An Assessment of Pre and Post Pak-China Free Trade Agreement: A Comparative Advantage Analysis of Textile Sector of Pakistan

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Abstract

Regional trade is a huge opportunity for economic growth in Pakistan and must be assigned priority in Pakistan's economic policy. The signing of the Free Trade Agreement (FTA) between Pakistan and China in 2006 brought an opportunity for Pakistan to improve its overall trade performance while steering its exports composition towards geographically viable and hence, more profitable locations. The textile sector of Pakistan is the largest manufacturing sector and China lies in the top 10 export partners of Pakistan. In order to investigate the trade relations between Pakistan and China in light of the Free Trade Agreement (FTA), this study examines pre and post Pak-China FTA effects for the textile sector of Pakistan using revealed comparative advantage technique, Balassa Index (1965) at Harmonized system HS-2, HS-4 and HS-6 digits level. A comparative analysis based on the two phases of Pak-China FTA, for phase I, the study considers 2004 as pre-FTA period and 2013 as post-FTA period. However, for phase II, 2013 is considered as pre-FTA and 2015 as post-FTA period. Additionally, the study further investigates the future prospects of textile sector by calculating an indicative potential of the top potential textile exports to identify that how Pakistan can further be benefited from trade with China in the future. The findings of the study revealed that the export potential of the textile sector has declined and showed greater focus on low value added products. Additionally, an indicative potential analysis also showed that the top potential textile exports showed higher value of indicative potential over and above US$ 100 million in 2013 but due to decline in China's demand, these were products removed from the list. This is because of the inefficiencies of the textile sector particularly due to the prolonged energy crises which have been imposing adverse effects on the industrial sector of the country. The government should take serious efforts to take the economy out of the energy crisis first and to ensure the growth of textile exports.

Keywords: Revealed Comparative advantage, Textile, FTA, Pakistan and China

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1. Introduction

Liberalization plays a significant role in changing trade patterns around the world economies. "These changes cause productivity gains and shifting of comparative advantage. Pakistan and China shared close diplomatic relations with each other since 1951 with a strong military relationship and developing economic ties. China has contributed significantly to the development of Pakistan's industrialization and fields of infrastructure, defense and technology. The two countries have vowed to continue cooperation and deepen their strategic partnership via many agreements and accords over the years (Pakistan Business Council, 2015). Regional trade agreements between Pakistan and China have been tremendously boosting Pakistan's economy which has a significant and positive impact on the country's economic growth. In world, China is Pakistan's second largest market for exports and first largest market for imports. Pakistan's exports grew rapidly during last decade as a result of Pak-China FTA. The exports from Pakistan to China increased by 19% from 2003 to 2006 and doubled in just three years by 26% from 2007 to2010(Nilofar et al. 2014). However, showed a decline of 14% from 2012-13 to 2014-15.

The textile sector of Pakistan is the largest manufacturing sector and in Asia, Pakistan ranks 4thin world and 3rd in Asia in exporting textile products particularly cotton products. This sector contributes to GDP by around 8.5 percent and 60-70 percent to total merchandise exports of Pakistan. The major exportable textile products include cotton yarn, knitwear, garments and bed wear. Each product contributes about $1.35 billion of export value. As it is evident from the past studies that China lies in the top 10 export partners of Pakistan in which the textile sector contributes at great extend with highest comparative advantage over other products (Irshad, 2016 &Pakistan Business Council, 2015). The report further revealed that among the other sectors, textile sector has highest value of revealed comparative advantage (RCA=29.36).

Thus, this study assesses how Pakistan has improved its export pattern particularly in textile sector before and after the Pak-China free trade agreement. For this, the study calculates Revealed Comparative advantage (RCA) for Pakistan's exports at Harmonized system HS-2, HS-4 and HS-6 digits product level. Furthermore, the study provides a comparative analysis for each phase. For phase-I, the study employed 2004 as pre-FTA period and 2013 as post-FTA period. Though, phase-II is currently in continuation, 2013 has been taken as pre-FTA period and 2015 as post-FTA period.

Additionally, the study further investigates the textile sector by calculating an indicative potential of Pakistan's top potential textile products for phase-II.

The main results of the study can be summarized in such a way that the textile sector RCA at 2 digit level hasn't shown any significant improvement in any product except the cotton product in both the phases. The RCA value at 4 digit level revealed no improvement in phase-I again except the sub-cotton product whereas, phase-II showed significant improvement. Furthermore, at 6 digit level the pre Pak-China FTA value of RCA showed that almost all the textile products already had comparative advantage and also showed improvement in post period.

The structure of the study is as follows. The next section presents an overview of Pakistan and China Free trade agreement. Section 3 provides review of the past studies used Revealed Comparative Advantage technique and then section 4 presents the methodology and the sources of data used in the study. Next to this, the study provides changes in textile sectors' revealed comparative advantage for both the phases and also evaluates an indicative potential for top potential textile exports. The last section concludes.

1.1.Pak-China Free Trade Agreement

Pak-China Free Trade Agreement (FTA) was signed in 2006 and came into effect in 2007. This Agreement comprises of two phases: Phase-I, which ended in December 2012, and which saw China eliminate/decrease tariffs on 6418 product lines, with Pakistan doing the same on 6711 product lines over a period of 5 years. With Phase-II negotiations underway since July 2013, to achieve the FTA's initial objective to eliminate tariffs on at least 90% of all products (both in terms of tariff lines and trade volume), It is important that the Government of Pakistan should utilize this opportunity to improve Pakistan's market access to the Chinese markets. As of the end of 2013, bilateral trade equaled over $9,278 million, as compared to $3,421.96 million in 2006 prior to the FTA being implemented.

Initially, the share of China's export in Pakistan's export to the world is below 10% whereas, China's import share has increased from 18% to 63% particularly in electrical and electronics, 18% to 44% in iron and steel products. After the formation of Pak-China FTA, a total of 7550 products at HS-8 digit were offered by Pakistan to China. However, only 350 products were exported to China by the end of Phase-I whereas, 169 products out of

2681 products were recorded in the zero rated category such products include cotton, fabrics, marble, leather articles and medical appliances. The products with no concession include fish, cotton, paper, plastic and textile items. On the other hand, a tariff concession list of 6803 products lines was offered by China to Pakistan. The zero rated products include electric and electronic products, machinery and chemicals and various raw material. Here, the no concession list having products such as woven fabrics, synthetic fibers, paper and paperboard, machinery products and footwear. According to the Pakistan Business Council (2016), the sector wise comparative analysis at product level revealed that textile sector remained the strongest among other export advantage products such as animal, food, hikes and skins and metal products.

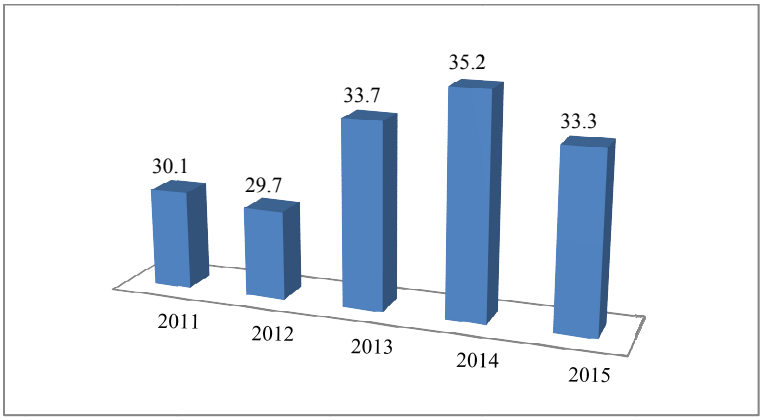
Table 1: RCA by Product Group

Product Group	2011	2013	2015
Capital Goods	0.01	0.00	0.00
Consumer Goods	0.27	0.69	0.91
Intermediate Goods	3.82	4.31	4.06

Source: PBC, 2016

The table above provides the product group wise RCA of Pakistan over China. Further, it is indicated in the table that Pakistan has been experiencing comparative advantage in the export of semi-finished goods over the given period.

Figure: Textile & Clothing RCA



Source: Authors' illustration based on PBC, 2016

The above figure is depicting the RCA for the textile and clothing sector over the period of 2011 to 2015. The figure shows asymmetric distribution of RCA". The value of RCA not much higher in phase-I but in phase-II remained above 30 which reveals greater potential of textile products in Chinese market.

2. Literature Review

To analyze the product/industry competitiveness, numerous studies used the concept of revealed comparative advantage (RCA) using export data. "Balassa (1977) assessed comparative advantage for various countries for a period of 1953 to 1971. Richardson and Zhang (1999) examined variation in export patterns over time for different sectors and regions of USA using Balassa index.

Yue and Hua (2002) assessed the changing pattern of RCA for China's export sector for the period of 1980 to 2000and found that the change in export patterns were caused by geographical differences of costal and interior regions of China. Bender et al. (2002) analyzed the structural performance of exporting sector and also calculated the comparative advantage of Asian and Latin American economies over the period of 1981-1987. The findings of the study showed that export patterns changed with the change in comparative advantage of these regions.

Karakaya and Ozgen (2002) used RCA index to investigate the effects of trade creation and trade diversion. The study also tried to find that whether trade accession would make the trade vulnerable for other southern members such as Spain, Portugal, and Greece. The result revealed that export structure was found different among EU and the Turkey.

Yilmaz (2003) examined the competitiveness and structure of specialization in trade of Turkish economy by comparing with other five economies such as Bulgaria, Romania, Czech Republic, Romania, Hungry, and Poland. The study estimated competitiveness using various measures such as RCA, comparative export performance, export similarity indices and trade overlap. Results of the study indicated that Turkey had strong comparative advantage in some labor intensive goods and in some intermediate goods.

Utkulu and Seymen (2004) estimated the pattern of trade and trade competitiveness of Turkey with EU for various sectors. For measuring competitiveness, the study used RCA index and other measures of competitiveness apart from RCA.

Mahmaood and Nishat(2004) measured competitiveness using RCA index at HS-4 digit level for the non-agricultural exports of Pakistan. The study assessed the changing pattern of comparative advantage for various labor-intensive and technology-intensive products. The study concluded thatonly few products of non-agricultural sector attained competitive position.

Batra and Khan (2005) performed comparative analysis using RCA and structure changes across sectors in China and India for the period from 2000 to 2003. RCA was calculated to measure performance of industry and commodities at HS-2 and HS-6 digit level for both the countries. Hanif and Jafri (2008) analyzed the relationship between financial development and export competitiveness of textile sector of Pakistan. The study discussed the role and importance of external finance to the textile sector in order to increase the export competitiveness. The results indicated that more access to external finance increases export competitiveness and comparative advantage.

Serin and Civan (2008) employed RCA index to examine the competitiveness, particularly for Turkish to European Union (EU) export flows and found that Turkish economy had greater comparative advantage almost in all the sectors except the tomato sector. Sheng and Song (2008) measured comparative advantage for analyzing the trade patterns of Chinese and Australian economies. The comparative analysis found advantageous bilateral trade for both countries in major sectors' products such as agricultural products, petroleum products, and textile and clothing products.

Naseem *et al*. (2008) analyzed and compared the footwear industry of Pakistan with the footwear industry of India and China. The industrial competitiveness was measured using RCA index at HS- 2 digit and HS-4 digit level over the period of 1996 to 2006. The study revealed that at HS-2 digit level Pakistan's footwear industry faced shift in comparative advantage. The study revealed that though India and china had comparative advantage since 1990 but it decreased over time.

Bhattacharyya (2011) assessed the competitiveness for horticultural products of India by comparing with the major trading partners such as North American, Asian and European Union. The study calculated comparative advantage using RCA at product level and revealed that India had a comparative advantage in fruits and vegetable sectors.

Bano and Scrimgeour (2012) used RCA index for investigating the relationship between output growth and export performance of New Zealand Kiwifruit for the period from 1981 to 2011. The analyses found the positive relation between growth and comparative advantage of the product.

Lalit (2013) examined the export performance of clothing sector of both countries India and Bangladesh using RCA at HS- 4digit product level for the period of 1995 to 2003. The comparative analysis of the study indicated that the RCA of clothing products changed from 23 products to 25 products in India whereas, it changed from 21products to 29 products in Bangladesh.

Shahab and Mahmood (2013) used RCA index for measuring the comparative advantage both at industry and product level for the leather industry of Pakistan, China, India and Iran over the period of 2002 to 2009.

The study revealed positive trend of comparative advantage over the time which indicated that Pakistan possessed potential of growth in this sector. Furthermore, the study also found that India and China had comparative advantage" whereas, Iran has comparatively disadvantage.

3. Methodology and Data Sources

This study calculates revealed comparative advantage (RCA) using Balassa index for textile sector (product level HS-4 digit) before and after Pak-China FTA.

Revealed Comparative Advantage

RCA index is a standard approach or methodology to estimate a country's comparative advantage or comparative disadvantage in commodities, industries or sectors. Theoretically, we can measure comparative advantage in terms of relative prices, "when there is no trade. According to Ricardian theory, comparative advantage occurs due to technological dissimilarities across nations, while the H-O theory considers cost dissimilarities arising due to differences in factor prices across nations, assuming constant technology. Therefore, we summarize that trade theories in classical context are based on pre-trade relative price differences across countries. However measuring comparative advantage through H-O theory has some constraints, particularly, pre-trade relative price is immeasurable Balassa (1989). Present study prefers Balassa index because textile sector of Pakistan exports its commodities to the rest of the world under conditions imposed by MFA and WTO not by any strong domestic trade policy intervention. On the other hand Balassa is considered standard index for comparative advantage.

$$\text{RCA (Balassa Index)} = Xij \,/\, Xin \div Xwj \,/\, Xwn$$

- Xij = *country i i.e. Pakistan and j shows textile sector/commodity*
- Xin = *country i i.e. Pakistan and n shows total exports of Pakistan for all commodities*
- Xwj = *shows world exports of textile sector j*
- Xwn = *shows world exports of all commodities n*

For this purpose, annual data has been taken from the United Nation's Commodity trade Statistics (UNCOMTRADE) for the variables such as textile exports of Pakistan to China, world total textile exports, total exports of Pakistan of all commodities and world exports of all commodities.

3.1.Indicative Potential of Pakistan's Export to China

The indicative potential is a measure of export potential which indicates the amount by which Pakistan could increase its exports to Chinese market at current tariff rates. In this study, the indicative potential is calculated particularly for phase II of the FTA to analyze further that how Pakistan can be benefited from the FTA with China in future. A study conducted by Pakistan Business Council in 2015 identified three commodities among 28 commodities at HS- 8 digit level which possess greatest indicative potential. Such commodities are Cotton, frozen fish and leather, having value above $ 100 million of an indicative potential".

The indicative potential is calculated by the formula given below:

IP = Pakistan's total exports of commodity X – Pakistan's export of commodity X to China

In above formula, X indicates textile products. In this case, this study uses textile products of greater comparative advantage i.e. cotton products at HS-6 digit level.

Table 2:Pre and Post Effects of Phase I& II (HS-2 Digit Level)

Product Name	Product code		Phase-II (Pre & Post)	
		Phase-I (Pre & Post)		
		RCA 2004	RCA 2013	RCA 2015
Silk	50	0.002	0.292	0.392
Wool, Fine or Coarse Animal Hair; Horsehair Yarn and Woven Fabric	51	46.921	0.105	0.073
Cotton	52	46.921	66.988	97.558
Man-Made Filaments; Strip and the Like of Man-Made Textile Materials	54	0.326	0.008	0.039
Man-Made Staple Fibres	55	0.391	0.331	0.377
Wadding, Felt And Nonwovens, Special Yarns; Twine, Cordage, Ropes and Cables And Articles Thereof	56	0.159	0.1484	0.178
Carpets and other Textile Floor Coverings	57	0.972	0.3601	0.693
Fabrics; Special Woven Fabrics, Tufted Textile Fabrics, Lace, Tapestries, Trimmings, Embroidery	58	0.094	0.0195	0.066
Textile Fabrics; Impregnated, Coated, Covered or	59		0.0507	0.021

Laminated; Textile Articles of a Kind Suitable for Industrial Use				

Source: Authors' calculations based on UNCOMTRADE
Note: Blank cell indicates no trade of that commodity

Table 2 compares the RCA for pre and post Pak-China FTA (HS-2 digit) of top 20 products of the textile sector of Pakistan for phase-I & II respectively. "The results indicate no such improvement at product level and almost all the products had comparative disadvantage before and after the agreement except the cotton product. The cotton product maintained the comparative advantage in both the phases. Moreover, this product showed a significant improvement from 46.92 to 66.98 in phase-I and from 66.98 to 97.56 in phase-II of the agreement. Though, almost all the products have comparative disadvantage but shows a significant improvement in RCA such as silk, Carpets and other Textile Floor Coverings, man-made staple fibers.

It is because the share of Cotton in the production remained highest among the other products of the textile sector since long, which made Pakistan the 4th largest producer of cotton in the international market. Similarly, this advantageous product of the sector also ranks Pakistan 3rd in yarn production. Studies show that China, Hong Kong, Bangladesh, Korea Republic, Turkey, Japan and Portugal are major importers of Pakistani yarn. Among them China has been the only country from which Pakistan earns largest revenue by exporting its cotton yarn. The recent literature revealed that though the production of yarn increased and showed an average growth of 3 percent over the period of 2011-12 to 2015-16 but the export of cotton yarn declined by 44 percent due to the reduced import demand from China (Memon, 2017).

Table 3: Pre and Post Effects of Phase I& II (HS-4 Digit Level)

Product Name	Product code		Phase-II (Pre & Post)	
		Phase-I (Pre & Post)		
		RCA 2004	RCA 2013	RCA 2015
Cotton; not carded or combed	5201	7.372	2.805	
Cotton waste (including yarn waste and garneted stock)	5202	117.616	39.678	40.382
Cotton // Cotton, carded or combed.	5203	35.061	10.234	
Cotton // Cotton sewing thread, whether or not put up for retail sale.	5204	1.940	41.468	
Cotton // Cotton yarn (other than sewing thread), containing 85 % or more by weight of cotton, not put up for retail sale.	5205	124.885	138.689	139.910

Other vegetable textile fibers; paper yarn and woven fabrics of paper yarn // Yarn of jute or of other textile bast fibers of heading 53.03.	5407	0.523	0.011	0.059

Source: Authors' calculations based on UNCOMTRADE
Note: Blank cell indicates no trade of that commodity

Table 3provides the RCA at HS-4 digit for both the phases. The calculations showed that at 4-digit level, almost all the products had comparative advantage pre and post phase-I period. The post phase-I analysis showed improvement in Cotton sewing thread (5204) and Cotton yarn, other than sewing thread (5205). However, the post phase-II analysis showed very less number of commodities having comparative advantage and improvement over the period. Although, the cotton yarn showing comparative advantage but the value of RCA in phase-II does not show significant improvement because of the continuous decline in China's demand for Pakistani yarn since 2013-14.

The study also examined the textile sector comparative advantage of Pak-China FTA at 6-digit level for both the phases provided in table 4. The table reveals that at 6-digit, all the textile products are cotton products having comparative advantage. Further, the table also depicts that the RCA at 6-digit level showed improvement in only few products at the end of phase-I. On the other hand, the phase-II of the analysis showed slight improvement in cotton products over the period. It is also evident from the literature that the top exports of Pakistan to China increased in the beginning of FTA but start declining after some time. Additionally, the top export product of Pakistan i.e. cotton also shown a decline of 54 percent in 2015 (PBC, 2016).

Table 4: Pre and Post Effects of Phase I& II (HS-6 Digit Level)

Product Name	Product code	Phase-I (Pre & Post)	Phase-II (Pre & Post)	
		RCA 2004	RCA 2013	RCA 2015
Cotton // Cotton, not carded or combed. // Cotton, not carded or combed.	520100	7.372	2.805	
Cotton // Cotton waste (including yarn waste and garnetted stock). // -Yarn waste (including thread waste)	520210	60.706	78.673	33.596
Cotton // Cotton waste (including yarn waste and garnetted stock). // - Other : // -- Other	520299	177.448	23.177	46.102
Cotton // Cotton, carded or combed. // Cotton, carded or combed.	520300	35.074	10.234	
Cotton // Cotton sewing thread, whether or not put up for retail sale. // -Put up for retail sale	520420	32.81	44.607	
Single yarn, of uncombed fibres : // -- Measuring 714.29 decitex or more (not exceeding 14 metric number)	520511	244.404	154.79	247.986
Single yarn, of uncombed fibres : // -- Measuring less than 714.29 decitex but not less than 232.56 decitex (exceeding 14 metric number but not exceeding 43 metric number)	520512	521.21	266.438	290.728
Single yarn, of uncombed fibres : // -- Measuring less than 232.56 decitex but not less than 192.31 decitex (exceeding 43 metric number but not exceeding 52 metric number)	520513	80.142	58.887	53.27
Single yarn, of uncombed fibres : // -- Measuring less than 192.31 decitex but not less than 125 decitex (exceeding 52 metric number but not exceeding 80 metric number)	520514	42.585	1.58	0.601
Single yarn, of uncombed fibres : // -- Measuring less than 125 decitex (exceeding 80 metric number)	520515	598.418	33.683	
Single yarn, of combed fibres : // -- Measuring 714.29 decitex or more (not exceeding 14 metric number)	520521	2.193	0.349	30.876
Single yarn, of combed fibres : // -- Measuring less than 714.29 decitex but not less than 232.56 decitex (exceeding 14 metric number but not exceeding 43 metric number)	520522	31.849	98.514	114.053
Single yarn, of combed fibres : // -- Measuring less than 232.56 decitex but not less than 192.31 decitex (exceeding 43 metric number but not exceeding 52 metric number)	520523	7.121	18.062	12.666
Single yarn, of combed fibres : // -- Measuring less than 192.31 decitex but not less than 125 decitex (exceeding 52 metric number but not exceeding 80 metric number)	520524	3.337	10.089	3.18
Multiple (folded) or cabled yarn, of uncombed	520531	624.77	545.67	638.301
Multiple (folded) or cabled yarn, of uncombed fibres : // -- Measuring per single yarn less than 714.29 decitex but not less than 232.56 decitex (exceeding 14 metric number but not exceeding 43 metric number per single yarn)	520532	21.766	15.754	356.56
Multiple (folded) or cabled yarn, of combed fibres : // -- Measuring per single yarn less than 714.29 decitex but not less than 232.56 decitex (exceeding 14 metric number but not exceeding 43 metric number per single yarn)	520542	13.122	21.289	43.071

Source: Authors' calculations based on UNCOMTRADE
Note: Blank cell indicates no trade of that commodity

Table 5: Indicative Potential of Pakistan's Top Textile Exports to China (US $ Million)

Product Name	Product code	2013	2015
2-Digit level			
Cotton	52	3397.771	2778.560
4-Digit level			
Cotton; not carded or combed	5201	181.060	
Cotton waste (including yarn waste and garneted stock)	5202	68.371	41.932
Cotton // Cotton, carded or combed.	5203	15.192	
Cotton // Cotton sewing thread, whether or not put up for retail sale.	5204	9.073	
Cotton // Cotton yarn (other than sewing thread), containing 85 % or more by weight of cotton, not put up for retail sale.	5205	662.123	481.117
6-Digit level			
Cotton // Cotton, not carded or combed. // Cotton, not carded or combed.	520100	181.060	
Cotton // Cotton waste (including yarn waste and garnetted stock). // - Yarn waste (including thread waste)	520210	30.556	11.054
Cotton // Cotton waste (including yarn waste and garnetted stock). // - Other : // -- Other	520299	34.629	27.716
Cotton // Cotton, carded or combed. // Cotton, carded or combed.	520300	15.192	
	520419	0.451	
Single yarn, of uncombed fibres : // -- Measuring 714.29 decitex or more (not exceeding 14 metric number)	520511	33.321	18.934
Single yarn, of uncombed fibres : // -- Measuring less than 714.29 decitex but not less than 232.56 decitex (exceeding 14 metric number but not exceeding 43 metric number)	520512	248.840	189.070
Single yarn, of uncombed fibres : // -- Measuring less than 232.56 decitex but not less than 192.31 decitex (exceeding 43 metric number but not exceeding 52 metric number)	520513	38.405	27.167
Single yarn, of combed fibres : // -- Measuring 714.29 decitex or more (not exceeding 14 metric number)	520521	4.521	4.693
Single yarn, of combed fibres : // -- Measuring less than 714.29 decitex but not less than 232.56 decitex (exceeding 14 metric number but not exceeding 43 metric number)	520522	70.666	52.784
Single yarn, of combed fibres : // -- Measuring less than 232.56 decitex but not less than 192.31 decitex (exceeding 43 metric number but not exceeding 52 metric number)	520523	35.826	24.172
Single yarn, of combed fibres : // -- Measuring less than 192.31 decitex but not less than 125 decitex (exceeding 52 metric number but not exceeding 80 metric number)	520524	11.855	8.779
Multiple (folded) or cabled yarn, of uncombed	520531	12.270	14.088
Multiple (folded) or cabled yarn, of uncombed fibres : // -- Measuring per single yarn less than 714.29 decitex but not less than 232.56 decitex (exceeding 14 metric number but not exceeding 43 metric number per single yarn)	520532	138.426	98.484
Multiple (folded) or cabled yarn, of combed fibres : // -- Measuring per single yarn less than 714.29 decitex but not less than 232.56 decitex (exceeding 14 metric number but not exceeding 43 metric number per single yarn)	520542	15.675	17.028

Source: Authors' calculations based on UNCOMTRADE
Note: Blank cell indicates no trade of that commodity

The table 4 provides an indicative potential for Pakistan's top potential textile exports to China particularly for phase-II. The table revealed that at 2-digit level, Pakistani cotton depicts greatest export potential in Chinese market. Nevertheless, cotton products at 4-digit level showing greater export potential in almost all the top exports in the beginning of phase-II but in 2015, the only one product left with that is cotton waste. Additionally, at 6-digit level, cotton product like single yarn showed greater export potential of value over and above US$ 100 million in 2015.

4. Conclusion and Recommendations

The findings of the study concluded that the RCA of the textile sector showed no significant improvement in phase-I but in phase-II of the Pak-China FTA. Initially, it was seem as Pakistan needs China more than China needs Pakistan but the situation reversed by the end of phase-I.China is world's fastest growing economy for many years it is now the world's 2nd largest economy, the largest exporter, and the second largest importer of goods. The main results of the study can be summarized in such a way that the textile sector RCA at 2 digit level hasn't shown any significant improvement in any product except the cotton product in both the phases. The RCA value at 4 digit level revealed no improvement in phase-I again except the sub-cotton product whereas, phase-II showed significant improvement. Furthermore, at 6 digit level the pre Pak-China FTA value of RCA showed that almost all the textile products of comparative advantage showed further improvement in the post period. Additionally, an indicative potential for Pakistan's top potential textile exports to China also revealed that these products showed higher value of indicative potential".

Furthermore, the comparative analysis of RCA at different levels revealed that the export potential of the textile sector has declined and showed greater focus on low value added products. This is because of the inefficiencies of the textile sector particularly due to the prolonged energy crises which have been imposing adverse effects on the industrial sector of the country. This situation has provided great opportunity to Bangladesh and Vietnam to enjoy Pakistan's share in the international market. The sector has not enough diversification in value addition. It should be both raw material as well as product diversification. The government should take serious efforts to take the economy out of the energy crisis first and to

ensure the growth of textile exports, purchase new machinery or improve the quality of existing machinery. Furthermore, government can also play its role in recovering the growth of the textile sector by providing subsidy facility to the textile industry, by solving the exporters' internal disputes and by removing the withholding or sales taxes on import of main raw material. The textile sector would able to compete in the international market and would also be able to show high growth of the sector if government takes all these said actions.

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