	178596	11034.4
2011-12	41392.6	218160	163404	176652	155108	10113.5
2012-13	14888.1	260238	219017	197434	172724	11484.6
2013-14	21352.5	285130	207200	235565	219962	12616.2



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