

Revitalization of Domestic Industries through Trade Protectionism: A Case Study of Textile Industry

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Abstract: Trade protection measures are considered an ambiguous tool among policymakers and economists for the well-being of the nation. Trade protection measures are imposed deliberately to limit imports and support domestic industry for the promotion and localization of export through tariff or non-tariff barriers (NTBs). Despite supporting free trade for regional integration and trade openness, protectionism is still a commonly practiced strategy. Due to inelastic demand for imports, Pakistan has witnessed an increasing trend in imports of consumer and intermediate goods both of which are hurting local industry while increasing the trade deficit. Hence, domestic industries are forced to reduce their output and workers due to the growing demand for imported goods. Now, under the new tariff regime, duty-free imported goods are also facing import duties due to the pretext of countervailing and anti-dumping duties. This could be done to protect domestic industries, however; such measures are often ineffective in the case of Pakistan. The main objective of this study is to evaluate trade protection measures in revitalization domestic industry while focusing textile (garments) sector. The findings indicate that trade protection could help to foster this sector due to export competitiveness, however; inefficiency has increased whereas; export growth is stagnant. Trade protectionism policies have not provided a significant impact that may improve the performance of the Textile sector. Despite protections and favors from the government, recent facts are not encouraging regarding textile exports which shows that the industry is not operating with full potential. It would be better to support the textile industry and boost exports, government must look for some other incentives rather than providing protection which also affects the efficiency of the industry. Meanwhile; import constraints on raw material and intermediate goods should be relaxed otherwise it may hamper the competitiveness of downstream producers and raise inefficiencies in domestic industries. All stakeholders and policymakers must formulate policies and regulator stance on the intention which have been defined for growth. For the long-term export growth, diversification of export should be an ultimate goal which is an appropriate policy response.

1. Introduction

Trade protectionism is considered as an economic policy to restrain trade through implementing tariff and non-tariff barriers (NTBs) on imported goods or other government regulations to discourage imports (Fouda, 2012). The words “Protectionism” refer to those policies which protect domestic industries and living wages by regulating or limiting trade between countries. The government restricts foreign trade to support local producers against foreign producers in a particular industry (Abboushi, 2010). The enriched works by classical school of economics such as Adam Smith, Ricardo, Torrens, James Mill provide favorable arguments with respect to free trade and almost all contemporary economists also agree that the cost of protectionism outweighs all benefits that hinder economic growth (Shirazi, Manap, & Din, 2004; Bagwell, & Staiger, 1997; Fouda, 2012).

Although; several arguments justify the implementation of trade protection, however; the primary objective is to facilitate domestic industry to adjust competitive circumstances which allow the industry to contract more efficiently and transition of employed resources in the industry from other sectors of the economy. In other words, trade protectionism is implemented to provide more time and resources to compete more efficiently. These protection measures would also allow more time for the local producer to improve their abilities in management, production and marketing and technology (Ma & Lu, 2011).

On the other hand; reducing trade barriers and improved communication have lowered the cost of importing goods. Consequently; local producers are facing increased competition from foreign producers. Recently; the local industries of Pakistan also feel the threat from large-scale Chinese enterprises due to significant economies of scale which may lead to cheap imports from China (Hussain, 2017). Therefore; imports are restricted for two reasons; when foreign firms are not competing fairly and to support those industries which are threatened with serious injuries by imports of foreign firms that compete fairly (Kaplan, 1986). Moreover; increasing taxes and placing regulatory duties on raw materials have raised the cost of local production which also hurts industries rather than protect them from foreign competition. However; the revitalization of domestic industries is more important through trade protection particularly those which are injured by foreign exports. According to World Trade Organization (WTO); due to declining in tariffs, NTBs are being significantly used as protection measures by governments in the form of specific requirements, export subsidies, quotas, standardization and prohibitions on

importing specific goods to protect domestic industries from foreign competition (Kayani & Shah, 2014).

The WTO and international trade laws do not support suing of domestic laws for restricting trade however; free trade allows several exceptions to develop countries to restrict trade in order to support their local industry. These exceptions have been acknowledged in the associated documents of the General Agreement on Tariffs and Trade (GATT). Exceptional cases such as antidumping and countervailing duties, national security and special allowance for developing states have been allowed to restrict imports if it hurts the economy. Antidumping measures outweigh access dumping of low price cheap imports in local markets whereas; countervailing duties are imposed to withdraw government subsidies to foreign producers if they artificially lower their costs. Moreover; safeguard measures are applied to stop the rapid increase of imports in a local market that seriously hurt domestic markets. Special allowance for developing state create particular status in order to implement “measure affecting imports” for raising the general standard of living of the country (Kayani & Shah, 2014).

Apart from this; local industries in developing countries also face higher input costs as compared to foreign producers due to heavy relay on imported raw materials and unskilled labours. In such conditions, protection measures are taken in order to decrease dependency on foreign inputs that improve the competitiveness of local industries by reducing their costs. On the other hand, restriction on consumer goods not only increases their prices in local markets but also raises demand for local substitute goods which encourages local industries. Therefore; improved condition with higher profit enables domestic industries to invest in cost-reducing technologies or new products. Although trade protections do not directly rivet substantial investment, however; higher output and profit resulted from trade barriers also affect the profitability of investments. Thus, protection measures may also restore the cost competitiveness of industries if it doesn't significantly contribute to making cost-reducing investments.

Since the mid-1960s, trade policies have not been proved favorable for Pakistan to promote trade and economic growth. Pakistan has adopted an import substitution policy (IS) in the 1950s and 1960s with a weak industrial base. It has been argued that IS strategy was not effectively implemented and it was used as a constraining rather than sensible policy that may change the diversion of investigable resources towards supporting industries (Khan, 1963; Lewis, 1969).

However; Pakistan attempted export promotion policies to support domestic industries since 1970s (Zaidi, 2015). However; like other developing countries; Pakistan moved toward trade liberalization in the late 1980s while reducing tariffs and other indirect trade barriers continued till 2006 (Afzal & Ali, 2008). To support local industries and encourage exports, Pakistan has already intervened through various policies such as tariffs, quotas, deprecation of currency and interest rate that strictly controlled imports. Unfortunately; due to the negative trade balance, Pakistan is losing the competitiveness of local production, particularly in import substitution sectors to low prices and high-quality imports from importing countries such as China and Malaysia under Free Trade Agreements (FTA).

With the passage of time; Pakistan has liberalized tariffs, however; tariff protection measures have been taken occasionally. The numbers of tariff slabs have been reduced from ten in 1993 to six in 2015 whereas; the maximum tariff reduction was 25% in 2015. On the other hand, 1 percent duty has been imposed on the 40 percent tariff lines. Mostly are essential raw materials and machinery which were exempted from duty before. Moreover; the number of slabs has further been reduced to 5 while the maximum tariff has been reduced to 20 percent, however; the lowest slab has been increased from 1 percent to 2 percent.

According to the drafted National Tariff Policy, 2019; slabs have been reduced to four while merging slab of 2 percent and 5 percent and adding a new slab of 3 percent in 2007. It has increased the import tariffs on raw materials and machinery from zero percent in 2014 to 3 percent in 2017 that may also increase the cost of production which especially hurts small and medium industries. Moreover; additional duty of 1 percent has been imposed under SRO 1178(1)/2015 which has been raised to 2 percent in 2018. It has increased duty on raw material to 5 percent in 2018 from zero in 2014 which may also hurt industries due to the increasing cost of production. Table 1 percent current duty slabs with a large number of tariff lines subject to an additional duty of 2 percent.

Table 1: Tariff Slabs

<i>Duty Slab</i>	<i>No. of Tariff Lines</i>	<i>Value of Imports (US\$ billion)</i>
3%	2,747	24.2
11%	1,096	11.1
16%	513	2.5
20%	2,419	7.1

Source: Ministry of Commerce, Government of Pakistan

Under SRO 670(1)2019, the Federal Board of Revenue (FBR) has implemented the customs budgetary measures while imposing or increasing

additional custom duties on the import of 569 items including vehicles. It seems that the objective of this customs budgetary measure is to generate more revenue and discourage the consumption of imported goods. Numbers of schemes are also in progress to facilitate manufacturer-cum-exporters to reimburse the import duty of raw materials and inputs. However; many manufactures especially SMEs fail to avail the benefits of such policies or duty drawbacks.

The protectionist policies also affect the performance of exporting sector that led to an increase in inefficiency in production and prevented to realize the full potential of export. Although tariff rate was reduced due to liberalization regime on import of intermediate goods particular that are used in the production of exportable goods. It is said that implementation of import substitution policies was essential to support domestic industry, however; it did not contribute to achieving desired goals of national welfare. Therefore; developing countries prevented protectionist policies, reduced trade barrier and encouraged trade openness.

1.1. Pakistan's Trade and Tariffs

In the case of Pakistan, unfortunately, industrial goods are limited with a lack of variety and innovation. Furthermore; it is not the top priority of Pakistani entrepreneurs to innovate and improve productivity (Bari and Ejaz, 2012). Pakistan has comparative advantages in textile and garments-related goods, however; this sector is still facing a number of problems such as competition with China, Vietnam and Bangladesh (Ahmad, 2013; Akhtar *et. al.*, 2008).

Table 2: Sector-wise changes in Tariff Structure

Product Category (Non-agriculture)	Effectively Applied Rate (%)											
	2006	2007	2008	2009	2010	2011	2013	2013	2014	2015	2016	
Manufactured goods, ores and metals	14.33	13.08	11.79	11.7	12.6	12.66	12.9	12.23	12.4	12.6	13	
Ores and metals	8.71	8.11	5.53	5.2	4.89	5.25	5.24	5.78	6.54	6.14	6.68	
Manufactured goods	14.64	13.41	12.2	12.1	13	13.11	13.4	12.63	12.8	13.1	13.4	
Chemical products	8.71	8.16	6.78	6.92	7.06	6.64	6.67	6.98	7.35	7.26	8.32	
Machinery and transport equipment	17	15.54	14.74	14.6	16.5	17.93	18.2	16.72	16	16.9	15.7	
Other manufactured goods	15.32	15.32	14.06	14.6	14.7	14.81	14.3	13.15	14.1	13.5	14.2	

Source: UNCTAD Statistic

Table 2 shows disaggregated tariff structure in terms of Effectively Applied rate. It has been found that the consumer and manufacturing sectors have enjoyed more protection. Although, the existing tariff structure is quite complicated which needs serious consideration for streamlining trade policies (Karim, 2014).

1.2. The objective of the study

The recent government has also announced a bailout package worth Rs 29 billion by waiving taxes and duties on the import of cotton. The Rs 25 billion gas subsidy has also been approved for five-zero-rated export industries where the textile industry is the major beneficiary of government support policies (Bhutta, 2019). The main objective of this study is to evaluate trade protection measures in revitalization domestic industries while focusing textile industry. This study also assesses the features, competitiveness, level of inputs (import) and impact of trade protection on the textile sector in order to provide deep insights for formulating policies.

1.3. A Prescriptive Analysis for Trade Protectionism

The study adopts a prescriptive approach to trade protection measures in the Textile industry in Pakistan. The main idea behind using a prescriptive framework/analysis is to provide policy implications that should be taken rather than describing what is done or what has already been done in this regard. This study develops an understanding of the nature of these policies and their impacts on textile whether trade barriers are creating more hurdles in terms of high prices of raw materials or protecting from foreign cheap imports strengthen to capture market share domestically as well as internationally.

The simple framework of this study highlights:

- Trade and tariff policies for supporting domestic industries.
- Characteristics, competitiveness, level of imports in the textile sector
- Performance of Textile Industry
- Textile Policy
- Tariff and Non-tariff regimes to support the textile industry
- The Evaluation of Protection in the Textiles Industry

2. Primarily Studies

Protection policies support domestic industry to increase and maintain market share in the presence of foreign competition. However; foreign producers benefit

from certain protectionist policies in the case of quota due to an increase in prices. Tarr and Morkre (1984) estimated a cost of \$ 12.7 billion to the economy from protectionist on autos, textile, and steel and sugar industry. Hickok (1985) also analyzed those protection policies that negatively affect low-income consumers.

The study of Hufbauer et al (1986) have examined various trade protection cases in manufacturing sectors with a trade of more than \$100 million. It has been found that cost to consumers exceeded more than \$100 million with the largest cost in the textile industry with \$ 27 billion per year. Kaempfer and Willett (1987) explain the issues of using import surcharge for reducing the trade deficit. However; the finding proved that this policy has distracted resource allocation in the economy. Coughlin et al (1988) argued that new industries do not enjoy production efficiency in the presence of competitors. Therefore; newly established industries pressurize the government to protect this industry from international competition through imposing trade restrictions until domestic industries achieved their comparative advantages. Kemal, *et al.* (1987) calculated Effective Rate of Protection (ERPs) using primary data for 961 firms of 70 industries in 1992-93. The finding proved that 11 industries have negative protection whereas; 30 industries have enjoyed high protection. The results also indicated that import-competing industries were more efficient. Roderick (2000) also supported trade protection in the presence of certain market failures in import-competing sectors with positive production externalities. GDP can be increased through restricting trade which proved a positive association between trade restriction and growth of output. The finding of Clemens and Williamson (2002) also proved that trade protection favored economic growth before Second World War. On the other hand; Feenstra (2004), Krugman and Obstfeld (2003) explained that a trade barrier always led to a loss for small importing countries.

Din *et al.* (2007) also computed ERPs for 39 industries for 2001 for Pakistan. The finding shows that 18 industries enjoyed protection above-average level - 27.8 percent. They suggested reducing ERPs from 5 to 10 percent through price reforms along with other policies to increase investment and improve technology. Phan and Nguyen (2008) have examined the implementation of high-level protection on its domestic industry and concluded that it has been a failure in terms of welfare surplus. The industry remained an infant while the government and consumer have lost their welfare due to the rise in prices of the imported automobile. According to Dutt (2009), protection policies are a major reason for corruption and it was higher in those countries where trade protection policies

were implemented to support domestic industries. It has been recommended that trade openness and trade reforms lead to better governance. Abboushi (2010) have evaluated the rationale behind trade protectionism through reviewing literature, empirical and statistical analysis from 1967 to 2008. The finding of the study shows that trade has been growing faster and countries with free trade and openness have benefited more as compared to countries with high restrictions. However; protection measures have been practiced in response to generating pressure from selected industries and political commitments.

Topalova and Khandelwa (2011) measured the impact of change in the tariff rate on the productivity of firms for India. Reducing tariffs significantly increased the productivity of import-competing industries. The effect of tariff reduction on input is much higher than the reduction in output tariff. The finding indicated that improvement in productivity due to a decline in input tariff also improves quality and exposure through adopting imported technology. Furthermore; Diakantoni and Hubert (2012) believed that in the presence of bilateral and multilateral agreements between economies, changes in tariff rate also affected the tariff schedule of another country. David-Wayas (2014) investigated the impact of trade protection on the economic growth of Nigeria from 1970 to 2006 using data of import and export duties. The finding proved a positive association between tariff barriers and economic growth in Nigeria. Shah *et al.*, (2014) and Weisbrot and Baker, (2002) investigated the impact of technical barriers on the export performance of the textile industry. Results indicated that technical barriers positively support the export performance of the textile industry. Ul-Haque & Siddiqui, (2017) calculated the nominal and effective rate of protection of industries from 1990 to 2002. The finding showed that nominal and effective rates of protection have declined however; vegetable; automobile and intermediated good proving sectors were highly protected. The import-competing sectors have enjoyed higher protection through tariffs. The finding also indicated the priority of the government to support manufacturing sectors as compared to agriculture and service. Moreover; the effective rate of protection negatively affects industries that are labor-intensive, export orientation. The findings also highlight shifting of trade in favor of intermediated from final goods 1990 to 2002. It has been suggested to restructure tariffs to remove bias against other sectors.

3. National Tariff Commission's Role (NTC)

The main role of the National Tariff Commission (NTC) is to advise the federal government regarding tariff and non-tariff measures in order to provide

assistance to domestic industry and improve the competitiveness, rationalization and reforms for tariff and removal of tariff differences. The NTC has set “some specific criteria to protect any domestic industry. NTC recommends tariffs that will protect against competing imports after taking account of the producer’ cost disadvantages”. The protection is provided for a specific period however NTC makes sure that industry is not likely to need the protection after the given period. The commission also satisfies that additional cost to the consumer should not be excessive (Pursell, Khan & Gulzar,2011).

According to drafted NTC Policy 2019; domestic industry will be provided “strategic protection” against foreign competition with time-bounded during the phase of the infant. However; this protection will be taken back or phased out after making the industry globally competitive. Moreover; the domestic industry will be supported for the development of import substitution industry with time-bound however; it will also be phased out after making the industry compete for export-oriented production. Tariff and additional customs duties will be gradually reduced on raw material, intermediated goods and machinery to increase production efficiency. Different rates for importers and industrial users of raw materials and capital goods will be removed to reduce misuse of such differences and provided market access to buy essential materials (ntc.gov.pk).

The nascent industry will more be provided time-bound protection over the payback period of investment and financing. The protection will also take back gradually after making protection regimes and policies to facilitate investment decisions. These protection levels will be implemented through Industrial/Investment Policy. Moreover; this protection level should be fixed in order to compensate for cost disadvantages in production as compared to imports. However; this cost-plus approach to protecting industries is that high-cost industries will receive high protection whereas; no policies have been mentioned in the recommendation of tariff rate to the existing level of tariff structure. For instance; NT has no criteria to treat an application for tariff protections from an industry that is protected with a 5 percent tariff as compared to those industries which are protected by a 35 percent tariff. Moreover; it has been mentioned to remove protection after a given period under the infant industry approach however; no time has been suggested for the industry to no longer need the extra protection. Furthermore; “cost-plus” tariff protection creates differences in protection rates between import-substitution activities and reduced the relative exports unless exports are subsidized (Pursell, Khan & Gulzar, 2011).

4. Textile Industry of Pakistan

Pakistan is an export-oriented textile industry with the longest supply chain. It has inbuilt potential for value addition from cotton to ginning, spinning, fabric, and dyeing, finishing and ready-made garments. It is the largest industry in Pakistan which mostly utilizes local raw material and provides a strong export-based sub-sector. On the other hand, it also provides employment opportunities to unskilled and semi-skilled laborers, particularly females.

The industry has developed significantly since independence as one of the strongest export-based industrial sub-sectors. Being the 8th largest exporter of textile in Asia; it employs over 40 percent of the industrial labor force while contributing 8.5 percent to GDP and holds the largest share of 60 percent in national export (Board of Investment). There is a huge potential for horizontal and vertical expansion of textile and textile goods in domestic production (Pakistan Business Council report, 2019).

Moreover; Pakistan is ranked as the 4th largest producer of cotton and 3rd largest consumer of cotton in the world and has capitalized on its competency through promoting and developing of textile sector. Thus; Pakistan has the third largest spinning capacity in Asia. High-value addition in garment manufacturing has made the garment sector the main revenue earner among all textile products with 40 percent of total textile exports in 2017 (Pakistan Business Council report, 2019).

4.1. Structure of Industry

At present; the industry consists of a large-scale organized sector and highly fragmented small-scale sectors. The organized sectors are included large textile mills, spinning units and a small number of shuttle-less looms units. The sub-

Table 2: Sector-wise changes in Tariff Structure

<i>Variable</i>	<i>(%)</i>
Share in GDP	8.5
Employment (share of industrial labor force)	40
Share in National Exports	60
Share in FDI	0.56
Share in industrial value addition	25
Share in large scale manufacturing	21

Source: PBC report 2019

subsidiary sectors such as cotton cloth, yarn, fabric and fabric processing, home textile, hosiery and knitwear, towels, and ready-made garments are also being produced both in organized and unorganized units. These downstream industries have huge export potential that exists in unorganized sectors.

According to Textile Commissioner Organization report, 2018; textile industry comprises 517 textile unit with (40 composite units and 477 spinning units) with 13.414 million spindles and 198801 rotors installed capacity whereas; 11.338 million spindles and 126583 rotors in operational capacity utilization (Economic Survey of Pakistan, 2018-19). The spinning sector has expanded with export demand and production of cotton whereas; air-jet weaving units have been set up as independent units or together with spinning or processing units. The clothing units are integrating backward linkage while spinning units are setting up weaving, finishing and facilitating to complete the value chain. (Textile Commission Organization Report, 2018). The weaving sector has been set up as small and medium-sized units where a small part of processing sectors (dyeing, printing and finishing) is working as large units. The printing, dyeing and fabric bleaching segments are dominating the overall processing industry. On the other hand; 75 percent of the garments sector is operating as small-sized entities and employing the highest industrial labor within the textile value chain. The knitwear sector is working as integrated units of knitting, processing and making-up facilities. The clothing sectors are mainly clustering in Karachi, Faisalabad and Lahore where most of the female laborers are employed. The spindles and loom capacity have remained the same at 13.41 million and 9,084 respectively in 2017-18 whereas; the production of yarn has increased from 3.428 billion kgs in 2016-17 to 3.430 billion kgs in 2017-18.

During the fiscal year of 2018; the textile sector has grown only 0,8 percent as compared to the previous year's growth of 0.8 percent. Moreover; the production of cotton yarn and cloth has remained stagnant which shows a below-par performance of the textile industry. Although, non-cotton products such as jute and woolen products have improved slightly however; it has no significant impact on the performance of textile manufacturing (Textile Commission Report, 2018).

4.2. Performance of Textile Industry

With wide ranges of products; the textile sector contributes significantly to Pakistan export earnings and GDP however; the share of textile industry in world exports is marginal. The textile industry has huge potential in production

Table 4: Growth in Capacity & Production

Capacity	2014-15	2015-16	2016-17	2017-18
Spindles (Millions)	13.18	13.414	13.414	13.41
Rotors	185,387	187,259	198801	198801
Looms (Mill Sector)	7,934	8,188	9,084	9084
Shuttle less	28,500	28,500	28,500	28,500
Power looms	375,000	375000	375000	375000
Looms Total	411,434	411688	412584	412584
Production				
Yarn Production (M. Kgs)	3,370	3397.3	3428.1	3430.1
Cloth Production: (M. Sq. Mtrs)				
Mill Sector	1,036.90	1,039.10	1,043.30	1,043.70
Non-Mill Sector	8,089.60	8,120.10	8,126.40	8,127.20
Total	9,126.50	9,159.20	9,169.70	9,170.90

Source Textile commission Organization Report, 2018

and exports due to comparative advantage in conventional products. However; to explore and capture the world market; there is dire of high value-added products with a large investment in machinery, equipment and technology. Whereas; training of labors, research and development, product diversification and branding are concealed areas that require an immense focus. Despite currency devaluation in 2019; textile export fell 1.42 percent to \$ 13.329 billion in 2019 as the higher cost of doing business kept the sector under pressure. Recently; the government has withdrawn the Statutory Regulatory Order (SRO) 1125(I)/2011, which offered zero-rated sales tax on raw materials and products of major exporting sectors including textile. Uncertainty in the exchange rate and tight government policies negatively impacted this sector. Moreover; increasing cost, energy crisis, low demand from Europe and tough competition contributed to the worse performance of these sectors.

Table 5: Export of Textile and Share in Country Export

Export of Textiles & Share in Country Export (In million US \$)	2013-14	2014-15	2015-16	2016-17	2017-18	%change 2013-2018
Cotton & Cotton Textile	13,349	13,139	12,168	12,205	13,220	----
Synthetic Fabrics	383	331	288	204	310	---
Wool & Carpets	125	119	98	79	76	---
Total Textile	13,858	13,589	12,553	12,531	13,606	---
All Exports	25,132	23,885	20,802	20,448	23,222	---
Textile as % of Total Export	55.10%	56.90%	60.30%	61.30%	58.60%	-0.04

Source: Textile Commission Organization Report, 2018

Table 5 reveals that textile share in total exports has reduced 0.04 percent from 2016-17 to 2017-18. The declining trend shows a diminishing in export competitiveness and derisory government policies. Previous textile policies have failed to surge industrial development due to the non-implementation of these policies. Nevertheless; the government’s commitment to supporting exporting sectors particularly textile through incentive policies will certainly make our exports more competitive through rationalization of import duties on raw material and machinery. However; the realization of incentives such as competitive electricity and gas prices and rationalizing import duties on raw material and textile machinery exporting sectors will help to increase the country’s exports. However; to enhance exports huge investment, skilled labour, contemporary management practices, modernization, cluster development and expansion are required to diversified industrial and export base in this globally competitive environment (Bokhari and Shah, 2019).

FDI plays a significant role in the development of the industry through technological spillover. For the last ten year; the flow of FDI has been moved in the power and construction sectors, however; the preferences should be shifted towards manufacturing sectors particularly exporting sectors. Figure 1 shows a diminishing trend in the textile sector during the last ten years. It was slightly increased in 2013-14 and 2016-17 however; it has again declined in 2018-19 (Board of Investment). Moreover; major exporting sectors like textile and clothing remained unable to attract significant FDI as their share in total FDI stands at 1 percent only whereas; it is 22 percent in Bangladesh and 25 percent in Cambodia in exporting sectors (Mahmood and Ahmed, 2017). Moreover; a higher tariff helps to restrict unnecessary imports, however; tariff

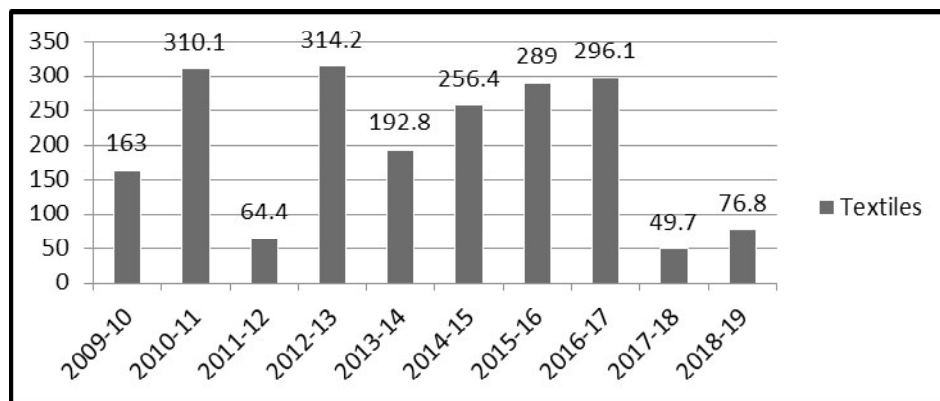


Figure 1: Net FDI in Textile Sector (\$ Million)

Table 6: Imports of Textile Machinery

Textile Machinery Imports	Machinery (Million US\$)	Growth %age	Textile Machinery Imports	Machinery (Million US\$)	Growth %age
2000-01	370.16	-----	2009-10	349.08	38.45%
2001-02	406.2	9.74%	2010-11	456.74	30.84%
2002-03	531.9	30.95%	2011-12	444.5	-2.68%
2003-04	597.9	12.41%	2012-13	388.4	-12.62%
2004-05	928.6	55.31%	2013-14	599.22	54.28%
2005-06	817.24	-11.99%	2014-15	449.48	-24.99%
2006-07	502.97	-38.46%	2015-16	461.51	2.68%
2007-08	425.26	-15.45%	2016-17	556.83	20.65%
2008-09	252.14	-40.71%	2017-18	545.11	-2.10%

Source: Textile Commissioner's Organization Report, 2018

on imported raw material impacts the export performance. With the increasing importance of global value chains at different stages, the use of imported input on exports has increased. Estimates prove that 20 to 30 percent of imported inputs have been used in the production process at different stages (Ali, 2014). Despite the significance of imported inputs; applied tariffs are relatively high in Pakistan as pared to its peers. Therefore; high tariff rates seriously damage export competitiveness in the international markets (Badar, 2006).

Moreover; the import of textile machinery reached their highest in 2004-05 which proves to invest for capacity up-gradation by local industry. The Long Term Financing Scheme(LTFS) for Export Oriented projects by the State Bank of Pakistan in 2004 also offered imports of machinery at an interest rate ranging from 5 to 8 percent. In 2014; again there was an upsurge in textile machinery imports due to the implementation of Textile Policy 2009-14.

The Textile Policy 2009-14 also provides many incentives and measures such as Long-Term Financing Scheme, Export Finance Mark-up facility and technology up-gradation fund. A shift from traditional power looms to shuttleless and air-jet looms has also encouraged imports of textile machinery during this period. However; imports of machinery declined again due to the high cost of production and inability to adjust for international consumer trends have discourse textile sectors to further up-gradation particularly the small and medium-sized units. However; it is enforced to invest in modern technology and up-gradation of existing infrastructure to compete with the world market.

4.3. Raw Material Sourcing

Cotton, polyester and viscose are the major primary raw material that is used in the textile industry. Cotton is a natural fiber that is grown within Sindh and Punjab. Manmade fibers are another raw material that is locally produced and imported. Local cotton reaches textile spinners through cotton ginners. Moreover; seed cotton is also the raw material for cotton ginners and its refined product is cotton bale. Cotton ginners are located in cotton-growing areas of Sindh and Punjab and mostly are not registered as corporate units. Many factors affect the demand and supply dynamics of cotton ginners such as weather, import duties of imported cotton, exchange rate and economic situation of the country. Textile spinners comprise take service of brokers to source cotton from cotton ginners. However; the textile industry is also highly dependent on imported cotton which is being imported from the USA, India, and Middle East etc. According to the All Pakistan Textile Mills Association (APTMA); supply and distribution data; 10.671 million bales have been produced locally whereas; 2.706 million bales have been imported. Punjab and Sindh are major cottons growing districts with province-wise aggregate cotton arrival of 6.94 million bales and 3.71 million bale respectively. The polyester is also being imported whereas; Ibrahim fibers and ICI polyester are major manufacturers in Pakistan. However; the decision of importing polyesters is also based on price competitiveness. Therefore; import duty also plays an important role in determining the price competitiveness with certain legal compliance. China and Korea and other Asian countries are the major sources for the import of polyester. Furthermore; Viscose is also being sourced through imports from China, Indonesia and Korea (ICAP Report, 2019). Local availability of raw material is considered an additional advantage that not only decreases the cost of doing business, however; due to a decline in cotton production the supply deficits are being filled through the import of cotton. Therefore; the abolition of cotton duty should be implemented for 12 months a year in order to fulfill excess demand (ICAP, 2019).

Moreover; the imported inputs have raised the import dependency of textile exports whereas; with a more local textile value chain, India and China are less dependent on imported textile inputs (Pakistan Business Council Report, 2019). Although Bangladesh, Vietnam and Cambodia have higher import dependency on imported inputs however; their government has a clear stance on export-led industrial policy. The government of these countries makes sure the availability of cheap and best quality inputs from other countries particularly from partner

countries through trade agreements with the European Union and Asian countries under Everything But Arms (EBA) initiatives and ASEAN, respectively. However; Pakistan has failed to do the same with India and China under SAFTA and FTA (Pakistan Business Council Report, 2019).

4.4. Key Stakeholders

Industrial associations play a significant role to support industries. Industry associations have considerable power in Bangladesh. For instance; the textile mills association decides the use of bonded warehouse facilities and training curricula. Moreover; garments associations have also the power to issue customs certificates by the governments which makes imports easy for raw material and technology for firms (Pakistan Business Council Report, 2019).

In Pakistan; industry-specific actors have the main role to protect and support the rights of the industry. At the government level; the Ministry of Textile Industry has a prominent role in the formulation of strategies and textile policy for the entire sector. The main objective of the textile policy is to increase dependence on particular factors which provide comparative advantages and increase the use of modern technologies for improving the competitiveness of the whole textile value chain. Moreover; different associations have also played

Table 6: Textile & Apparel Specific Supporting Stakeholders in Pakistan

Name	Classification	Established	Description
All Pakistan Textile Mills Association (APTMA)	Industry Association	1957	Largest trade association, representing textile spinning, weaving, and composite mills.
All Pakistan Textile Processing Mills Association (APTPMA) Faisalabad	Industry Association	1990	Processing of textile products in Dyeing, Bleaching and Printing. 372 members
Karachi Cotton Association (KCA)	Industry Association	1933	Cotton association for the whole of Pakistan
Ministry of Textile Industry (MOTI)	Government Agency	1973	Formulates programs and strategies to bolster the competitiveness of textile sector
Pakistan Cotton Ginners Association	Industry Association	1958	Industry association for cotton ginners, representing more than 1,200 members
Pakistan Manufacturers Association (PHMA)	Hosiery Industry Association	1960	Represents hosiery and knitwear industry
Pakistan Readymade Garments, Manufacturers & Exporters Association (PRGMEA)	Industry Association	1981	Provides assistance to manufacturers and exporters to promote trade environment
Pakistan Textile Exporters Association (PTEA)	Industry Association	1985	Advocates for textile exporters and communicates with government

Source: Frederick and Daly, 2019

their significant role to safeguard the industry's interests and objectives. Table 6 provides a glance at some field players of the textile industry in Pakistan (Frederick & Daly, 2019).

4.5. Competitiveness of the Sector

The competitiveness of the textile industry depends on the local availability of high-quality cotton and skilled and heap labours. However; outdated machinery, technology and non-availability of skilled labours have brought the inadequacies and inefficiencies affecting the competitiveness of the textile industry in Pakistan. Countries like India, Bangladesh and Sri Lanka have enhanced their industry's competitiveness through improving technology and improved productivity of labour which increased competition in the international market for Pakistan. Instead of improving their weak area; the industry blames the high cost of production for stagnant exports and reduced competitiveness in the international market. The industry has also lost its market share due to low-value-added products in Europe and North America. Furthermore; the narrow exporting base is also an important issue. In 2017; Pakistan has exported half of its knitted and two-thirds of its woven to the European Union. The United States is also the largest textile importer from Pakistan. Therefore; certain steps are needed to be taken to make the industry competitive again. First; there should be identified and rooted out ineptness in operation through using better electric machinery, motors, wires and better insulation of hot and old pipes which reduces operational cost. Conducive and favorable working environments also enhance the productivity of labor whereas; government's incentives also remove operational inefficiencies. In other countries, the government has provided huge support to the textile industry such as; textile units in the Netherlands are 100 percent supported by governments. Sample rooms of the small factory are much bigger than Pakistan's whole factory in China. The prices are 75 percent higher as compared to Bangladesh that's why they have entered the world market with value-added textile products (Shah, Syed and Shaikh, 2014).

4.6. Sector Policy

In Pakistan, several industries were supported through import substitution policies to replace imports with domestic goods. On the other hand, types of machinery were imported to make textile machinery in the 1970s. Pakistan also received the benefits due to previous policies stances when US quotas for garments had been allocated under MFA ushered with new industrial policies

of export-led industrialization in the 1980s. Export promotion policies became more favorite due to increasing demand for textile goods and Multi-Fiber Agreement (MFA) quotas which allowed selected amounts of exports to the markets of the developed country. Moreover; prohibitive import tariff was lowered which permits the textile industry to compete globally. It is said that Pakistan could take advantage of MFA quotas and increasing global demand. However; exports were restricted automatically for cloth and basic knitted garments. In addition, Textile Vision Policy 2005 offered credit facilities to the manufacturer, however; it failed to support the industry. 6 percent cash subsidy was granted to apparel exporters on research and development in 2005 but it was misused. Even, \$ 500 million were spent under Textile Vision that also nosedived to enhance the efficacy and productivity of the textile industry. Besides; financing schemes and other facilities were concentrated that were unfeasible due to macroeconomic instability and high interest that rose the price of cotton by 35 percent. Therefore; financing facilities was used to minimize the increasing cost of production instead of generating value-addition in textile products. Thus, the failure of these policies brought negative impact on the textile industry and Pakistan lost its competitiveness in high value-added export (Hussain *et al.*, 2013). The first Textile Policy 2009-14 was initiated to targets of \$25 billion textile exports till 2014. The policy covered the creation of Textile Investment Support Fund, up-gradation of outdated technologies, the drawback of local taxes and levies and refund of 6 percent research and development. However; this policy was claimed ineffective by industry due to lack of implementation (Amin, 2012).

After the expiration of Textile Policy 2014-19; new textile policies were announced before the budget 2019-20 with the aim to increase Pakistan's share in world export from 1.7 percent to 10 percent.

- Tax incentives are provided to exporting industries.
- Subsidized credit schemes that supported the import of textile-related machinery.
- Vocational training for skill development and capacity building, revitalization of projects like Pakistan Textile and Garment cities
- Creating an enabling environment for textiles value chain by Ministry of Textile industry.
- Establishment of industrial clusters to promote cost efficiencies particularly in the SME sector.

- Improve technological advancement, remove critical imbalances in the value chain and achieve compliance with international standards.
- Sales tax regime and tariff rationalization
- Duty-free imports of machinery,
- The drawback of local taxed and levies(DLTL)
- Budgetary Support
- Product diversification

However; the five-year policy has failed to achieve desired targets of increasing textile exports from \$13.1 billion to \$ 26 billion, doubling value-addition, facilitating investment of machinery; improving fiber and product mix, policies to increase ease of doing business and reducing the cost of doing business and creation of 3 million jobs. However; not any targets were achieved due to lack of commitment, poor approach and financial crisis for different schemes and non-availability of energy at competitive prices (Amin, 2019).

The government has almost finalized the Textile Policy 2020-25 with textile products' export target of \$20.8 billion and eight objectives, starting from boosting value addition, ensuring profitability of cotton growers to strengthen Pakistan's expertise in manmade fiber, putting small and medium businesses on precedence for infrastructure, compliance, energy efficiency, quality assurance and productivity projects. The new Textile Policy draft has narrated a defined roadmap to achieve the textile export targets along with the vision to fully utilize the potential of home-grown cotton augmented by Manmade Fiber/Filament to boost value-added exports and become a major player in the global textiles supply chain. Currently, there is only a 1.6% share of Pakistan in the world textile trade, which will be increased to 3% by 2025.

5. The Evaluation of Protection in the Textiles Industry

From the 1980s, the government gave attention to export-led growth and the policy shift was particularly driven by the US allocation of quota in some products and increasing demand for high-quality cotton. Pakistan had abolished the high tariff on the major textile industry that helps to enhance the productive capacity and competitiveness for international markets (Kawai & Wignaraja, 2011). As it has been discussed that tariffs barriers are used to protect the development of domestic industry however; it also increases inefficiencies in manufacturing sectors while making it uncompetitive in international markets and promoting trade at the expense of manufacturing. Therefore; Ministry

Table 7: Textile Industry Duty Structure

Cotton Ginning	9% import duty on raw cotton imports	Customs Duty: 4%,	Sales Tax: 5%
Spinning	15% import duty on cotton yarn	Including Customs Duty: 5%,	Regulatory Duty: 10%
Weaving & Processing	15% import duty on grievé and processed fabric	Including Customs Duty: 5%,	Regulatory Duty: 10%*

Source: PACRA Sector Report, 2018

envisages that tariffs should be dropped (Textile Policy, 2014-19). Table 8 shows the duty structure of the textile industry in 2018.

Moreover; quota regimes had limited the growth potential of homegrown cotton, and cheap cost of production. Hence; quota encourages the export of raw materials and semi-manufacturing goods which also restricts to get access to high-end products including garments. Moreover; sufficient policies have not been made to face foreign competition after the abolishment of the quota regime, consequently; textile exports started to stagnate. Some industry supports policies revived by the textile industry has been discussed below:

- The Federal Board of Revenue (FBR) has initiated different SROs such as SRO 450(I)/2001 and SRO 492(I)/2009 to support export-oriented companies to save import duties on those items which will be exported in terms of finished products.
- As per SRO 1125(I)/2011 zero-rated sales tax has also been implemented to all textile products. Moreover; a speedy refund system has been created to dispose of all pending sales tax refund claims for manufacturers-cum-exporters.
- In January 2019; the Economic Coordination Committee (ECC) has also approved the withdrawal of customs and additional customs duties and sales tax on the import of cotton to fill the gap between demand and supply in the country.
- DLTL was announced to support textile products on Free on Board (FOB) values of enhanced exports if it increases beyond 10 percent compared to previous exports at different rates. However; instead of a 10 percent increase, exports further reduced during this period.
- Duty and Tax Remission (DTRE) also allows duty-free imports provided that textile industries re-export them.
- With the Generalized System of Preferences plus (GPS+) status in 2014, garment exports have increased much faster to European Union

(EU) countries. Pakistan has earned duty-free access to European Union in all South and South East Asia. Pakistan has also leveraged of 10 to 14 percent advantage.

- Mark-up rates for Export Re-finance Scheme have also been reduced from 9.4 percent to 7.5 percent
- Under the Prime Minister's Package of Incentives for exporters; duty drawback on exports of garments, home textile, Greige fabric and yarn manufacturing-cum-exporters has been allowed.
- Export-Package of rupees 195 billion has been granted for the next three fiscal years from June 2018 to June 2021.
- Duty drawback has been cut down to half on value-added products.
- The textile sector has also enjoyed duty-free import of machinery under Textiles Policy 2009-14. Moreover; this policy has been extended for the next two years.

In the future; tariff structure would be reviewed for the entire supply chain in line with an effective rate of protection. High tariffs not only protect but also increase margin for domestic sales. The textile supply value chain will also be protected with a predictable tariff regime as per the study by National Tariff Commission. Deemed import basis scheme would be introduced to protect industry and encourage the use of manmade fibers. Moreover; an accredited testing system will also implement to determine the manmade fiber content in exporting items and products. Measures will also be taken to stop smuggling and protect the domestic manufacturing sectors.

Despite heavy protection; the textile industry showed a declining trend by 0.3 percent against increasing growth of 0.5 percent during the same period of last year (Economic survey of Pakistan 2018-19). The textile sector has also concern regarding the removal of the zero-rated status which had been granted to the industry. However; the government has disappointed with the performance of the textile industry despite giving incentives and subsidies. Recent currency deprecation could not help to increase exports of textile. Inflated prices and the high cost of doing business offset the positive impact of currency deprecation resulting in stagnant exports including textile. Most basic raw materials cotton and manmade fiber are imported due to a shortage of supply from domestic sources. Recently 5 million bales have been imported with 11 percent duty whereas; import duty on manmade fiber has also reached up to 20 percent. Imports of man-made fiber are increasing however; due to

Table 7: Non-Tariff Measures in Textile and Clothing Sector

Non-Tariff Measure (NTM) Code	NTM Description	NTM Coverage ratio	NTM Frequency ratio	NTM affected product - count	NTM affected trade
A	Sanitary and phytosanitary measures	1.05	8.64	66	32413.65
A830	Certification requirement	1.05	8.64	66	32413.65
B	Technical barriers to trade	0	0.13	1	84.19
B150	Registration requirement for importers for TBT reasons	0	0.13	1	84.19
P	Export related measures	2.68	9.36	66	357056.83
P130	Licensing or permit requirements to export	1.85	9.22	65	245789.83
P140	Export Registration requirements	0.84	0.14	1	111267
P620	Certification required by the exporting country	0.84	0.14	1	111267

Source: World Integrated Trade Solution

duty structure manufacturers are losing their shares not only in domestic but also in international markets (Sattar, 2019). On the other hand, NTMs are those policy measures that may bring some economic benefits to trade. NTMs may be sector and/or product-specific (Otsuki *et al.*, 2001b; Xiong and Beghin, 2014; Swinnen, 2016). Moreover; It has been found that Technical Barriers to Trade (TBTs) tend to be catalysts for trade (de Frahan and Vancauteran, 2006; Peterson *et al.*, 2013; Dal Bianco *et al.*, 2016).

Table 7 provides NTMs which particularly are applied in the textile and clothing sectors according to World Integrated Trade Solution. Non-tariff barriers or Non-tariff measures have also been used to support local industry through import quota, prohibition on imports of certain goods, licensing, standards, voluntary export restraints, or customs producers. Empirical evidence provide significant evidence of implementing non-tariff measures in India and China. In India, there was a straightforward policy to increase non-tariff barriers in the same industries where tariffs have been lowered. Although this substitution is complicated in China because; tariffs have been reduced on agricultural goods and replaced these with non-tariff measures whereas; tariff was high and NTMs were low on manufactured goods. On the other hand, Pakistan has low NTMs as compared to India, China and Sri Lanka. Pakistan mostly applies Statutory Regulatory Order (SRO) to implement non-tariff barriers, however; it has no substantial impact on imports. Empirical evidence also proves the positive effects of technical barriers on the export

performance of the textile industry (Shah *et al.*, 2014; Weisbrot and Baker, 2002).

Anti-dumping on Fine Cotton Yarn: Instead of raising tariffs or cutting quota, the protection measures are being implemented in a new form of Anti-Dumping duties which is popular because international trade rules allow it. WTO rules allow imposing anti-dumping duties on imports that are sold cheaper than at home or below the cost of production when domestic industries prove that they are being harmed. Under Anti-Dumping Duties Act, 2015 (the “Act”) and the Anti-Dumping Duties Rules, 2001 (the “Rules”), NTC conducts an anti-dumping investigation for imposing anti-dumping duties to injurious sectors that are affected by dumped imports on the domestic industry. In order to save the domestic industry, NTC has imposed a 5.6 percent anti-dumping duty on Indian fine cotton yarn whereas; fine cotton yarn imported from other countries would not be subject to the provisional countervailing duties (Abbas, 2017). Furthermore; according to Section 51(e) of the Anti-Dumping Duties Act, 2015, anti-dumping duties will not be implemented on the imports of investigated goods that are used as intermediate goods for exports and covered under any scheme that is exempted customs duty for exports under the Customs Act, 1969 (NTC Report, 2017).

The export composition of Pakistan’s export is highly concentrated in three sectors such as cotton and textile-related exports which contributes 50 percent of total exports, followed by rice and leather having share of 8.8 and 4.8 percent of total exports. However; the instance of competition from China, Bangladesh and India in the global market coupled with other domestic issues of an energy shortage, fluctuation in the exchange rate, lack of product diversification are major challenges for Pakistan’s exports (Karim, 2014). In addition; the reason for the sluggishness of exports was the persistent balance of payment deficit with more imports. If imports were not performing well, there was no need to boost exports. Therefore; the role of trade policy was important; Pakistan reduced import tariff on consumer and capital goods simultaneously instead of phasing and planning liberalization.

In the case of the textile industry; Pakistan has always been given favor to the textile and clothing industry, however; the export growth rate is stagnant. It is also not easy to upgrade into a more advanced value chain due to complicated skills, designs and branding equipment. It is essential to work on the weak areas of the textile industry rather than protecting from foreign competition. Moreover; the industry needs an industrial policy that encourages the production of textile sectors with global dynamic demands.

Many export promotion measures were adopted such as; export of rice and cotton to the private sector; provision of FX for marketing abroad; income tax concession on export earning to value-added goods; and introduction of value-added criterion in the allocation of exports of textiles items. Moreover; tariff structure has been rationalized over the era of liberalization but exemptions had been given to certain sectors particularly raw materials which proves policy bias towards import-competing industries (State Bank of Pakistan Annual Report 2014-15).

Moreover; in 2006, the free trade agreement was rectified with China, which also brought an inflow of cheap goods that injured local industries. Consequently; this unbalanced policy of liberal imports without a national export strategy; neither increases exports nor develops domestic industry. The results were increased penetration of imports and frequent FX rises in the country. Even; government set over-ambitious export targets in the last decades without a proper strategy in terms of practical policy actions. For instance; the government had announced the Export Plan Pakistan while setting the target of exports to \$ 40 to 45 billion till 2013; similarly, in the Strategy Trade Policy Framework (2012-15) in 2012, exports were projected to increase to \$ 95 billion during 2013-15 with \$32 billion ever years. Moreover; the main aim of Vision 2025 was to increase annual exports to \$ 150 billion by 2025 (SBP Report 2014-15).

Moreover; Pakistan is losing its ground in the international market due to a lack of diversified products for instance; the textile industry is heavily cotton-oriented with the contribution of only 33 percent of global apparel consumption. Its place has been taken through the usage of synthetic fibers with a 60 percent share. However; many actors restricted the growth of synthetic textiles in the country. The major issue is the lack of downstream petrochemical industries which makes its dependents on imported polyester staples fibers, fabric, synthetic yarn, and filaments. The use of synthetic fibers has also been obstructed due to heavy protection to the textile industry with quota regimes, which discouraged its use in the manufacturing of textile products. The quota for women and children clothing remained unutilized due to the requirement of mixed fibers. It takes a 6 percent tariff on the import of polyester Staples fiber into Pakistan whereas; it is free of import tariff in Bangladesh and Vietnam (SBP Report, 2014-15).

Pakistan needs an industrial policy that could encourage the textile industry with global dynamic demand in order to attain diversification in global trade. The textile industry is not dynamic and does not provide any technological

spillover which makes it an insignificant and ineffective way of achieving sustainable growth. In the past; various governments have always favored certain sectors especially textile sectors when it comes to protection, however; this protection was never time-bound. Domestic protection reduced export incentives which allow inefficient domestic at the expense of consumers in terms of product, price, and quality. The infant industry argument could be used for those industries with strong potential to perform with time-bound protection. Sectoral protection moved the business from technological massed industries into less-technology intensive industries particularly textile and clothing sectors which provide minimal value-addition. Moreover; tariffs on intermediate goods abuse anti-export bias which hinders the economic efficiency of the domestic industry.

6. Conclusions and Recommendations

The main objective of this study is to evaluate trade protection measures in revitalization domestic industry while focusing textile (garments) sector. This study also assesses the features, competitiveness, level of inputs (import) and impact of trade protection to provide deep insight for making policies. While following Prescriptive Analysis, this study discusses devising policies that Pakistan should consider for the industry to protect from foreign competition and improving export performance.

It has been analyzed that protectionist policies have not contributed much in terms of economic growth and resulting in anti-export biases that negatively affected the export sector (Ul-Haque and Kemal, 2007). Protection measures may help to foster these sectors due to export competitiveness, however; policymakers should restructure their current protectionist policies to ensure the availability of raw material to domestic industries. Meanwhile; import constraints on raw material and intermediate goods should be relaxed otherwise it may hamper the competitiveness of downstream producers and raise inefficiencies in domestic industries. All stakeholders and policymakers must formulate policies and regulator stance on the intention which has been defined growth. For the long-term export growth, diversification of export should be an ultimate goal which is an appropriate policy response.

Moreover; the development of human capital for high value-added production, participation of private sector and SMEs, ensuring of industry-wise standardization and more access to neighboring markets are fundamental initiatives to complement the protection measures for revitalizing trade in

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