

Stimulating Pakistani Exports and Job Creation

Special Zones Won't Help Nearly as Much as Cutting Tariffs across the Board

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CGD Notes

As part of the U.S. effort to promote political stability and economic development in Pakistan, some in Congress, supported by the Obama administration, are promoting bipartisan legislation to expand access for certain U.S. imports from Pakistan.¹ The initiative designates certain textile and apparel items that could be imported duty-free if they are produced in "reconstruction opportunity zones" (ROZs) located in the Federally Administered Tribal Areas (FATA), other areas along Pakistan's border with Afghanistan, or areas affected by the October 2005 earthquake.

Expanding economic opportunities and job creation in Pakistan is an important goal, and further opening the U.S. market is a logical tool for doing so. U.S. Customs collects more than \$350 million in duties on imports from Pakistan, more than on imports from all but 14 other countries, including the much richer countries of Germany, Japan, Italy, the United Kingdom, and France, and the much larger ones of China and India. Because Pakistan's exports are concentrated in the high-tariff textile and apparel sectors, they are taxed at an average of 11.4 percent, nearly three times the average U.S. rate of 4.0 percent.

How Could Trade Legislation Help?

In its current form, the proposed ROZ legislation would do relatively little to address the discrimination against Pakistan's exports because of restrictions designed to avoid opposition from the U.S. textile

industry. This note outlines two key changes to expand the benefits of the legislation and offers evidence that the impact on U.S. producers would be vanishingly small.

1. Expand product coverage to all potential exports from Pakistan

According to a recent Congressional Research Service analysis, products eligible for duty-free treatment under the ROZ bills account for only about half of Pakistan's current exports to the United States, and they are not in the highest tariff categories:²

Pakistan's textile and apparel exports to the United States	Import value (million dollars)	Tariffs collected (million dollars)	Avg tariff rate (percent)
Items eligible for duty-free treatment under legislation	1,479	120	8.1
Items excluded from legislation	1,534	229	14.9

Pakistan's exports are already relatively concentrated in a small number of tariff lines. Expanding product coverage would not only expand the benefits of the program but also avoid incentives to further concentrate Pakistan's exports in an even smaller number of product categories.

2. Expand geographic coverage to all of Pakistan

The competitive advantage conveyed by an 8 percent average tariff reduction is unlikely to be sufficient to overcome the competitive disadvantages

¹ The legislation would also apply to Afghanistan, but the focus here is on the provisions for Pakistan.

² Mary Jane Bolle, Afghanistan and Pakistan Reconstruction Opportunity Zones (ROZs), H.R. 1318/H.R. 1886/H.R. 2410 and S. 496: Issues and Arguments, Congressional Research Service, October 15, 2009, Washington.

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Expanding economic opportunities in Pakistan is an important goal. Cutting tariffs across the board is a logical tool for doing so and would have vanishingly small effects on U.S. production.

A serious effort to increase stability and economic opportunities in Pakistan requires trade arrangements with expanded product and geographic coverage.

of having to produce in Pakistan's remote and often insecure border regions. In addition to the obvious security challenges in areas of conflict, a number of other problems would likely deter investors in the ROZ-eligible areas, including

- distance to ports, combined with inadequate transportation and energy infrastructure;
- low labor skills, which make productivity-adjusted labor costs relatively high; and,
- cultural attitudes that could prevent women, who typically make up textile and apparel workforces, from filling the jobs.

Easing Barriers to Pakistani Exports Would Have Little Impact on U.S. Industry

Contrary to the concerns of congressional sponsors, there is little plausible evidence that relaxing the restrictions in the bills would harm U.S. domestic producers. Pakistani textile and apparel exports were only 3 percent of total U.S. imports in 2008. Moreover, Pakistan's exports stagnated after the Multi-Fiber Arrangement, which controlled global textile and apparel trade through a system of bilateral quotas, was eliminated in 2005. This suggests that

increased Pakistani exports would displace Chinese or other Asian exports, not U.S. production.

Quantitative analysis similarly shows minimal impact on U.S. production. Recent CGD research in collaboration with the International Food Policy Research Institute, finds that extending duty-free, quota-free market access for all exports from UN-designated least developed countries (LDCs), plus other low-income countries, including Pakistan and Vietnam, would reduce U.S. textile production by less than 1 percent and apparel production by only 0.1 percent. About half that impact is due to increased imports from LDCs, and the remainder is due mostly to higher imports from Vietnam, whose exports of textiles and apparel were nearly twice those of Pakistan in 2008.³

As recognized by the supporters of the ROZ bills, Pakistan's political stability and economic development are important U.S. interests. A serious effort to achieve them, however, requires far more than is currently being offered, including trade arrangements with expanded product and geographic coverage.

³ CGD Working Paper 206 describes the model used to explore the distributional impact of extending duty-free, quota-free market access in various scenarios, though this result is not discussed in detail. <http://www.cgdev.org/content/publications/detail/1423986/>