

Problems of Knitwear Industry of Pakistan

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Abstract

The post quota regime brought a revolutionary change in the knitwear export promotion in various countries, such as China, India, Bangladesh and Cambodia, but at the same time some countries like Pakistan faced a serious problem i.e. survival in this regime. This study tries to focus on the issues enhancing this problem and finds the policy to raise Pakistan's share in international knitwear market. With the help of knitwear export data of 1995 to 2007, this research analyzes the trend of knitwear exports of Pakistan. The primary survey finds the basic problems faced by knitwear industry of Pakistan. This study finds that the government policy plays a major role in creating challenges for knitwear industry of Pakistan. Quality issues of international buyers, lack of innovations in knitwear products as well as energy crises in the form of high fuel prices, electricity shortage increase of the cost of production of knitwear units lead to international price challenge for this industry.

Key words: Knitwear Industry, Government Policy, Quality, Energy Crises

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Introduction

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The importance of industry in any developed as well as developing economy is an established fact. Countries feel profitable while selling the final products rather than selling raw material at cheap prices thus moving towards a strong economy.

Developing countries can make more profit by selling textile products having comparative advantage in textile production. This comparative advantage is of two types; first, some developing countries have cheap labor, they buy raw material from other developing countries and produce the products at cheap prices, second type of comparative advantage occurs in most beneficent way i.e. when a country has production of raw material within the country and at the same time labor is also available as a cheap factor of production. Pakistan is in second type, where both labor and raw material are available at low rates and prices. This comparative advantage motivates the developing economy to fulfill their dream of becoming an industrial economy by producing textile products and develop their textile industry (Although a lot of the textile base in India, Pakistan and Bangladesh are the legacies of the colonial era when the sub-continent became the raw-material accessories for the English textile Industry).

The Agreement on Textile and Clothing (ATC) or Multi Fiber Arrangement (MFA) governed world trade in textile and garments from 1974 to 2004, by imposing quotas on the export from developing to developed countries. The MFA was introduced in 1974 as a short-term measure intended to allow developed countries to adjust to imports from the developing world.

According to a study done by World Bank/International Monetary Fund (IMF) study the regime of MFA was harmful. (Anderson & Neary, 1994) the MFA regime proved harmful for developing countries as the system had

cost the developing world 27 million jobs and \$4000 billion a year in lost exports. In Uruguay Round, it was decided to bring the textile trade under the jurisdiction of the World Trade Organization (WTO). The Agreement on Textiles and Clothing provided for the gradual dismantling of the quotas that existed under the MFA. The process was completed on 1st January 2005 and after it in post quota regime, the situation in world market changed. Some countries made their position strong in international market in the export of textile sector and some countries lost their position in international market in the export of textile products.

Pakistan is also one of the countries who lost their exports in international market. The reasons may be different but as Pakistan's economy is very much dependent on textile sector, so this situation created a crucial effect on the economy.

The textile industry of Pakistan is going through a difficult phase following the elimination of quota regime in 2005. More than three years have passed and Pakistani industry invested heavily to meet the apparent global challenges faced mainly from China, India and other Asian countries, who have been establishing a solid base in value added textile sectors in the last few years. Despite investing billions of dollars in updating textile technology our textile industry is still feeling the crunch of global competition.

The main issue is to diagnose where the root of problem lies and what should be done to pull out our industry of the extremely difficult scenario.

Pakistan's textile sector is influenced by post quota regime as whole. Pakistan exported readymade garments and knitwear products for several years but after the abolition of Multi Fiber Arrangement, the knitwear

industry of Pakistan is affected very much. Despite of having 15% to 17% growth annually, this sector can't meet the challenges of international market. This may be due to improper planning and absence of focused approached toward international market scenario with local industry. The knitwear industry has developed rapidly in the last few years. Since the start of the 2000's there have been new investments in the knitwear sector especially in and around Lahore. Most modern production units of knitwear with state-of-the-art technology started their work. Improvements made during 1990s in knitting technology and techniques in the processing and finishing had been further improved with dimensional stability of knitted fabrics. Some high quality machine manufacturers had also imported soft flow dyeing machines and tension-free dryers.

(Mazhar, Memon, & Baqi, 2007) The knitwear sector of Pakistan is severely affected by low prices and high quality products from China, Bangladesh, India and even countries like Vietnam and Cambodia. The exports of knitwear sector in 2005-2006 were \$1.75 which contributes by 12% in the total export earning of Pakistan.

This is by far one of the important sub-sectors of our textile industry that was until a few years ago thriving and investing in the most modern units with the latest machinery and technology. Sadly, quite a number of units have stopped their production because of intense competition from other countries like India and Bangladesh. Pakistan's knitwear industry exported low price mass market products to departmental stores in the US and Europe. Their business is highly dependent on the centralized buying houses. One of the recent phenomena is the opening of the regional offices of the world wide departmental stores like Wal-Mart in India and other

countries. These buying houses create an advantage for India and other knitwear producing countries over Pakistan.

There is no issue of demand but the issue, which Pakistan's knitwear industry faces in international market, is price. The price, which is offered in international market, is not feasible for Pakistani manufacturers if compared to other competitors in international market. Pakistani producers face high unit cost of production resulting from higher labor cost and higher financial cost as compared to Bangladesh, India and China. The governments of these competitor countries highly facilitate knitwear manufacturers by giving them edge in sales tax, infrastructure concessions etc. In Bangladesh labor cost is far low than Pakistan on the other hand the financial cost of India is also even lesser than Pakistan. The knitwear units in Pakistan are heavily influenced and cannot sustain with high cost of production in international market.

(Butt, 2006) Government of Pakistan despite of managing its position in international market can't control the shutdown of knitwear units in Pakistan. In MFA regime, a large number of knitwear units were of small scale. Due to high unit cost, hurdles in international market, they were forced to close their working units as they failed to maintain their position in international market. There is a loss of 250,000 jobs because of the shutdown of about 50% knitwear units in Pakistan. The major reason of the shutdown of these production units is lack of facilities to these units by the government.

(Khurram, 2006) These units faced many problems for the survival in international market. On the other hand the competitors of Pakistan in international market give many facilities to their exporters e.g. in China up

to 13% and in India 10% subsidies are given to knitwear industry, resulting into 25% and 15-20% respectively cheaper knitwear products than Pakistani products. At the same time both have better quality of products than Pakistan. The issue is becoming crucial day by day, and there is no effect of any effort to rebuild the status of knitwear share in international market. The problems arising in knitwear industry of Pakistan affect the internal balance of Pakistan's economy as well. How this downfall of knitwear industry can be stopped so that economy can attain internal and external both types of balancing is still a question to be answered.

The focus of this study is to find out the basic root causes, which generate the bulk of problems in knitwear industry of Pakistan and measures that should be adopted to sustain this industry at growing level again. The effective and proper policy adoption, which is useful to get this industry back to international market, is what is needed.

An Overview Pakistan of Knitwear Industry

(Finance Division, 2007-2008) Economic Survey of Pakistan 2007-2008 shows that the Growth rate of the Pakistan's manufacturing Industry's Production Index was 29.1% in 2006-2007 as compared to 18.9% in 2005-2006; while the index shows that the growth in Cotton yarn production was a constant 11.7% and of cotton cloth rose for -2.26% to an impressive 6.75 %.

It is being noticed by researchers that many small firms in the city of Lahore, Faisalabad, Sialkot and other places have shut down or are lying idle for the past few years. (Waleed, More than 350,000 knitwear workers' jobs at risk, 2006) "Jobs of more than 350,000 workers in knitwear industry are at risk where roughly 50,000 have already lost their jobs with the closure

of 134 units across the country. The knitwear industry had earlier reported the closure of 79 knitwear units up to June 2005, and latest figures with the Pakistan Hosiery Manufacturers Association (PHMA) show that another 55 units have been added to this number, bringing the total to 134 throughout the country. According sources in the PHMA, each knitwear unit in the country is employing 300 workers on an average, bringing the total to more than 400,000, out of which about 50,000 have already found doors closed on them with the shutting down of 134 units. Of the closed units, 47 are in Lahore, 13 in Karachi, 68 in Faisalabad and six in Sialkot. Most of the units are medium size and there are few units, which could be dubbed as large units like the Masood Textile Faisalabad where 11,000 workers are employed.”

Exports of Pakistani Knitwear

At the same time the figures in Table 1 and Fig 1 show that the exports of Pakistan’s knitwear are rising in the value terms from US \$ 1,635 in 2004-2005 to US \$ 1,961 in 2006-2007. Basic products, which Pakistan’s Knitwear industry is supplying to the international market, include T-shirts, jogging suits, jerseys, sport shirts, children wear, gloves, tracksuits, sweaters, socks, etc.

Table 1 – Pakistan Knitwear Export Value (US\$ million)

Year	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Exports	703	689	697	742	887	911	846	1147	1459	1653	1751	1961

Source: Ministry of Finance

Fig 1 – Pakistan knitwear export Value (US \$ million)



Source: Ministry of Finance

According to Dr. Memon, “At present there are 5000 plus garment units operating in Pakistan, of these 12% are said to be large scale and 88% are small almost cottage industry level. There are about 250,000 industrial sewing machines and half a million domestic sewing machines in this sector. In knitting too there are about 750 big and small units”. He added that “During the past four years there has been a rapid expansion in investment in new textile technology. There is now a marked shift to value addition and the share of garments and made-ups has increased from 47% to 58%. Total investment in textile industry during the last four years is now being estimated at \$4 billion that has led to improvement in productivity, both in terms of quality and quantity, in yarn, fabrics, home textiles and garments. Out of \$4 billion investment, weaving sector has received \$722 million, processing \$724 million, knitting \$173 million, garments \$100 million and synthetic \$450 million” he further adds that “The entrepreneurs,

who earlier concentrated on spinning and weaving, have now established compact units adding state-of-the-art finishing units and knitting machines to add value to their products. Pakistan imported large numbers of hand knitting and semi-automatic flat knitting machines of different brands. Import of various knitting machines and parts into Pakistan increased from Rs 837 million in 2001-2002 to Rs 952 million in 2002-2003, showing an increase of 14%. The new imported machines have contributed to improvement in quality of knitted fabrics, which, in turn, helped the country to earn substantial foreign exchange through exports of knitted fabric as well as knitwear.” (Memon, 2006) Among the famous groups that produce and export knitwear with state-of-the-art technology are, *Ammar, Klass Textile, Ibex, Irfan, Style, Azam, Disco, Crescent, Regent* and *Saigol* all of them based in Lahore. Dr. Memon points out that, “At present there are about 15,000 knitting machines working in the country to manufacture 5.5 million pieces of knitwear with approximately 60% capacity utilization” (Memon, 2006).

International Markets for Pakistani Knitwear Exports

Pakistani knitwear industry is almost totally export oriented; selling mainly to the markets in USA, UK, Germany, Canada, France Belgium, Netherlands, Dubai, Italy, Saudi Arabia, Nigeria, Australia, Sweden, Denmark, Japan, Bahrain, Mexico, Irish Republic, Finland and some other countries of the world.

Major Pakistani competitors in the knitwear sector on the above named markets are products from China, India, Bangladesh, Vietnam and Cambodia. Exports of knitwear from Pakistan are severely affected by low prices and high quality products from these countries.

(Memon, 2006) “A significant impact of the growth of Chinese textile sector is on the import of the US. The volume of textile products in the US market appears huge and diverse. One important segment of this market is knitted and woven apparel. The apparel market contains 57.3% woven and 42.7% knitted products. The share of Asian suppliers in the US import market increased from 52.3% in 2002 to 55.3% in 2003, two-third of it comes from the increased Chinese supplies. He goes on to add that “Pakistan has not gained much from a \$143 million additional apparel market access package given by the US last year and is now seeking an understanding on all the trade related issues, on the basis of which, there is a desire to thrash out a bilateral Free Trade Agreement (FTA). The \$143 million worth additional access to the US market was based on the assumption that enlarged quotas of seven categories of textile export quota would be fully utilized. These seven categories included 334,634, 338, 339, 347- 48, 351-651 and 352-652. These categories cover woven gloves, coats of men, women, boys and girls, blouses, *pajamas* and nightwear's, manmade fiber knit shirts, blouses and trousers”

Literature Review

The end of Multi Fiber Arrangement (MFA) brought a revolutionary change in the import and export structure of different countries; however this post quota regime also proved harmful for some countries. The knitwear industries of these countries including Pakistan faced some challenges to survive in international market. This study focused on the evaluation of these issues and challenges, which Pakistan knitwear industry faced after MFA. (Khan, 1998) Analyzes Pakistan’s status in post quota regime and discusses the difficulties which textile sector of Pakistan faced after post quota regime. She discusses this issue by analyzing the different sub- sectors

of textile industry including knitwear industry. She also discusses in detail the prospects and challenges, which Pakistan's textile and knitwear industry may face in future.

Pakistan's knitwear industry is in advantage by having cheap labor and domestic raw material. As this industry is labor intensive, so the growth of this industry can overcome the problem of unemployment in labor market. Proper policy adoption is necessary in the form of high class management, the relationship between buyer and seller, proper market related knowledge etc. These things are necessary for the growth of knitwear industry. The experience of Indian knitwear industry is the live example of revival of industry and its growing contribution in export as well as labor market. (Tewari, 1999) He analyzes that how traditional sector in developing countries can compete with external and internal crises. He takes woolen knitwear industry as it is a labor intensive industry and utilizes large number of people in it for his analysis. He, for his analysis takes the example of an Indian knitwear industry and analyzes the causes of the failure of largest export, and its rapid recovery. (Tewari, 1999) He puts up four factors of its rapid comeback as by managing high production and managerial capacities to get demand from highly reputed markets. The learning relationship between exporter and foreign buyers is making a rapid change in product. The third factor is not only to make change in technology but the organization and fourth factor is to promote local exporters. He argues that the government policies and the embedded nature of production of knitwear firms required change at export level by applying these four factors into production process. (Bakht, Salimullah, Yamagata, & Yunus, 2008) They analyze the impact of increasing exports of labor intensive products and its impact on low income countries. According to them this increase in labor

intensive exports also helps these countries to reduce their poverty. To prove their assumption they give the evidence of Bangladesh knitwear industry by taking the data at firm level till 2001. They conclude that the knitwear industry in Bangladesh contributes to poverty reduction by providing entry-level workers with a great scale of employment opportunities and earnings higher than the national poverty line. At the same time the average profitability of knitwear producing firms is very high. They also find that such a dynamic development of the industry entailed great diversity in efficiency even in comparison with the garment industry of other developing countries. This study cannot find any evidence to support a positive impact on competitiveness through industrial upgrading in terms of usage of expensive machines and vertical integration and industrial agglomeration.

Increasing competition in international market of knitwear products motivate producers to introduce new type of knitwear products to gain profit. Most of the countries in post quota regime are successful due to this policy of introduction of new products, such as China. The change in the designs of products affects not only producer's profit margin but also designer's behavior as analyzed by (Stacey, Eckert, & Wiley, 2002) They believe that the new and modern commercial knitwear designs are quickly recognized in market and at the same time the old ones lose their market as well. They argue that experienced designers can easily learn about design problems but at the same time they become exhausted and leave for new job. The writers focused this issue in their study by examining what a designer learns from experience and how demand governs his designing behavior, which can be altered to enable his to develop his ability to innovate as well as design efficiently.

The producer always adopts efficient production strategies to get large share of market and earn high profit. The countries, which adopt different strategies, gain their share in international market of knitwear products. The technological developments, skill improvement, development of export processing zones are the key factors to gain the share of knitwear in international market. (Appelbaum, 2004) He analyzes the effect of the expiration of the Multi Fiber Arrangement (MFA) on developing countries and at the same time he analyzes the role of TNCs in the development of textile sector. He finds a strong effect of the abolition of MFA on Least Developed Countries – LDCs and concludes that in Least Developed Countries as well as developing countries the clothing sector (ready garment and knitwear) run on the path of development as to fulfill the heavy demand of large markets of EU & USA. However, he finds the strong effect of production strategies and new textile products on the development of TNCs textile sector. He concludes that the skill development, technological up grading and improvement in infrastructure such as ports and export processing zones are important factors of development for exports of knitwear products and growth in industrial development as well.

The factors, which create serious problems in downfall of knitwear industry, are of different types such as poor infrastructure, lack of management capacities and international market knowledge are the major factor of the disturbances in this industry. (Memon, 2006) He examines the status of Pakistan Knitwear industry with the evidence of past data and theoretical explanation. He estimates Pakistan status with the help of import and export data. He is of the view that although Pakistan's Knitwear industry has a significant export structure but some of internal disturbances are the obstacle in the way of the development of this sector. He concludes that the

status of Pakistan in international market is far low even lower than Bangladesh and India. Proper government policy is needed to overcome this problem and getting a mature status in international knitwear market.

(Yamagata, 2007) He tries to find the impact of after Multi-Fiber Arrangement (MFA) on main market and examines the prospects for the markets and the source countries. He finds this impact with theoretical evidence that the abolition of quantitative restrictions will generate a boom in the exports of Chinese knitwear garments, at the same time the export quantity of low income of this sector has also increased in EU and US market in 2006. Some least developed countries such as Bangladesh and Cambodia not only survived in liberalization era but also steadily captured the share of garments in international market. He quotes the reference of survey, which was conducted in 2003 that the profitability of knitwear garment industry in these two countries is increasing due to their status in post liberalization regime.

Objectives:

The main objectives of this study are

- To check the status of knitwear industry in the exports of Pakistan
- To pinpoint the challenges and opportunities which knitwear industry of Pakistan faced in post quota regime?

Problem Definition

As the MFA abolition proves tough job for textile sector of different countries including Pakistan. After this the knitwear industry of Pakistan faced some challenges to maintain its status in international market. The main purpose of this study is to analyze the impact of these factors on

Pakistan's knitwear industry and how these factors influence the growth of knitwear export of Pakistan. In other words, the objective is to see:

“To what extent the knitwear industry of Pakistan faced challenges for its survival in international market.”

Analysis of primary data collection

This study is also based on primary data analysis, for this purpose information is gathered using a questionnaire for analyzing the status of knitwear industry of Pakistan. We selected three major cities for this purpose i.e. Faisalabad, Sialkot and Lahore. We made a sample size of eighty firms but a non responding error exists in this process and some companies did not respond well. A descriptive analysis was prepared from the information, which we gathered by conducting questionnaire survey. This study divides the analysis into three parts; first part covers the production related issues that how the factors involves in production affect knitwear industry's production status, the second part involved official factors which are caused by government policy and last one is the energy issue. So this study tries to find the challenges by reviewing all sectors, which can influence knitwear sector of Pakistan.

1. Supply Side Issues

Knitwear industry of Pakistan is really affected by the problem of shut down of many units. After MFA abolition, most of the knitwear firms faced difficulties to run their setup, so they chose to quit production. The supply side issues not only related to supply of product but at the same time also include the cost of production, the quality of product etc. The fluctuating price of raw material, shortage of electricity, instable exchange rate, high energy cost, lack of international market research, poor market knowledge,

implementation of government taxes are the major factors which affect the production of knitwear products. These factors are strongly pin pointed by the producers of knitwear products.

The following analysis from Primary sources of information is done to judge supply side issues and their effect on knitwear status in Pakistan. This analysis is taken by getting the percentage of replies on different issues to judge the importance of different factors on knitwear performance. Are these factors important to change the production behavior in knitwear sector? This analysis is done on the basis of response given by knitwear producers.

(Paresh & Qazi, 2007) The performance in the advancement of knitwear products in the form of innovations in new product is nil. Pakistani producers are not indulging in the innovating process and mostly produce same type of knitwear product by start. Although Pakistani knitwear sector produced 301 types of products but these products are of traditional types. (Made in China, 2008) On the other hand Chinese knitwear sector introduced new fashioned products in international market. In 2007-2008, Chinese knitwear industry introduced different new designs of T-shirts, jerseys and introduced totally new products such as hats of different styles. China yearly changes the designs of its products, and introduces different knitwear products. Fashion trends are published by China Knitting Industry Association, this material serves in most relaxed way to buyers of knitwear from china. At present China sells 2572 types of knitting and crocheting fabrics throughout the world. (Trade Shows, 2008) Our survey also identified the same type of problem that lack of innovation causes a down fall in knitwear industry of Pakistan in international market. This is a problem of which the target of knitwear export is not achieved in the last

quarter of 2007. There is 12% shortfall in actual exports and targeted exports.

Poor marketing policies of Pakistan knitwear units create a great problem for Pakistan's knitwear exports. Pakistan approximately covers more than 100 markets from 10 regions of the world i.e. North and South America, South East Asia, Eastern Europe etc. At the same time India covers more than 150 markets of approximately 12 regions of the world. Poor marketing brought a problem in the promotion of knitwear industry of Pakistan, and is a major cause of down fall of knitwear industry of Pakistan.

(Bakht, Salimullah, Yamagata, & Yunus, 2008) Pakistan is one of those countries, where government tries to facilitate labor to promote its industry, mostly knitwear producers pointed out this issue during the survey that as compared to other competitor countries the wage rate in Pakistan is high. In Pakistan the wage rate as compared to India and Bangladesh is higher. According to the member of PHMA Lahore, the wage rate of Bangladesh is only Tk 1600, which is far below than Pakistan wage rate, Average rate at managerial level in Bangladesh is Tk 12200 and in Pakistan it is Rs 17000 on average. Wages of a skilled labor is 5012, and it is 8000 on average in Pakistan. These figures show a comparative advantage of Bangladesh over Pakistan. (Labour Bureau, Government of India, 2006-07) On the other hand the daily average wage rate in India in textile sector is Rs 100-150, but in Pakistan it is 200-250 on average which is far expensive than India. So it seems true that the labor cost is also a source to increase the cost of production of Pakistani knitwear producers as compared to India and Bangladesh.

The instable exchange rate has created great problems for the export of Pakistan. All units use modern technology and met the quality standard of international market, but the lack of innovation in production, lack of marketing activities, high financial costs are some major issues which have adverse affect on the knitwear export of Pakistan.

2. Policy Issues

A great challenge which is faced by knitwear industry is government regulations. Government policies have affected the production behavior of this industry in such a way that some of knitwear units have been shut down or have stopped production. Different types of taxes are levied and hurdles are created such as sales tax on input, unrealistic trade policies, the types of trade agreement with different countries, lack of infrastructure subsidies are some issues which are highlighted by the producers of knitwear units. According to our survey there is 15-20% sales tax, which knitwear units pay on purchase of raw material. Most of our knitwear producers are engaged in purchasing input at constant prices. In this case sales tax causes an increase in the unit price of knitwear garments, which in turn lowers the demand of knitwear garments in international market. Policy issues are very important for the knitwear industry of Pakistan.

Government of Pakistan tries to actively participate in international trade fairs, but the process is slow as compared to other countries. Due to financial and other obstacles, this issue is greatly highlighted by knitwear producers of Pakistan. They are of the view that lack of trade exhibitions and marketing activities greatly affect their sales in international markets as compared to its competitive countries. In Karachi there were 28 exhibitions organized in 2007-2008, among them 3 exhibitions were related to textile

sector, apparels and clothing. But at the same time there were 72 apparel and clothing exhibitions throughout the world. China is on top in organizing such type of exhibitions. The Trade Development Authority of Pakistan urges to participate in 30 upcoming trade events of the world, which also covers knitwear exhibitions (Fair and Exhibitions, 2008). So the figures reject the idea of knitwear producers of downfall of knitwear exports to international market due to lack of participation in international trade fairs.

(Retail Sourcing from India, 2008)The lack of buying houses is also considered a major problem of knitwear sector identified by knitwear producers of Pakistan. In Pakistan foreign buyers give their requirements but they do not intend to open their buying houses here due to many reasons. On the other hand in India many foreign companies have opened their buying houses for purchasing knitwear products such as Nike, Golf, Marks and Spencer, Target, Palmer, GAP, Wal-Mart, Levi's etc., which increases the exports of knitwear of India toward other countries. So India has a big advantage over Pakistan in this case. If there is the policy to attract foreign buyers to open their buying houses in Pakistan, this may increase the exports of knitwear industry of Pakistan toward other countries.

There is only one export processing zone named Export Processing Zone Authority (EPZA) of Pakistan which works to promote the export of Pakistan throughout the world. According to respondents of the survey active participation of EPZA is needed to promote knitwear export of Pakistan. The analysis comprises that there is no international apparel and clothing trade exhibition recently organized by this authority. On the other hand export processing zones of India, China and Bangladesh continuously work to promote their knitwear exports. For example, the upcoming events of trade promotion also cover the clothing and trade exhibition lunched in

the month of October 2008 in all of these three countries. Pakistan launched such type of exhibition in March 2008. It was a 4-day exhibition to promote knitwear and apparel exports of Pakistan.

(DT&G, 2008) Claim of lack of subsidies is very much powerful as compared to other claims. Lack of subsidies as compared to other countries found to be a major cause of decrease in knitwear export of Pakistan. The representatives of Pakistan textile and knitwear sector pointed out that knitwear industries of China, India and Bangladesh are floating their products at cheap prices in international markets just with the help of their governments. On the other hand the increase in the price of gas, electricity and bank loans increase the production cost of knitwear units. In Pakistan there are incentives of Rs320 billion to agriculture and other sectors except textile sector to meet the financial and other expenses.

WTO recognizes those countries as Least Developed Countries, which have been designated as such by the United Nations Organization. There are currently 50 LDCs on the UN list, 32 of which to date have become WTO members. There are no WTO definitions of “developed” or “developing” countries. Developing countries in the WTO are designated on the basis of self-selection although this is not necessarily automatically accepted in all WTO bodies. Developed countries, which have in principle committed to provide zero-tariff access to the least developed countries through various high level declarations of the WTO. Zero-tariff access granted to exports from the 48 least developed countries, which together account for less than one per cent of world trade, can be thought of as a “down payment” for their participation in the new round. Ideally, the zero-tariff provision for least developed countries should be made effective from the very beginning of the round to signify an early harvest for these countries. In Pakistan case, it

is reluctantly not enlisted itself among Least Developed Countries like Bangladesh, resultantly Bangladesh captured most of the EU and US knitwear and ready garments market by supplying cheap knitwear and ready garments. That is why there is a high investment rate in textile and clothing industry of Bangladesh. In last six months, more than 50 knitwear and ready garment companies and 24 textile companies have been established with the help of investing more than Tk 14 billion. Bangladesh continues to enjoy benefits of least developed country and fetch huge foreign direct investment. Multinationals try to get maximum benefits of preferential treatments of least developed countries of WTO regime. This benefit leads to increase in the share of ready garments and knitwear exports. With the increase in the working of knitwear units, which reach up to 4,107 till the end of 2006. The rapid development of knitwear industry confirms that this figure reaches at an excellent and appreciating limit till today.

From the above discussion it is found that the major problems in policy side, which affect the productivity of knitwear units are highlighted above; the level of importance may differ. The analysis shows the government regulations are the major factor of turbulence in knitwear exports of Pakistan. Knitwear units are affected from lack of infrastructure facilities and slow working of export processing zones, at the same time government does not support these units to market their product in international markets and participate in international trade exhibitions. Wrong policies of government create a downfall in the exports of knitwear garments of Pakistan.

3. Issue of Energy

Pakistan is very much dependent on energy related imports. The rising prices of fuel in international markets directly affect the domestic market at all levels, the rising cost of production due to increasing fuel prices affects the international knitwear market share of Pakistan. The energy issue is important but with the same token Pakistan also faces serious crises of electricity shut down for last one year; the shortage of electricity is also a major cause of increasing the cost of production. Idle labor in working hours due to load shedding, the purchasing of high capacity generators and the cost to run these generators not only increase the cost of production but also is a cause of delay in supply of orders in international market, which causes a downfall in the reputation of Pakistani suppliers in international market. From our survey, it is found that the labor work has been affected severely by shortage of electricity; the knitwear units close their work for 3 to 4 hours on average and bear 30% to 40% production loss in a day. At the same time the demand of knitwear labor is reduced by 30% to 40%. According to a survey most of the knitwear units have their own generators and the generator price on average is Rs 300,000. They large units bear Rs 50,000 to Rs 70,000 maintenance and running cost while small units bear Rs20,000 to Rs25,000 maintenance and running cost to continue their production process. 80% of knitwear exporters have problems of delay in supply due to these shortages.

The knitwear industry of Pakistan faced different challenges in the post quota regime, to analyze the causes and reasons three main areas are selected to highlight and to evaluate the challenges of knitwear industry. Two equations i.e. of supply side issues and policy side issues are developed, however the energy side issues are approached theoretically. The supply side issue directly identifies the indicators, which affect the supply of

knitwear products in the market. The literature leads to developing the concept that the high labor, high financial cost and lack of introduction of new products with the change of market trends affect the supply of knitwear product in international market. At the same time lack of modern technology, high exchange rates and quality issues are some other problems but the regression results of these variables are not significant in our case, so that we have omitted these variables from our research. Secondly, the policy side issue is related to legislation e.g. the export and industrial policy, contribution of government and export promotion institution to promote the exports of knitwear from Pakistan are part of it. A great challenge, which is faced by knitwear industry, is government regulations. Government policies have affected the production behavior of this industry in such a way that some of knitwear units are shut down or have stopped production. Different types of taxes are levied and hurdles are created such as sales tax on input, unrealistic trade policies, types of trade agreements with different countries and lack of infrastructure and subsidies are some issues, which are highlighted by the producers of knitwear products. According to our survey there is 15-20% sales tax, which knitwear units pay on purchase of raw material. Most of our knitwear producers are engaged in purchasing input at constant prices. In this case sales tax causes an increase in the unit price of knitwear garments, which in turn lowers the demand of knitwear garments in international market.

The regression equation of supply restricted indicators is:

$$\text{Exptrend} = \beta_0 + \beta_1 \text{Labcost} + \beta_2 \text{Fincost} + \beta_3 \text{Newprod} + \beta_4 \text{Profdesigner} + \mu$$

The above equation “Exptrend” shows the export trend as a dependent variable. The results of the questionnaire used for the purpose showed the

changes in export trend is post quota regime. On the side of independent variables, “Labcost” stands for high labor cost, which is faced by knitwear producers, the second variable “Fincost” explains the high financial cost faced by Pakistani knitwear producers. The third variable is “Newpeod”, which stands for the introduction of new products in international market; the major issue highlighted in the literature that the international knitwear market is captured by China as it introduces new and modern products every year. Therefore, it might become an important issue for Pakistani producers. The last variable “Profdesigner” stands for the availability of professional designers in Pakistani knitwear market. The knitwear units of Pakistan commonly have no process of hiring professional designers to meet the changing trend in international market.

$$\text{Exptrend} = 0.975 + .309 \text{ Labcost} + .240 \text{ Fincost} + .278 \text{ Newprod} -.244 \text{ Profdesigner}$$

(7.570)* (2.243)* (2.341)** (2.495)* (2.532)*

$$R^2 = 0.712 \quad F = 27.867$$

* Significant at 1% level

** Significant at 5% level

The regression result depicts an entirely different story of knitwear industry of Pakistan after post quota regime, high labor cost is positively associated with knitwear exports at 1% level of significance, at the same time financial cost is also positively associated with knitwear exports at 5% level of significance. The lack of introduction of new product also positively affects the exports of knitwear industry and it affects the trend at 1% level of significance, the only variable, which affects knitwear exports negatively is the lack of professional designers. It affects the export trend badly and

strongly at 1% level of significance. The overall model is significant by its value of R-square and F-value, which are highly significant.

The policy side equation is included to see the issues, which are related to the policy of Government of Pakistan.

$$\text{Exptrend} = \beta_0 + \beta_1 \text{Salestax} + \beta_2 \text{Govtsupp} + \beta_3 \text{Forbuyingh} + \beta_4 \text{Exportproczone} + \mu$$

In the above equation “Exptrend” shows the export trend as a dependent variable. The questionnaire results show the export trend after post quota regime. The “Salestax” stands for the sales tax, which is charged on raw material used in the knitwear production. The implementation of sales tax on raw material generates the price of final product by increasing the cost of production of knitwear industry. This main issue is also highlighted by knitwear producers that the high prices are the main threat of lowering the export demand from Pakistan. The “Govtsupp” stands for the government support in the marketing of products in internationally. The next variable of “Forbuyingh” is the existence of foreign buying houses with in the country; the data related to India shows that these buying houses are the major source of increasing its exports of knitwear. The other variable, which includes highlighting the challenge is the role of export processing zones, it stands in the equation as “Exportproczone”, the contribution of export processing zone in the promotion of exports of knitwear of Pakistan. The international trade agreement is also affecting the exports of Pakistan; the treatment of WTO towards countries is different, which becomes an edge for poor countries like Bangladesh to get advantage by occupying international market by lowering product prices. This indicator is a major hurdle to increase the knitwear exports of Pakistan as mentioned by many but its results are not significant with the problem so it is omitted from the equation.

**Exptrend = 2.042 + .133 Salestax - .103 Govtsupp - .093 Forbuyingh -.864
Exportproczone**

(33.295)* (2.325)* (1.712)*** (1.695)*** (8.541)*

$R^2 = 0.906$ $F = 84.837$

* Significant at 1% level

*** Significant at 10% level

The above results show that sales tax on raw material is positively associated with export trend and this indicator has high influence on export trend at 1% level of significance. On the other hand, the lack of government support has affected seriously the promotion of exports of knitwear industry of Pakistan. The relationship of lack of government support and export trend is negative at 10% level of significance. The lack of foreign buying houses is also the basic hurdle of promoting knitwear exports of Pakistan. It is negatively associated with this at 10% level of significance. The overall model presents highly significant picture by having high R-square and F-value.

Conclusion

The study was taken to identify the Challenges of Knitwear Industry of Pakistan. For this purpose primary and secondary both types of data has been used. For the study manufacturers from three cities of Punjab including Lahore, Faisalabad and Sialkot were selected and studied. The analysis focused first on secondary data to see the export trend of twelve years from (1995-2007). This was used to determine and interpret the export trends in

the exports of knitwear products produced by Pakistani industry. This trend shows an upward export trend of Pakistan, which depicts a smooth increase in the export of knitwear garments in international market from Pakistan. Secondly, to find the problem of knitwear industry in Pakistan, a survey based questionnaire was developed to collect the information a sample size of eighty knitwear units was selected. Based on the primary data available from the respondents a percentage analysis was done to unerringly isolate the prevailing problems of the industry. A detailed theoretical and practical study has led us to the following conclusive problems.

From the survey, 93% respondents complained that the high unit prices is due to fluctuation in exchange rate, this fluctuation in exchange rate changes the price of raw material, which leads to increase the unit price of knitwear garments of Pakistan. The non provision of infrastructure subsidies discourages knitwear production. But at the same time Pakistani producers produce same type of product by many years and the demand in international market fluctuate with the change in trend.

Government policies prove harmful for knitwear industry e.g. status of Pakistan as country in WTO, giving subsidies to knitwear manufacturers and lack of buying houses of foreign buyers in Pakistan. The lack of motivation to participate in international trade exhibition is also pointed out by knitwear producers, but figures show that Pakistan government effectively tries to participate in many trade fairs throughout the world. As compared to India and Bangladesh, Pakistan face high labor cost and high financial cost, this leads to high cost of production of knitwear. These factors create problems for our knitwear industry to survive in international market. On the other hand energy crisis boosts the problem and 30% to 40% production loss delays the supply orders by Pakistani producers. At the same

time Pakistani producers also faced high cost of production by using electricity generators. The high cost of production, government policies, supply side problems as whole create serious problems for knitwear industry of Pakistan and cause shut down of many knitwear units in Pakistan and a decrease in knitwear share in international market.

Findings of this research from the data collected are as follows:

- Problem of product innovations, Pakistani producers are still not innovating in knitwear products, whereas China introduced many new types of products in international market.
- Poor marketing activities by producers of knitwear industry.
- High labor cost as compared to competitor countries i.e. India and Bangladesh.
- Lack of buying houses in Pakistan to provide easy access to foreign buyers; this issue is very much highlighted by producers of knitwear industry.
- Neglecting the knitwear industry when providing incentives to industry and agriculture sectors.
- Wrong international trade policy of Government of Pakistan.

During the data gathering process, as it is pointed out earlier, we selected a sample size of eighty firms, but some of the firms did not respond, so there is a non-response error that exists in this study, at the same time during the survey, it was found that some of the knitwear units discontinued their operation by 4 to 5 years ago in the cities of Lahore and Faisalabad. The surveyors faced real problems to locate the running units. The respondents' behavior some time was not cooperative and they claimed that government policies are the main reason of their problems. The survey not only covers

personal visit but also telephonic and electronic survey technique have been used.

In addition to this several other points gathered from the discussion with experts are also very important and need to be given a very serious consideration. As most of the these points are either the flaws and weaknesses of knitwear owners or are not in favor of them and so are not mentioned by knitwear companies' owners in the questionnaire circulated to them. The points are:

1. When the projects were initiated setup cost was very high due to over invoicing and exaggerated capital cost. In addition to this excessive production facilities were developed without considering the real demand. This affected them in many ways. In the later years the allocation of high initial capital costs reduced their profits, under utilization of machines and infrastructure, not enough return and so high prices made these units incompatible with the market.
2. The time when most of these units were setup in Pakistan the lending cost was very high and this high interest rate again increased their cost of product, resulting into high and uncompetitive prices.
3. Although most of the knitwear producers do not agree to it but the fact is that there is a dearth of skills and expertise in knitwear industry. It requires precision and high quality in terms of its softness, color, fitness etc. In our industry very few have any scientific methods to maintain the desired quality and rest depend on the experience.
4. In addition to all these it is also a fact that those investors who put money in knitwear industry, including the top management did not have the orientation of this business. The sensitivity of this business

requires precision and very high quality with very little margin of error. This is a reason that we see that the main players of textile industry have mostly not entered into the field of knitwear. In textile industry knitwear is the most specialized area and it is very important to consider all the intricacies of the field all time, which is lacking.

5. Small scale operations are one reason of problems of knitwear industry from many angles and one of them is that they cannot supply bigger order to the buyers from abroad and as a result either they have to engage more than one knitwear producer or to find out one who is producing at a larger scale.

Recommendation

The challenges of knitwear industry in Pakistan prove a hurdle in the development of small scale industrial units in Pakistan. It is very important to overcome these problems, so that this industry can make a comeback to its previous status. The recommendations in this context are as follows:

- Government should provide subsidies in electricity, gas and fuel prices.
- Up to date fashioned knitwear products should be introduced in international market.
- Sales tax on raw material should be reduced.
- Government should give proper marketing facilities to knitwear units in international market.
- Active working of Export processing zone is necessary and the range of these zones should cover markets all over the world.

- New buying houses of foreign buying companies should be opened in Pakistan to increase knitwear exports.

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