terrorism Got World Acclaim', in Solidarity International, Vol.1, Issue 7-8, July-August, 2005, pp.31-34.

42. In a recent statement the Pakistan Prime Minister categorically asserted that adverse developments in Afghanistan would have direct and immediate effect on Pakistan, therefore it would always be the endeavor of Pakistan to help and facilitate Afghanistan in securing desired levels of stability, unity, development and prosperity. See Dawn, June 10, 2006

Pakistan's Textile Sector and the EU

Dr Karin Astrid Siegmann

EU-Pakistan Trade (Textiles and Clothing)

A large number of the European community use bed-linen supplied by Pakistan. In 2005, the South Asian economy was the largest supplier of bed-linen to the union (Aziz, 2006). The European Union (EU) is Pakistan's largest trading partner, with textiles and clothing (T&C) accounting for almost two thirds of its sales to the union (EC's Delegation to Pakistan, 2004). As in many close relationships, however, the EU also is the cause of a lot of worry to its partner. One example was the imposition of a punitive import duty on Pakistani bed-linen in 2004, accusing exporters of dumping bed-linen below cost prices at the European market. It is believed by some that this move was actually in reaction to Pakistan's upgrading its commercial airfleet with US-American Boeings rather than with European Airbuses.

This paper takes a closer look is taken at the anatomy of and prospects for trade relations between Pakistan and the EU, focusing on the Textile and Clothing (T&C) sector.1 Features of both partners that have the potential to promote or constrain T&C exports from Pakistan to the EU are sketched. The focus is on EU's trade-related policies policy regarding Pakistan and the structure of Pakistan's T&C industry. An overview over the resulting exports to the common market is provided and possible scenarios for the future of the contested relationship and their likely consequences in terms of industrial and overall development are outlined. Finally, measures that support a healthy trade partnership between Pakistan and the EU in T&C are described.

Structural Features of Textile and Clothing (T&C) Trade

Relationships depend on the partners' characters. Applied to T&C trade between Pakistan and the EU, these key attributes are the EU's trade policy and the structure and competitiveness of Pakistan's T&C industry.

An influential step to bring Pakistan closer to the EU was the decision to provide duty-free access for Pakistani clothing products to its market under the Generalised System of Preferences (GSP) in 2001. The stated reason for this measure was to reward Pakistan's efforts to combat drug production and trafficking (EC's Delegation to Pakistan, 2001). However, in 2004, the European Commission (EC) announced the simplification of its GSP scheme, waving goodbye to the special scheme to combat drug production and trafficking. It expired on 31 December 2005 (EC, 2004). Import duties of 12 percent were to be paid since January 2005. However, Pakistan's Ministry of Commerce courted heavily and as a result Pakistan receives 9.6 percent GSP rates of import duty for a number of product categories, including T&C sales, since January 2006. Yet, the reduction is not substantial and the situation of the Pakistani industry compares unfavourably with other countries in the region. Bangladesh, for example, obtains zero duty access to the European market due to its least developed country status. Sri Lanka equally does not pay import duties due to specific incentives for countries having ratified certain conventions on sustainable development and good governance.

The EU's development policy is intended to flank its trade policy vis-à-vis developing countries. Support for trade-development linkages is one of the six core areas of the EU's development policy. This involves improved market access, removal of competitive constraints, enhanced cooperation in trade-linked areas, technology transfers, private sector development (European Council, no date). The EU intends to support reforms in developing countries' trade policies of that also serve gender equality (EC, 2001). This is an important point for the T&C industry which is Pakistan's largest formal employer of women in an environment with strong cultural constraints to women's participation in the paid labour market. As a practical consequence, the EU and Pakistan signed an agreement in February 2004 for trade-related technical assistance for Pakistan (EU, 2004). It involves measures to enhance the competitiveness of key sectors of the Pakistani economy, including T&C.

While the GSP inclusion drew Pakistan closer to the EU, haggling over the alleged dumping of bed-linen on the community's market has greatly disturbed the trade relationship. The EU imposed an anti-dumping duty of 13.1 percent on bed-linen exports from Pakistan effective from March 2004, arguing that cheap imports from Pakistan were damaging the European textile industry.[1] While review investigations about the basis of this claim are ongoing since January 2005, to the detriment of Pakistan's industry, no conclusions have been drawn so far.

Apart from these bilateral issues, the global trade environment for T&C goods has a considerable impact on the trade relation between Pakistan and the EU. Globally, competition in T&C trade made a quantum leap in 2005. In January 2005, the Agreement on Textiles and Clothing (ATC) expired. An agreement under the World Trade Organisation (WTO), it was aimed at gradually phasing out the quota system that had governed trade in T&C for more than 30 years. Since January 2005, buyers and sellers of T&C products no longer rely on quotas in the main markets. Established trade relations can be abandoned for newcomers who offer the same or better quality at equal or lower price. This means that both price and quality competition amongst T&C producers increases. China's entry, especially, into the WTO in 2001 signalled that from then on a great number of T&C manufacturers across Asia, Latin America, and Africa would have to compete with one huge, cost-efficient producer.

The rise in Chinese T&Cand other imports was anticipated in China's accession protocol to the WTO. The Textile Specific Safeguard Clause stipulated that other WTO members could implement protective measures in case of a sudden surge in Chinese imports crossing 7.5 percent annual import growth (WTO, 2001). That is what the EU resorted to after Chinese imports of nine product categories, including T-shirts, pullovers, blouses, stockings and socks, rose between 51 percent-534 percent between January and May 2005 (EC's delegation to China, 2005). The agreement the EU

signed with China in June and amended in September 2005 constrains the rise in Chinese imports in sensitive product categories until the end of 2007 and provides breathing space to other trading partners like Pakistan (EC, 2005).

An issue so far largely independent of official policies is the increased demand for social and environmental compliance in T&C production. Its labour-intensiveness of and its toll on the environment in terms of heavy use of water and energy as well as hazardous substances, such as dyes and bleaches, has catalysed consumer demand for “cleaner clothes”[2] in terms of the social and environmental conditions of their production (Banuri, 1998). It is passed on to retailers and buyers who increasingly demand social and environmental certification of T&C producers according to international or their own standards. Both the Government of Pakistan and industry have mostly rejected these demands as a new form of protectionism that is a burden for the industry's competitiveness. Research has shown, though, that it cannot only be expedient, but also profitable for exporters to comply with the increasingly complex demands of international clients (Khan and Haider, 2004).

Turning to key features of the other trading partner, Pakistan's T&C industry is the country's most important industrial sector. It caters for 9 percent of gross domestic product (GDP), about 60 percent of the country's exports and employs 35 percent of industrial sector workers (Ministry of Finance, 2005b), about 30 percent of whom are female (Siegmann, forthcoming).

Broadly, the Pakistani T&C sector has two very dissimilar faces. Historically, the focus of Pakistan's T&C sector has been on the early stages of processing, i.e. ginning, spinning, and weaving, due to the domestic availability of cotton. One in eight bales of the global cotton production is harvested in Pakistan. It is becoming the third largest cotton consumer world-wide (ICAC, 2006). For many years, Pakistani cotton and yarn exporters remained competitive due to the availability of subsidised cotton prices and very low labour costs for the hand-picked cotton. Their economic importance is paralleled by the political influence they exert. Pakistan's share of world trade in cotton yarn and cloth is about 30 and 8 percent, respectively (Ministry of Finance, 2004). However, during the past ten years the production and export of higher value-added items such as made-ups and knitwear has picked up. In fiscal year (FY) 2004-5, bed-linen and hosiery alone accounted for 22 percent and 21 percent of Pakistan's exports to EU, respectively (EPB, 2006). During the past years, a major effort has been undertaken to modernise the textile sub-sector in particular. An impressive amount of US$5 billion has been invested in the T&C industry from 1999 to 2004. Almost half of the investment went into spinning, a fourth in weaving and a meagre 8 percent in made-up textiles (Ministry of Finance, 2005b).

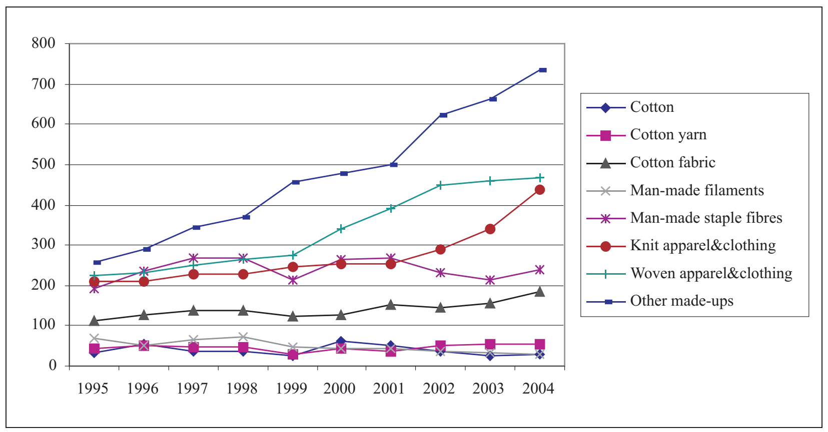
The woven and knit garment sectors represent the darker side of the industry. Whereas the textile sector is characterised by large units and high capital-intensity, clothing production takes places in smaller establishments, roughly 80 percent of them in the informal sector (USITC, 2004). Labour-intensity and the employment of women workers are high, standards regarding working conditions poorer than in the textile sector. Of the investment volume quoted above, it obtained less than 5 percent of the total (Ministry of Finance, 2005), i.e. about one-third of the investment targeted in the "Textile Vision 2005" (Ministry of Finance, 2003).

The "Textile Vision 2005", a strategy paper for the Pakistani T&C sector, developed as early as in 2000 by the Small & Medium Enterprise Development Authority (SMEDA), identified amongst other things the following weaknesses of the sector (SMEDA, 2000): a narrow export product base, with a focus on low value added yarns and fabrics rather than made-ups and garments, and a lack of focus on a trained workforce in high-value added industries, such as clothing. Increased attention for garments and made-up articles as well as improved quality throughout the textile chain was advocated as a response to these challenges. This implied technology upgrading at all stages of textile processing, human resources development, and improved marketing. These sound ideas have not been implemented so far. On the contrary, a lack of qualified workforce becomes apparent in both sub-sectors.

Pak-EU T&C Trade

As can be gauged from Figure 1, during the past ten years, Pakistani made-up and knitwear exports play an increasingly important role in T&C sales to the EU, whereas less processed cotton products, such as yarn and fabrics, fetch less and a declining share of export income from the EU. As indicated above, bed-linen is the most important component of made-up exports.

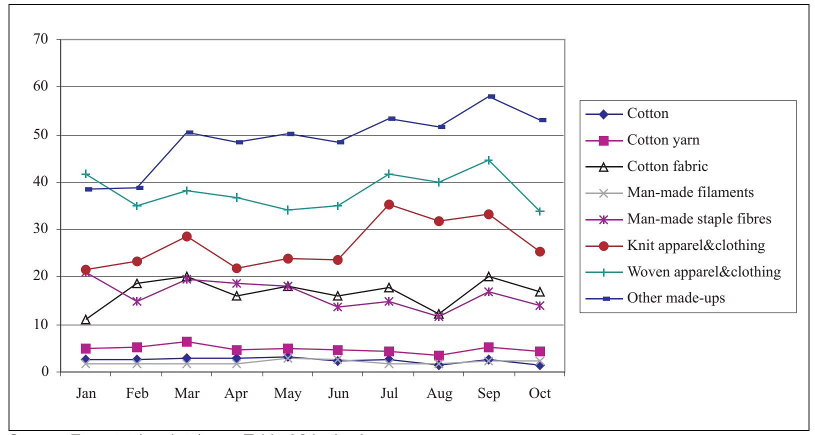
Figure 1: Main Pakistani T&C exports to the EU by product category, 1995 -2004 (mio. EURO)



Source: Eurostat (no date), see Table A1 in the Annex

Pakistan's exports of bed-linen to the world market came a close second to China's (USITC, 2004). The EU's decision to grant Pakistani T&C products duty free access to its market under the GSP in 2001 triggered this surge in exports as visible in the steep increase in made-ups sales after 2001. The imposition of 12 percent import duties on Pakistani bed-linen together with the anti-dumping imposed in March 2004 led to reduction in its sales' growth, though, and catalysed the increase in China and Turkey's market share in the EU (Aziz, 2006).

Figure 2: Main Pakistani T&C exports to the EU by product category, January -October 2005 (mio. EURO)



Source: Eurostat (no date), see Table A2 in the Annex

According to Figure 2, the rise in international T&C trade after the expiry of the quota system in January 2005 has not provided a push to Pakistani exports to the EU. Official statistics show that, overall, exports have increased slightly after the quota expiry. T&C exports July to March 2004/5 were 2.1 percent higher than in the previous FY (Ministry of Finance, 2005b). Made up textiles sustained their strong growth performance despite the significantly higher costs the industry incurred in terms of anti-dumping duties in addition to the lapse of the previous GSP scheme. In the second half of the year, however, both woven and knit apparel sales display a downward trend. This trend is mirrored in a study recently conducted by the Sustainable Development Policy Institute (SDPI). It casts doubts on the sustainability of export growth. A majority of cotton, yarn, fabric, made-up, and woven as well as knit apparel exporters faced lower product prices after the quota expiry. Most companies exporting fabric and garments realised reduced profits.3 Several respondents explained that increasing sales are a strategy to deal with these reduced margins. The majority of Pakistani fabric, knitwear, and made-up textiles exports went to the EU both in FY2003/4 and 2004/5. The question thus remains for how long companies can survive these harsher business terms. More than one-third of the surveyed exporters (38.5 percent), especially those of garments and made-ups, are aware of manufacturers who have gone out of business.

Contested Trade Relationship

'Carrots' from the EU in the form of trade preferences granted, catalysed export growth, which was slowed down by the 'stick' of anti-dumping duties. Given the strengthened position of competitors in the post-quota era combined with structural weaknesses in the Pakistani T&C sector, i.e. mainly the lack of investment in high value-added sub-sectors and in skill development, it is questionable how sustainable this development is.

Depending on the industry, the government, and buyers' strategies, Pakistan's T&C industry will either specialise in yarn and cloth production and lose significant market shares in garments due to lack of competitiveness or it will climb up the value-added chain and further shift its export composition towards made-ups and, especially, garments (Siegmann, forthcoming).

What would be the consequences of these scenarios? If Pakistan puts up with its role as a major yarn and cloth producer, and accepts that others do better and cheaper in garments manufacturing, this would imply high costs in terms of industrial and social development of the country. The garment sub-sector fetches higher value-added as compared to the textiles sub-sector. As clothing items have almost become 'perishable' goods in terms of their demand structure (Altaf, 2006), it also is the part of the global T&C market that grows more rapidly and thus provides prospects for expansion. As mentioned above, it also is labour- and female-intensive, and, thus, guarantees trickle down effects to a larger share of the population as well as a contribution to women's economic empowerment. A future trade scenario that accepts a shrinking role of this aspect of the trade relationship with the EU weakens the link between trade and Pakistan's industrial and overall development--a highly undesirable future industrial pathway.

Alternatively, a setting that ensures that Pakistan does not lose its market shares in garment exports to the EU strengthens the trade-development bond. However, it requires a joint effort by the Government of Pakistan, the industry and its trading partner EU. Pakistan is far from its main market, which has increasingly become a factor determining the geography of global T&C production. The chunk of global clothing demand that is less dependant on proximity, namely high end clothing items, needs a talented workforce (Altaf, 2006). The main challenge, therefore, is to promote skill development at all levels of the industry. In the garment sector, this not only involves managerial and technical staff, but operators as well.

Measures for a Healthy Trade Partnership[3]

For Pakistan, a paradigm shift is needed. So far, policies have implicitly and explicitly supported the marketing of Pakistan as a cheap rather than a skilled trade partner. Legislation has provided disincentives to unionisation, made the implementation of minimum wages flexible and supported labour market institutions in cotton cultivation that accepted cotton contamination by keeping cotton pickers wages low. Overall spending on schooling has been pathetically low in Pakistan. In the 2005/6 budget, this area accounted for a meagre 1.5 percent of public expenditures (Ministry of Finance, 2005a). The result is that less than a third of women and girls and not even half of all males have access to formal education (Federal Bureau of Statistics, 2004). Although the Government of Pakistan has set up training institutes to support its industrial engine, with few exceptions, they are dysfunctional due to lack of skilled faculty and adequate curricula. For an important sub-sector such as knit garment production, no training institute exists (Khan, 2005).

Increased quality demands in an environment of harsher competition for market shares in the EU have to be translated into a more skilled and motivated workforce. As stated above, if the government faces these challenges it would not only increase the prospects for sustained exports from the garments sub-sector but also crucially

contribute to Pakistan's overall industrial and human development. Apart from the direct provision of and support for skill development in technical, managerial skills, marketing and design, improvement of working conditions is therefore necessary. The government and employers need to implement existing labour laws, extend them to contract and informal sector workers, and to workers in export-processing zones, as well as sanction their violation.

Apart from contributing to skill development, Pakistan should also join hands with the its industry in implementing measures that help mitigating structural change in the T&C sector. Job losses in unskilled categories are likely in either scenario. In particular, targeted social safety nets for workers who are dismissed should be set up. They may include counselling, skill upgrading, entrepreneurship programmes, access to loans etc. A special effort should be made to reach vulnerable female workers due to the significantly lower chances for alternative employment they face.

While the Government of Pakistan, in particular, needs to do its homework, the EU can flank its efforts to sustain a healthy trade relationship for mutual benefit. The inclusion of Pakistan in the new GSP is a helpful step for guaranteeing Pakistan's access to the common market. However, more investment in the relationship is possible. The anti-dumping duty on bed-sheets is a major obstacle for Pakistan's most successful export item. It is time to withdraw the duty since, in two years, the claims of dumping could not be substantiated.

Support for skill development can be part of development assistance for Pakistan, in terms of financial support but also through training of faculty, and help in curriculum development. As the implementation of labour standards will support investment in the skills of the workforce as well as labour productivity, the EU's assistance will be useful in this area as well. The EU can support the transition toward social and environmental compliance, a short-term investment, that brings long term benefit for industrial and overall; development. At the international level, the stance the EU, as one of its most influential members, takes in the WTO regarding a social clause, linking trade flows with minimum labour standards is important. Globally, sanctioning the ILO core conventions at the level of the WTO provides a more level playing field for competition, supports skill-based industrial development, and benefits millions of workers.

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End Notes

1. Previously, dumping-related duties were imposed by the EU on Pakistani bed-linen from 1997-2002.
2. The largest European consumer organisation lobbying for better working conditions in the global T&C industry is the "Clean Clothes Campaign".
3. Given the respondents' hesitance to report profit data (29 percent missing answers), it is likely that the survey data carry a positive bias with valid profit averages being overly optimistic.
4. The suggestions are partially based on the proceedings of a regional workshop "What comes after the quota went? Human development effects of the ATC expiry?" organised by SDPI and the UN Trade Initiatives from a Human Development Perspective (UN-TIHP) that took place in Islamabad from November 21-22, 2005. Representatives from the T&C industry, government, trade unions, donors, and academia participated (SDPI-UN-TIHP, 2005).

Appendix Tables

Table A1: Main Pakistani T&C exports to the EU by product category, 1995 -2004 (mio. EURO)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Cotton	31.78	52.51	35.79	37.73	25.99	62.86	50.10	37.68	24.75	27.85
Cotton yarn	44.07	52.13	48.74	46.10	27.59	44.47	37.01	49.64	55.54	53.66
Cotton fabric	113.09	127.76	135.79	136.89	121.74	128.15	152.65	144.42	156.41	185.05
Man-made filaments	67.73	49.64	66.84	73.24	45.43	42.97	44.03	36.81	31.00	30.04
Man-made staple fibres	190.91	237.09	266.92	268.43	213.65	263.45	269.57	230.10	215.32	237.78
Knit apparel&clothing	208.19	210.12	228.30	227.90	246.14	253.48	253.31	288.50	341.26	439.80
Woven apparel&clothing	226.23	229.88	251.52	264.49	276.41	341.16	392.20	449.04	459.65	465.98
Other made-ups	257.52	288.76	344.93	370.96	454.74	476.05	500.74	622.72	663.59	734.35

Source: Eurostat (no date)

Table A2: Main Pakistani T&C exports to the EU by product category, January -October 2005 (mio. EURO)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Cotton	2.76	2.50	2.89	2.97	3.12	2.45	2.62	1.33	2.58	1.45
Cotton yarn	5.02	5.24	6.30	4.75	5.05	4.81	4.33	3.49	5.18	4.33
Cotton fabric	10.97	18.71	20.04	16.08	18.01	16.01	17.78	12.27	20.27	16.79
Man-made filaments	1.83	1.74	1.90	1.77	3.03	2.55	1.83	1.61	2.26	2.46
Man-made staple fibres	20.85	14.74	19.42	18.63	18.06	13.73	14.85	11.61	16.97	14.08
Knit apparel&clothing	21.44	23.26	28.48	21.99	23.81	23.62	35.19	31.85	33.34	25.25
Woven apparel&cloth.	41.84	35.04	38.17	36.85	34.19	35.13	41.69	39.94	44.76	33.95
Other made-ups	38.36	38.77	50.35	48.51	50.02	48.52	53.27	51.57	58.01	53.02

Source: Eurostat (no date)

2006 Elections and India's Ruling Coalition

Paranjoy Guha Thakurta

In the current era of coalition politics in India, the influence of political developments in states or provinces on the central or federal government is not just inevitable but more often than not, quite significant. The elections to four state assemblies Assam, West Bengal, Tamil Nadu and Kerala and the Union territory of Pondicherry, that took place in April and May 2006, the results of which were announced on May 11, too has had an important bearing on politics in New Delhi.

The Congress, which leads the United Progressive Alliance (UPA) coalition government, has certainly not become stronger in fact, it has become weaker. This is despite the fact that the party has managed to remain in power in the north-eastern state of Assam, albeit with the support of coalition partners. The Dravida Munnetra Kazhagam (DMK) has been able to come to power in Tamil Nadu in south India but, for the first time in the history of the state, the ruling party is in a minority and has been able to form the government only with the support of its coalition partners, including the Congress. The fact that the Left has become more powerful by getting re-elected in the eastern Indian state of West Bengal and by forming the government in Kerala in the south means that the four Left parties led by the Communist Party of India-Marxist (CPI-M), that are providing crucial “outside” support to the UPA government with its 61 members of Parliament, would now be able to exert greater pressure on the Manmohan Singh government, especially on economic policy issues. The principal opposition party in India at present, the Bharatiya Janata Party (BJP) has been and remains politically insignificant in these states.

Assam

Assam is by far the most populous of the seven states, or “seven sisters” of the north-eastern part of India which is separated from the rest of the country by a narrow “chicken's neck” in West Bengal. But more than the geographical separation, the people of north-east India have for long felt alienated from the country's mainstream. Questions relating to sub-nationalism and regional identity, illegal immigration and violent separatist movements have dominated the political discourse surrounding Assam for more than half a century. Till December 1985, nine out of the ten individuals who served as Chief Ministers of Assam belonged to the Congress party; the exception was Golap Chandra Borbora of the Janata Party who was Chief Minister between March 1978 and September 1979.

From the late 1970s, a series of agitations against the state government as well as the Union government spearheaded by the All Assam Students' Union (AASU) paralysed