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How to Live in a Textile Quota-free World

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Its going to be an open arena, only fittest will survive, instead of governments, markets will determine whom to favour or not. There will be no textile quotas in the year 2005. The world has changed and it is going to change increasingly. It differs from the colonial patterns of trade and co-operation when only United Kingdom was the major player in the international trading arena. Now there are many leading trading nations in the world. In post World Trade Organisation era that is after January 1, 1995 at least on paper every country is equal partner in the global trading system. On ground there are big and small players in this equal paper partnership. United States continues to be the leading exporter and importer in the world with a share of 12.4 percent of total world exports and 18.0 percent of total world imports. The East Asian economies first tier, Singapore, Hong Kong, South Korea and Taiwan have climbed up on the Product Cycle ladder shifting from low value products to high value added exports like hi-tech electronics, the second tier of NIE's Malaysia, Indonesia, Thailand and Philippines have diverse exporting patterns. Excluding Malaysia, others are exporters of textiles and clothing with many other products.

It is South Korea and Hong Kong in the first group that have significant share of textiles in exports and in total world trade of textiles, (Table 1). South Korea has share of more than 10 percent and Hong Kong's is more than 7 percent since 1995, in the total world trade of textiles. The tremendous growth in the region is in Chinese textile exports, which had highest, 28.0 percent share in world trade. It is shifting of comparative advantage of low labour cost to China from the industrialised economies of Asia. There is no significant upward or downward change in Pakistan's share, but Mexico since 1995 has doubled its percentage share in world trade of textiles and clothing.

In Asia, the region comprising of countries with the maximum number of people living there, is China, India, Bangladesh and Pakistan are heavily dependent

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Authors' Note: This study is part of a larger study titled, "WTO: Growth of Exports of Textiles and Other Products".

Table 1

Leading East Asian Textile Exporters 1995–1999

Country	Textile and Clothing*									
	1995		1996		1997		1998		1999	
	Value (Mill. US$)	% Share in Total World Exports	Value (Mill. US$)	% Share in Total World Exports	Value (Mill. US$)	% Share in Total World Exports	Value (Mill. US$)	% Share in Total World Exports	Value (Mill. US$)	% Share in Total World Exports
Korea	17270	11.3	16938	11.1	17530	11.5	15930	10.4	–	–
Hong Kong	11354	7.4	10749	7.0	10964	7.2	11057	7.2	10794	7.1
Singapore	2341	1.5	2127	1.4	2046	1.3	1626	1.1	1713	1.1
Thailand	6939	4.5	5620	3.7	5689	3.7	5300	3.5	5265	3.4
China	37967	24.8	37146	24.3	45631	29.8	42866	28.0	–	–
Malaysia	3395	2.2	3678	2.4	3628	2.4	3397	2.2	3373	2.2
Indonesia	6090	4.0	6426	4.2	5158	3.4	4989	3.3	–	–
Philippines	2272	1.5	50393	32.9	2656	1.7	2610	1.7	–	–
Excluding East Asia										
Pakistan	5867	3.8	6791	4.4	6415	4.2	6141	4.0	6469	4.2
Mexico	4013	2.6	5301	3.5	7547	4.9	8633	5.6	–	–

Source: Comtrade Database, United Nations Statistics Division.

**Textile:* Textile Yarn, Cotton Fabrics, Woven, Man-Made Woven Fabrics, Woven Textile Fabric Nes, Knit/Crochet Fabrics, Tulle/Lace/Embr/Trim Etc, Special Yarns/Fabrics, Made-Up Textile Articles, Floor Coverings Etc. *Clothing:* Mens/Boys Wear, Woven, Women/Girl Clothing Woven, Men/Boy Wear Knit/Croch, Women/Girl Wear Knit/Cro, Articles of Apparel Nes, Clothing Accessories, Headgear/Non-Text Clothing.

upon their textile sector for export earnings. World trade in clothing has been governed since 1974 by a range of quantitative restrictions (QRs) under the Multi Fibre Arrangement (MFA) outside the preview of GATT. The agreement in Uruguay Round of GATT where the establishment of WTO took place is to phase out this arrangement over a ten-year period by the year 2005 and integrate it within the GATT/World Trade Organisation Framework, herald an important event for textile exporting and importing countries.

The present study focuses on the likely winners and losers in a textile quota free world of year 2005. Naturally, our main interest is Pakistan and countries in close geographical proximity with Pakistan like India, Bangladesh and China (excluding Hong Kong). The questions being tried to answer, are there gains for these countries only or there is likelihood of any loses in export-orientated income? A quota free world is going to be more competitive and fittest are likely to survive in that atmosphere so who is going to be more fittest among these countries, is it Pakistan or Bangladesh or India or the giant economy of China. How well prepared these economies are in an open arena having no favourites; but competitiveness is likely to be the only criterion for success.

The study is divided into five parts. Section II describes the Agreement on Textiles and Clothing, and its stages to phase out by the year 2004. Section III analyses the textile sector of Pakistan, its chief characteristics, strengths and weaknesses and looks at the export structure of Pakistani textiles. Section IV discusses the closest geographical competitors of Pakistan, Bangladesh, India and China, it further looks at their textile industries and tries to discover their preparation for the quota free world of 2005. Competitiveness of Pakistan is analysed too in the context of government efforts and newly drafted Textile Vision 2005 document. It probes the assumptions and likely targets that are set by Ministry of Commerce in modernisation programme of textile industry. The unrealistic assumptions and illogical targets are questioned here. Final Section V draws conclusions and sees the position of Pakistan in the textile quota free world in realistic manner.

II. WHAT LIES AHEAD?

The Uruguay Round brought Multifibre Arrangements to an end. The new agreement on textiles and clothing (ATC) inherited the quotas and WTO members committed to remove them in four steps over 10 years (1995–2005). The 10-year period is designed to adjust everyone, textile exporters and importers for the quota free world in the year 2005.

Table 2 describes the four steps in detail. The agreement says nothing about the nature of products to be brought under GATT (have quotas removed) at each step. This provides opportunities for Backloading, i.e. the importing countries postponing the removal of quotas on more sensitive and important products till the final stages.[1]

Considerable controversy has arisen in that aspect, textiles exporters are arguing that importing countries are delaying to 2005 the removal of quotas labour intensive exports, which account for a significant proportion of developing countries' exports. It is consistently argued by various researchers inside and outside Pakistan that the removal of quotas will increase market access and thereby stimulate textile exports of third world countries. As Zafar Mahmood writes, " the MFA is binding constraint on Pakistan's high value added textiles. Thus Pakistan should benefit greatly from the eventual removal of the MFA in 2005" [Mahmood (1999)]. Another estimate is quantitative [see Khan and Mehmood (1996)] that Pakistan will have additional market access with the elimination of MFA about 62 percent for textiles and 67 percent for clothing. Ingco and Winters (1995) estimate that Pakistan may gain more than US$ 500 million (on a 1992 base and in 1992 prices) from the abolition of MFA. The estimates by Trela and Whalley (1990) give Pakistan gains equivalent to $ 0.008 billion, with the removal of both quotas and tariffs. Mehmood (1999) estimates gains ranging between US$ 1-1.3 billion, when the tightness of MFA would not be there. A comprehensive look on aspects of competitiveness can only accept or reject these claims.

[1]Trade and Development Centre, World Bank and WTO.

Table 2

Four Steps over 10 Years
The Example is Based on Commonly Used 6 Percent Expansion Rate of the Multi Fibre Arrangement. In Practice, Rates Used under MFA Varied from Product to Product

Step	Percentage of Products to be Brought under GATT (Including Removal of any Quotas)	How Fast Remaining Quotas should Open Up if 1994 Rate was 6%
Step 1: Jan. 1,1995 to Dec 31, 1997	16 Percent Minimum Taking 1990 Imports as Base	6.96 Percent per Year
Step 2: Jan. 1, 1998 to Dec 31, 2001	17 Percent	8.7 Percent per Year
Step 3: Jan. 1, 2002 to Dec. 31, 2004	18 Percent	11.05 Percent per Year
Step 4: Jan. 1, 2005 (Full Integration into GATT and Final Elimination of Quotas) Agreement on Textiles and Clothing Terminates	49 Percent (Maximum)	No Quotas Left

Source: World Trade Organisation.

III. TEXTILE SECTOR OF PAKISTAN

Textile and Clothing is the largest industrial sector of Pakistan from the investment, employment and export point of view. Approximately 27 percent of industrial output comes from this sector, it absorbs about 38 percent of Industrial labour force and its contribution in the export earnings of Pakistan is 60 percent [Malik (2000)].

This seemingly impressive contribution in the national economy, when seen in the pretext of share in the world export of textiles and clothing becomes nothing but marginal. The nearest geographical competitors, India, Bangladesh and China have shares higher in total world trade of textiles and clothing. The advanced exporters like China has a trend of continuous rise in textile exports despite the institutional restraints like Multi Fibre Arrangements. Its share in total world exports increased from 1.5 percent in 1963 to 28.0 percent in 1998 (see Table 2).[2] Share of Hong Kong

[2]Some statistics are added here from the *International Trade Statistics* (1997).

increased from 1.6 percent to 7.2 percent in the same period. Republic of South Korea was exporting 4.0 percent of textiles in the total world trade of textiles in the year 1980, its share increased to 10.4 percent in 1998. Pakistan increased its share from 1.3 percent in 1963 to 4.0 percent in 1998. The contrast in increased exports of Pakistan and other exporters is of product categories. Major share among Pakistan's exports is of cotton yarn while other exporters has consistently increased their share of value added textiles products.

The major share of Pakistani textile exports goes to United States, European Union, Canada and Japan. United States is traditionally the biggest market for Pakistani textile products. It is pertinent to mention that exports to these economies (except for Japan) are in the form of quotas.

It is important to look and probe some salient features of textile industry in Pakistan. The foremost feature is that emphasis of the industry on the spinning activity. As Pakistan State strongly protected textile industry in the past decades, its focus remained on expanding low cost power loom sector at the cost of an organised mill sector; this was to take comparative advantage of the low cost. Experience told that it was absolutely wrong policy, resulting in technological backwardness of Pakistani textiles[Chaudhri and Hamid (1988)]. APTMA (1995-96) observes that encouragement of power loom, leads to decline in mill production and consequently closure of the huge installed capacity. The abysmal failure of textile sector to develop efficiently with time has number of explanations. The lackluster performance in the exports can be attributed to institutional bottlenecks; it is the failure to evolve effective institutions that support trade and the rent seeking behaviour of those involved in the trade [Azhar (1994)]. These factors and others like high transaction costs, rising costs of production and failure to diversify took from the economy the supposed comparative advantage that is associated with cheap labour.

In the dominant spinning activity the major portion of good quality yarn is exported[3] rather than utilising it for producing value-added products like fabrics and ready made garments. Here lies the fundamental structural weakness of Pakistani textile industry. Major yarn importers from Pakistan are Japan, Hong Kong and South Korea,[4] who have sophisticated textile industries to convert it into high value added products to sell into various markets. These products fetch much higher export earnings than the yarn exported by Pakistan. These countries are non cotton producing economies; Bangladesh now becoming one among the major buyers of raw cotton and yarn from Pakistan is constantly increasing its share in export of ready made garments in the world markets.[5] The success stories among textile

[3]Yarn exports in 1998-99 were 24 percent of textile exports, 16 percent of textile and clothing exports and 12 percent of total exports [Malik (2000)].

[4]These countries are importers of approximately 60 percent of Pakistani yarn.

[5]The number of ready-made garments factories increased from 134 in 1983-84 to 2726 in 1997-98 and RMG export in the same year was US $ 3781.94 million (*Source:* Bangladesh Garments Manufacturers and Exporters Association).

exporters have modern manufacturing industry and qualified and well trained labour force that Pakistan does not have. Textile industry continues to suffer due lack of proper investments and trained and qualified work force, despite having the basic advantage of cotton and cheap labour. Efficient method of production and sophistication in manufacturing has led Japan, Hong Kong, South Korea, China and Bangladesh to overcome the handicap of imported cotton and yarn.

The weaving sector (organised mill sector) has downward shrinkage, in the installed loomage capacity that is from 30,000 in 1971-72 to 10,000 in 1998-99, among these only 5,000 are operational. On the other side the number of spindles in the same time period have increased from 2.9 million to 8.3 million out of which 6.6 million are operational [Malik (2000)]. It is evident from these statistics that organised mill sector has shifted to spinning activity at the cost of developed and modern weaving sector. Another dimension of the story is the production of cloth in the non-mill sector that contributed heavily in the production of cloth; here the flaw is that non mill sector contains low and obsolete technology power that produces narrow width poor quality grey fabrics, which has very low price in international markets.

IV. COMPETITORS IN THE REGION: BANGLADESH, INDIA, AND CHINA

These three countries have very close geographical proximity with Pakistan. In the quota free world of year 2005 their textile industries and their policy frameworks to face the ruthless competition in the world market will influence greatly the textile industry and exports of Pakistan.

The rising exports and success of Bangladesh’s Ready Made Garments industry in the world markets is analysed below. The analysis give evidence that pattern of world trade is not being dictated by static comparative advantage in terms of cheap labour and factor endowments but by competitive advantage in terms of speed of delivery, quality and ethical sourcing. There are two major phases in the growth of ready made garments industry (RMG) in Bangladesh, pre 1990-91 and post 1990-91. The hallmark of the first period growth is market access to United States through quota allocations and of second period is tremendous rise in exports to European Union’s quota free and duty free markets [Chaudhri (2000)].

RMG share in total exports increased from 12 percent in 1984-85 to 50 percent by 1990-91 and 73 percent by 1997-98. The initial quota free status was granted to Bangladesh, as its RMG industry was underdeveloped. In 1985 many countries imposed quota restrictions under Multi Fibre Arrangements. The competitive strength of the industry comes from the cheap female labour force. There too were external factors and conducive and consistent government policy guidelines contributing in the growth of the sector. In a traditional Islamic Society to bring women out into the factories and as well as to create mid level managers was an arduous task. It was initiated in 1979 when ‘Desh’ Garments and Daewoo of South Korea collaborated for a training programme in Korea; 130 people in all got training among them 14 were women [Chaudhri (2000)]. This heralded the emergence of highly skilled labour force of men and women in the industry.

Bangladesh’s entrepreneurs took advantage of MFA and Generalised System of Preferences (GSP).[6] Through these arrangements it entered successfully into US, Canada and E.U markets. Further, there was a parallel growth of large number of managers and skilled workers accompanied by growth in banking, insurance, shipping and transport sectors. The linkage effects would remain significant for the future developments of Bangladesh and the RMG industry. Government role was market friendly and facilitated the private sector [for details see Chaudhri (2000)]. Continuity of policies, export enhancing schemes and incentives were the factors from the government side that contributed in the growth. Table 3, gives evidence for the competitiveness of Bangladesh in price terms. Bangladesh has a comparative advantage in wages among its SAARC competitors; unit labour cost is lowest for Bangladesh.

Table 3

Unit Labour Cost 1994

Countries	Unit Labour Cost ($/Shirt)		
Bangladesh	0.11	298	2536
India	0.26	668	2592
Pakistan	0.43	1143	3100
Sri Lanka	0.79	570	719

Source: World Bank (1996), cited in [Chaudhri (2000)].

Bangladeshi products are generally the lowest among the major suppliers to USA in their respective categories. Knitted men’s shirt and Women’s sweater are 21 percent and 42 percent low in price than the average U.S import prices. For woven men’s shirt China’s price is around 60 percent more and of India’s around 30 percent more per piece than Bangladesh; these two are regarded as low priced suppliers in international markets. At present neither India, China and Pakistan are competing Bangladesh in low end products imported by United States, but these countries would need to realign their strategies in post 2004 world.

[6]EU determines the market access of RMG products through a system of GSP since 1992. Basic rule of present GSP of 1995 was, duty free access were provided to Bangladesh if accompanied by Certificate of Origin of Least Developed Country.

Bangladesh started to prepare for a quota free world in 1997; Need Assessment Study was started. The six multilateral institutions IMF, UNCTAD, UNDP, the World Bank and WTO prepared a joint integrated response to that need assessment. An integrated country programme was prepared to strengthen the supply capacity of Bangladesh in 1998. The implementation remained slow, it was in January 2000, that Round Table Meeting (RTM) was convened. This RTM was first of its kind in Asia. It identified Trade Related Technical Assistance Projects as Priority projects. A Fashion Institute funded by the World Bank was established and another Italian funded Fashion Institute would be established soon.

Bangladesh recognises its handicap that it is in the category of the countries with no backward linkage industries. It imports textiles for manufacturing clothing. In quota free era, textile-producing countries have likely to be an advantage of forward linkage clothing industries. Countries like Bangladesh will face difficulty in being competitive, as lead time[7] would double. It is counting on the model of Thailand, which imports textiles and exports clothing and its industry is highly competitive with high productivity levels [Chaudhri (2000)]. Bangladesh is gearing up to modify its RMG sector to highly productive and technologically superior industrial sector. It further has advantages of cheap skilled labour and of lower power tariff that account as significant portion of production cost.

Diversification of products, search of new export markets, high priced fashion clothing, upgrading of labour skills, by reducing custom delays, by solving infrastructure problems and by lending on soft terms to performance orientated industries it looks highly probable that the RMG sector of Bangladesh would be able to compete after the abolition of quotas in the year 2004.

Analysis of Indian Textile Industry is significant in the regional context of future competitiveness. Its textile industry adds 14 percent to industrial production and 35 percent of country's export earnings. It has wide sectoral dispersal and uses variety of Fibres, natural as well as man made, synthetic and blends of one or more Fibre [Ministry of Textile, India (2001)]. The state by 1980's discriminated against the mill sector in favour of power loom sector, which was perceived as an engine of growth. This happened as result of preferential import and export quotas for the power loom sector.[8] It was in mid 1980's that government concentrated to revitalise textile industry into an export oriented sector.

The spindleage capacity has increased from 26.59 million in 1989-90 to 34.90 million by the end of 1999 (Ministry of Textile, India). A notable feature of this growth is the trend of setting 100 percent export orientated spinning units. The production of cloth showed an increase of 6.1 percent during the last five years. Manufacturing set up in India is distinctive in the way that large manufacturers give contracts to fabricators in the informal sector, such contract are seasonal and these at

[7]The time taken to deliver export orders is termed as Lead-time.
[8]Anubhai and Motai, 1994 in *Country Study—India, 2000*, Trade and Development Centre.

one side reduce cost of production and on other hand contribute as variable cost instead of fixed cost. In the phase 4 of MFA that was in late 80s growth of exports was higher in value and quantity terms to non-quota countries than to the markets of quota countries [Kumar and Khana (1990)].

Industry in the last decade has grown predominantly on the basis of export demand, that growth is more vivid in small-scale sector. This is mainly concentrated in three cities, Bombay, Delhi and Madras; giving it an efficient communication system and exposure to international trends and markets. The share of value added products in exports has increased from 0.6 percent in 1960 to 12 percent in 1987.

A significant feature of the industry is improvement in the quality of the fabric, particularly to the non-quota countries like Australia, Japan and Russia. Large Indian firms are using services of foreign designers and have changed designs from ethnic India to western designs and motifs.

Preparing for 2005

India very timely recognised that it requires bold initiatives on part of the industry and the government, in areas such as improvement in technology and productivity, in Information Technology (IT) for improving designs and enlarging business in the quota free world.

The government launched Technology Up gradation Fund Scheme (TUFS), in April 1999 that aims to give industry access to capital at internationally competitive rates of interest for improvements in the industry. 129 textile units have been sanctioned loans for an amount of Rs 1485 crore under the scheme (Ministry of Textiles, India). The ministry declared the year 1999 as IT Year in Textiles it propagated the advantages of integration of IT solutions, including ERP solutions, CAD/CAM and other IT based tools for improving the speed and quality of production and for cutting down overall time overrun. In the same year Economic Research and Market Intelligence Unit (ERMIU) was established in the ministry to function a storehouse of data for textiles and related matters; to provide periodic issue based including research findings as policy inputs to the government.

India is concentrating heavily on improving Fibres and handicrafts as part of its vision for competitive textile markets of near future. Textile Ministry has taken initiative for producing Eco-Friendly Textiles so that Indian textiles conform to global environment standards relating with the use permissible dyes and chemicals. For that purpose, 20 laboratories are working in India at present.

National Institute of Fashion Design (NIFD) was set up to improve fashion designing and quality of clothing, that is to meet the demands of western markets. Another institute to be set up is Indian Institute of Carpet Technology for increasing potential of the carpet manufacturers. Textile industry is concentration on finding new markets, raising share to existing non-quota markets and with T & C vying to increase export share of handicrafts, silk products, wool and woollen products. A policy change in 1997 allowed up to 51 percent of foreign ownership in the spinning, weaving and processing sectors [WTO (1998)].

India currently exports 30 percent of its apparel to non-MFA binding markets and government aims to increase this share up to 50 percent. This explains how India's share in world exports of clothing rose from 1.5 percent in 1980 to 2.56 percent in 1994 [Asian Textile Flash (1995)]. There exist now high profile firms such as Mafatlal industries, Birla VXL and Coats Viyella who have highly skilled labour force often trained abroad and state of the art manufacturing capabilities. Mafatlal for instance is one of the largest exporters with foreign sales of Rs 3.9 billion per year. Industry has model in such firms and many among them are optimistic to join that group in couple of years [Trade and Development Centre (2000)].

Currently, the biggest exporter of textiles and clothing is China, still not full member of World Trade Organisation but would be a member by the mid of current year. Textiles and clothing grew much more rapidly in East Asia than in any other part of the world. In 1950s it was Japan, in late 1960's and 1970's it were Korea and Taiwan and then after economic reforms of 1979 China emerged as leading exporter of textiles and clothing. Decline of these industries from one centre to other was because comparative advantage shifted from labour intensive to capital-intensive industries [Anderson (1990)]. This is in conformity with the Product Cycle theory [Vernon (1966)] that elaborates that countries move from labour intensive manufacturing to capital-intensive products in the course of economic development.

The large jump in China's share since 1978 continues to increase due to the comparative advantage in labour intensive manufactures. Its exports of T &C were $ 364 million in 1965, which rose to $ 4,089 million in 1980 to $ 23,204 million in 1990 and $ 39,485 in 1998 (World Bank). As Korean and Taiwanese firms adopted in 1980s new capital-intensive technologies. China's penetration into the world markets of textiles and clothing since its opening up is nothing but dramatic.

The reason for faster growth of NIE's in textiles and clothing is the composition of fibre in their industries. As Korea and Taiwanese textile industries in 60's were cotton based, later they started using more synthetic fibre and imported it from Japan. Japan shifted from labour intensive to capital-intensive production. Similarly NIE's became exporters of Synthetic fibre and yarn in 1990's. The successful structural transformation in the region including Japan made way for China in world markets for labour intensive products.

China's entry into the global trading system would enable its textile industry to grow faster and increase further its exports. By all likelihood China is net winner in the quota free world beyond year 2004. It has a competitive industry, skilled labour force, low cost of production and has allowed foreign direct investment in the textile sector. It's an economy with the highest growth rates in the world, currently 8 percent that is highly likely that it will sustain in the future. China has developed reputation of a rising economy, reliable in business and of low cost supplies, that has the entire necessary infrastructure and will to improve qualitative aspects of exports.

Competitiveness of Pakistan

The largest industrial sector of Pakistan as Naheed Zia Khan (1999), observes, “There is little doubt that the primary problem behind the poor performance of Pakistan’s T&C exports is an inadequate domestic supply response rather than a lack of export opportunities”. In spite of the enormous advantages that Pakistan textile industry enjoyed in last 53 years, it has so far failed to achieve competitiveness in terms of quality, value addition and price optimisation through Balancing, Modernisation and Restructuring (BMR). Pakistan is still in the stage of planning and analysing the complexities involved in the uncompetitive textile sector of Pakistan. The most recent effort on part of policy planners and Ministry of Commerce is Textile Vision 2005, which is yet to be made public. The draft copy of the vision provides approach of policy planners and expected interventions in the textile sector.

Textile Vision 2005 recognises Pakistan’s textile industry’s image in the international markets as “low quality, low price, and non consistent and unreliable supplier” (Textile Vision, p. 42). From this dismal image to convert it into an export orientated competitive industry, whose exports remained almost stagnant[9] in last five years, textile vision aims to transform textile sector 5th biggest T & C exporter in Asia in year 2005. From current rank of 8th (Table 4 and 4a) where Pakistan has largest percentage of quota increase in U.S market and biggest share of quota in E.U. it assures position number 5 when there will fierce and brutal competition in those markets where Pakistan currently has privileged success. It however recognises India as the second largest textile exporter after China in Asia. How India will achieve that and what mechanism Pakistan is expected to opt is analysed here. Three different scenario in the Vision 2005 are estimated,

Low Road.
Doable.
High Road.

High Road scenario has high aims and targets, logically unattainable with existing situation in span of just five years. It assumes growth in garments made ups by 20 percent annually and cotton production will be 16 million bales. Whereas in the history of cotton production except for one year FY 1992 yield was 12.7 million bales, average crop ranges around 10 million bales [Mahmood (1999)].

In the first (low road) scenario it is assumed that exports will maintain historic growth rates, ironically the time period of that historic growth is not mentioned (exports remained stagnant in last five years). It further assumes no change in

[9]Exports have fluctuated between US$ 4.5 to 5.5 billion in last five years.

Table 4

Top Ten Asian Countries

Rank	Country	1998 $ Million
1	China	39485
2	Korea	15577
3	Hong Kong	10980
4	Turkey	9900
5	India	9275
6	Japan	6260
7	Thailand	4965
8	Pakistan	4897
9	Indonesia	4862
10	Bangladesh	3571

Source: Textile Vision 2005, Ministry of Commerce, Government of Pakistan.

Table 4a

Top 10 Asian Countries

Rank	Country	2005 and Million
1	China	55641
2	India	21533
3	Korea	16733
4	Turkey	16416
5	Pakistan	13815
6	Hong Kong	10611
7	Bangladesh	6581
8	Thailand	583
9	Japan	4949
10	Indonesia	4893

Source: Textile Vision 2005, Ministry of Commerce, Government of Pakistan.

product or market mix. With these assumptions becoming 5th largest exporter in Asia is almost impossible. In this situation, provided other things remain constant, that textile industry does not improve in quality and productivity it is highly likely that Pakistan might lose its existing share in world markets against the countries who are better prepared and are constantly innovating in textiles.

In second scenario (doable) there are again vague and undefined assumptions that Pakistan will capture 0.5 percent share in the Japan and Hong Kong markets, without specifying in which categories of T & C. The existing pattern in these markets negates the assumption as Indian share is rising and Pakistan's have a declining pattern. It is further assumed that exports of garments to Middles East will grow at 3 percent annually. Middle East is non-quota market, Pakistan should have increased its exports to Middle East but the statistics for the last years tell a contrary story, Pakistan share in the market is declining and China is continuously increasing its exports from low value to high value added clothing to Middle Eastern markets. Further, it assumes consumption of 13 million bales of clothing. It also requires:

(i) a substantial increase in cotton growing area and in the crop productivity; and

(ii) revival of sick units or establishment of new units.

Both factors currently seem quite impossible, as rising costs of inputs both for agricultural sector and industrial sector could be a serious obstacle in achieving these targets. For revival of sick units there still has to come concrete measures from government side and rescheduling packages from the financial institutions. Banking sector currently is in no mood to pass credit to industries with weak balance sheets.

Page 13, of the document discusses growth rate in different markets, in traditional markets growth rate is projected to increase by 3 or 4 times, while for other markets it is hardly expected to double. The right direction could be exploring more and more new markets like Australia, New Zealand, South Africa, Russia and Central Asia. The scenarios estimate investment requirement of Rs 151 billion, 280 billion, and 333 billion. Whereas no source to finance this amount has been specified.

Recommended Interventions

Despite the statistical projections most important is how to transform an obsolete, dependent and low value added sector into a modern and competitive sector in post quota free world. The recommended interventions aim to achieve the above target. A closer look at them provides the information that diagnosis of problems in cotton, spinning, weaving, processing and apparel is more or less realistic. But the recommended interventions and restructuring ideas are apparently utopian. It for example recommends establishment of textile cities in Karachi and Lahore, what benefits are going to be achieved through that remains unexplained. The government announced cash awards on export performance; no payments have been made so far under this scheme. So far export performance largely is dependent upon rent seeking of certain industries, the need is to provide atmosphere for genuine competition.

There is absolutely no indication to face the challenge going to be created through enforcement of ISO 14000 that is conformity with environmental standards. It has real potential to be new form of trade barrier in developed markets. Another likely barrier is the issue of child labour, in that Pakistan has been to claim some success on international forums.

Vision 2005 is silent, that when duty free imports textiles will enter into local market in 2005, which absorbs 60 percent of textile production valuing over Rs 393 billion (APTMA, 98-99), how textile manufacturers will be able to keep that share in presence of Indian, Bangladeshi and Chinese products who have strong reputation for quality and low cost in the international markets.

Major interventions in spinning, weaving, processing and apparel are described in the document [for details see Textile Vision (2005)]. These interventions are supposed to actively take place in next four years and that process has yet to start. There is very low emphasis on research in textile sector, the responsibility for that has been granted to the private sector, contrary to the international patterns. Research in key areas is either completely sponsored or initiated by the public sector. The document does not any responsibility of the government for that purpose. Financing for these interventions is fundamental issue, in the ongoing BMR programme it has surfaced as a key constraint. Bankers are reluctant to finance a sector that has proven record of being bad borrowers.

V. CONCLUDING REMARKS

Textiles and Clothing is the leading industrial sector of Pakistan. It has backward linkages with the agricultural sector, has largest share in manufacturing and has forward linkages in presence of export-orientated enterprises. In any eventuality of external or internal upset, this sector is bound to cripple the whole economy. The care and protection it got from the successive governments and particularly from international markets in form of quotas is bound to whither away in year 2005.

The success of exporters like Bangladesh in last decade and preparedness on part of India that was initiated well in time, by now these economies have attained a level where they have well-established international linkages and better knowledge of the markets. China seems to be an exception in the past and in the future trends too, the rate of growth of its economy and exports is unlikely to be followed by South Asian economies. Its top position as textile exporter seems not to be threatened by post 2004 world, rather her entry into the World Trade Organisation would boost its exports to developed markets of United States and European Union. That would be at the cost of less competitive exporters.

Restructuring of the textile sector in Pakistan is still at the documentation stage, again lagging in timely practical initiatives. If compared with India and Bangladesh, Pakistan has yet to start its modernisation programme of textile sector, Vision 2005 has yet to be made a public document. The draft document takes it granted that Pakistan’s textile industry would keep its share in domestic market after duty free textile imports enter into the local market. This assumption seriously needs to be challenged. Products from neighbouring countries if competed with local products; our industry is in serious danger to lose its share of the domestic market. The rising costs of production would make competition more tough, in cases where other products were allowed to import freely (despite having import duties) Pakistani entrepreneurs failed to compete with the imported products.

The current BMR programme further supports the above arguments as financial institutions are extremely reluctant to generously advance loans to the textile sector

[Rana (2001)]. Attention is still focused on the modernisation of spinning. If the trend continues there is all likelihood that garments, weaving and apparel sectors would lose competitiveness in the quota free world; turning textile sector into only a yarn exporting sector.

The assumptions in the Vision 2005 are placing many times increase in the exports to US and European Union markets; optimism is the key word of the whole document, optimism without being realistic is an immature attitude. Mexico is member of NAFTA and has geographical proximity to United States; same advantage goes to Turkey that is aspiring to be European Union member. Both these countries have shown marvellous growth in their value added textile exports. It seems highly likely that with minimum lead-time and less transaction costs, these could be the major gainers after China. Textile Vision ignores the environmental standards which are going to be associated with exporters, Pakistan lacks research and testing facilities for implementing internationally required environmental standards on Textiles and Clothing.

The likely competitors of Pakistan have allowed foreign direct investment in their textile sectors. Bangladesh is attracting huge investments; there is visible growth of foreign investment in India too. Pakistan again lacks any progress in having joint ventures in textiles sector. Success to do so could be helpful in being more competitive and in acquiring technological edge. Vision for the future of textile industry has ignored any progress for silk products, handicrafts and carpets. Again, India is concentrating heavily to improve these sectors of its industry. Iran and Turkey too have edge in these areas; with proper infrastructure and with research facilities for the carpet manufactures this could be the good addition in the export earnings of Pakistan. The traditional advantage of cotton producing country for being a competitive exporter of textiles is no more there, examples of Bangladesh, Thailand and Mexico have refuted this traditional argument, Pakistani textile industry needs modernisation, improved technology and productivity and some realism too.

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Comments

The paper addresses a very important aspect of the potential threat to Pakistan's textile export after year 2005 when quota will be abolished. With the end of quota regime, textile importing countries around the world will face fierce competition for capturing the markets. The paper argues that while its competitors in the textile, like China, India and Bangladesh have well prepared themselves for a quota free world, Pakistan lacks any serious efforts, both on the part of government and private sector, to enhance or even maintain its export share/competitiveness. Although the paper gives a detailed description of textile sector in India, China and Bangladesh, its assessment regarding competitiveness for Pakistan is rather subjective.

The paper also pointed out the non-quota problem or qualitative restrictions like environmental issues, child labour issues and lack of diversification in Pakistan's export as major factors putting Pakistan at disadvantages position viz-à-viz its competitors. These issues have also been discussed in the context of Pakistan Textile Vision 2005. However, a concrete conclusion can be made through comprehensive and quantitative analysis focussing on the present structure of export, the extent of quality utilisation by not only Pakistan but also its competitors, the potential of intra-regional trade, likely behaviour of domestic textile procedures in industrialised countries, flow of foreign direct investment, particularly in textile sector, etc.

I am raising few questions for discussion and possible improvement in the paper.

First of all it is not clear why the discussion is restricted to only 3 countries. Other significant competitors in textile, especially the East Asian and East European Economies have not been considered in the paper. The major threat in my view will be from these Countries and not only the countries which have been included in the paper. It would have been more interesting and helpful to identify the issue if we had information on total quota, the extent of utilisation of quota in different categories or items of textile export by Pakistan and its competitors to different countries and regions, before any conclusion is made. The countries which have not utilised the quota, what was the reason? On the one hand, this would have given us a clear sense and identification of problems, and a sense as how to remove those, and on the other, the potentials and how to en-cash those.

The few studies quoted in the paper have concluded, with no exception, that Pakistan will benefit from the removal of quota with a range of $ 80 million to $ 1,300 million. We do not find any comments or discussion on these results that under what conditions different studies have reached these conclusions. A recent study by the IMF on Pakistan also indicates that Pakistan's exports will grow but there are some challenges also. The study says that Pakistan will face fierce competition particularly from East European countries who enjoy benefit of low wage skilled labour and are close to European Union market. It seems that the review of literature is incomplete. It is not clear how the authors have concluded that Pakistan will loose after the removal of quota in contrast to all other countries while no quantitative estimations are presented.

It has also not been discussed in the paper, what is the pattern of cotton and textile manufacture during the last few years. The study gives numbers for different period ranging from 1960 to 1999 for the four countries which are not comparable. There is no mention of an improvement in the share of value added Pakistan's export items in total exports in the last few years. The latest numbers show that the share of raw cotton in cotton and textile exports has decreased from 8.4 percent in 1996 to 1.3 percent in year 2000. Similarly, the share of cotton yarn and fabrics have decreased from 46.9 percent to 38.3 percent during the same period. However, the share of value-added textile items has increased from 44.6 percent in 1996 to 60.4 percent in 2000. A further breakdown would be more useful. Similar pattern is witnessed for overall exports as the share of manufactured export has increased while of primary commodities has declined. A comparable discussion on other countries would have told the readers the direction we are going compared to other countries. Countries who have done better, what type of trade regime they were following, support of their governments, tariff/taxation structure, physical and social infrastructure and relative stability of the governments play an important role which is entirely missing from the paper.

It should also be kept in mind that the overall growth of the economies and of the industrial sector as a whole has its impact on export growth where the paper is silent. It is not known, at least through the paper, whether the problem will start after the removal of quota or the problem already exists? We should not be looking for another excuse for our problems. So far, we have been blaming the quota system, and now we are saying that removal of quota will hurt us. For Pakistan the paper devotes major portion to the textile vision 2005. It is not fair to comment on the report, which according to the authors themselves, is yet to be made public. Though it is important to point out the weaknesses in the draft report, I am not sure, whether this forum is the right one where we discuss any thing which is not known or finalised yet. Besides, this, no concrete or specific improvements are suggested in the said report.

Regarding the revival of the sick units, a reasonable progress has already been made to revive those units and the work is still going on. The paper blames the banking sector that it is currently in no mood to pass credit to industries with weak balance sheet. I hope that I read it wrong and the authors are not advising that the banks should be lending generously to industries with weak balance sheets.

The major portion of the paper describes the present situation of 3 countries Bangladesh and China while very little analysis is done. Besides general statement, which is a common knowledge now, that diversification of product, search of new export markets, high price fashion clothing, up-grading of labour skills, reducing custom delays, solving credit availability, no specific areas have been identified. There is no value addition for policy-makers like myself to take concrete steps to get ready for 2005. It is my view that the authors have not done justice to the title and have not told us “How to Live in a Textile Quota-free World” and it needs a second look.

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