Nust Institute of Management Sciences

"Knitwear Industry in wake of WTO scenario"

MBA – RESEARCH THESIS

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Executive Summary:

The present Global Scenario of Textile Industry with particular reference to the position of Pakistan in the International Textile Market is given here for the interest of our readers. The demand for textiles in the world is around $18 trillion, which is likely to be increased by 6.5% in 2005. China is the leading Textile exporter of the world's total exports of US$ 400 billion in 2002. Country wise major market shares of the textile exporting countries are: China:$55 billion, Hong Kong:$38billion, Korea:$35billion,Taiwan:$16billion,Indonesia:$9billion.Thoughpakistan has emerged as one of the major cotton textile product suppliers in the world market with a share of world yarn trade of about 30% and cotton fabric about 8%, having total export of $ 7.4 billion which accounts for only 1.2% of the over all share. Out of this Cotton fabric is 0.02%, Made-ups is 0.18% and Garments is 0.15%. This is mainly due to the laxity towards the promotion of value added sector. Pakistan should learn a lesson from Bangladesh, which, by importing yarn and fabrics from Pakistan and other countries, has increased the export volume of Textiles made ups. If we desire to achieve the target of Textile Exports as envisaged in Textile Vision 2005, we will have to promote Value added sector in Textiles. Textile products are a basic human requirement next only to food. This industrial sector in Pakistan has been playing a pivotal role in the national economy. Its share in the economy, in terms of GDP, exports, employment, foreign exchange earnings, investment and contribution to the value added industry; make it the single largest determinant of the growth in manufacturing sector. Textile share of over all manufacturing activity is 46%, export earning is 68%, value addition is 9% of GDP and as a provider of employment 38%.

In spite of the government's efforts to diversify exports as well as industrial base, the textile sector remains the backbone of industrial activity in the country.Textile Vision-2005 has been directed towards an open, market-driven, innovative and dynamic textile sector, which is internationally integrated, globally competitive and fully equipped to exploit the opportunities created by the Multi Fibre Arrangement (MFA). Pakistan, at present, holds 8th position in textile exports in Asia. Pakistan can achieve the 5th position in Asia in the textile exports as has been targeted in the Textile Vision-2005.After nearly four decades of derogation in GATT and imposition of quotas, unilaterally, bilaterally, multilaterally and voluntarily, the trade in textiles will be integrated into GATT on 1/1/2005 , meaning there will be no quota restraints on textile products, except possibly in some categories for China's exports to the USA and EU as a result of China's terms of accession to the WTO.Pakistan's exports being accounted for by textiles and clothing valued at $7.4 billion for 2002-2003, having only 30% share for clothing. Yarn and cotton and MMF fabric alone accounted for 34% .The major players, vis-a vis quota are EU and the USA. How will Pakistan and other competing countries fare post-quota regime depends on the attitude, mainly of USA and the EU.The 15 EU member states are to take in additional 10 members on 1st May 2004. These countries are also relatively cheap textile manufacturers where the EU companies have traditionally sub-contracted or relocated their units. While the EU 15 accounts for 20% of world's import (second only to USA at 24%) it is also the world's second largest textile and clothing exporter accounting for 11% and second only to China. Another potential threat to Pakistani exporters in 2006 or earlier if the EU looses its case in the WTO is the withdrawal of 0% duty presently granted under the EU's GSP Scheme.

In the USA around one million people are employed in 5117 textile companies and 6134 textile plants. The Southern States, particularly North and South Carolina, Georgia, Virginia and Alabama are strongly lobbying for protection of textile sector in USA. Since the Asian crisis and WTO's ATC, over 250 textile plants shut down and the USA lost around 200,000 jobs with 30,000 jobs lost since January 2002, mainly in the 5 states mentioned above. Thus one can not expect easy ride into the USA after 2005 without resistance. The major likely trend for USA for 2004 can be summed as following:

Table II:
Composition of quota products is as under:

	USA	EU	Canada	Turkey	Total
Fabric	6.9%	12.4%	Quota Free	2.2%	21.5%
Garments	30%	18.4%	1.1%	0	49.5%
Made ups	7.6%	17.2%	0.6%	0	25.4%
Yarn	Quota free	2.2%	Quota free	1.4%	3.6%
TOTAL	44.5%	50.2%	1.7%	3.6%	100%

Net yarn exports and imports may be approximately $1.3 and $1.7 billion respectively; in fabric imports may be $8 billion with exports less than $6 billion; in made-up articles, $9.5 billion may be imported, with less than $2 billion exports and in apparel, $7 billion of exports against more than $63 billion of imports.

Like the EU, the USA will also concentrate on high tech textile products like non-woven, particularly hygiene products like diapers, wipes, feminine hygiene and adult incontinence and high end fashion, particularly for women's wear.

There is every likelihood that quotas on safeguard categories will be in force beyond 2005 for China and Vietnam. This will provide a breathing space to exporters in other developing countries as well. For Pakistan, the competitor will not only be China and Vietnam but also countries whom USA has given preferential treatment like NAFTA, CBI, AGOA, etc. The USA has signed TIFA with Pakistan but it will not translate into preferential duties for Pakistani textiles in the near future.

The USA and the EU will, on the one hand, demand better market access for their textiles and also the implementation of WTO bindings, particularly in tariffs and intellectual property rights and enforce strict rules of origin, while on the other hand the buyers will make more demands for compliances. Pakistani exporters will have to be ready particularly on account of chemicals and dyes, labor and environment compliance issues.

Pakistan's export of textile and clothing is expected to cross the $8 billion mark in 2003-2004 from previous year's nearly $7.5 billion exports, If the Pakistan government and the private sector cooperate, the net balance is in favor of Pakistan. Supply of yarn and fabric to exporters, both within and outside the purview of DTRE should be treated as deemed exports for all purposes, production of MMF/Synthetic should be encouraged, private sector be encouraged to stock-pile and have buffer stock of cotton. The govt on the other hand should agree in the WTO to lowering of duties as it is difficult for Pakistan to have FTAs/RTAs with any relevant countries and blocs.

Pakistan will also have to concentrate on lowering of its cost of doing business for which the Ministry of Commerce and the State Bank has reportedly undertaken studies. Finally, the three weakest links in Pakistan's textile chain, viz, ginning and dyeing and marketing initiatives will have to be improved to take maximum advantage of it's potentials.

Chapter - 1: INTRODUCTION

1.1 Introduction:

Textile Industry which was the pillar of the Pakistan Economy and still has the potential to bring in maximum foreign exchange. The textile industry in Pakistan began in 1949 with the setting up of a textile mills in Faisalabad. Beginning with the export of raw cotton the country programmed to cotton year and then grey cloth markets abroad. Today a major share of the world appeared market a attained.

The Industry makes up around 70% of total export income and accounts for 38% of total labor. Employment, 30% of the manufacturing industry, 65% of trading and 67% of the entrepreneurship in the Economy. Pakistan is one of the world's largest cotton supplies, after USA, china, India and Uzbekistan.

Textile Industry contributes 17% of the total value added Production. At present there are 500 textile units in the country. Pakistan is the worlds targets yarn exporter. Textile Industry has the largest contribution in the foreign exchange raining. The Industry has been in recent 19 new textile units were added. during 1992. Spinning Sector of Industry faces problems due to the crop of cotton, cinching is a small sector of textile Industry but plays important role in the future and provide spinner the cotton during the period of October - March.

Polyester stable fiber (PSF) is used for blending. Due to abundant supply of cotton a blending ratio of 50 / 50 cotton / PSF is used instead of 36/65 ratio used. by rest of the world. Major producers of PSF are ICI Pakistan, Rupali Polyester, Pakistan Synthetic Fibers and Dewan Salman.

Yarn is spun on Spindles or rotors, by carding Weaving sector of textile Industry comprise of decentralize power loom sector which produces poor quality cloth and organized mill sector which produces quality cloth. A cloth quality of weaving completely depends on the year. If the yarn provided by spinning sector is not of quality the cloth will also be not up to the mark. More than 75% of the Pakistan textile Industry is engaged in yarn manufacturing. Yarn is the blood for all textile products, therefore it is the basic raw material for textile Industry. The crises of cotton is transferred to yarn and than to cloth ultimately. Export of the fabrics is declining and lot of power looms are closing and rising unemployment.

The Government off and on give Incentives in the form of Packages to support textile Industry. Major part of Pakistanis cotton is short staple variety which is only suitable for use in coarser counts and fabric of lower quality. Only 5% of the crop we have cotton which is suitable for spinning up to No. 50 while rest is in 20's and 30's. Producing lower price products. Ginning Industry also comprises 1100 ginning mills. Most of which operate on traditional saw tool type rather than modern roll type. Weaving Sector has 400 textile mills and power Los in excel of 250'000, and exports nearly 55% in grey cloth, 35% in printed fabric while 6% goes as price dyed.

There is a vicious circle in textile Industry which starts from cotton crop than ginning and like this ends. With value added garments. All these sector effects cash other.

1.2 Textile Sector Scenario:

1.2.1 Back ground:

Textile Industry of Pakistan has played a major role in the development of the country, and itself made rapid strides, stimulated by the impetus of abundant supply of indigenous cotton of competitive prices and plentiful availability of labor.

Development of Pakistanis textile industry striated in 1953 properly, before that there was one mill in Faisalabad which started working in 1949 but did not show a Significant performance, so in 1953 valika textile Mills which is now usmal textile Mills, Started working. After a decade of performance, Industry started facing problems. In 1959-60 there were 72 units with 1.5 million spindles and 23000 looms, currently there are 463 units of which 234 are listed companies having 8.30 million spindles, 139,960 rotes and 150,000 to 200,000 shuttles and power looms.

The textile sector employees 40% of Industrial labor force, which are distributed among manufacturing Industry, trading and entrepreneurships in the economy. Textile Industry have always been the pillar of the Pakistan Economy. Pakistan is one of the world's largest cotton suppliers the country's textile Industry is dominated by cotton. Raw Cotton shows a rapid Increase over the past two decades production doubled in 1985-86 reaching 6 million bales (1 bale = 357 lbs) at shows 3 million bales Increase over 1775-76. and by second half of 80's an average 8 million bales of raw cotton per annum was products. It provided a sound foundation for growth in the domestic textile Industry.

At the time of Independence there was no organized sector in the textile Industry, and there were only a few textile unit with Installed capacity of 78'000 Spindles, having an output of 6,300 million kgs of yarn. But During 70's coarse grey cloth, weaved on primitive power looms made up 80% of palistau's total cloth Production with only 20% of better quality cloth produced by mills. Pakistan acquired the reputation of being a how cost but poor quality cloth producers. In terms of technological development from mid 70's to mid 80's Industry went through a period of stanchion. No attention was paid to upgrading technology and no significant additions were made to the number of spindles, and 100 ms in Mill sector. Government policies at that time placed heavy import duties on the textile Machinery. This was the main reason behind the lack of technological development in the Industry. In addition to the large operations (the mills) encompassing the entire production process and producing better quality cloth, were subject to high taxes.

(80,90'):

In mid 80's an unexpected boom hit the world's textile Industry. Prices of raw cotton, cotton yarn and. Cotton products almost doubled in the global market and. Pakistan quality disposed of its cotton yarn and goods at lucrative prices. So Government deregulated the cloth sector and abolished import duties on machinery which at that time were as high as 80-120% of the CIF value. At that time no permission was required for setting up a textile mill. Within a period of five years (1986-91) Investment poured into the spinning Industry as the yarn was brining in lot of foreign exchange. So half of the one million spindles, which had laid Idle for years due to so much tax in past years were received. From 1986-91, Spinning equipment Increased by much as 35% from 4.4 million to 6 million spindles.

As the textile Industry extorted the 90's the future of Pakistanis textile Industry was promising. By the end of the 1991 the number of textile factories reached 260 and production of yarn totaled 1 million tones half of which was exported. The balance was absorbed by domestic Industry which was expanding rapidly and Increasing Its production and export of value added textiles such as towards, history, garments and made-ups. Cotton cloth production during 1990-91 was 2.797 million m^2. width. During 1991, Government of Pakistan announced a new trade policy supporting the production and export of value added textiles and it Indicated a more away from the country's tradition of cotton yarn export. Industries and exporters turned towards Investor in the Production of value added textiles, restating on Increase of shuttles loom Installations.

To feed the dramatic growth of the weaving sector a large number of spinning units were established. The Industry sector has unturned in Particular by Japanese machinery makers who liberally sold spinning units on a pay - as- you earn basic. The result was 360 spinning units and Pakistan became the biggest producer and exporter of cotton yarn. Industry however faced recession due to exorbitant price rise of cotton yarn. is the domestic market, The rise was due to the disastrous cotton harvest of recent years Which resulted in a world shortage. Thus progression of Pakistanis textile Industry had a temporary setback.

Government planned and gave many short term Incentives to the textile sector.

In line with the world cotton shortage and there price of cotton's sky - rocketing to record levels, cotton production in Pakistan during July 93 - June - 94 decreased by 15% compared with the previous year. Domestic production suffered severely due to demand caused by pests. 1 country's cotton production decreased for two consecutive years. In 1993-94 production fell 60% compared will that of 1991-1992. This sharp drop gave a major blow to the country's textile Industry.

In year 1993-94 Exports of cotton drop further 70-8% compared with 1992-93. Cotton crop was not sufficient to meet domestic demand. In January 1994, Government permitted duty-free Import of cotton however in budget of 95 in June a 10% duty was imposed on cotton import. So Raw material was imported from central Asian Countries as countries like USA and European nations were Expensive. Then again there was a steep Increase in price o yarn and fabric and local Industry sectors were widely threatened with clause. To relieve the situation, the Government Imposed a 10% export duty on cotton yarn. A sell as monthly quota. This quota system was imposed in view of retaining a sufficient supply for local fabric manufactures unfortunately such limitations undermined the spinning Industry with many spinners finding themselves unable to fulfill export orders from the reduced quotas.

In addition to that import of cotton yarn was not subjected to duty, charges or levers; this move was aimed at controlling rapidly Increasing prices and for easing pressures from weaving and garments sector. In 95 budge also few steps were taken In which production increase of 11% for products was fixed. but In 95 government and other private companies did false intimation of cotton production and this year also country had cotton crisis. No doubt the cotton production dropped by jassied, Aphid, Withal and Boll warn attacks and heavy raise,

In the natural and artificial crisis of cotton our government, agricultural exports and some greedy merchants illegally practiced yarn trading and therefore wore responsible for the crisis. 95 was a year In which due to crisis and ill planning and management industry faced may problems.

In year 96. Also all the optimistic thing could not bring out anything positive in terms of export. In addition to that the budget also was not supporting. In 97 the future is promising as new Government with steps for better put of Agriculture as well as Industrial sector and All the business community is optimistic about the future. Pakistan enjoy largest quota quantitative is some of the categories. Pakistan can Earn at least double foreign exchange if all units are operated Effectively and efficiently. In spite of all proms and cons of textile Industry in the past It still has bright future ahead of lead properly.

1.3 Role of Textile Sector in Pakistan's Economy:

The demand for textiles in the world is around $18 trillion, which is likely to be increased by 6.5% in 2005. China is the leading Textile exporter of the world's total exports of US$ 400 billion in 2002. Country wise major market shares of the textile exporting countries are: China: $ 55 billion, Hong Kong: $38 billion, Korea: $35 billion, Taiwan $16 billion, Indonesia $9 billion.

Pakistan is considered to be the 5th largest resource in world of 2 million M. tons of raw cotton. 1.7 Million M. Tons converted to yarns, fabrics and finished products. Though Pakistan has emerged as one of the major cotton textile product suppliers in the world market with a share of world yarn trade of about 30% and cotton fabric about 8%, having total export of $ 7.4 billion which accounts for only 1.2% of the over all share. Out of this Cotton fabric is 0.02%, Made-ups is 0.18% and Garments is 0.15%.Pakistan is an established, reliable long-term supplier of textiles, apparel and home textiles therefore enhance sourcing from Pakistan.

Textile products are a basic human requirement next only to food. This industrial sector in Pakistan has been playing a pivotal role in the national economy. Its share in the economy, in terms of GDP, exports, employment, foreign exchange earnings, investment and contribution to the value added industry; make it the single largest determinant of the growth in manufacturing sector. Textile share of over all manufacturing activity is 46%, export earning is 68% and value addition is 9% of GDP and as a provider of employment 38%. In spite of the government's efforts to diversify exports as well as industrial base, the textile sector remains the backbone of industrial activity in the country.

Now let me review the important sub-sectors for the textile products, which are being focused in this research thesis.

1.3.1 Bed wear & Linens:

Bed wear is an important value-added sub-sector of textile sector. Bed wear products include bed sheets, pillow covers, quilts etc. In made ups bed wear & linens sub-sector is the second largest in terms of production and exports and shares 28% of total textile made-ups market. Its share has increased from 26.3% as a sub category and has grown by 4% per annum if total exports are analyzed.

A major chunk of the Pakistani Bed Linen industry is in the informal sector. According to industry sources, there are 150 units producing Bed Linen in the organized sector and the rest of the units are in the unorganized sector. There is no data available on these units. The Bed Linen industry may be large or small depending upon the number of operations carried out by a unit itself. It involves weaving/knitting, processing and stitching. A bed Linen manufacturer may be buying fabric from outside and converting it into final product after processing it in- house. Or the processing is subcontracted and manufacturers are just cutting, stitching and packing in their own premises. Vertically integrated units are smaller in number and they operate in relatively upper market segments since it is easy to control the quality in a vertically integrated operation.

All these factors have led to a competitive advantage for Pakistan over other countries in the Bed Linen industry, resulting in extra-ordinary growth during the past few years. The projected growth rates in the said sector are also very high and promise good growth opportunities to new entrants in the industry. More details concerning this sector are discussed in the later part of the research thesis.

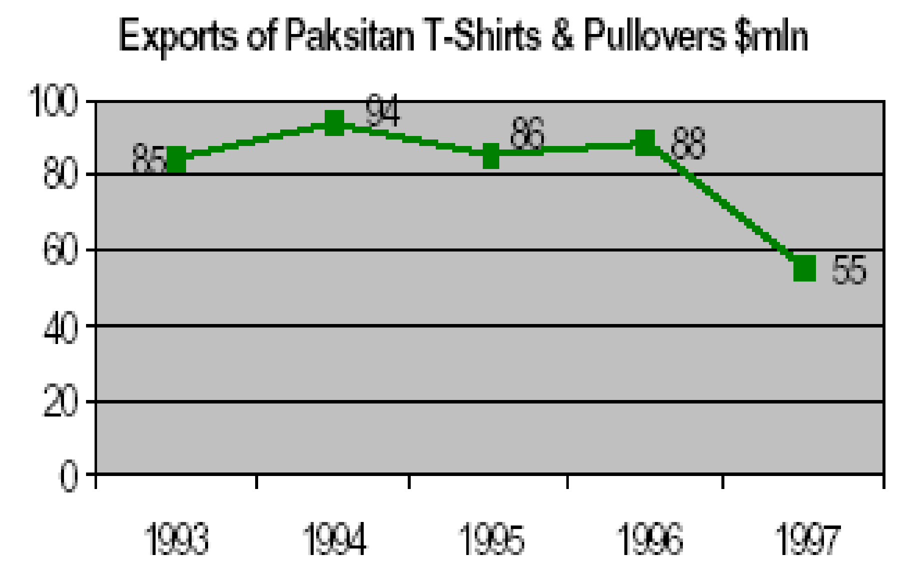
1.3.2 Garments & Made-ups:

Garments alone are a global annual market of more than US$ 113 billion. While total global exports of Made-ups are around US$ 13 billion, USA and the European Union are the two largest markets for garments and other apparel products with a combined share of 73% in total global apparel imports. In 1997, over 59% of textile and 70% of clothing exports originated from Asia. Apparel is a rapidly changing business with very short product life cycles and consumer preferences. Responding quickly to these changing demands is vital for the success of garment exports.

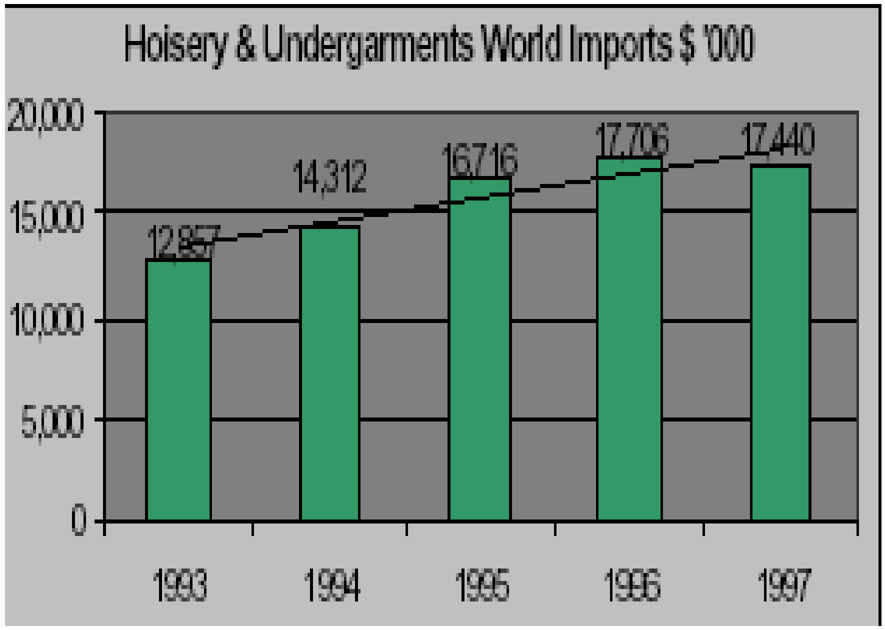
Pakistan with total exports of US$ 1.24 billion has a meager share of 1% in the global apparel market. Exports of Made Ups in the corresponding period have been around $1 billion. The apparel export product mix from Pakistan is heavily tilted towards men's wear and knitted garments. In Made Ups major export items are woven bed linen, towels and tents. Major export markets for made ups from Pakistan are Germany, U.K., Netherlands, Italy USA, and Japan. However in tents and canvases major export partners of Pakistan are Saudi Arabia, Kuwait, Syria, UAE and other Muslim Arab countries. The major thrust of garments and made-ups exports from Pakistan is on the USA market. The European Union is the second largest market for garment manufacturers from Pakistan. Major markets that Pakistani manufactures have so for not been able to explore are the Japanese, Far East and Middle East markets. These markets demand high product standards and in return offer higher unit price realizations. The shift towards newer product and non-traditional markets can only be brought about by more emphasis on synthetic garments, development of a marketing and research infrastructure for the industry. The production of garments and made-ups in Pakistan is concentrated mainly in Lahore, Faisalabad & Karachi. These three clusters have their own specialties. Faisalabad caters more to Home Textile; Lahore is the home of Knitwear & Karachi lives up to its reputation of being the mini Pakistan. Karachi has established itself both in Knit as well as Woven side of the industry. In Lahore all major units are vertically integrated & are involved in knitting, dyeing, finishing & stitching. A major reason to set up vertically integrated units is the desire of the manufacturer to have full control over all the processes involved & to ensure that right products are delivered at the right time. Specialized and commercial units have not been successful to position themselves to cater to the needs of the export oriented garment industry. This has hindered the growth of a parallel & independent downstream industry. At the same time it has limited the growth of the parent garment industry. Karachi industry on the other hand is divided into specialized commercial units. There are specialized units for fabric development and for commercial dyeing. This enables the industry to take the advantage of specialization that eventually reflects into product flexibility and cost competitiveness.

Exports of T-shirts, Cardigans, jerseys and pullovers from Pakistan were $55 million in 1997 which gives Pakistan a share of 1.7% in total world exports. One of the reasons of smaller Pakistan exports in the category is that a large portion of t-shirts from Pakistan gets reported under men's wear. It is evident that Pakistani manufacturers and exporters have totally overlooked a category of this huge size.

Hosiery and nightwear has been combined into one category. This category includes briefs, nightdresses, undergarments, brassieres, tights, vests and other hosiery items for both men & women. This is the fourth largest category with a share of 10% in total apparel trade. Total world imports in this category have been $17 billion in 1997.



Source: Economic Survey of Pakistan 2003 - 04



Source: Economic Survey of Pakistan 2003 - 04

All the discussion truly proves the importance of the textile sector to the Pakistan's economy. Keeping this in view Pakistan's Government is putting efforts to make textile industry world class and competitive. Some of the important steps taken in this direction are as under:

- Government has crafted a clear Road map – Textile Vision 2005. Textile Vision-2005 has been directed towards an open, market-driven, innovative and dynamic textile sector, which is internationally integrated, globally competitive and fully equipped to exploit the opportunities created by the Multi Fibre Arrangement (MFA). Pakistan, at present, holds 8th position in textile exports in Asia. Pakistan can achieve the 5th position in Asia in the textile exports as has been targeted in the Textile Vision 2005. As a part of this Road Map Government will:

a) Encourage value added sectors and vertical integrated units

b) Facilitate investment – capacity & quality, encouraging Joint Ventures

c) Try to Minimize contamination in cotton from the producers

- Government to Encourage the Elimination of irritants
- Government will try to reduce Duty and increase tax free imports
- Provision of Subsidies
- Encourage out-bound investments
- Government has decided to ask industrialists to increase emphasis on Manufacturing efficiency and Social Compliance.

Under Textile Vision 2005 announced by the Government of Pakistan, will cover measures such as improvement of cotton quality, project finance, promotional measures, and marketing strategies and deregulate quota policies. Emphasis is being laid to improve and increase textile exports by 25 %. Government will also help industrials in enhancing and improving branding requirements in quota free countries. Furthermore creating awareness for value addition will be important. Government will encourage direct marketing through bilateral and multilateral economic groups.

As textile business constitutes a significant part of Pakistan's Economy so government has drafted a friendly policy for supporting Textile Sector.

1.4 Garments Industry:

Pakistan Population of 120 Million of which two million are employed in textile sector, History of fashion garments Industry in not too old, In started only in 70's in Pakistan. Over all apparel industry ranks among the largest consumer goods industries in the world.

Pakistan is known the world over as one of the best cotton producing country. the textile sector comprises the largest segment of Pakistanis Gross Domestic product. Garments Industry both woven and Knitted, is the largest value added industrial sector of the country. earning more than 15% of the valuable foreign exchange every year.

Readymade Garments Industry has made significant program during the last 20 years and has acquired capability of producing large value goods quality garments for local consumption as well as for export. This Industry is highly profitable and generally gives about 100% return on investment.

Pakistan offers bright projects for local as well as foreign investments. The country has sufficient raw materials, trained and hard working man power at competitively cheaper wages and recently infrastructural fashion. The readymade garments manufactures industry is an export oriented industry and its expected further export growth in nearly 15% per year.

There are large and small garments factories in Pakistan According to an estimate about 80% of its units are in the unorganized sector and are established in small shops, flats and houses. The units do not have modern machines. These units are mostly equipped with 4-10 sewing machines and 1-2 electric irons. These items are usually Pakistan made / assembled and give satisfactory service. The useful life of a sewing machine is stated to the about 8 to 10 years.

The garments industry use both industrial sewing machines and domestic sewing machines. The domestic wing machine operate at considerable slower speed of upto 250 stitches per minute. These are of low price and require much less still to operate than the industrial sewing machines. There domestic machines are usually used in small units and Industrial sewing machines are mainly imported from Japan and Capable of working at high speed and is mostly used by organized sector.

More than 2336, million number of varied types of garments are produced by nearly 160,000 industrial machines and 450,000 domestic sewing machines. The rate of growth of Industry is around 15% per annum in recent years. The major products of ready made garments industry include cotton and cotton blended struts, T Shirts, Pants, children's suits, school uniforms skits, blouses and maxis, but withy products include services uniforms, overall shirts , bush shirts, trousers, droning gowns, bay frocks and dranes boy play suits, ladies frocks, Kurtas, coats, uniform for nurses, doctors, Industrial workers, aprons, napkins bed sheets, and pillow cases.

The leading manufactures of readymade garments are mostly located in Karachi, Lahore, Sialkot, Faisalabad, Gujranwala, Rawalpindi and Hyderabad. The industry is providing employment to over 100,000 workers are indirectly engaged in spinning, ginning, weaving and finishing of fabrics. The fashion garments are usually made up of cotton, wool, silk and synthetic, fabrics.

The other raw material of the Industry are threads, buttons, buckrams, Cottar bones, nylon tapes, lining etc. These materials are available domestically as well as imported for making high quality garments for export.

Apart from cotton, wool and settle leather garments are also produced and Pakistan is producing a large variety of leather fashion garments, 99% of which are exported. The leather garments include monthly factors, pants, coats, skirts etc. Industry compromise 300 establishment and employees 20,000 personally .

Knitwear garments is also another kind of value added garments this industry has made tremendous program since 1950, now there are more then 650 units of knitwear in Pakistan out of which 00 big one are working in the organized sector. Value added garments of knitwear comprises of T. shirts, sweats shirts, jerseys, track suits, might drenes, etc. Knitwear garments are popular among all especially in the developed countries for its softeners. Cootnes, sweat absorbents and durability.

The value added garments which Include garments made of cotton, leather, knitwear and other synthetic material has a large foreign markets major buyer of these value added garments is USA and after that UK Germany and other countries company.

1.5 Knitwear Industries in Pakistan:

Introduction:

At the time of independence, Pakistan did not have a knitwear industry worth the name. But it has come a long way since then, and this industry has grown fairly rapidly especially over the past 10-15 Years. Since knitwear industry is closely related to the textile industry, its development and growth has closely followed in the footsteps of the textile industry. Starting with two or three units in the early 1950s the number had reached 557 in 1968-67 of which about 40 units were fully integrated while the remaining were mostly small-scale units primarily operating in the unorganized sector. Over the next three years the number of units increased to 650 and the number has now passed the 700 mark representing an increase of more than 25% in the seven years period under consideration.

In the early years, the industry produced simple items such as socks and undergarments, but with the passage of time, it has increasingly produced sophisticated items including sweat shirts, T-shirts, jogging suits, track suits, various under garments, infant suits, night dresses etc. This is clearly reflected in the export figures. Pakistan's export of knitwear has increased from US$ 9.8 million in 1977-78 to US$ 704 million in 1995-96. Total number of machines installed had increased to 9500 by 1986-87, which went upto 12000 in 1990 and the number at present stand at 15000. It is clear from these number that the number of machines has increased by 58% over the past seven years. Consequently, the trend in the past decade has been towards relatively larger units. In 1990 the industry provided direct employment to 15000 workers - both skilled and unskilled. This number has gone upto 20,000 workers in 1994.

1.5.1 Capacity:

At present there are over 700 units of knitwear dispersed all over the country of which, according to one estimate, more than 50 units are fully integrated having their dyeing and printing houses attached with the stitching units. The province wise distribution of these units, based on the 1990 geographic distribution proportions is provided in the following table.

TABLE 1

Geographical Location of Knitwear Units

Province	Units	Share Percentage
Sindh	377	53.84
Punjab	313	44.76
NWFP	7	0.92
Balochistan	3	0.48
Total	**700**	**100.00**

Source: The Lahore Chamber of Commerce & Industry

The total number of machines installed in this industry, at the moment, is approximately 15000. A fairly large variety of machines is in use in this country. However, these machines can be broadly classified under the following categories: circular knitting machines, flat knitting machines, and machines for socks. A large proportion of these machines is used and reconditioned machines, imported under "Non Repatriable Investment (NRI), Scheme".

TABLE 2

Estimated Production of Knitwear's

(Rs. in million)

Years	Quantity

	Kilograms	Prices
1987-88	9.40	83.54
1988-89	11.25	100.00
1989-90	12.72	113.12
1990-91	14.36	127.96
1991-92	16.23	144.75
1992-93	18.34	163.74
1993-94	20.73	185.22
1994-95	23.42	209.52
1995-96	26.47	237.00
1996-97	29.91	265.60
1997-98	33.81	300.14

Source: i. Textile Industrial Research & Development Center

ii. Pakistan Hosiery Manufactures Association

Estimated production of Knitwear is provided in Table 2. Starting with 9.40 million kgs in 1984-85, the production has gone upto approximately 34 million Kgs, representing a nearly four-fold increase over a decade.

Knitted socks sector a very important component of the knitwear industry. In the recent years, the production and export of socks has registered a phenomenal increase. From a paltry Rs.3.85 million in 1987-88, the figure has reached Rs.220 million in 1992-93. The production capacity for 1994 is estimated at roughly 100 million pairs. Since socks are not subject to quota restrictions, output, demand, and export is likely to continue rising at a healthy pace.

1.5.2 Knitwear Exports:

Knitwear exports have become an increasingly important foreign exchange earner for Pakistan. An especially noteworthy feature of knitwear export from Pakistan is that knitted cloth exports form a very small proportion of the total knitwear exports - which means that exports in this sector are concentrated at the high value-added spectrum as compared to the overall cotton and textile sector exports. Over the five years period, starting from 1984-85, knitted cloth exports were, on average, 3.7% of the total knitwear exports from Pakistan.

The export of knitwear has increased at a phenomenal rate over the past 15-20 years, as pointed out earlier. Table 3 provides the data on exports beginning with the year 1977-78.

TABLE 3

Exports of Knitwear

(Value in million US $)

	Prices	As % of Total Exporters
1977-78	9.80	0.75
1978-79	12.31	0.72
1979-80	19.98	0.84
1980-81	23.19	0.78
1981-82	28.54	1.15
1982-83	36.47	1.35
1983-84	56.01	2.02
1984-85	42.63	1.71
1985-86	54.63	1.78
1986-87	96.60	2.62
1987-88	134.34	3.02
1988-89	166.96	3.58
1989-90	273.72	5.52
1990-91	333.60	5.44
1991-92	425.11	6.16
1994-95	464.13	6.81
1995-96	509.13	6.81
1996-97	688.510	8.46
1997-98	703.410	8.08

Source: i. The State of Pakistan's Foreign Trade, Ministry of Commerce.

During that year, Pakistan's total knitwear exports were a paltry US$ 9.80 million. Over the next sixteen years, these exports have increased by thirty four fold, to a whopping half a billion dollars. In 1977-78, knitwear exports accounted for 75% of Pakistan's total exports. In 1997-98, knitwear exports earned Pakistan more than 8.08% of its total export earnings.

Major items of knitwear exports include shirts, women dresses, under garments , and outer garments. Tables 4 provide the export value figures for these categories for year 1996-97 and 1997-98.

TABLE 4

Export of Knit-Wear

Rs. (000)

Items	1997-98	1996-97
Over/car coat etc. Men	7,257	17,520
Suits knitted Men	211,331	219,061
Ensembles knitted Men	530	5,534
Jackets & Blazers	59,285	83,711
Trouser Bib Brace etc. Men	177,409	163,696

Items	1997-98	1996-97
Shirts	6,140,732	5,350,752
Underpants Nightshirts Sim Art	398,049	461,715
Women over Coat	6,097	3,027
Suits	303,841	351,061
Ensembles	144	546
Jackets	17,656	18,838

Dresses	90,185	92,960
Shirts & Divided Skirts	9,279	5,844
Trousers	90,718	44,003
Blouses, shirts, etc.	823,156	665,682
Slips Petticoats, Panties	322,722	242,468
Night Dresses & Pyjamas	287,763	220,887
Apparel Article - (Babies garments)	6,167,153	6,729,623
Jerseys, Cardigans	123,839	119,193
T-Shirts other vests	1,911,728	2,369,347
Braziers, Corset	28,790	28,984
Swim wear men & boys	3,960	--
Track Suits	519,402	780,971
Ski Suits Women	7,694	1,479
Panty Hose, Tights, full socks and other hosiery	1,897,465	1,365,387

Source: Federal Bureau of Statistics

TABLE 5

EXPORT OF HOSIERY (KNITWEAR)

(Country-Wise)

(Value in '000' US Dollars)

Countries	**1997-98**	**1996-97**	**1995-96**	**1994-95**	**1993-94**
Australia	1,507	909	632	548	0
Austria	1,101	1,334	1,203	1,290	1,676
Bahrain	368	448	507	0	969
Belgium	15,630	12,283	13,167	9,536	5,861
Canada	17,430	21,850	14,443	14,124	16,662
Denmark	6,432	6,407	4,458	4,253	2,877
Dubai	14,342	10,185	14,135	18,652	14,395
Finland	1,476	1,296	1,344	1,130	734
France	32,065	33,589	36,187	26,558	24,013
Germany F. Rep.	100,109	98,828	94,051	93,180	86,661
Greece	527	413	517	945	192
Hong Kong	563	312	1,155	2,656	1,277
Italy	10,352	11,281	6,284	9,325	8,386
Iran	2,394	9	0	0	0

Countries	1997-98	1996-97	1995-96	1994-95	1993-94
Japan	1,723	767	636	980	1,614
Kuwait	810	687	592	644	363
Netherlands	29,844	22,387	16,338	20,419	14,774
Norway	1,684	2,088	1,609	1,689	897
Rep. of Yemen	232	815	756	1,153	210
Saudi Arabia	5,590	5,630	4,893	7,399	6,913
Singapore	3,902	711	803	1,015	385
Spain	5,681	5,498	3,523	3,943	3,183
Sweden	5,051	4,701	4,149	4,248	3,265
Switzerland	1,711	1,578	1,737	2,079	2,247
U.K.	63,223	63,466	47,783	41,938	38,084
U.S.A.	361,280	365,373	224,364	183,120	178,350
Russian Federation	0	1,519	1,361	2,940	2,428
Other Countries	18,383	14,150	12,548	10,361	8,696
Total	703,410	688,514	509,166	464,125	425,112

Source: EPB/CSO/APTMA

The main export destinations for Pakistan's knitwear exports are USA and Germany. Both of these countries have remained the major importer for most of the textile products.

These proportions have changed somewhat in 1994-95, to 40.3% and 20.1% for USA and Germany respectively. Both these countries are likely to remain the main knitwear export markets for Pakistan in the coming years.

TABLE 6

EXPORT OF HOSIERY (KNITWEAR)

(Continent-Wise)

Value in '000' Dollars

CONTINENTS	**1997-98**
Africa	5,514
Asia	32,693
Australia	1,507
Europe	278,886
North America	378,710
South America	6,100

Source: EPB/CSO/APTMA

TABLE 7

EXPORT OF READY-MADE GARMENTS (EXCL. HOSIERY)

(Country-Wise)

Value in '000' Dollars

Countries	1997-98 Value	1996-97 Value	1995-96 Value	1994-95 Value	1993-94 Value
Australia	1,517	1,315	1,295	2,955	3,335
Austria	1,334	2,456	3,113	2,142	2,112
Bahrain	423	216	751	557	863
Belgium	17,340	16,541	14,665	12,479	10,823
Bangladesh	541	923	290	288	0
Canada	27,175	32,817	38,549	35,074	32,510
Denmark	4,872	4,880	3,371	24,271	3,643
Dubai	11,969	12,487	16,979	22,806	26,571
Finland	1,257	1,456	1,315	1,404	696
France	57,881	51,423	55,272	52,248	49,211
Germany F. R.	86,469	84,474	104,657	99,004	92,396
Greece	1,578	886	947	568	235
Hong Kong	1,180	606	4,189	7,105	3,036
Irish Republic	2,350	1,055	1,010	1,307	1,032
Italy	13,759	17,346	18,083	20,828	26,951
Japan	1,855	1,739	1,682	2,028	2,330

Countries	1997-98 Value	1996-97 Value	1995-96 Value	1994-95 Value	1993-94 Value
Kuwait	945	748	459	786	1,123
Kenya	265	707	281	325	0
Malaysia	149	159	627	1,402	1,914
Netherlands	28,735	27,009	27,607	25,814	27,064
Norway	1,694	1,464	1,404	2,064	2,588
Saudi Arabia	20,786	29,368	36,512	42,452	51,096
Saudi	2,389	2,269	2,471	3,443	5,858
Spain	7,219	6,266	4,520	6,249	9,731
Sweden	6,487	6,013	3,832	5,238	7,332
Switzerland	1,023	1,278	1,442	1,816	1,604
South Korea	590	1,452	375	518	0
Sri Lanka	255	572	203	183	0
U.K.	71,675	72,788	61,506	58,308	53,984
U.S.A.	241,431	234,929	178,586	174,975	156,355
Russian Federation	0	1,564	3,113	11,007	20,436
Yemen	0	891	1,861	3,391	0
Other Countries	33,182	23,579	21,227	14,775	18,459
Total	648,505	641,658	612,194	617,664	613,469

Source: EPB/CSO/APTMA

1.6 Textile Quota Management Policy

1.6.1 Salient Features:

- Textile Quota Management Policy for the first time has been announced for three years instead of yearly policy. In order to facilitate exporters to make comprehensive plan for utilizing the expected larger quotas under the ATC in years to come, specially from 1998 onwards.
- In order to bring in transparency, all discretionary quotas have been abolished, which included allocation of quotas for under developed regions, powerloon and processing industry and new entrants.
- The main objective of this Policy is to move towards value addition, therefore, the basis of entitlement and allocation to the performance holders will be 75:25 for quantity and value in 1997.
- In 1998 all quota categories for all countries will be allocates to performance holders in the ratio of 65:35 quantity: value except for new categories of towel which would continue to be allocated at the ratio of 75:25.
- The allocation of quota for yarn would be in the ratio 50:50 quantity and value respectively.
- In 1999, all quota categories will be allocated to performance holders on 50:50 quantity and value.
- A Valuation Committee has been constituted headed by Director General Textile, EFB with a President or representative of the Association concerned and one exporter each from Lahore and Karachi dealing with the respective quota category to determine (a) actual quantities to be allocated to each exports on value basis and (b) verify the values of exports claimed by exporters through scrutiny of export documents. An appeal against the assessment of Valuation Committee shall lie before the vice Chairman Export Promotion Bureau.
- The categories where utilization on the 31st December, 1998 was ninety percent (90) or below shall be opened and would be allocated to registered exporters after shipment of first-come-first served basis.

- The textile Association shall continue to be associated with the Management of Textile Quotas.
- As a rule quota allocated to performance holders will be transferable except for quotas acquired through the auctions, exceptional flexibility and from EU quotas allocated as advance reservation against bank guarantees.
- Flexibility's such as carry over, carry forward, swing continue to be allowed to exporters on their authenticated entitlements including quotas obtained through auctions and shall be finalized by 31st March each year to give ample time exporters for planning.
- The residual quota has been allowed to be auctioned in economical lots twice in a year.
- Exceptional flexibility of 3,000 metric tons in European Union will be allowed for value added categories.

1.7 Textile Quota Policy and Procedure:

Quantitative limits on imports of textiles and textile products imposed from Pakistan by certain Western developed countries to protect their own home industry have been terms as "Quota".

Pakistan included bilateral agreements with quota countries under MFA with the following countries:

U.S.A.

E.E.C.

Canada

Norway

1.7.1 Items Under Quota Restraint:

1.7.1.1 U.S.A:

	Category Description	**Unit**
Group-1(SL)		
219	DUCK, C&MMF	M2 SME
237	PLAY SUITS, SUNSITS, ETC.	DOZ SME

239	INFANTS WEAR OF COTTON &	
	MAN MADE FIBRES	KG SME
313/226	COTTON SHEETING	M2 SME
314	COTTON POPLIN AND BROAD CLOTH	M2 SME
315	COTTON TWILL.SATEEN	M2 SME
317/617	COTTON AND MITTENS	DPR SME
331/631	GLOVES AND MITTENS	DOZ SME
334/634	OTHER COAT ME	DOZ SME
335/635	COAT W AND G	DOZ SME
336/636	DRESSES	DOZ SME
338	KNITTED SHIRTS M&BI	DOZ SME
339	KNIT SHIRTS AND BLOUSES W&W	DOZ SME
340/640	SHIRTS NOT KNITTED M&B	DOZ SME
341/641	SHIRTS AND BLOUSES NOT	
	KNITTED W&G	DOZ SME
342/642	SKIRTS	DOZ SME
347/48	TROUSERS, SLACKS,	
	AND SHORTS M & W	DOZ SME
351/651	NIGHTWEARS AND PAJAMAS	DOZ SME
352/652	UNDERWEARS	DOZ SME
359/659(C)	OTHER COTTON APPAREL	KG SME
360	PILLOW CASES	NO SME
361	SHEETS	NO SME
363	TERRY AND OTHER PILE TOWELS	NO SME
369(FP)	FLAT DISH TOWELS	KG SME
369(R)	BAR MOPS	KG SME
369(S)	SHOP TOWELS	KG SME

613/614	SHEETING/POPLIN AND	
	BROADCLOTH	M2 SME
615	PRINT CLOTH	M2 SME
638/639	KNIT SHIRTS M&B	DOZ SME
647/648	TROUSERS, SLACK AND	
	SHORTS M & B	DOZ SME
666(P)	PILLOW CASES	KG SME
668(S)	SHEETS	
625	POPLIN AND BROADCLOTH	M2 SME
628	PRINT CLOTH	M2 SME
627	SHEETING	M2 SME
628	TWILLS AND SATEENS	M2 SME
629	OTHER MMF	M2 SME

1.7.1.2 European Union /Turkey:

Category	Description	Unit
1	COTTON YARN	KGS
2	COTTON FABRICS	KGS
2A	FABRICS OTHER THAN UNBLEACHED OR BLEACHED	KGS
3	BLENDED FABRICS	KGS
4	KNITTED SHIRTS	PCS
5	KNITTED JERSEYS	PCS
6	SHORTS/TROUSERS	PCS
7	BLOUSES	PCS
8	SHIRTS	PCS
9	WOVEN TERRY TOILET LINEN	KGS
18	WOVEN UNDER GARMENT BATH ROBES	KGS
20	BED LINEN	KGS
26	BRASSES	PCS
28	TROUSERS, BIB & BRACE OVERALL	PCS
39	TABLE/TOILET & KITCHEN LINEN	KGS

1.7.1.3 Canada:

Group A

2	WINTER OUTERWEAR	PCS
3/4A	SPORTSWEAR CO ORDINATE	PCS
5A	TROUSERS, SHIRTS (MEN & BOYS)	PCS
6	SHIRTS/BLOUSES	PCS
7	SHIRTS/BLOUSES	PCS
8A	T. SHIRTS/SWEAT SHIRTS	PCS
9	UNDERWEAR	PCS
10A	SLEEPWEAR	PCS

Group B

41A	BEDSHEETS	PCS
41B	PILLOW CASES	PCS
42A	COTTON/TERRY/TOWEL WASH	KGS

1.7.1.4 Norway:

1.	O/G W/M, JACKETS	PCS
2.	O/G W/M, TROUSERS	PCS
7	BED LINEN	KGS

1.8 Exports of Knitted Garments:

1.8.1 International Marketing:

Definition:

International Marketing is the performance of the business activities that direct the flow of a company's goods and services to customers and users in more than one nation for profit. (By Philp R. Cateora).During the International Marketing Organization has to face many controllable and uncontrollable factors. The controllable factors involves the elements of products, Price, Promotion and distribution, which an organization can easily handle. Where as in the uncontrollable factors, we include the forces of competition, legal, political, consumer behavioral, geographical, cultural, level of technology etc.etc. These forces can not be handled by an International Organization.

1.8.2 Major Decisions in International Marketing:

When an organization starts its practices for International Marketing, it is necessary that the organization has to make the following major decisions carefully.

1. Looking at the International Marketing environment.
2. Deciding whether to go abroad.
3. Deciding which market to enter.
4. Deciding how to enter the market.

1.8.2.1 Looking at the International Marketing Environment:

Before deciding to sell abroad, a company must thoroughly understand the International Marketing environment. That environment has changed very much in a last two decades, creating both new opportunities and new problems. The world economy has globalize. World trade and investment have grown rapidly, with many attractive markets opening up in western and eastern Europe, newly independent states from Russia, South Africa etc. There has been a growth of global brands in Clothing’s, food, electronics, autos and many other categories.

For looking the International Marketing environment, we used to consider the following factors.

- The International trade system.
- Economic Environment.
- Political & Legal Environment.
- Cultural Environment.

The International Trade System:

Every organization which is going to market its products internationally and looking abroad, must start by understanding the international trade system. Because when a company starts selling its products to another country that faces various trade restrictions. The most common is the tariff, which is a tax levied by a foreign government against certain imported products. The tariff may be designed either to raise revenue or to protect domestic firms. Likewise the following restrictions are also faced.

- Quota Restriction.
- Anti-Dumping Duties.
- Formation of Economic Community for restricting trade with other countries etc.

Economic Environment:

The international marketer must study each country's economy. Two economic factors reflect the country's attractiveness as a market. The first is the country's industrial structure. The **country's industrial structure** shapes its product and service needs, income levels, and employment levels. The second economic factor is the **country's income distribution**. The international marketer might find countries with five different income distribution patterns.

i) Very low family incomes.

ii) Mostly low family incomes.

iii) Very low/very high family incomes.

iv) Low/medium/high family incomes.

v) Mostly medium family incomes.

Political & Legal Environment:

Nations differ greatly in their political-legal environments. At least four political-legal factors should be considered when discussing whether to do business in a given country.

i) Attitudes toward International Buying

This attitude reflects the behavior of the nations about the quite receptiveness to the foreign firms, and also the quite hostile behavior of the nations.

ii) Political Stability

Stability is another issue. Governments change, hands, sometimes violently. Even without a change, a government may decide to respond a new popular feelings. The foreign company's property may be taken, or import quotas or new duties may be set. International Marketer may find it profitable to do business in an unstable country, but the situation will affect how they handle business and financial matters.

iii) Monetary Regulations

Sellers want to take their profits in the currency of value to them. Ideally the buyer can pay in the seller's currency or in other world currencies. Short of this, seller might accept a blocked currency - one was removal from the country is restricted by the buyer's government - if they can buy other goods in that country that they need or can sell elsewhere for a needed currency. Besides currency limits, a changing exchange rate like devaluation of currency also creates high risks for the seller.

iv) Government Bureaucracy

A fourth factor is the extent to which the host government runs an efficient system for helping foreign companies: efficient customs handling, good market information, and other factors that aid in doing business e.g. In some country's bribe considered too much for quicks handling with barriers.

Cultural Environment:

Each country has its own folkways, norms, and taboos. The way foreign consumers think about and use certain products must be examined by the sellers before planning a marketing program, because these cultural traditions, preferences and behaviors can also be very helpful for a seller to develop his product for better sale and profit earnings.

1.8.2.2 Deciding Whether to Go Abroad:

For deciding the company whether to go abroad, the company must weigh several risks and answer many questions about its ability to operate globally. Can the company learn to understand the preferences and buyer behaviour of consumers in other countries? Can it offer competitively attractive products? Will it be able to adapt to other country's business cultural and be able to deal effectively with foreign nationals? Do the company's managers have the necessary international experience? Has management considered the impact of foreign regulations and political environments?

Because of the risks and difficulties of entering foreign markets, most companies do not act until some situation or event thrust them into the international area.

1.8.2.3 Deciding Which Markets to Enter:

Before going abroad, the company should try to define its international marketing objectives and policies. Firstly, it should decide what volume of foreign sales it wants. Secondly, the company must choose how may countries it want to market in. Thirdly the company must decide on the types of countries to enter. A country's attractiveness depends on the product, geographical factors, income and population, political climate, and other factors. The marketer may prefer certain country market groups or parts of the world.

Possible foreign markets should be ranked on several factors, including market size, market growth, cost of doing business, competitive advantage, and risk level. The good is to determine the potential of each market using the indicators such as shown in the following table.

1.8.3 Indicators of Market Potential:

A. Demographic Characteristics

* Size of population
* Rate of population
* Degree of population
* Population Density
* Age structure and composition of the population

B. Geographic Characteristics

* Physical size of the country
* Topo graphical characteristics
* Climate conditions

C. Economic Factors

* GNP per Capita
* Income Distribution
* Rate of Growth of GNP
* Ratio of Investment to GNP

D. Technological Factors

* Level of technological skills
* Existing Production technology
* Existing consumption technology
* Education levels

E. Socio Cultural Factors

* Dominant values
* Life style patterns
* Ethnic groups
* Linguistic fragmentation

F. National Goals & Plan

* Industry priorities
* Infrastructure investment

Source: Susan P. Douglas, C. Samual Craig, And Warren Keegan, "Approaching to Assessing International Marketing Opportunities for Small and Medium Size Business." Columbia Journal of World Business*, Fall 1982. pp 26-32.*

1.9 WTO and Knitwear Industry

1.9.1 Government Policy Framework & Support for Textile Sector:

The government seems to have realized the importance of a robust textile industry in the national economy and has decided to pull it out from the protracted recessionary spell after giving it financial support at the concessional rates. But now there appears to be change in the perceptions of textile tycoons too as it won't be now easy to sell even "soft- spin" cotton yarn on the world markets. The cry for the modernization, therefore, is apt and needs to be heard by the official quarters.

Moreover, the expected implementation of WTO from January 1, 2005 also poses great problems. No one could deny the fact that modernization and balancing of the industry, as a whole was long overdue but it has been delayed for a variety of reasons, including the volatile cotton production, world recessions and high local prices.

"The new millennium world textile demand signals a major shift in the perception of textile consumers and the local spinners have rightly received them", said an official of the commerce ministry.

The textile industry has, itself before the official nod, launched a massive revamping program to replace the obsolete spinning and weaving machinery to enter the sophisticated world of automation to cater to the needs of new millennium's textiles demand. However, government realizing the importance of this sector has also supported it greatly in recent years, adding it among its most preferred sectors like agriculture, Information Technology, Leather and few other industrial sectors.

Some of the strategies used for development of textile and clothing industry are as under:

- Textile has been placed as a core category for enhancing exports from Pakistan
- Export target enhance to US$ 10 billion
- Pakistan’s additional efforts to make overall industry world class and competitive by:
    a) Liberalization of Imports
    b) Reduced tariffs
    c) Review of labor laws to confirm with international needs
    d) Availability of Rupees And Foreign currency Finance

e) Increased emphasis on Environmental management

Some of the Strategic Support programs which have been started are as under:

- Deliberate departure from traditional 'fiscal incentives' approach to "Policy direction".
- Sound macro – economic frame work
- Capacity development of exporting enterprises
- Improve social and physical infra-structure
- De-regulation and de congestion
- Greater Market Access
- Refine export finance
- Product – Market diversification
- Value addition
- Step up capacity building of Small & Medium Enterprises (SMEs)
- Imports/exports registration order repealed.
- Setting up of Pakistan Intellectual Property rights Organization (PIPRO) for better protection of intellectual rights.

So, realizing the importance of the Textile sector of Pakistan government has really urged the investors both from home and abroad to make significant contributions in this segment. Hence, it is safe enough to assume that the textile sector of Pakistan is full of opportunities for both new and existing investors. Furthermore, its importance will be enhanced with the implementation of the WTO agreement in the year 2005. Now before pointing out to the specific opportunities WTO will offer to the new entrants let us review what "WTO" and "WTO Agreement" actually are. It will be followed by the discussion on the opportunities being offered by the WTO to new entrants.

1.10 WTO Organization and Agreement:

On January 1, 1995, a new organization came into existence by the name of World Trade Organization. This new organization replaces the General Agreement on Tariffs and Trade (GATT) and will superwise and oversee the most ambitious global trade accord ever.

The Uruguay round of trade talks ended with the signing of accord that is about 500 pages long which contains resolutions that affect a wide variety of subjects both directly and indirectly.

The signing of this accord could allow Citibank to open more branches in Pakistan. It could result in the closing up of thousands of factories across the country because of accusations of environmental pollution. It could reverse our efforts to make Pakistanis computer literate. It could threaten our carpet exports because of social dumping. It could rake in profits for our garments and footwear exporters. The list goes on.

But like all agreements, the WTO Agreement as its loopholes and provisos, it qualifications and conditions and its schedule of commitment which can help protect infant industries and restrict market access.

So, did the Marakish Agreement achieve nothing more than a "new and improved" label? The answer depends on how the world implements the accord.

1.10.1 Objectives of WTO Agreement:

Recognizing that their relations in the field of trade and economics endeavors should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and spending the production of and trade in goods and services, while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development.

Recognizing further that there is a need for positive efforts designed to ensure that the developing countries, and specially the least developed among them, secure a share in the growth in international trade commensurate with the needs of their economic developments.

Being desirous of contributing to these objectives by entering into the reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international trade relations.

A group of 117 countries agreed on 15 April 1994 to set up a world trade organization to implement, administer, operate and further the objectives of the multilateral trade accord.

The basis of the WTO Agreement is the premise that free trade god for all. By lowering tariffs and quotas the playing field will be leveled and everyone will have the opportunity to compete in a free world market.

Studies have estimated that by removing restrictions, world income is likely to grow by over $200 billion a year by the year 2002. This growth will be shared by all countries, albeit disproportionately – the developing countries are likely to experience slower growth in their income.

1.10.2 Salient Features of WTO Agreement:

The GATT accord is expected to reduce tariffs around the world by an average of 40 %. This will make consumers happy because the prices of imported goods will decrease. It will make exporters glad because reduce prices will stimulate increased demand for their exports. However, developing country industrialists with large excess capacity or inefficient plat and management who were previously protected by prohibitive import duties will have to face price as well as quality competition.

According to WTO agreement developed nations, which were restricting the imports of textiles ad clothing have to phase out the MFA (Multi-fiber agreement) quantitative restrictions on the import of fibers, textiles and apparel. Quotas are to be totally lifted over a staggered period of 10 years. This will mean that Pakistani apparel exporters ca sell as many T-Shirts in America as US buyers want. However, restrictions of importing T-Shirts fro India, Bangladesh and Hong Kong will also be removed and Pakistani Short exporters will have to be competitively priced.

This agreement has also introduced new patent and copyright protection laws for intellectual property. We will now have to pay top dollars for computer software. Pirated software will be confiscated and destroyed. The computer revolution that is sweeping across the developing countries may come to a grinding halt – unless software manufacturers in the west adopt LDC user – friendly policies.

While pirate shops will have to go underground, authorize dealers of computer software and vendors of audio and videocassettes and CDs will experience a massive growth in their sales. The recent introduction of time – warner videos in Pakistan shows the tremendous market opportunities available. Even though time – warner video rental rates are over 100 % higher than those of pirate videos the introduction of quality product ahs been well accepted in the market appropriately priced computer software can also take off.

The WTO agreement also addresses the problem of trade in services – including banking and insurance a country cannot indefinitely limit market access to the foreign firms I the service sector based on quantitative restrictions on the number of service suppliers or the total value of service transactions or the number of service operations. For example, if a foreign bank, which already exists in a country, applies to open ad additional branch, it is seeing market access. If the procedure for licensing of new branches is less onerous for domestic banks than it is for foreign banks, then the country can be accused of discriminatory restrictions.

1.10.3 WTO & Tariff reductions:

The results of the market access negotiations of the Uruguay round of talks has been the agreement to reduce tariff rates o non-agricultural goods by about 40 %. These rates have bee annexed to the agreement I the form of national schedule of concessions.

The tariff reduction program agreed up to is to be implemented I 5 equal rate reductions unless otherwise specified by a country. First such reduction has come into effect on January 1, 1995 and the final rate is to become effective within a period of 4 years.

Pakistan has been very liberal I its tariff reduction a d market access program and has already announced reduction in tariffs on several important product categories. On January 1, 1995 Pakistan slashed by 50 % of tariff on an item of interest to both the US and Europe – Cotton ad Silk Fabrics. Our Textile Mills will now have to compete with European and US Fabrics under protectionist offences that have been lowered from 70 % (plus 15 % sales tax) to 35% (plus sales tax).

The government has also committed itself to reducing average tariffs from the current 70 % to 45 % in 1995 to 1996 and 35 % in 1996 to 1997 use to working under a regime of import restrictions and licensing. Pakistan's industrial sector has numerous inefficient and obsolete factories. The tariff reduction that will come into effect will result in a shake out and inefficient producers will have to shape up or close down.

1.10.4 Tariff Reductions & Government Revenue:

Pakistan relies heavily on indirect taxation for government revenue. Import duties and sales tax on imports account for over 40 %of total government revenue and a reduction in_tariffs is expected to cut heavily into this source of funds. This may exacerbate the budget deficit.

However, the government is banking on the success of its taxation reforms to bridge the gap. First, reduction in import tariffs compounded with restrictions and monitoring of Afghan Transit Trade may result in a reduction in smuggling. More imports will come I through the legal channel thereby generating import duty income for the government. Secondly, introduction of VAT – a broad based General Sales Tax – is likely to increase revenues. And, finally, greater sectoral coverage of income tax through the inclusion of agricultural income in the tax net is expected to yield sufficient revenues to bring down the budget deficit to 3 % of GDP by 1996 – 97. If the political will to enforce all aspects of tax reforms program is lacking, we may end up with lower import duty collections and a yawning deficit.

1.10.5 The WTO Agreement & Textile Imports:

World Trade in Textiles and clothing is heavily restricted and subjected to quantitative restrictions. USA and Canada as well as most of Western Europe have shuttered out suppliers of clothing and textiles from Asia, Latin America and several other regions to protect their own over-paid workers

One of the major achievements of Uruguay round of trade talks is the agreement to phase out MFA and put a end to quotas on textiles and clothing. The phasing out of Quota is scheduled to take place over a 10 – year period in three phases. The first began on

January 1, 1995 when the quotas imposing countries lifted quotas on several items allowing the free import of a number of textile ad clothing products from Pakistan.

According to the agreement 16 % of total 1990 imports of textiles were integrated into the GATT – free from quotas – on January 1, 1995. These products are from a specific list in the agreement and have to include items from each of the following categories: Fiber and Yarn, Fabrics, Textile made-ups and clothing.

On January 1, 1998, in the second phase, an additional 17 % of 1990 imports were integrated followed by a further 18 % of 1990 imports in January 2002. All the remaining products would be integrated on January 1, 2005.

Between each phase, the level of quotas imposed on the products that remained under the restrain is to be reduced by a speedy enhancement of quota limit according to MFA; annual growth levels accepted for most categories are about 5- 7 %. These are to be increased by 16 % I phase 1 by 25 % during phase 2 and by 27 % in phase 3. This means that a product that remains under quota for the entire duration of 10 year phasing out period will have its quota level enhanced by 5.8 %every year between 1995 – 98 from the existing level of 5 %. In phase 2 (998- 2002) the annual growth level will be enhanced to 7.25 % a din phase 3 (2002 – 2005) this will increase to 9.2 %.

During the initial 3 years there will be a marginal opening up of the Textile and clothing sector. Between 1998- 2002 the level of integration will be only 33%. It is only after the 7th year of accord begins in 2002 that 51 % of the textile products under the quotas will be freed. The developed courtiers have, therefore, the delayed the opening up of their textile sector to unhindered foreign competition but they have negotiated with developing countries like Pakistan and India to lower tariff level on imported fabrics and textile products. In fact, Pakistan has already agreed to allow the import of foreign fabric and children’s garment at a nominal tariff level of 35 %. This lowering of tariff level took effect on January 1, 1995.

1.11 Post WTO scenario and Opportunities:

It is important to mention here that the major share of the textile exports is directed to three economies i.e. USA, Canada and Japan. USA offers the greatest potential among these markets. In other markets Pakistan exports in the form of Quotas.

It has been decided in the Uruguay Round, 1994 that the trade in textiles and clothing will be completely liberalized. The restrictions in the form of MFA (Multi-Fiber Arrangements) will completely be eliminated by 2005. Implication is trade will enter a more competitive world. There will be no guarantee in the form of quota for our **exports**. The quotas are imposed mostly on our high value added products (like fabrics, garments etc). As said earlier, this has badly affected the growth of **textile** industry and has reduced competition. As far as the utilization of these quotas is concerned "**Pakistan** has not been always able to utilize existing quotas due to the problems in quota administration". There are also fears that if the liberalization proves too damaging for the Developed Countries markets, they will go for other safeguarding measures like for instance, imposition of technical standards, Rules of Origin or anti-dumping actions.

It is also important to mention here that the industries in the west have undergone massive restructuring throughout the eighties. In order to offset the rising wage costs, producers in these countries have gone in for highly automated, labor saving technology in both weaving and spinning. This has to a considerable extent, neutralized the low wage cost advantage of developing countries in the production of yarn and fabrics. Result is the low labor intensity as far as the production in developed countries is concerned. Emphasis is on product up gradation, i.e., to produce defect free, high quality output. This has been possible with the rapid development in electronic control systems and the development of computer aided designs. The strategy is to produce totally different products, to the one imported from the developing countries. However, such technological innovations have yet to effect significantly the manufacture of clothing, where sewing accounts for 90 percent of the value added labor-intensive activity. Labor saving innovations are confined to designing and cutting operations, but these have not provided an effective encounter to the low wage advantages of developing countries.

To counter this “low-wage advantage”, the clothing firms in developed countries (especially in Europe) have adopted two different strategies. First one is the ‘Demand for Market Oriented Strategy’. That is to increase their market power, by producing high price fashion clothing for the markets with relatively rigid consumer demand, product differentiation through the promotion of brand names and advertising, and also by

increasing the efficiency of distribution. With an increase in market power, they can easily transfer rising cost to consumer in the form of rising prices. Second kind of strategy is ‘Supply Oriented Strategy’. This involves relocation of low wage activities to low wage areas. This has been referred to as outward processing trade (OPT), sub-contracting labor-intensive activities to low wage areas, under guaranteed buy back arrangement. Such type of trade activities is exempted from any kind of quota restrictions. .

1.11.1 Textile Made-ups:

Bed sheets, Towels and other textile made-ups supplied by Pakistan are among the cheapest the world – barring China. Quotas affect exports of most of these items. The WTO agreement will provide greater market access to our exporters ad we should be able to increase our exports of such products.

The current cotton crisis has pushed up eth cost of raw material – yarn – for made-ups manufacturers and they are experiencing difficulties in exports at their traditional low prices. What is required is that exporters of made –ups should invest in upgrading their marketing skills and cater to the higher level of the market.

Providing institutional linen in bulk – plain white Towels and bed Linen- may generate export sales. Admittedly, they require more marketing efforts but they are long-term saviors.

1.11.2 Garments and Knitwear:

The clothing sector possesses the biggest promise for delivering Pakistan out of under $ 10 billion exporters club. Our knitted t-shirts are in great demand in the US and Europe and quotas on the exports of T-shirts have been stifling growth in this sector. Once the quotas are removed we should experience a tremendous growth in the demand for a large number of our clothing goods.

However it is unclear as to when quotas on these items will be reduced. It seems most likely that quota on major clothing exports will only be lifted in 2005.This will mean that there will be no significant change in our exports of garments and knitwear for the next ten years.

As the phasing out of MFA involves the lifting of restrictions of different categories during different periods, it is likely that Pakistan's exports of, for example, trousers, will become quota free while exports of trousers from in India and Hong Kong will continue to remain under quotas. These opportunities have to be seized and efforts have to be made to get our foot in the door as soon as possible.

There will be continued resistance from the west to our clothing exports as is evident from the following statement made by the president of US Amalgamated Clothing and Textile Workers Union:

(By signing) the accord without toughening its labor standards, congress and the administration are putting millions of US jobs at risk by linking the American economy to those of countries that lag dramatically behind America in wages and work standards.

(Supporting this agreement is to) rob children and young adults of their youths. The (WTO) should include mechanism to enforce internationally recognized worker's rights, including outlawing child labor, and set environmental standards.

If such 'social dumping' or 'environmental dumping' objections are given weight age, the west will continue to have a ploy for limiting our clothing exports.

As it is, the first phase of abolishing quotas has shown that the west is planning to take the harder decisions later. By only abolishing quotas on such items as 'umbrellas' and 'fabrics' for making parachutes, it is obvious that apparel exporters need not celebrate such yet.

Long-term prospect for growth in Pakistan's garments and knitwear exports, however, are quite positive. In the last five years, garments exports have grown from $394 million to $613 million while hosiery (knitwear) exports have grown from $274 million to $509 million.

The textile exports sector – aided by Export Promotion Bureau-is making investments in improving fashion designing and upgrading skills in manufacturing by setting up a dozen textile training institutes and fashions design school. By the time quotas on the exports of apparel are lifted, these institutes should have turned out enough trained professionals to meet the quality requirements of an unfettered world of competition.

The preceding discussion is sufficient to prove the significance of the textile sector of Pakistan Economy in the overall World market. Especially after the implementation of WTO World market will offer a wide array of opportunities to all the third world country producers and distributors of the gray cloth, woven cloth and home textiles. Being one of LDCs (Least Developed Countries) Pakistan enjoy low cost advantage due to low cost of labor and raw material. Moreover, being an agricultural country, Pakistan enjoys a comparative advantage in cotton and other inputs. Beneficiaries of WTO will not only include the large and established producers of Pakistan like Sitara Group of Industries, Saphire Textiles, Chenab Limited, Amtex Group, Zahid Jee Textiles and many more but also smaller producers of gray cloth, vendors of home textiles and home textile intermediaries. Hence, world market will be a heaven for the textile and ancillary businesses in Pakistan in the post WTO scenario.

New entrepreneurs with flair of setting up their own textile business can really do a great deal to set up their own export oriented venture. How such opportunities can be capitalized properly, these have been discussed in detail in the proceeding chapters.

1.12 Feature: Knitwear industry to unravel in WTO regime:

With the implementation of quota free regime in 2005, around 38.5 percent of the total 1,300 knitwear export units in the country are likely to be wiped out because of their inability to meet the World Trade

Organization (WTO) constraints, says Muhammad Ayub, secretary, Pakistan Hosiery Manufacturers Association(PHMA).

The hosiery sector contributes more than 10 percent of the total exports of the country. The exports of hosiery products increased from $274 million in 1989-90 to $911 million in 2000-01, thus showing an average increase of 19 percent per annum, due to the heightening popularity of knitwear products both at homeandabroad.

The data compiled by PHMA, in 2001-02 says the country exported knitwear items worth $1.18 billion. According to the Export Promotion Bureau (EPB), the volume of garments and knitwear exports in the first nine months for 2002-03 was around $2.2 billion, with

an increase of $500 million compared to the corresponding period last year. Eight years after signing the WTO, a majority of the Pakistani industries, including the knitwear industry, are still unable to meet free economy regime, says Shahzad Azam Khan, chairman, Pakistan Knitwear and Sweater Exporters Association (PKSEA). Further, he says it is unlikely that they will be able to upgrade their facilities to compete in the world market in the near future. WTO is a survival for the fittest, says Mr Khan, adding the consumer has a right to get product on the cheapest price and from any businessmen regardless of where he is from.

He says knitwear exports have increased in terms of quantity but have declined in terms of price because the exporters are unable to control the in-house cost of their products.

“Electricity is one of the major issues in increasing input cost ... the government needs to provide an environment where the exporters can compete with rest of the world,” Mr Khan says. Another major issue on part of the government is the rebate of sales tax, which should be regulated as per the rules.

Adil Butt, president, PHMA, says around one million people were associated with the knitwear industry in Pakistan. He says China, India, Sri Lanka, Vietnam, Bangladesh, Korea, Bangladesh, Jordan and Kenya are among the country’s major competitors in the industry. Mr Butt says the smaller units would either be wiped out or will merge into bigger units if they did not find a quick way to meet the future challenges. M I Khurram of Comfort Knitwear (Pvt) Ltd says small unit owners would definitely be in hot water, as they get no facilities with regards to electricity services, financing and WTO compliance

issues. These units would not be able to compete their competitors due to high costs. Pakistan's knitwear industry is almost totally export-oriented, however domestic use of garments such as vests and underwear are common in all urban groups. The organised sector exports almost all its products, with the local consumption standing at only around 15 percent. Often these are brought into the local market because they have either been rejected quality controllers of the firm, for which they are manufacturing or, because
orders have been cancelled or due to over-production.
The products made in Pakistan include T-shirts, jogging suits, jerseys, sport shirts, children wear, gloves, tracksuits, sweaters, socks etc. The use of knitwear (hosiery) has increased primarily due to its low price, as compared to cotton and blended shirts, its convenient, and easy-to-wash nature. Inherent qualities like softness, coolness, sweat-absorbent and durability have made knitted garments popular especially in developed countries.
The share of this industry in the value-added in the manufacturing sector is obviously small although it earns far more foreign exchange compared to per kilogram cotton, after being converted into finished garments. Mr Ayub says hundreds of hosiery units are working in unorganized sector, especially in the cities like Karachi and Faisalabad. The unorganized sector is fulfilling Pakistan's local requirements, especially dealing in under garments that are made from the leftover of the export industry, he says. Mr Ayub says all the units in Lahore are 100 percent export-oriented.
According to the PHMA 2002 members' directory for 2002, the association has 981 registered members, out of which 382 are located in Karachi, 257 in Faisalabad, 215 in Sialkot and 126 in Lahore, whereas one member is also registered from Multan. Mr Ayub says Pakistani units were also acting as facility provider for foreign companies and brands. Further, he said none of the Pakistani exporters have developed any brands, which is one of the major hurdles in the growth of the industry. "Branding is the only way to be recognized as exporters in the true sense," he says.
Sikandar Zaman Mian, convener on hosiery of the Lahore Chamber of Commerce and Industry (LCCI), said that the small hosiery units would have no other way to survive except to become the sub-units of thebiggerunits.

He says Pakistan does not have resources like research canters and fashion training schools that help the exporters understand or compete with the rapidly changing fashions in different regions and cultures of the world. "Most of all, the Pakistani exporters are not
financially strong enough to invest a huge amount to store their products in big warehouses and sell them after putting it on display in the shopping malls and shopping plazas etc," he says.(By Noshad Ali)

Chapter - 2: LITERATURE REVIEW

2.1 Marketing Mix of Knitted Garments:

In the marketing mix as we know, four main pillars of marketing are discussed, which are:

1. Product.
2. Price.
3. Place.
4. Promotion.

2.1.1 Product:

A product is defined as, "anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need is called a product".

And in the knitted garments, we include the following sophisticated items.

- Sweat Shirts
- T-Shirts
- Jogging Suits
- Track suits
- Various under garments
- Infant suits
- Night dresses
- Ladies shorts etc. etc.

To manufacture the above mentioned products knitted cloth of different colors, different designs, and different contrast of cotton, Polyester, viscose etc is used. Some of the sample with the description are attached in the following pages.

For the purpose of exporting, the products are manufactured according to the given specification by the importers. The specification contains each and every type of details about the product (sample are attached in the appendix A).

Product Quality:

In developing a product, the manufacturers have to choose the quality level that will support the product's position in the target market. Quality is one of the marketer's major positioning tools. Product quality stands for the ability of a product to perform its functions. It includes the products overall durability like the fiber of the garment should be of good quality, colors fastness should of good quality and should be reliable, trimming of the dress must be very neatly done etc.

To maintain the quality of the product Pakistani exporters made different on-stage inspections like in the stages of cutting, sewing, finishing, packing, dying, etc. And for the purpose of quality maintaining, they form the inspection reports for every consignment before the products are shipped. Performa's made for quality checking of the products are attached in the appendix B.

Product Packaging:

Care is given to the packaging of products if one intends to export the product especially. In case of packaging the knitted garments, it is carefully considered that the packaging must be sturdy enough to withstand the various changes of hands it is bound to undergo. As required, products are also protected against the element of changes of temperature, rough handling and theft.

Apart from these basis, some times importers have specific demands concerning packaging. And packaging is made sea, air and road worthy and containers are used in a position to carry contents to the destination in perfect condition.

Product Labeling:

There is an increasing awareness of the need to keep the consumer informed about his perspective and actual purchases. Information offered on labels ranges from, for example, fiber contents (especially important in up market products such as those which producers claim to be made from cotton or polyester or that a product contains Goretex etc.) to the growing area of consumer safety.

Generally there are two kinds of measures:

- Mandatory requirement like origin marketing, fiber content and flammability.
- Voluntary requirements like care labeling/washing instructions and size labeling.

A voluntary care labeling programmed, patterned after similar programmed is in use in many countries. The programmed makes use of five basic symbols that are colored-coded: The symbols relate to the properties of color fastness, dimensioned stability, effect of retained chlorine (bleach), maximum safe ironing temperatures and certain other properties.

Product Branding:

Consumers view a brand as an important part of the product, and branding can add the value of the product. Because the good companies create their brand images before the consumers and so they are call as become the brand conscious customers.

Infect a brand is a name, term, sign, symbol, design or a combination of these, intended to identity the goods or services of one seller or group of sellers and to differentiate them from those of competitors.

In most of the exporting purpose knitted garments, brand of the importer is attached, where an importer can be a wholesaler, retailer or belonging to a well known departmental store. It is really done in the contract about the branding demands from the importers end.

2.1.2 Pricing of Product:

Pricing is a complex and generally unscientific activity in most of the companies. Actual pricing is different than the economists suggest, who say that correct price comes by the interaction of marginal revenue curve and with its marginal cost curve. Yet these prices can not be practiced in our real practical life, especially when we are going to export our product to other countries. When we deal with different currencies whose relationship constantly fluctuates if we translate these from one to another currency.

In quoting the prices for the exportable knitted garments mainly two approaches are used, which are:

- Cost-based Pricing
- Competitor-based Pricing

Cost-Based Pricing:

It is the most simplest method of pricing for the exportable goods. In this approach exporter calculate the cost of the product including, packaging, insurance, credit, agents commission, duties, documentation fees, transportation charges, export duties etc., and add his profit to this cost and quote the final value as a price of the product to the importer. This type of pricing approach is mostly used when the exporter has good image in the quality wise in the market and has a brand image before the importers. This type of price is mostly quoted by the well known exporter e.g. Ammar Textile, Lahore; Shahbaz Garments, Karachi; Jaguar (Pvt) Ltd., Faisalabad; etc., because importers from these companies have the satisfaction that they would get the same value of the product as that they pay for it. In some cases negotiation on this type of pricing becomes useful for the importers end because along with the bargaining power of supplier, bargaining power of buyer also counts very much in the negotiation between these two parties.

Competitor-Based Pricing:

As we know, only in Pakistan there are approximately 700 exporters for the knitted garments and many of them are producing the same product varieties or the similar ones. And besides Pakistan, China, India, Bangladesh, Korea, and Hong Kong etc are also exporting (direct or indirect). Therefore, importer would prefer to get the price which is most suitable to him by comparing the price and quality of the different exporters. That means an importer would try to get the maximum value of the product in the lesser price.

Therefore in this type of approach one has to check up price of the same product required by the other exporters before quoting a good price to the importer.

This price is mostly dependent on the negotiation between exporter and importer where the market knowledge of both parties counts very much.

Sometimes exporters in this industry make a deliberate decision on quoting the price equal to the cost without addition of any mark-up for getting the order and only rely on the rebate earnings because in this type of decisions they (exporters) take care for their, long term planning that they would get the profit in the next consignment from the same party. This type of pricing approach is mostly practiced by the Pakistani exporters and at this time rank wise Pakistani exporter's average quoted price for the Knitted garments is at the bottom as compared to all other competitors in the world, which is US $ 9.13 for the casual wears.

Currency of Quotation:

There are two aspects which have influences on the choice of currency for quotation.

- Importers prefer all quotes in their own currencies for easier comparison.
- Exporters prefer his own nation's currencies.

Because both importers and exporters worry about foreign exchange risks, if the currency of the importer is susceptible to devaluation he will prefer in price quotes in his own currency, so that on the due date he doesn't have to pay a higher amounts of extras. Similarly he does not want to quote in importer country currency, so that he'll receive fewer dollars when payment would be finally made. This is a most often practice in developing countries which have too much fluctuations in their currencies. So the exporters of garments used to take the following measures:

1. Credit terms most likely cut back and reduced in periods.
2. More hedging which means to keep the re-negotiation clauses remain open.
3. More lists are reviewed frequently.
4. More sales on spot price basis.
5. Company uses exchange rate at the day of the order.

2.1.3 Placing of Products:

Under this topic I would discuss the task, how to handover the exportable products of knitted garments to the real consumer precisely and profitably to achieve the company goals because distribution is a major factor which includes items like inventory warehousing, promotion, credit extension, and physical distribution services.

In the distribution channels, while exporting the garments following parties are involved.

1. Agents.
2. Importers/wholesalers.
3. Retailers.

3.1. Retailers in general.
3.2 Department Stores.
3.3 Clothing Multiple stores.
3.4 Textile Supermarkets.
3.5 Mail-order Houses.

3.6 Independent retailers.

3.7 Street markets.

3.8 Grocer super markets.

3.9 Others.

2.1.3.1 Agents:

Agents are mere intermediaries who do not "take a stand" on products. The agent may serve as an intermediary between the manufacturer and the wholesaler or retailer, receiving a commission from the former. The level of the commission depends on a number of factors, including the turnover rate of the product concerned; it averages an estimated 10% of turnover.

Most agents represent more than one manufacturer, although competition is avoided. More and more agents are starting to sell from stock, to meet their clients short-term demands. Stock-forming is often on a consignment basis. If the agent builds up his own stock, he is in fact functioning as an importer/wholesaler.

2.1.3.2 Importer/Wholesalers:

Manufacturers, converters, agents and retailers may also function as importer (vertical integration). Each of these groups has a different approaches to business and the market, with its own specific interpretation of the marketing mix.

Contrary to the agent, the wholesaler holds his own stocks at own risk. The development described before, an increasing number of agents acting as importer/wholesaler also holds vice-versa: many importer/wholesalers today act as agents. The fact that many independent retailers as well as purchasing combines and multiple stores are becoming more cautious about pre-ordering, preferring to sell from stock, is reinforcing the position of the importer/wholesaler.

The choice of whether to sell directly to an importer (which kind?) or through an agent depends on the type of supplier organization concerned and its product/market combinations. All the factors relating to pricing, collection forming, sampling, fissionability, delivery times, delivery frequency, product quality, exclusiveness, labels and packing and promotion may play a role in this respect.

2.1.3.3 .Retailers:

Retailers in General:

Retailers constitute the final stage before products reach the consumer. In this report, a distinction is made between department stores, clothing multiple stores, textile supermarkets or discount stores, independent retailers (clothing specially shops. and mixed textile/drapers, stores), mail-order houses.

The various retailing outlets differ in the formula they apply, i.e. their assortment and the targeted consumer group, as well as in the way they distinguish themselves from competitors. As an aid to understanding the market, one can discriminate between "service retailing". where the retailer offers the consumer substantial added value (quantity, service, fissionability, choice etc.) and "low margin retailing", where the price-conscious consumer is offered lower prices, at the expense of quality, service and so forth. Outlets of the first kind are often referred to as being at the "upper end" of the market, the latter at the "lower end" of the market; intermediate-type outlets may be termed "mid-market".

Department Stores:

Department stores provide the customer with an opportunity to buy a wide range of products under one roof. Most department stores are members of chains and have a centrally-organized buying department. For example, Well-known department stores include Vroom en Dresseman (V&D), Hema and De Bijenkorf. De Bijenkorf stocks high-quality, stylish and appropriately priced products. V&D operates in the middle of the market, while HEMA has good quality at lower prices, although their goods are not as fashionable as those from the two stores.

Clothing Multiplies Stores:

Clothing multiple stores, also known as multiples or chain stores, play a major role in the textile trade, covering more than a third of the market. They are usually centrally managed and include the whole spectrum of price, quality and fashion. They often trade in "own brand merchandise" or "provide labels", i.e. they design and compile manufacturing specifications for suppliers at home and abroad. This so called vertical integration makes manufacturers more dependent on one or a few buyers. These buyers provide services and information to the manufacturer, so that he can adapt his products according to the specifications provided.

Textile Supermarkets:

Textile supermarkets operate at the low end of the market. People who make their purchases here are not interested in fashion or quality: price is the most important criterion. Their market share is very limited, their focus being more on undergarments and textile articles.

Mail-Order Houses:

Mail-order houses send illustrated catalogues of merchandise to potential customers, who can then shop at home rather than paying a visit to a store. All they have to do is send in an order form, and the product(s) will be sent to their homes within a few days or weeks. Mail-order houses operate in the low and middle ranges as regards price, quality and fashion. e.g. four such operate in the Netherlands: Wekhamp, Otto, Neckermann and Termeulen Post.

Independent Retailers:

Despite the rise of the other outlets, independent retailers still have a market share of 36-41%. Their main operations are in the middle and upper sections of the market. They lack the advantages of economies of scale and consequently have to work with higher margins. This means that the products must be fashionable and exclusive, otherwise customers will purchase in cheaper stores.

Most independent retailers have become members of central buying associations which work in much the same way as the buying departments of the other outlets described. This system obviously has various advantages for the retailers, the most important of which is reduction in costs by centralizing the functions of the collection department, buying and logistics. The buying departments of large retail outlets and the central buying organizations mainly purchase their goods direct from the manufacturer/exporter.

Street-Market:

Street-vendors are involved in clearing up stocks from wholesalers and retailers and are not involved in importing themselves.

Grocer Supermarkets:

The main activities of grocer supermarkets are in the previous sector. It mostly concerns very low priced clothing like T-shirts, polo shirts, shorts or sometimes jogging suits and jackets.

Other:

An important part of this category is taken by the wholesaler with retail activities.

2.2 Promotion Of Product:

It is the fourth pillar of the marketing mix which has the great importance in marketing or selling or exporting the products. Basically, Promotion is an attempt to influence more specifically, it is the element in an organization's marketing mix that serves to inform, persuade and remind the market of a product and /or the organization selling it, in hopes of influencing the recipient's feelings, beliefs, or behaviors.

In the promotion of export of knitted garments both the parties i.e. individual exporter and the Government of Pakistan work together, and for the promotion of the products they use the following approaches.

- Advertising.
- Personal Selling.
- Sales Promotion.
- Personal Relations.

2.2.1 Advertising:

It is impersonal mass communication that the sponsor has paid for and in which the sponsor is clearly identified. The most familiar form ads for the exporter of knitted garments are found in the print media like yellow pages, company's own brochures, different type of trade magazines, information books of the consulates, etc. A sample of company advertisement is shown in appendix C. And for the broadcast media, the exporters keep on giving and showing the company's ads on the Internet System, which is going to make the companies familiar to many foreign importer. An other major source of promoting through ads in the Export Promotion Bureau of Pakistan's publications.

2.2.2 Personal Selling:

It is the direct presentation of a product to the perspective customer by the representative of the organization selling it. This approach of promotion is used by the exporters while they represent their products before the importers in face to face negotiation or on telephone dialoguing. This type of promotional method is used after getting the information of the perspective buyers/importers through different sources like ads given in the yellow pages, through Internet etc.

2.2.3 Sales Promotion:

It is a demand-stimulating activity which is designed to supplement advertising and facilitate personal selling. For the promotion of the exports, the category of trade promotion in sales promotion is used. Which includes the trade shows, different incentives by the government like rebate, etc. For the export of knitted garments many trade fairs are arranged by the groups of exporters, by the Government of Pakistan and many other private institutes in the Pakistan as well as in the foreign countries. Where to encourage the participants, Government of Pakistan gives them free return tickets, concessional accommodation in foreign countries and many other facilities. For example, on 10-13, march,, 1997 Pakistan textile and cloth fair 1997 was held in Karachi. Which was sponsored by EPB and in that fair approximately fifty five companies of knitted industry participated and to see the fair many importing parties from U.S.A., German, U.K., Norway, etc. came and placed the orders. Some lists of trade fairs which held in past and are going to hold, are attached in the appendix D.

2.2.4 Public Relations:

It encompasses a wide variety of communication efforts to contribute to generally favorable attitudes and opinions towards an organization and its products.

This type of the promoting techniques is used by the exporters who have their own personal contacts in the foreign market e.g. any friend or relative of the exporter is doing business in the foreign market at the wholesaling level, then the exporter would try to contact that friend or relative for his own exports to that country and in this commitment there are not more risks for both the parties. To some extent in this type of situation we can say, a vertical integration is done by the both ends.

CHAPTER - 3: RESEARCH METHODOLOGY

I have used the following ways to gather data:

3.1 Executive Interviews:

I interviewed a number of executives of small businesses which are currently working in their respective textile export businesses.

3.2 Employee Survey:

I surveyed and questioned many employees from many local as well as large organizations in textile city Faisalabad.

3.3 Internet Survey:

I used internet as a source of collecting information for my thesis. I searched a wide variety of website both for local textile groups as well as financial institutions and banks and regulatory bodies like Export Promotion Bureau.

3.4 News Paper and Articles:

I searched a number of Local as well as international journals like financial times and business recorder as well as local news papers like the Daily dawn as a source of secondary information.

3.5 Books and Academic Papers:

I also skimmed through my notes and academic papers while collecting information for compiling my paper. They served an important purpose by giving me an even more clear understanding of the topic.

3.6 Limitations Faced:

Main limitations of the various techniques are as follows:

- People were hesitant and scared of giving the exact information
- Biasness to answer questions
- Environment in the future may change, while the data collection is as per the present scenario
- Internet Search provided information for the past

CHAPTER – 4: FINDINGS & ANALYSIS

4.1 Export Procedure:

Exporting is merely a selling but when it is selling at home, it does not bother us because we are in personal contact with a buyer for which we do not need to comply with several procedural requirements including filling and exchanging of a lot of documents. But the difference comes when we intend to sell to some one who is thousands miles away from us, speaking different language, have different currency and import regulations. In order to facilitate trade with other countries certain set of rules have been developed by the trading nations over centuries which are normally followed in foreign trade today.

4.1.1 Selection of a Product:

If we want to enter export trade, the first thing to do is to decide about the product which we intend to trade, we should have intimate knowledge about the product of supply, we will have no problem in procurement and shipment. But if we produce the product ourselves at effective cost and exercise quality control, than we can become successful exporter within shortest possible time.

4.1.2 Opening of an Office:

After selection of product, we may open an office, give it a name, print letter heads, install phone and fix a sign board on our business premises.

4.1.3 Registration for Export:

Next step is to register the firm as an exporter for five years from the nearest office of the Chief controller of Imports and Exports against payment of fee of Rs. 1500 only. The registration is renewable for another five years after payment of fee of Rs. 500 only, for this, one has to fill a special form called "Export Questionnaire form" and submit it to CCI & E along with documents mentioned in the form.

Request for registration could be on proprietary, partnership of limited Co's basis. After Registration or even before registration the exporter would be required to contact buyers of his product abroad; a) through correspondence, b) friend/relation, c) personal visits, for export order. After receiving enquiry the exporter will quote prices with terms of delivery and payment.

4.1.4 Quoting a Price:

It is easy to quote price at home. For this one has just to calculate cost of production with packing and transportation charges and add profit. But in case of export, quoting of price means many things. For this one has to examine several things including the following:

i. While calculating price one has to think about all costs including, packing, insurance, credit, agents commission, octroi duties, documentation fee, transportation charges, export duties etc.

ii. For securing good price one has also to check up price of the same product abroad. If there is a good mark up in price in foreign market, one should not loose sight of it.

4.1.5 Signing of a Contract:

When prices are accepted a contract is signed with the firm for supply of goods which becomes binding of both the buyer & seller Contract is a document which normally contains:

- Name of exporter
- Name of importer
- Item of sale
- Unit price
- Total Quantity

- Terms of delivery (FOB, C&F, CIF etc)
- Terms of payment, L/C irrevocable, L/C confirm, revolving L/C.
- Mode of shipment (Sea, Air, Road).
- Currency in which transaction will be made.
- Validity period of a contract & delivery period.
- Shipping marks if any.
- Arbitration clause.

4.1.6 Terms of Delivery:

- When the exporter is making offer, he quotes the price of his product. If the offer is accepted then a contract is singed between buyer & seller. The contract include terms under which goods are delivered.
- The buyer sitting in the overseas market is normally not interested to receive charge of goods at one's factory site but he may be interested to get charge of goods on FOB basis which means free on Board at airport or seaport. It means that charges of the consignment are fully paid up to that point and the rest of the freight is paid by the buyer

  Terms of delivery are not only important for quoting price but it also makes clear as to who is responsible for the goods if anything goes wrong.

4.1.7 Financing for Export:

The exporter should accept order which he can fulfill easily. He should have the necessary finances or access to finances for effecting shipment and the capacity to wait till the sale proceeds are received. in this connection, terms of payment plays an important role as it should be time to keep you solvent at the time of need. For export pre-shipment and post shipment credits are available from Govt. on concessionaire rate.

4.1.8 Packing:

Packing should be sea, air and road worthy. The container should in a position to carry contents to the destination in perfect condition. For reduction in cost most economical packing material be used.

4.1.9 Transport:

Light constantly items are normally airfreighted by air whereas heavy items are shipped by sea. In each case the most economical mode should be used to reduce cost.

4.1.10 Insurance:

Insurance is necessary to recover cost in case of loss. But where the exporters are sure that the chances of loss are minimum they do not ensure consignment. In case the buyer insists on insurance then it must be done.

4.2 Modes of Payments:

These are several basic methods of receiving payment for products sold abroad.

A detailed Chart is given below showing the involvement of risk also.

S. No	Mode of Payment	Usual Time	Goods Available	Risk To Exporter	Risk To Importer
1.	Cash in Advance	Before Shipment	After Shipment	None	Completely relies on exporter to ship goods as ordered.
2.	Letter of Credit	After Shipment is	After Shipment or	Little risk	Assures shipment is made but relies on

(a) Con-firmed	made & documents presented to the bank.	acceptance of draft by Bank.		exporter to ship the goods described in documents.
(b)Uncon-firmed.	Same as con-firmed.	Same as con-firmed	More risky than con-firmed.	Same as confirmed

3.	Documentary collection.				
	(a) Sight draft with documents against payment D/P	On presentation of draft to buyer	After Payment to importer's bank.	If draft is not honoured goods must be returned.	Same as above, unless can inspect goods before payment.
	b) Time draft with documents against acceptance (D/A).	On maturity of draft	before payment after acceptance buyer.	Relies on buyer to honour draft upon presentation.	Same as above
4.	Open account	As agreed by invoice	Before payment. agreed.	Relies on buyer to pay his accounts as	Very little
5.	Consignment	After goods are sold	Before Payment.	Seller Keeps title & all risks until goods sold by buyer.	None

NOTE: Terms ranked from least risk to most risk for the exporter.

4.3 Export Documentation:

In the whole story of export the most sensitive Job is documentation necessary before goods can either be shipped from Pakistan or received in the Pakistan but all over the world. Our observation show that about 50 document and about 350 photo copies of original documents, and in rare cases it can reach about 1,000 copies, it depends, on the requirement of the country.

Here it is out of range to discuss all the documents, of export but some common used and necessary are explained.

4.3.1 Performa Invoice:

This document quotes prices, delivery terms, dates, etc. to the importer. It opens negotiations on payment terms.

4.3.2 Commercial Invoice:

As in a domestic shipments, good business practice dictates that a commercial invoice includes the full address of the shipper, and the buyer (if other than the seller): the respective reference number, date of the order, shipping date, mode of shipment; delivery and payment terms, a complete description of the merchandise, prices, discounts, and quantities, and any other requirements.

4.3.3 Councilor Invoice:

A few foreign countries, notably some in Latin America, require a special form of invoice in addition to our commercial invoice. Documents must be prepared in the language of their country and an official forms obtained from the respective foreign consulates. they are then revised by the resident council, thereby certifying their authenticity and correctness. it is recommended that foreign freight forwarder prepares these documents at the time of shipment.

4.3.4 Export Declaration Form:

This document proves that the export license is issued when required and provides census data. It must provide merchandise data and description.

4.3.5 Shipper's Letter of Instruction:

Provides all data needed for ocean bill of lending to be prepared.

4.3.6 Certificates of Origin:

Even though a commercial invoice may contain a statement of origin of the merchandise, a few countries require a separate certificate, sometimes countersigned by chamber of commerce and possibly even revised by their resident council at the port of export. A special form of the foreign government may be required, although in some cases a certificate on our letterhead will suffice.

Statements of origin are required to indicate possible preferential rates of import duties that may be applicable under a most favored nation arrangement.

4.3.7 Packing List:

Description of material in each package' indicates type of package, net, legal, tare an gross weights for each package, any markets and shipper / buyer reference number. The package list, prepared by exporter, describes all items in the box or crate, plus the type, dimensions and weight of the container. It is used as certain total shipping weight and volume by customs officials to check cargo, and by the buyers to inventory merchandise received.

4.3.8 Inspection Certificates:

To protect themselves, many foreign firms request a certificate of inspection. This may be an affidavit either by exporter or by or by an independent inspection firms, as dictated by the buyer, certifying the quality, quantity, and conformity of goods to the order.

4.3.9 Air Way Bill:

This is usually a single document for complete domestic and international movement. A special IATA form is usually used and prepared by the carrier or forwarder.

4.3.10 Certificates of Manufacture:

A certificate of manufacture is used when a buyer intends to pay for goods prior to shipment, but the lead time for the manufacturing of the goods is lengthy and buyer does not want to allocate the money so far in advance. If exporter feels that the buyer is a good credit-risk, the goods can be manufactured with perhaps only a down payment. When the merchandise is ready, exporter prepares a certificate stating that the ordered goods have been set a side for the account of the buyer.

4.3.11 Parcel Post Customs Declaration:

Various postal customs declaration forms are required on export packages shipped via air parcel post, depending upon the destination country. These documents are only typical. Exporter must determine the specific documents for their goods to be exported. There are several places where an exporter can seek assistance in determining and preparing the necessary documents. Primarily the Pakistan Export Promotion Bureau office and freight forwarders can be of great assistance to the exporters, similarly the ocean or air carriers might give some assistance.

Finally, one of the very important factor in international trade is to have all necessary documents on hand at the destination on or before the arrival of the shipment. The documents can go on the same vessel (which is carrying cargo) or by faster vessel. It is quite common to use dual methods in order to ensure that the documents are at the destination when needed. Send one set by air and one set by ocean.

4.4 Feasibility of Knitwear Unit:

Knitwear:

During the past few years, exports of knit garments from Pakistan have been on a rise. According to the industry sources, there are 343 knitting units in Pakistan, majority of which are located in the cities of Lahore and Karachi.

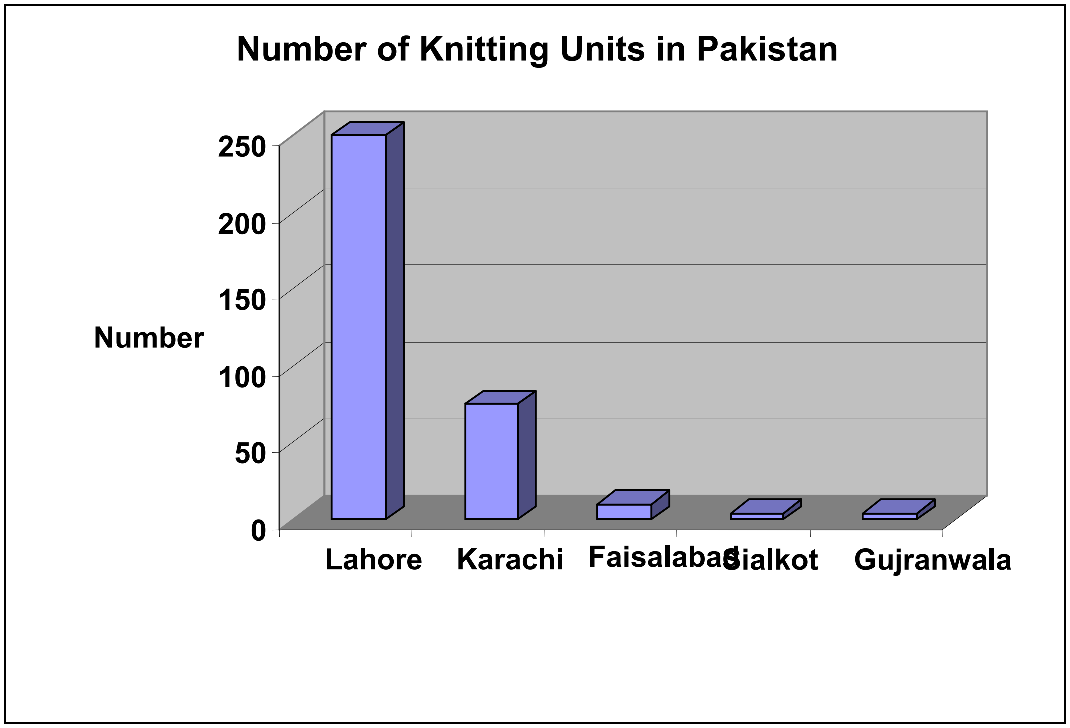
This has provided an opportunity to garment manufacturers & exporters to concentrate on expansion. Comparatively, rate of expansion in the garment stitching has been higher than that in fabric manufacturing. This has led to an increasing gap between supply and demand of knitted fabric. Establishing commercial, specialized, small or medium size circular knitting units can fulfill this increasing demand of fabric.

Some of the major players of the knitting industry are shown in Table on next few pages. These units mainly fall in the category of integrated units and are customers of commercial knitters.

The world trade figures of knit fabrics have also shown positive growth during the past few years which also opens the opportunity of exporting the fabrics directly, in greige as well as in finished forms. Total global trade value of knit fabric for the year 1998 was about $10.7 billion. Major importers of knit fabric are Hong Kong ($1.8 billion), China

($1.6 billion), USA ($834 million), France ($562 million), Germany ($542 million), UK ($425 million) and Italy ($354 million).

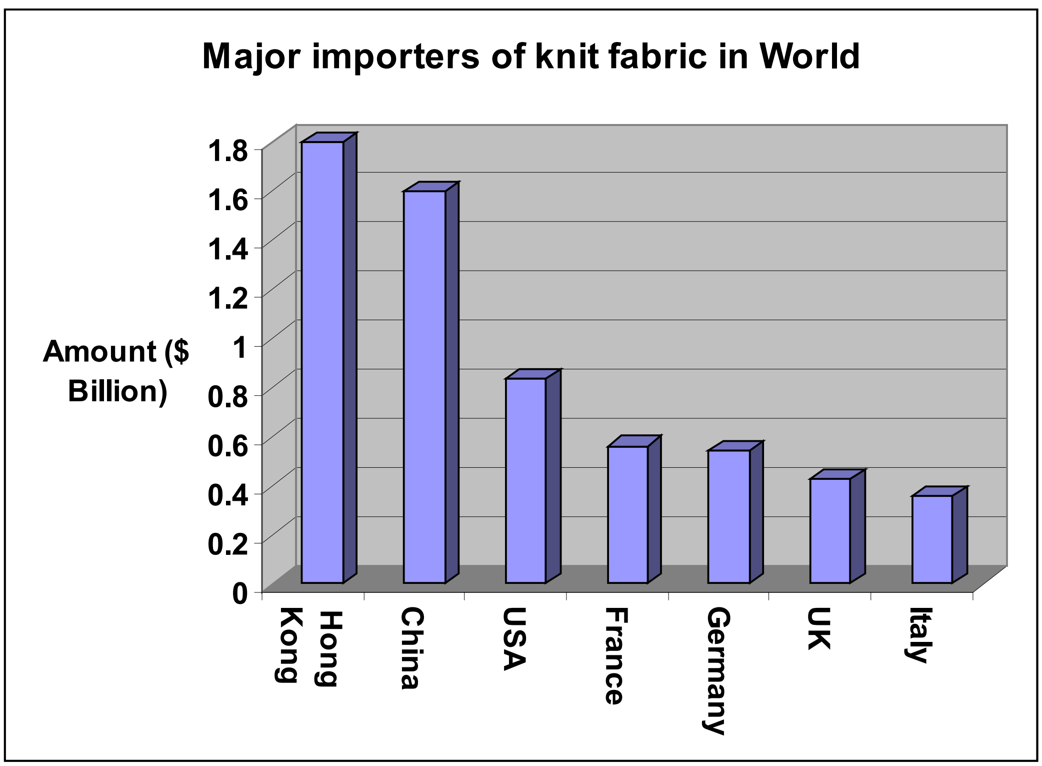
Export of knit fabric from Pakistan was $60.16 million (Source: FBS) in the year 1999-2000, which has decreased from the $61.40 million (Source: FBS) in the year 1998-1999. Major trading partners of Pakistan in knit fabric exports are shown in Table.



MAJOR KNITTING UNITS

Name	Location
Argus Knitwear	Karachi
J. M. Knits	Karachi
Hi-Knit	Karachi
Masood Textiles	Faisalabad
Ammar Textiles	Lahore
Angora Textiles	Lahore
Comfort Knitwear	Lahore
Highnoon Textiles	Lahore
Leisure Textiles	Lahore

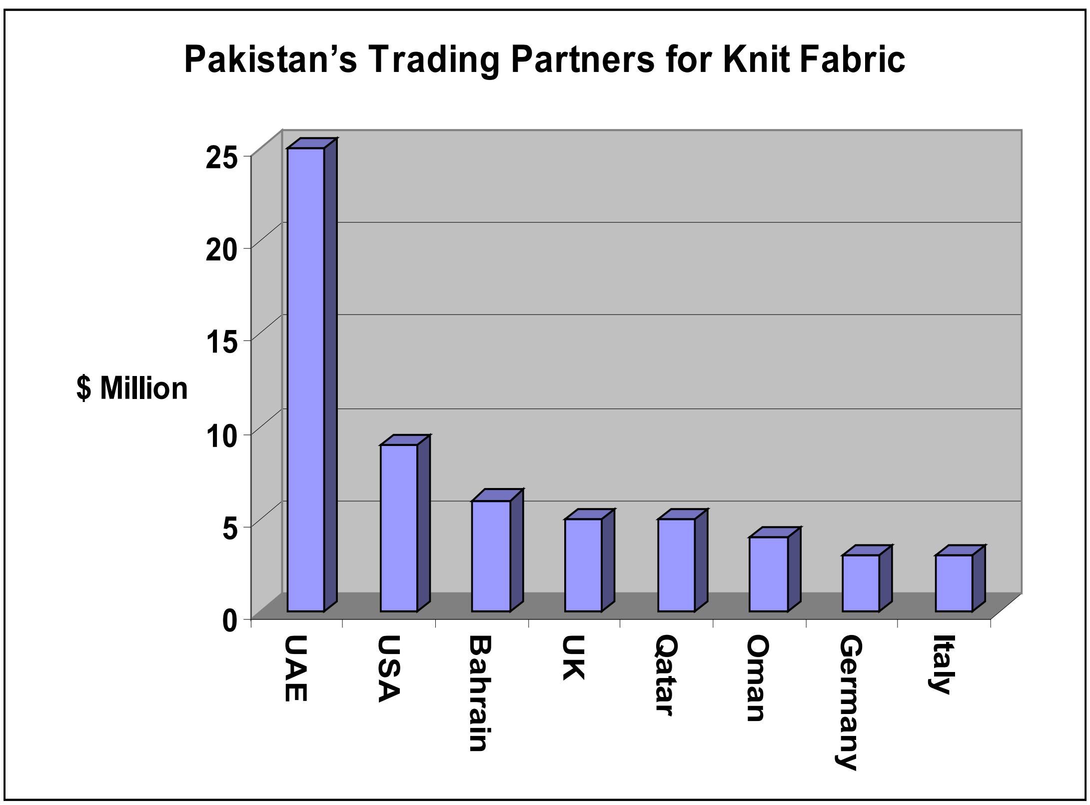
Source: smeda.org.pk



PAKISTAN'S TRADING PARTNERS FOR KNIT FABRIC

Country	Exports ($ million)
UAE	25
USA	9
Bahrain	6
UK	5
Qatar	5
Oman	4
Germany	3
Italy	3

Source: smeda.org.pk



Marketing:

A commercial circular-knitting unit has three types of target customers:

- Knit garment manufacturers, having vertically integrated units with insufficient knitting capacity. Such units have to outsource their fabric requirement to commercial knitting units.
- The small and medium scale garment manufacturers, who don't have any vertical setups and are dependent on commercial knitting units for their fabric requirements.
- Commercial exporters of garments, who outsource their fabric requirements to commercial knitting units.

The key success factors for the business will be:

- Strong marketing skills/knowledge is required from entrepreneur
- Assurance of high consistent quality
- Assurance of on time delivery
- Competitive rates
- Cost efficiency
- Better services to the customer i.e. claim settlement etc.
- Better communication development with customers

Major threats for the business are:

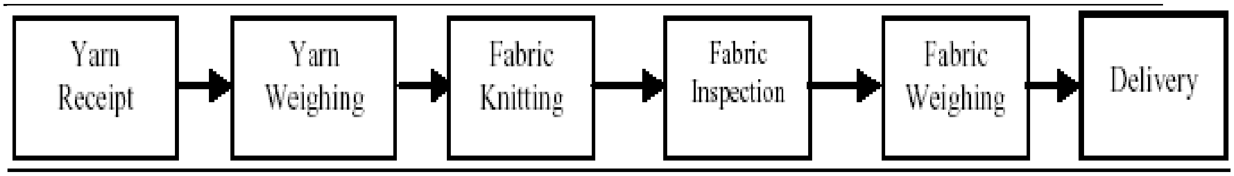
- Asia pacific markets are emerging as new players in the world knitwear trade. China, Hong Kong, Vietnam, Korea can give tough time in the coming years. NAFTA is also one of the biggest threats
- Good technical expertise is not easily available
- Sometimes spare parts are not available in the local market and require high lead times to import, which may lead to production losses.

4.4.1 Production and operations:

a) <u>Proposed Capacity:</u>

1,550 Kg/fabric per day (4 Circular Knitting Machines)

b) <u>Process flow:</u>



c) Raw Material:

In case of commercial knitting, all the raw materials are provided by the garment manufacturers. The main raw materials are as follows:

- Yarns of all types (cotton, blended etc.), greige & dyed. Normally, the count ranges from NE 20/1 to NE 30/1
- Lycra Yarn

d) Machinery Cost:

The optimal Machine combination for a commercial circular knitting unit is shown in Table. The prices mentioned in the Table are for new machinery of the Far East origin.

Knitting Machine Costs

Knitting Machinery	Machines Required	Cost / Machine (US $)	Total Cost in(Rs.) with US $ at 61)
Single Jersey	2	28000	3416000
Interlock	1	30500	1860500
Rib	1	31300	1909300
Initial cost of machines			**7185800**

Knitting Machines Cost with Duties & Taxes

Machine Import cost		Total Cost (Rs.)
Customs duty	10%	718,580
Sales tax	15%	1,185,657
Income tax	5%	454,502
Others (Custom Clearance,		215,574

transportation etc.)	3%	
Cost of importing machines		2,574,313
Machine installation cost	Rs.15,000/machine	60,000
Cost of installed machinery with duties		**9,820,113**

Other Equipment Details

Type of Machine	**Cost (Rs.)**
Generator	200,000
Air Compressor	150,000
Inspection Machine	200,000
Weight Scale, Cloth Cutting & other tools	30,000
Electric wiring(@ Rs 25,000/machine)	100,000
Other equipment (Total)	**680,000**
Total Cost Of Machinery & Equipment (Other Equipment + cost of installed machinery with duties)	**10,500,113**

Circular knitting machinery is available from a diversified range of suppliers/ origins i.e. Japanese, German, Italian, Chinese, Taiwanese, Singaporean, Korean and Hong Kong.

The prices may vary substantially depending on the origin and source of its supply. European and Japanese machinery is two to three times costlier if compared with Chinese or Far Eastern machinery. Second hand machinery of different origins can also be obtained from the local market.

e) <u>Location & Utilities:</u>

The clusters of knitting industry exist predominantly in Lahore, Karachi and Faisalabad. Most of the garment manufactures are based in these major cities, so it is recommended that such unit should only be started in these areas. The following utilities are essential to the existence of the firm:

- Electricity
- Telephone
- Fax

4.4.2 Human Resources:

For a unit of 4 circular knitting machines, the manpower requirements will be as follows:

Manpower Requirements for Unit of Four Knitting Machines

Positions	No. of personnel	Salary/Month	Salary/Annum
Knitting Master	1	15,000	180,000
Machine Operators	6	4,000	288,000
Helpers	4	2,500	120,000
Accounts/Store Clerk	1	5,000	60,000
Electrician (Part time)	1	1,500	18,000
Security Guards	2	3,500	84,000

Total Manpower cost Breakup			750,000
Direct cost			426,000
Indirect cost			324,000

These requirements have been drawn on the basis of a 12 hour shift for operators and it is further assumed that one operator can manage two machines, however in the start; three operators are recommended to operate 4 machines.

4.4.3 Project Feasibility & Economics:

a) **Building Requirements**:

Space Requirements

Space Requirement/Land Cost	**Area/Machine (sq. ft.)**	**Required Area (sq. ft)**
Yarn & Fabric Store	125	500
Machine Space	275	1100
Management room		150
Total area required (sq. ft.)		1750
Land cost	@ Rs.500000/4500 sq. ft.	**194444**

Building Construction Cost

Building Construction Cost	**Cost (Rs./ sq. ft.)**	\ **Construction Cost**
Yarn & Fabric Store	350	175000
Machine Space	350	385000
Management room	600	90000
Total Building		

construction cost		**650000**

It is recommended that this project should be started in a rented building, as this will reduce the initial capital cost of the project. One year rent will be paid in advance.

Monthly Rent (Rs)	**Annual Rent (Rs.)**
15000	180000

b) <u>Total Project Cost</u>:

The project costs are as under:

Project Costs	**(Rs.)**
Machinery & Equipment	10500113
Furniture & Fixtures & Office Equipment	41000
Pre-Operating Costs	185446
Total Capital Costs	**10726559**
Equipment Spare Part Inventory	11106
Advance Building rent	180000
Pre paid Insurance	527056
Working Capital	718161
Total Investment in Project	**11444720**

The following financing plan is advised:

Equity	50 %	5722360
Debt	50 %	5722360
Long Term Loan	Interest rate 12 %	5004199
Short Term (Running Finance or any other possible option)	Interest rate 16 %	718161

Total Debt		**5722360**

Major portion of investment is required for working capital, due to which the debt recommended for the project is in form of short term because majority of investment will be in raw material etc.

c) **NPV for the project**:

PRODUCT MIX

	Single Jersey	**Interlock**	**Rib**
Product mix	58.05%	16.10%	25.85%
Production Capacity (kg)	511500		
Production (kg)	296926	82352	132223

IMPORTANT PROJECT RELATED ASSUMPTIONS

Price Per kg **Single Jersey** (Rs.)	**8.86**
Price Per kg **Interlock** (Rs.)	**14.77**
Price Per kg **Rib** (Rs.)	**11.82**
Knitting Charges Per kg **Single Jersey** (Rs.)	**6**
Knitting Charges Per kg **Interlock** (Rs.)	**12**
Knitting Charges Per kg **Rib** (Rs.)	**10**
Administrative Overheads(of Revenue)	**0.2 %**
Insurance rate	**3 %**
Pay Roll Production Staff	**426000**
Direct Electricity	**515882**
Tax treatment	**0.75% of Sales Revenue**
Project life (Years)	**5**
Discount rate for calculation of NPV	**16%**
Equity	**50%**

Debt	**50%**

4.4.4 Depreciation:

Depreciation is being calculated on the straight line basis. Assuming a salvage value equal to the 10 % of the sum of **Plant & Machinery, Furniture and Fixtures** and **Office Equipment**,

Depreciation = 0.1 × (10500113 + 41000) = **1054111**

This depreciation will be discounted in the last year of the project as the equipment will be liquidated at the end of the project

<u>FORMULAE:</u>

Revenue (Rs.) = Sale price per kg × Amount Produced (Jersey) + Sale price × Amount Produced (Interlock) + Sale price × Amount Produced (Rib)

Costs, Expenses & Taxes / Set (Rs.) = (Knitting charges per kg (Jersey) × Amount Produced) + (Knitting charges per kg (Interlock) × Amount Produced) + (Knitting charges per kg (Rib) × Amount Produced) + Pay Roll Production Staff + Direct

Electricity + Factory Overhead as percentage of sales + Administrative Overheads (%age of Revenue) + Variable factory overheads + Insurance rate + Tax

Total Cost Expenses & Taxes = Costs, Expenses & Taxes / Set × Amount Produced + (Office Expenses + Insurance + Admin Overhead + Tax) % × Sales Revenue

<u>Year 0:</u>

INITIAL CASH OUTLAY = Rs.11444720

<u>Year 1 – 5:</u>

Total Revenue = 2632247 + 1216743 + 1562873 **= Rs.5413863**

Total Costs, Expenses & Taxes = (296926 × 6) + (82352 × 12) + (132223× 10) + 426000 + 515882 + Insurance (3% of sales), Admin Overhead (0.2 % of Sales), Tax (0.75% of selling price) 3.95 %

= 5033892 + 3.95 % of Total Revenue = Rs.5247740

So, Total Contribution Margin = 5413863 – 5247740 **= Rs.166123**

Present Value of Cash Inflows (Using 16 % Discount Rate)

= 166123 × 3.274 + 1054111 × 0.476 = 1045644

Hence, the NET PRESENT VALUE (NPV) FOR THE PROJECT = Present Value of Cash Inflows – Initial Cash Outlay = 1045644 – 11444720**= (10399076)**

CASH FLOW PATTERN FOR THE "BED LINEN" PROJECT

YEAR	CASH INFLOW / (OUTFLOW)
0	(11444720)
1	166123
2	166123
3	166123
4	166123
5	166123 + 1054111
NET PRESENT VALUE	**(10399076)**

Financially this project is not feasible as a negative NPV worth **Rs.10399076** suggests. However, on the basis of subjective assessment or market attraction this project can be an option for the entrepreneur. However, this will be a really very risky ask then from the entrepreneur's point of view.

CHAPTER - 5: CONCLUSION

In Pakistan Knitwear Industry was introduced in early 1950s by starting with two or three units at this stage and now these units are gone up to 700. The main products of the Knitwear Industry are sweat shirts, T-shirts, jogging suits, track suits, various under garments, infant suits, night dresses etc. and the export of these products is at the forth number of the major exportable products which is approximately 703,410 millions dollars and having the 8.08% of share from the total exports of Pakistan in 1997-98.

As we know that in present spell of competition only those nations can grow and prosper who lead in economic forefront, where export plays a vital and significant role in preserving the international competitiveness and viability of nations. Therefore, to increase the exports of Pakistan, Governments of Pakistan made different policies and facilitated the exporters of Pakistan.

In international marketing, Pakistani marketers usually adopt exporting method as the mode of entry in the foreign market. Some of the marketers in Pakistan also adopt the other modes of entry which are: joint ventures and direct investment. In the export of these products Pakistani exporter used to care for quoting the prices, terms of delivery, transportation, insurance and packaging specially. And in the export documentation following documents are used: Performa invoice, commercial invoices, councilor invoices, export declaration form, shipper's letter of instruction, certification of origin, Packing list, inspection certificates, air way bill, certificates of manufacture, parcel post custom declaration etc.

In the international market, the major competitor countries for this industry are: Pakistan, India, China, Bangladesh, Indonesia, Malaysia, Taiwan and Thailand. These all countries competing in the international market for product quality, price, promotion, satisfaction of customers desires and wants, etc. Many of the threats are faced by the Pakistani exporters along with the opportunities which are discussed in the relating chapter. Unfortunately, at present, the buyers of the international market don't see the Pakistan's garments companies as preferred suppliers over other competitor’s countries' suppliers.

The international buyer sees products of Pakistan's garments industry as basic products reflecting quality which is lower than average quality level, having no styling, designing or product development, made by companies which have little or no knowledge of customers' needs or the dynamics of the international markets. Besides the low product quality these companies also offer lower level of services, delivering time reliability and order assortment, than in other countries. Textile sector is a highly dynamic sector. The things change abruptly while quick moves are required to keep pace with the market and the competitors. This research study has addressed the issues and opportunities arising as result of the abolition of MFA in January 2005. It further assumed that how a new entrepreneur willing to set – up his own textile export business can capitalize the opportunities arising. I explained the various possible options, worked out their feasibilities, studied the export business in detail and especially tried to address the issue pertaining to the documentation and other specifics of the export businesses. I also studied the financial aspect of the whole proposed new venture. A number of possible options to finance the business were discussed. Finally I recommended that the KNITWEAR sector is the most attractive segment to enter in and the Entrepreneur should also subjectively asses any of the 4 segments before deciding the sector to enter into. So, this research study offers a complete set of solutions for any one who wants to know about the opportunities rising in the Textile Sector in the year 2005 and wants to further explore the ways to capitalize those opportunities. I would like to thank all who helped me throughout the course of this research study and helped me in achieving my aim.

CHAPTER - 6: PROBLEMS & RECOMMANDATIONS

6.1 Problems of knitwear Industry

The progress of knitwear industry is phenomenal. The exports of knitwear in 1987-79 wear for a value of $ 12.31 million. They rose to $ 273.72 million in 1989-90. In view of foreign exchange constraints due to stoppage of aid Pakistan is in a position to increase exports of knitwear in a short time. There is need to remove the impediments some of which are listed below.

HIGH COST OF MACHINERY & PARTS: As a result of rupee depreciation in terms of yen the cost of machinery and spares and needles from Japan has increased manifold. Increase of duties has further broken the back of this industry. The industry needs modern equipment and specially computerized machinery.

RAW MATERIAL: Quality yarn is not available. The industry reported that its is noting getting quality yarn openly specially 49 to 60 counts which is must for knitwear industry. Whether is available in the local market is at exorbitant rates. The industry has pressing hard to allow import of acrylic fiber and fabrics. Only these products meet the most modern and futuristic designs.

IMPORT DUTY AND SALES TAX: It is proposed that the import duty and sales tax on the needles of sewing machinery and spare parts should be removed completely. If it is not possible, then at least those units should be allowed duty free import of needles and spare parts which produce only exportable garments. In 1986-87 budget, an important duty of 80 per cent was imposed on the needles of industrial sewing machines while this is well known that no machine can operate without needles. The Government will get a merge sum of Rs. 1 to 2 million as customs duty through he enhancement of import duty on this item. Everybody would agree that it is not advisable to increase the cost of a basic need of the garments industry and thereby add to the cost of production. This would certainly be prejudicial to the promotion of exports and hence the policy needs rethinking.

INCOME TAX: The present exemption of income tax under section 125 is restricted to only Limited Companies disregarding the fact the over 60 per cent of the production come from smaller units. This badly telling upon the progress and development in the field of production and exports and is discouraging expansion and modernization. The exemption should, therefore, be made valuable to the units of the industry owned by partnership and sole proprietary concerns.

LOCATION: Restrictions Placed on the setting of new units of knitwear and hosiery industry in Karachi, Gary and Dhabeji be done away with because the industry grow and flourish in the vicinity of labor, raw material and infrastructure.

RMR ENTITLEMENTS: Small auxiliaries for embellishing knitted apparels to make it more lucrative for the consumer's eyes are totally absent from the local market frankly, because there is no concept nor means to produce them. In such situation RMR entitlement of minimum 10 per cent for import of such auxiliaries be allowed against exports as a necessary measure to upgrade the knit apparel and make in more revenue and. Pakistan has got tremendous leverage in the case o pure 100 per cent cotton knits over the entire Far East including Korean and Taiwan which re the most potential source of supply to the Western World, USA Canada and other countries.

SHRINK RESISTANCE AND SHRINK CONTROL TECHNOLOGY: There is urgent need of shrink control technology for 100 per cent cotton knitted fabrics, soft twist yarn of 40/2 and above counts cone dyed yearn for knitting of stripper fabrics. The government should make necessary arrangements for their availability.

CREDIT FACILITIES: As the bulk of this industry is in the small sector, its financial resources re not sufficient. As a result most of the units need capital for their expansion and smooth running. Therefore, such industries purchase raw material in parts and on credit over and above the market rates which affect the production cost of knitwear. Most of such units o not avail banking facilities of credit as they do not have tangible securities to offer to the banks. The common securities which the industry can offer include sewing machines and raw materials which re removable, therefore, these cannot be accepted as security.

EXPORT REFINANCE: There is an urgent need for change the purpose procedure of export finance scheme. In Korean, export finance is provided to exporters without an interest or profit. The government would be well advised to follow suit so that the exporters my be relieved of the crippling burden of bank interest on exporters may be relieved of the crippling burden of bank interest on exports. It may be pointed out here that in Pakistan whenever a banker provides facility to a firm, it first probes into its financial position and then asks whether any non-transferable property other than factory building and machinery can be furnished is collateral. In a nutshell, the bankers demand all such guarantee from the borrower which are beyond the capacity of the exporters Yet he has to finish these securities in order to avail himself f the export limit facility. In contrast to this Korea provides immediate credit under the export refinance scheme without interest. On top of it, an amount equivalent to the export L/C is sanctioned and deposited in the exports accounts. Of this amount, the exporter buys the raw material from the market and also uses the funds for other productive purpose without any hindering. Thus frees the manufacturer/exporter of all finance worries. In Pakistan, the refinance scheme procedure is very cumbersome and time consuming. Although the State Bank IOU Pakistan sanctions the facility and instates the finance bank within 24 hours, but the amount is not credited in the account unless the borrowers pledges the raw material. Even after that, amount equivalent to the revenue of raw material is created. Worse sill, some bank demand 10 per cent margin while other insist on 20 per cent. Although State Bank of Pakistan exempted goods import under RMR from L/C margin, the banks are authorized to claim 10 per cent to 20 per cent margin. Raw material or finished goods imported under RMR are generally pledged for availing credit facility 10 to 20 percent margins is charged on these loans. While the exporter furnishes all sort of securities for getting the limit fixed, he has o pledge the raw material or finished goods again for availing refinance facility. And when the ban extends loan from the finance count, Rs 80 to 90 are offered against worth vertically cripple the exporters, Compound interest realized on these margins has gravely imperiled national industry and export.

High Cost of Machinery & Equipment: The machinery and equipment used by the Knitwear industry, being of advanced technology are not manufactured in the country in any shape and size. Price of this machinery is therefore quite high. The import cost has escalated more than double owing to devaluation of Pak rupee added with heavy import taxes and with regularly duty as topping.

Due to the above factor, the price of Knitwear products is becoming incompetitive in comparison to other exporting countries in the region, and as a result employment of new machinery and latest modern technology in the industry has gone out of our reach.

Knitting Needles Sinkers And Spares: Unlike other spares needles and sinkers are consumed side by side with yarn during knitting, the breakage of needles is enormous when the quality of yarn is not of standard. The quality of yarn supplied by the mills has never been all the time of equal standard. Every second supply differs from the previous one. As such the consumption of needles and sinkers is substantial and as a result it inflates the cost. For this very reason for last almost nine years this industry was allowed import of these needles and sinkers without any duties and taxes.

Recently needles and sinkers and spares of the industry are made subject to import duty, Sales Tax and Regulatory duty which has a burdening effect on the export prices.

Import of Accessories And Trimmings: The industry is manufacturing garments of international labels of famous brand names such as Nike, Chaps Ralph Laauren, Kelvin Klein, Polo Sports, Tommy Hillfiger, Eddy Bauyers etc. and for this the buyers require use of various accessories and trimmings supplied by their specified manufacturers. Among many, these include price tags and tickets, labels, buttons, zippers, poly bags of de-grated materials, Chambray and special fabrics and underlining materials for use on the back of the garment, shoulders, cuff and collars. Also used are embroidery , applique works swooches and monograms etc. These items have no commercial value at home. Import of these items is allowed under an undertaking with post / undated cheque with the conditions to re-export these materials in the same shape and quantity which is impracticable for obvious reasons that rejections, production wastage, short shipment cancellations of export orders are inevitable. Re-export of fabric imported for underlining in the same shape and quantity is impracticable. Similarly to measure and ascertain the length and volume of imported fabric after its use on the garments in small patches is also impracticable. Hence the exporters have to undergo and face, lengthy explanations and palm greasing for release of post / undated cheque after export. In many cases the Customs are not convinced and the cheque lying with them are cashed. This situation has placed the exporters in an uncertain position. The exporters in the other countries in the region, however, enjoy numerous facilities for unconditional import of such accessories making their product most competitive.

High Cost of Labor Levies: Our labor has become expensive due to high cost of labor infringement charged by various agencies namely, Education Cess; Social Security; Old Age Benefit; etc. The cost of these infringements is further increased in convincing the visiting officers from these agencies. It is an irony that labor is cheaper even in Emirates and our neighboring and other competing countries, making our textile products in competitive. The present rates of various levies are harsh and should be merged together and revised downwards. The is a general tendency of workers to shift from unit to unit, from industry to industry and from town to town without prior information. This causes huge problems more particularly to the hosiery, garments and made up textile industry in maintaining their records. In order to avoid corruption and ensure foolproof recovery at minimum administrative cost we would suggest the following.

Invisible TAX Burden: Invisible multiple taxes paid by the industry including turnover tax at different stages i.e. Ginning, Yarn, Gray cloth, Madeups is a heavy burden on our country's exports.

Despite heavily taxed infrastructure namely water, gas, power, communication, etc. there is no refund of duty drawback of local and import levies on accessories and trimmings used in made-up exports namely zip fasteners, interlining paper inserts, pins, crease holding pins, labels, computer coded price tags, cardboards embroidery thread, button, hangers, applique works, polythene bags, boxes cartons, etc. A study of this tax element would reveal this amount equal to nearly 5 to 10 percent of the export FOB price of value added is made textiles, of which no refund is made to the industry, using these import materials purchased locally. The elements of various tax inputs as explained above are adding much to our cost of exports making them in competitive. Our buyers are not supposed to pay local taxes and therefore look towards our competitors for better prices. As an estimate cumulative impact of the above tax inputs come to 6 to 8% of the FOB sales.

6.2 Conclusion and Suggestions

- Companies should upgrade the performance chart by planning product development, pricing strategies.
- Companies should put maximum effort in marketing after Production, Marketing plan should be developed keeping in view future trends.
- Companies should hire marketing professionals either on direct hire, or contracts or try to develop joint ventures partners in various fields.
- Companies should operate at necessary utilization labor productivity and high quality consistency level as the average companies in competitive countries. as Srilanka, Indonesia has labor productivity is 55% and china has 65% but Pakistan has 38%.
- Companies should Invest in dyeing and finishing facilities

- Employees in weaving should shift from powerless sector to organized sector.
- Quota should be allocated on base of past performance, penalties should be imposed for non-utilization of quota and quota question should be abolished.
- Export must do long term planning and should deliver the right product at right place on time.
- Reduction in utility charges, withdrawal of all taxes from export oriented Industries.
- Adhering to policies once announced,
- Reduction in market up rates timely payments of duty draw backs.
- Educating spinners to make base use of available cotton.
- Should switch over from coarse counts production of fine and superfine cements.
- Introduction of skilled labor and new machinery in every Sector of Textile.
- Pricing strategy in view of competitors pricing is crucial
- Quality control system.
- CLA (Corporate law Authority) and stock exchange should Identify earning companies and scouting those who has not declared dividend despite of goods project.
- Loan Sanctioned to only those companies who has good credibility.
- Convert cotton fiber to high - value added product
- New technologies and machinery for processing of cotton fabric landed with synthetic fiber.
- Product more to higher and value added products.
- Develop own original Design.

- Generation of ancillary Industry, Encouraging units manufacturing butters, zips, the reads to mushroom. It will decrease cost of production and increase competitiveness.
- Improvement in raw material so Improvement in years, weaving and producing which will intern be a key to success in room of quality garment.
- Research and Development centres to be set up in all centre of Pakistan.
- Training Institutes and R & D centres Every & Export Industry.
- Look into new trends and look into high quality standards,
- Improvements in acquiring latest technology as Industry has become very sophisticated and continuos changes are occurring in style , color schemes, cutting and sewing.
- Acquiring of CAD/CAM system should be accelerated in the Industry as few Industry at present has acquired this technology.
- Exemptions from Indirect taxes:
- Industry must be exempted from old age, Social security and Education as done with carpet Industry.
- Necessary steps to raise future the standards and craftsmanship of workers in garments Industry.
- Inspection techniques for Improvement to check accuracy of size, correct labelling, stainlesses and satisfactory stitching.
- Fashions shows should be organized abroad to acquirement variety and range of fashion garments of Pakistan.
- Market survey of foreign countries should be done to have up to date Infusion of trends in fashion.
- Government should support garments industry by providing air freight subsidy and duty free import of raw materials.
- Government should work for increasing the quality of quotas.

- Proper arraignments should be done for protection of Good lying at parts for shipments.
- New Investment should be made in dyeing units and dyes should be trained.
- Manufactures must make production schedule and delivery of goods schedule.
- Manufacturers should pay attention to standards of Packaging as with Introduction of ISO-9000 packing also getting standardized in future.
- Ban should be imposed on export of yarn and maximum yarn should be used for processing of fabrics and high quality fabric should be made available to garments industry for manufacturing high value and high prices product.
- Government should take necessary measures to remove the trade barriers.
- There should be check on Interest rate which is at 19% at present.
- Pakistan should let its currency find its level. There is no benefit too little and too take devaluation.
- Basic Infrastructure for Expansion of Industry expansion like regular electricity supply, sufficient water supply law and order, proper communication and transportation.
- Textile Ministry is the need of the hour.
- Government should provide substantial and exclusively for he apparel industry for this purpose consultant should be hired for preparing feasibilities. Another suggestions to solve this Problems is that.
- Leading international apparel manufacturing and marketing companies like Wrangler, Levi's Arrow Jordance, La Costa, C & A sear's St. Micheal etc. may be in vistaed by Pakistani Government and a series of seminar may be organized to inform them abut the advantages of manufacturing and buying in Pakistan. Services o successful USA or European consultant like Kurt

Salmon or other may be ayailed for this purpose and all expenses should be borne by the EPB or Ministry of Commerce.

- Further, they may also be encouraged to establish their own manufacturing facilities or joint ventures or licensing arrangements similar to the Wrangler, who are already working in Pakistan.
- Manufacturing and marketing expertise and technical know how of these internationally well know and famous manufactures can be very helpful for Pakistani manufactories and exporters.
- This will also encourage them to make Pakistan their sourcing point.
- A list of such leading names with full particulars may be prepared from all over the world specially USA, Europe, Japan and Hong Kong and circulated to the existing and potential manufactures apparel in Pakistan.

- Foreign Apparel buying house may be encourage to open their offices in Pakistan for buying Pakistani Apparel.
- Foreign Buying house s who area already operating in Asia may be identified like those in Hong Kong Bangladesh etc. and invited them and encouraged them to come to Pakistan to open their offices here.
- A list of leading apparel importing countries of the world may be prepared mentioning the quota and non-quota countries separately.
- A genuine list of leading apparel imports in each of these countries may be prepared and made available to everyone of nominal price.
- This list should be up dated after every six months.
- An update list of non quota items in quota countries may also be prepared and made available on nominal prices.
- Pakistan should participate in every apparel fair all over the world. A list of all such apparel fair may be prepared and published in Pakistan through EPB and the trade associations.

- Pakistani entrepreneur may also be encouraged to open their own marketing and distribution offices abroad.
- Exhibition Centers: Permanent exhibition centers in Karachi, Lahore Islamabad.
- The answer to this problem is again in the introduction of latest production techniques through major reputed international manufacturing companies who may be encouraged to come to Pakistan either on their own or in joint venture or a licensor.
- Free import of train technical man-power from other countries may also be.
- Special Incentives must be provided on imports of Interlinings, buttons, threads etc.
- All Technical journals and magazines should be published or should be available or computer.
- A booklet should be prepared about Information of quota availability.
- Garments Industry Should try to Finish piece to price system and china line system should be Introduced.
- Industry should have planned Inventory keeping
- History should be used in business and orders should be accordant to the samples shown to the buyers.
- It is suggested that modalities be worked out enabling the export sector to acquire their raw materials and other supplies without payment of Sales Tax.
- We suggest therefore that all the machinery used for the manufacturing of knitwear and garments be totally exempt from all kind of the levies at the import stage.
- I suggest that the import of needles, sinkers and spares of the Knitwear industry may kindly be allowed free of all taxes including Regulatory duties.
- It is suggested that:

- The exporters be allowed duty free import of the accessories against the order in hand on an undertaking by the exporter duly attested by the Association.

- Alternatively these materials be allowed duty free at a fixed percentage of the exporters previous year's performance.

- In both the above cases, provision of possibilities of production waste, short-shipments, cancellation of orders etc. be kept in view.

- Textile unit engaged in export of 75% of more of their production should be allowed to pay these levies in a consolidated form at a certain percentage which may be determined by dividing the total collection from the textile industry by its total export and deducted from the export proceeds as in the case presumptive tax under section 80CC of income Tax. The result of this system would; give foolproof recovery of labor levies to the government; ensure recovery at the lowest minimum administrative cost. It will also eliminate chances of corruption and relieve the industry from cumbersome procedures and other problems.

- An in-depth working is needed and until then the industry should be allowed an equivalent compensation on adhoc basis to combat the burden of taxes on our export price.

- **Effective Marketing Policies**

- Marketing is an area where Pakistani companies need to put in a lot of work. Presently their products are bought rather than sold. Majority of the exporters have no formal marketing structures in their organizations. Mostly the responsibility of marketing lies with the owners who have little understanding of the dynamics of the international market, rising trends, buyers, needs and competitors activities. These people allow the buyers to dictate to them, not just quantities, styles and delivery dates but also payment terns and prices.

- Companies must invest in hiring marketing professional either on direct hire, or contracts, or try to develop joint venture partners in various markets. They must

- participate in the international fairs with a view of studying fashions, trends quality levels and needs of the customers.

- If these companies want to succeed in exports they must analyze their strengths and weakness and chalk out for themselves strategic business plans and marketing programs to determine where its future lies regarding market opportunities and serving buyer's needs. Pakistani Companies need to bring in necessary changes in their products to suit the market needs and upgrade their performances.

- Even the best performance Pakistan companies do not operate at necessary machine utilization, labor productivity and high quality consistency levels as the average companies in competitive countries. Pakistan labors' estimated production efficiency is 38% as compared to 55% in Indonesia and Sri Lanka and 65% in China and Thailand

- Investment is needed in dyeing and finishing facilities to develop quality exports. In the spinning and weaving sector companies must invest in trained technical staff to maintain and run machinery at its full efficiency.

- Finally the exporters must start thinking in long term and start delivering to the international market the right product at the right price with deliveries on time.

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