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Challenges and Opportunities for the SME Apparel Export Sector of Pakistan

Presenter

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SMEs in South Asia

	SL	India	BG	Pakistan
SMEs Contribution*	Employment: 35% GDP:52% Exports: 20% Manfct: 30%	Employment: 40% GDP:17% Exports: 40% Manfct: 45%	Employment: 40% GDP:22.5% Exports: 11.3% Manfct: 70%	Employment :70% GDP:30% Exports: 25% Manfct: 1.7%
Apparel SMEs	Exports: 40% GVC: EU, US	Exports: 13% EU, US, Mid. East	Exports: N/A US, EU	Exports: N/A EU, US, Mid. East

*:IMF (2015)

SMEs in South Asia

	SL	India	BG	Pakistan
Gov Focus	Innovation, Efficiency (resources), access to foreign trade	Friendly policies, R&D, industrial clusters, 'insource' foreign trade	Priority status	Interested in late 1990's, various financing schemes by State Bank
Challenges	Bank Fin: 41% ; governance issues, high transaction costs, low access to resources	Bank Fin: 25% limited infrastructure	Bank Fin: 10%; access to raw materials and finances	Bank Fin: 5% Managerial, financial, resources, energy, infrastructure

Defining SMEs in Pakistan

- SMEDA: SME policy (2007):
 - ‘any business employing human resource up to 250 in number, with paid up capital of PKR 25 million and an annual turnover of PKR 250 million’
- Difference: Small and Medium
 - Agriculture
 - Manufacturing
 - Services

Research Methodology

- Qualitative study
- 6 apparel exporters to EU and US
- Located in apparel clusters: FB, LHR, KHI
- Data Collection Methods:
 - In-depth interviews
 - Document analysis
 - Observation

Findings

- Products: (* indirect)
 - Readymade garments: A, B
 - Hosiery: C, F*
 - Institutional apparel: D
 - Knitwear: E*
- Perceived Challenges:
 - Terrorist Image > Energy Crisis
 - ? Vs. generators + other sources

Energy Crisis

- Causing low competitiveness
 - 70% shutdown of SME sector
 - Large scale: power plants, foreign establishments
 - Shutdowns causes delays in delivery
 - Order cancellations and financial penalties
 - Alternate sources = high overhead costs
- “Approx 5-6 years ago, Sri Lanka and India used to be behind us but now they are ahead of us...our high over head costs do not make us very competitive.” (B)

Burden of Terrorism

- Impact on business
 - High transaction costs
 - Extra security measures
 - Certifications, procedural and infrastructure changes
 - Bad image of Pakistan
 - No customer travel
 - Commercial offices and embassies not addressing this issue
- Impact on customer relationships
 - Long-term relationships terminated post 9/11
 - Increased mediation through third parties

Burden of Terrorism

- Impact on customer relationships
 - Provide price edge to customers
 - No technology transfer and knowledge sharing
 - Despite price concessions and good performance, negative image hurting competitiveness

“We carry so many negatives with us, unfortunately with the name of our country [i.e. negative image of ours] we have to give an extra price edge to the customer in order for him to buy from us.” (E)

Other Challenges

- Shortage of skilled labor
 - Invest in training and dev.
 - Compliance issues
 - Financial costs: certifications, implementation, audit
 - Environmental, social and technological req.
 - Lack of institutions and marketing activities
 - No access to knowledge, sustainable system dev.
 - Cumbersome laws and regulations
 - Clusters add no value
- “ The government has pathetic policies. Their policy is to encourage trading and kill manufacturing.” (E)

Perceived Opportunities

- Structural advantage of raw materials for apparel
 - Over BG and SL
- GSP Plus
 - Granted in December 2013
 - Exempts duty on apparel to EU
 - Compliance with 27 conventions including environmental and social conventions
- Changing Mindsets
 - Younger lot

Conclusions

- Lock-in: energy crisis and security situation
- Competing on price and not value-addition
 - High costs of production and low prices of standard products in global market.
 - Compliance adds to cost but pre-requisite
 - Under pressure from regional cost effective suppliers
- Improper implementation of policies
 - Governance issues

Recommendations

- Focus on value addition and differentiation
- Network internationally with SMEs and apparel associations
- Collective solutions: env (ETP, waste mgmt), energy, R&D, social (HRD) etc.
- Diversify target markets: Japan, Australia, Russia (leather garments) etc
- CPEC: contract manufacturing from China

Thank You