DEMAND FOR TEXTILE AND CLOTHING EXPORTS OF PAKISTAN

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I. INTRODUCTION

For a long time, textile and clothing have played an important role in the economic development of the country. Its development has been the major economic objective in industrialised countries as well as the less developed countries (LDCs). The trade in this sector is functioning in the international trade environment that is increasingly subject to protectionism, in the form of Multi-Fibre Arrangement (MFA),[1] restraining the textile and clothing exports to the large markets of Western Europe and North America. In the last round of GATT negotiations (1994), Uruguay Round (UR) it has been decided that these restrictions will be phased out[2] within the span of ten years, by 2005. An important change brought out by the agreement on textile and clothing (ATC) will be the reduction of non-tariff barriers (NTBs). According to one estimate Pakistan will have an additional market access of about 62 percent and 67 percent for textile and clothing respectively with the eradication of MFA in 2005 [Khan and Mahmood (1996)]. Another estimate by Ingco and Winters (1995) the gain for Pakistan would be more than US$ 500 million with the removal of MFA. Taking account of the tightness with which MFA has bound Pakistan, this gain might be around US$ 1-1.3 billion [cited from Mahmood (1999)]. According to Trela and Whalley (1990) estimates, Pakistan would gain $0.008 billion. with the removal of both tariffs and quotas. However, with the removal of only bilateral quota and not the tariffs, most of the developing countries including Pakistan would be worse off. Thus indicating the advantageous terms of trade for the developed country as a result of not eliminating the tariffs.

Textiles and Clothing, no doubt is the largest industrial sector of Pakistan from the investment, employment and export point of view. It accounts for approximately 27 percent of total industrial output, absorbs about 38 percent of industrial labor force, and contributes around 60 percent to export earnings [Pakistan (1999-2000)]. However, despite its impressive contribution at the

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[1]Network of bilateral agreements imposing restrictions on exports of textiles and clothing from developing to developed countries.

[2]In three stages (1995-97, 1998-2001, and 2002-2004).

national level, the share in the world exports of textile and clothing is marginal. And for clothing in particular, Pakistan's share is almost negligible.

The objective of this research is to see the trade prospects for Pakistan's textile and clothing exports in the international market at the time when it has been decided in the WTO Agreement on Textiles and Clothing that the trade in this sector from the developing to developed countries should be completely free from quantitative restrictions ("integrated") and governed by the normal GATT rules by 2005. The paper will also review the current status of Pakistani textile industry.

II. EXPORT PERFORMANCE OF THE TEXTILE SECTOR

Textile industry is the major source of export earnings for Pakistan. Its share in the total merchandise exports of Pakistan, (though substantially declined since 1970) is still above 50 percent, (Table 1). As far as the share in world total is concerned (Table 2), it fell from 2.6 percent in 1970 to 1.9 percent in 1980. But since then it is rising and reached 2.7 percent in 1997 (with minor fluctuations in the last few years). Apparel (clothing) exports are relatively new for Pakistan. Its share in the total merchandise exports of Pakistan is around 22 percent (Table 1). But in the world total from a marginal share of 0.08 percent in 1970, its share has risen to only 1.0 percent in 1997(Table 2).

It is important to mention here that the major share of our textile exports goes to U.S.A., E.U., Canada and Japan. U.S.A. is the largest market for our textile products. The exports to these economies (except for Japan) are in the form of quotas.

III. COMPARISON WITH OTHER DEVELOPING COUNTRIES

The small share of Pakistan's textile exports in the world total is the result of increasing world competition. Their performance is in sharp contrast to that of other Asian exporters particularly in Southeast Asia, advanced textile exporters like, China, South Korea and Hong Kong[3]. What is remarkable for these countries is the increase in their world market share in the presence of institutional restraints like, MFA (multi-fiber arrangements).

It can be seen that from 1980 to 1997 (Table 3 and Table 4), Pakistan's share in world textile trade has increased by 1.1 percent. Compared to it, the share of countries like Hong Kong, China, and South Korea has increased quite substantially, by 5.6, 3.5, and 3.8 percent respectively. At the same time, a noticeable feature is the decreasing share of Japan, U.S.A, France, U.K., Netherlands and Germany. In other words, decrease in the world share of textile

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[3]Hong Kong—now part of China.

Table 1

Contribution of Textile and Clothing in the Total Exports of Pakistan

Years	Total Exports (Rs Million)	Textile Exports		Clothing Exports	
		Value (Rs Million)	% Share of Total Exports	Value (Rs Million)	% Share of Total Exports
1970	1892	1523	80.51	24	1.26
1971	2225	1338	60.12	38	1.71
1972	5776	2344	40.57	87	1.50
1973	9533	4396	46.11	168	1.77
1974	10970	3713	33.84	297	2.71
1975	10416	3742	35.93	307	2.95
1976	11552	4297	37.19	455	3.94
1977	11766	4524	38.45	535	4.54
1978	14605	5831	39.93	535	3.66
1979	20355	9811	48.20	782	3.84
1980	25923	8672	33.45	1020	3.93
1981	28538	12801	44.85	1346	4.72
1982	28275	11009	38.93	1706	6.04
1983	40320	17266	42.82	2965	7.35
1984	35994	14064	39.07	3442	9.56
1985	43645	15484	35.48	4078	9.34
1986	56336	21062	37.39	7709	13.68
1987	72583	32277	44.47	10562	14.55
1988	81348	32454	39.90	11214	13.79
1989	96646	41450	42.89	14830	15.34
1990	121345	57806	47.64	22011	18.14
1991	155398	76163	49.01	28775	18.52
1992	183599	90048	49.05	36195	19.71
1993	187787	98543	52.48	44550	23.72
1994	255200	122176	47.88	49366	19.34
1995	252714	134641	53.28	52686	20.85
1996	335313	177473	52.93	70029	20.88
1997	359046	189455	52.77	77489	21.58
1998	382477	196295	51.32	81546	21.32
1999	399329	199695	50.01	91799	22.99

Source: International Trade Statistics (Various Issues); International Financial Statistics, Yearbook (1997, 1999).

Table 2

Performance of Textile and Clothing Exports of Pakistan Internationally

Years	Textile Exports			Clothing Exports		
	World (Million US $)	Pakistan (Million US $)	% Share of Pak. in World Total	World (Million US $)	Pakistan (million US $)	% Share of Pak. in World Total
1970	12418	320	2.58	6440	5	0.08
1971	14309	281	1.96	7650	8	0.10
1972	16898	270	1.60	9785	10	0.10
1973	23189	444	1.91	12582	17	0.14
1974	27958	375	1.34	14924	30	0.20
1975	26477	378	1.43	16758	31	0.18
1976	30720	434	1.41	20750	46	0.22
1977	33913	457	1.35	23560	54	0.23
1978	40711	589	1.45	28340	54	0.19
1979	49665	991	2.00	34360	79	0.23
1980	54990	876	1.59	40590	103	0.25
1981	55380	1293	2.33	41097	136	0.33
1982	50604	929	1.84	39942	144	0.36
1983	51105	1316	2.58	40301	226	0.56
1984	54256	1001	1.84	45723	245	0.54
1985	55690	972	1.75	47111	256	0.54
1986	68025	1265	1.86	60903	463	0.76
1987	83513	1855	2.22	77557	607	0.78
1988	85120	1803	2.12	86030	623	0.72
1989	90530	2018	2.23	92670	722	0.78
1990	104750	2663	2.54	106450	1014	0.95
1991	109430	3200	2.92	115830	1209	1.04
1992	117480	3590	3.06	131480	1443	1.10
1993	114867	3506	3.05	132094	1585	1.20
1994	132330	3997	3.01	146313	1615	1.10
1995	152421	4255	2.79	160460	1665	1.04
1996	151969	4919	3.24	171274	1941	1.13
1997	172341	4616	2.68	190560	1888	1.00

Source: International Trade Statistics (Various Issues).

Table 3

Leading Exporters of Textiles, 1997
(Billion US$ and Percentage)

	Exporters	Value (1997)	Share in World (1997)	Share in World (1993)	Share in World (1980)	Share in World (1963)
	World	172				
1	Hong Kong	14.7	8.6	9.7	3.0	1.6
2	China	14.0	8.1	7.5	4.6	1.5
3	Korea, Rep. of	13.4	7.8	7.8	4.0	*
4	Germany	13.3	7.7	10.3	11.4	7.6
5	Italy	12.9	7.5	8.7	7.6	7.6
6	United States	9.2	5.4	5.2	6.8	7.0
7	France	7.6	4.4	4.7	6.2	9
8	Belgium-Luxembourg	7.0	4.1	5.5	6.5	7.3
9	Japan	6.8	4.0	5.8	9.3	12.9
10	United Kingdom	5.7	3.3	3.5	5.7	10.1
11	Netherlands	5.2	3.0	2.3	4.1	5.1
12	India	5.0	2.9	3.0	2.1	7.7
13	Pakistan	4.6	2.7	3.0	1.6	1.3
14	Turkey	2.8	1.6	1.4	*	*
14	Indonesia	2.3	1.3	2.3	0.1	*
	Above 15	124.5	72.4	80.7	73	78.7

Source: International Trade Statistics (1997); GATT (1994) and GATT (1984).
Note: * Countries not among the major exporters.

Table 4

Leading Exporters in Clothing, 1997
(Billion US $ and Percentage)

	Exporters	Value (1997)	Share in World (1997)	Share in World (1993)	Share in World (1980)	Share in World (1963)
	World	191				
1	China	31.9	16.7	13.9	4.0	*
2	Hong Kong	23.1	12.1	16.0	12.0	0.24
3	Italy	14.9	7.8	8.9	11.3	15.5
4	United States	8.7	4.6	3.7	3.1	4.1
5	Netherlands	8.5	4.5	1.9	2.2	3.2
6	Germany	7.3	3.8	5.1	7.1	6.8
7	Turkey	6.7	3.5	3.3	0.3	*
8	Mexico	5.6	2.9	0.9	*	*
9	France	5.5	2.9	3.4	5.7	9.1
10	United Kingdom	5.1	2.7	2.6	4.6	5.0
11	Korea, Rep. of	4.7	2.5	4.6	7.3	*
12	India	4.3	2.3	2.7	1.5	*
13	Thailand	3.7	1.9	3.1	0.7	*
14	Portugal	3.3	1.7	3.1	1.6	*
15	Indonesia	2.9	1.5	2.6	0.2	*
	Above 15	136.2	71.3	75.8	61.6	43.9
	Pakistan	1.9	1.0	1.2	0.3	*

Source: International Trade Statistics (1997); GATT (1994) and GATT (1984).
Note: * Countries not among the major exporters.

exports from the developed countries as suggested in the standard theory of trade and development[4]. In clothing Pakistan's share has increased from 0.3 to only 1.0 percent from 1980 to 1997. On the other hand, China's share has increased from 4.0 to 16.7 percent. At the same time Mexico's share has increased from 0.9 in 1993 to 2.9 percent in 1997. In recent years Pakistan's performance is even poor rather than increasing its share has fallen from 1.2 in 1993 to only 1 percent in 1997. The share of developed countries (except for USA and Netherlands) in the clothing exports (just like textile exports) has decreased, indicating the shift in comparative advantage.

What lead these countries (South East Asian) to achieve the position in the world market is their resourcefulness (in terms of efficient methods of production, capital intensive technology, and well-trained manpower); adaptability—to the changing conditions i.e., changes in the patterns of world demand, changes in technology; and also the favorable government policies. These countries have diversified their product range and gone in for highly automated capital-intensive technology. As a result they are producing goods close substitutes to the DCs capital-intensive products. But the exports of Pakistan are not even the close substitutes to these countries products[5].

IV. PAKISTAN'S TEXTILE INDUSTRY:
SOME FEATURES

In Pakistan's Textile Industry emphasis is on the spinning activity. Major portion of yarn produced (of good quality) is exported[6] rather than utilising large part of it for producing high value-added products like fabrics, or garments. This is an important structural weakness of our textile industry. This yarn imported by countries like Japan (major export market for yarn), Hong Kong, and South Korea[7] who have well-flourished textile industry convert it into high value-added products and fetch much higher prices in the international market. These countries do not grow cotton, but they have well-established textile industry because they have invested in modern manufacturing technology as well as in qualified and well-trained work force. Their efficient methods of production have enabled them to overcome the handicap of imported yarn. Whereas in Pakistan, textile industry continues to suffer due to lack of investment, and well-qualified work force, despite having the advantage of cotton and labor.

In the weaving sector (organised mill sector) the installed loomage capacity has kept on shrinking from 30,000 in 1971-72 to 10,000 in 1998-99 [Pakistan (1999-2000). Out of which only 5000 are working/or effective. On the

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[4]For details see Anderson (1992).

[5]According to Faini (1995) only the clothing exports of Korea, Hong Kong, and China are the close substitutes for industrial countries products.

[6]In 1998-99, yarn exports were Rs 47421 million, which is 24 percent of textile exports, 16 percent of (textile and clothing) exports and 12 percent of total exports.

[7]These countries import almost 60 percent of Pakistani yarn.

other hand the number of spindles have increased in the same period from 2.9 million to 8.3 million, out of which 6.6 million are effective or working. This implies that the organised mill sector has made an utmost shift towards spinning and almost gave up efforts to develop or modernise the weaving sector. But this decline of fabric production in mill is compensated by the production in the non-mill sector. More than 80 percent of our cloth is produced in this sector. But the problem with this non-mill sector is they have low technology power looms in their units, which mostly produce narrow width poor quality gray fabrics, which is sold at a lower price.

No doubt, Multi-fibre Arrangements (MFA) leads to harmful consequences for the textile industry of Pakistan. For instance, it stalled modernisation of the sector, as the government provided incentives for expanding low-cost power loom sector at the cost of an organised mill sector, to reap the advantages of low-cost. The resulting feature was the technological backwardness of Pakistan textiles (Chaudhry and Hamid: 1988). Encouragement of the power loom, leads to the decline in mill production and consequently closure of the huge installed capacity [APTMA (1995-96)].

As far as the garment production in Pakistan is concerned, the highest value-added product among the textile group, but the price we are getting for our products is less compared to other countries. According to one estimate 70 percent of these units are in the unorganised sector, producing cotton-made articles. These units do not have modern machinery and use the non-mill made cotton cloth. This may be one of the reasons that the price we fetch for our apparel exports is low compared to other countries.

An important change can be noticed in world trade, i.e., the shift in favor of clothing. In fact clothing exports have now become the highest growth sector in world trade, exceeding the value of textile exports. In 1997, world exports in textiles worth $172 billion, and clothing exports were of $191 billion worth. However, in 1980, world exports in textile and clothing exports were $55 billion and $41 billion of worth (Table 2). So Pakistan also needs to focus more on the garment exports to increase its world share.

The content of man-made/ or synthetic fibres in the textile products of Pakistan is marginal only 11 percent (Table 5). It can be regarded as a

Table 5

Consumption of Cotton, Man-made (Synthetic) Fibers in Textile Productions of Pakistan (in Percentage)

Years	Cotton	Man-made
1980-81	0.92	0.08
1984-85	0.90	0.10
1995-96	0.88	0.11

Source: Pakistan Textile Journal (1996: 3) and APTMA (1995-96).

significant difference between Pakistani exports and the successful North East Asian countries. The usage of synthetic fibres in their textile products is very large e.g., in Korean products more than 70 percent. As mentioned earlier, the comparative advantage in textiles and clothing has been declining for the industrial countries and rising for the developing countries as a group (much stronger trend for clothing). However, at the same time industrial countries have a much stronger comparative advantage in capital-intensive synthetic fibers than do developing countries. World demand for these fibers is increasing given the greater durability of these products. Realising the changing trends, North East Asian countries have strengthened rapidly in this product group. It was with the imposition of Long-Term Arrangements (LTA) in 1962 to limit international trade in cotton textiles, that encouraged the firms in, for example, Korea, Japan and Taiwanese textiles firms to switch to synthetic fibers. The same is for China. The country has a strong cotton-base, but at the same time use of synthetic fibers is also increasing[8].

V. TRADE LIBERALISATION

It has been decided in the Uruguay Round, 1994 that the trade in textiles and clothing will be completely liberalised. The restrictions in the form of MFA, 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. So far almost five years have passed and no significant change (positive or negative) can be observed in our textile exports. This might be because most of the liberalisation of more quota sensitive products is concentrated at the end of the phasing period. The quotas are imposed mostly on our high value added products (like fabrics, garments etc)[9]. As said earlier, this has badly affected the growth of textile industry and has reduced competition. As far as the utilisation of these quotas is concerned "Pakistan has not been always able to utilise existing quotas due to the problems in quota administration" [Khan (1995)]. There are also fears that if the liberalisation proves too damaging for the DCs 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, neutralised 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. Along with this,

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[8]For details see Anderson (1992: 41).

[9]Around 27 percent of the textile items.

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, 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[10]. And now with the opening up of Eastern Europe it is expected that the transfer of export capabilities from Europe to developing Asia will be affected. The investors in EU are now concentrating the production of high quality and complex made-up textiles and clothing in Eastern Europe, to take the geographical advantage. Production in Asia is limited to simpler products, like casual wear or other goods for sale in local markets.

Some of the developing countries (East and Southeast Asian) have also adopted the supply side strategy, to reap the benefit of low wages, for labor-intensive activities. The purpose is to circumvent the effects of quota restraints [Spinanger (1995)].

It seems to be very unlikely that the trade liberalisation agreement will ease our access to industrial country markets. Only chance is for those who are already in a better competitive position like the South East Asian exporters.

VI. DEMAND AND SUPPLY FACTORS

This section will do a small exercise to estimate the demand function for the textile exports. It will test the 'small country' hypothesis for the textile and clothing exports of Pakistan.

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[10]Example is the relocation of low wage activities by the German firms in Sri Lanka [details in Lall and Wignaraja (1995)].

Small Country Hypothesis: demand is infinitely elastic with respect to price. And world income has no influence on exports irrespective of the size of the income elasticity of demand.

In order to test 'small country' hypothesis, a simultaneous trade model is specified for the textile exports of Pakistan. A traditional demand function is modeled, with price and world income, along with trade weighted real effective exchange rate (REER) as important determinants. The purpose of including REER is, it will serve the purpose of competitor's price. The demand function is modeled (in log-linear form):

$$\log X^D_t = a_0 + a_1 \log PX_t + a_2 \log REER_t + a_3 \log WY_t + U_t \qquad \ldots \quad (1)$$

where X_t = quantity of textile exports demanded;

PX_t = price of textile exports;

$REER_t$ = real effective exchange rate;

WY_t = world income.

Modeling supply side is a difficult job since the determinants of export supply differ from country to country, in accordance with domestic conditions. In addition to foreign demand and domestic supply, exports are determined in part by domestic demand for exportables. 'In most less developed countries the incentive to export is strongly influenced by complex and continually changing industrial and trade policy measures' [Reidel (1988)]. In other words, supply function modeled for Hong Kong [Reidel (1988); Muscatelli *et al.* (1992)], cannot be used for Pakistan. Following supply function is modeled for the textile exports:

$$\text{Log } X^S_t = b_0 + b_1 \log PX_t + b_2 \log PD_t + b_3 \log NER_t + b_4 \ T + V_t \ \ldots \ (2)$$

Where X^S_t = quantity of textile exports supplied;

PX_t = price of textile exports;

PD_t = domestic price of textile exports;

NER_t = nominal exchange rate;

T = time trend.

Variable descriptions and the estimation procedure (in detail) are in the Appendix.

Following is the demand function estimated for the textile exports of Pakistan:

$$X^D = \ 0.01 \ - \ 0.04 \ PX \ - \ 0.26 \ REER \ + \ 1.59 \ WY$$
$$\qquad (0.06) \quad (0.08) \qquad (0.26) \qquad \quad (0.89)$$
$$R^2 = \ 0.07, \quad DW = 2.52, \quad DF = \text{-}6.05**$$

Where the numbers in brackets below the estimated parameters are *t*-statistics. *DF* (Dickey Fuller) is the unit root test applied to the residuals of co-integration

equations, for testing the null hypothesis of no co-integration in the regression equation. The value of –6.05 is significant at 1 percent, strongly rejecting the null hypothesis of no co-integration. This implies that there exists a stable long run relationship between export demand and its price, real effective exchange rate and world economic conditions. The coefficient of export price is found not to differ significantly from zero. Thus implying infinite price elasticity of demand for textile exports. The coefficient of world income is also not found significant. Results are in confirmation to the 'small country' hypothesis: price elasticity very low (0.04) close to zero. As a "small country" the price of textile exports follows the world price. An implication is supply side policies are equally important.

On the supply side alternative variables are tried as supply side determinants (e.g., wage costs, price of raw material etc), however, variables which are found to be co-integrated to quantity supplied for Pakistan include, export price (unit value index), domestic price of textile and time trend. Estimates are:

$$X^S = -0.02 + 1.13\ PX - 1.33\ PD + 0.84\ NER + 0.01\ T$$
$$(-0.10)\quad (1.66)\quad (-1.69^*)\quad (0.56)\quad\quad (1.49)$$
$$R^2 = 0.38,\quad DW = 2.57,\quad DF = -6.29^{**}$$

The estimated supply parameters all carry the expected sign and are of plausible magnitude.

The results here are similar to the one obtained by Reidel (1988) for Hong Kong[11], insignificant price and income elasticity, implying infinitely elastic demand with respect to price. And as in 'small country', world income has no influence on exports irrespective of the magnitude of income elasticity of demand. But difference between Pakistan and Hong Kong is in the ability to avoid trade barriers and compete in the world market. Non-tariff barriers have stifling effect on the textile exports of LDCs unless they happen to produce high quality goods. Hong Kong has performed very well. There are varieties of non-price effects on the supply side, which have enabled Hong Kong to compete and circumvent trade barriers. This is also true for other Southeast Asian countries. They have avoided the problem highlighted by 'elasticity or export pessimists' [see Prebish (1950); Singer (1950); Lewis (1980); Cline (1982) and Faini *et al.* (1989)], because they happen to produce goods of high quality. These countries have been successful in differentiating their export products by adopting the modern techniques of production, training their manpower. It is also very much clear in the case of Pakistan, product diversification and its quality as well as lack of qualified labor force are big constraints for textile and clothing exports compared to the international demand constraints imposed by the DCs or the changing world environment. These factors will become even more important in

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[11]For the manufactured exports of Hong Kong.

the liberal trading environment in which, textiles and clothing exports are going to enter in 2005. There will be no place for the inefficient industries with obsolete technology. These will be wiped out of world market. There will be no guarantee in the form of quotas. Therefore to survive in that environment we need to go for modern technology and should emphasise on the quality of finished products.

VII. CONCLUDING REMARKS AND POLICY RECOMMENDATIONS

Textile in the west has undergone massive restructuring and has now become more capital intensive. A highly competitive environment is waiting ahead, particularly after the elimination of MFA. Trade in this sector is entering more liberalised and more competitive world. Therefore, to survive in that environment we need to go for modern technology and should emphasise on the quality of finished products. The government should introduce and monitor the global quality standards, ISO 9000 and ISO 14000 in the production of textile products.

Instead of emphasising too much on the spinning activity our industry should focus more on the production of fine quality cloth. Major portion of good quality yarn should be utilised domestically in the organised mill sector for the production of high value added fabric of better quality. And then later this fabric should be used in the production of garments.

Reliance on low technology power looms for the production of fabrics should be reduced and the number of shuttle less looms should be increased which have the capacity to produce wider width superior quality fabric for the international market. In 1990's the installation of these shuttle less looms was initiated in independent units. There number is around 15000, which is not comparable to countries like South Korea, Japan who have more than 50,000 of such looms. The most unfortunate thing is the deep financial crisis faced by this vital value added sector from its beginning. The increase in cotton prices resulting in proportionate increase in yarn price coupled with the increase in the cost of other inputs such as financial changes, electricity, labor, etc. has crippled the financial viability of the shuttle less weaving sector in Pakistan.

As apparels/garments provides the highest value added product among the textile items. Maximum focus should be towards the units producing garments. Our producers in this particular industry should try to adopt (just like in the West) the "Demand for Market Oriented Strategy" i.e., to increase their market power by producing high price fashion clothing. They should go for product differentiation through the promotion of brand names and advertising. And should also try to increase the efficiency of distribution. With an increase in market power they can easily transfer rising cost to consumer in the form of rising prices.

Realising the importance of capital-intensive synthetic fibres (especially from the export point of view) the proportion of these fibres should be increased gradually in our textile products. No doubt our textile producers are aware of this change in world demand. But the hindrance is the availability of such fibres.

In addition to the quality, reliability, efficiency in delivery schedules, sufficiency in well-developed infrastructure in terms of communication, services, export procedures, appropriately trained manpower, material inputs and transport facilities, as well as stable enforceable contracts with foreign investors are also needed. Otherwise instead of any increase in share the maintenance of the current share in the global market would be difficult.

Finally, diversification is needed not only in quality but also in the direction of trade. More than 50 percent of Pakistan's exports are directed towards Europe and North America. This is one of the drawbacks for the low level of Pakistani exports (especially of Apparels). Given the protectionist policies and technological superiority of DCs, Pakistan textiles would certainly be at disadvantage in their markets. It would be worthwhile to workout new markets in other parts of the world, for instance Africa.

In brief, the extraordinary growth achieved by Hong Kong, South Korea and now China depends more than anything on the supply factors of international competitiveness. On the basis of which, these countries are able to exploit the shifting comparative advantage in world textile and clothing manufacture. Only low wages cannot guarantee a cost advantage in textile production. Low capital and energy costs can easily offset them. Prevailing exchange rate can be an important factor, in giving a competitive edge to a country. But this factor lost its importance when other developing countries also depreciate their currency and are better off in terms of product quality. Non-price factors on the supply side plays a crucial role in the export performance of the country.

Appendix

Variable Descriptions:

X = quantum index of textile exports.

PX = unit Value index of textile exports.

$REER$ = real effective exchange rate. It is used as a proxy for the competitors' price of textile exports. The series is generated where weights used in estimation are the share of competitors in world textile trade. Countries included are: U.S.A., U.K., Germany, France, Japan, Hong Kong and South Korea.

WY = weighted world GDP index

PD = domestic price index of textile exports

NER = nominal exchange rate

T = time trend used as a proxy for the technological progress.

Data Sources:

Annual data is used for the period 1973-1996.

Most of the data is taken from the various issues of Pakistan Economic Survey, International Financial Statistics, UN Trade Statistics, and Annual Reports of APTMA.

Estimation Procedure:

First step in the estimation is to determine the order of integration of variables under consideration. The unit root test employed for testing the order of integration is modified Dickey-Fuller test. The test statistics rejects the null hypothesis of non-stationarity of all variables, when first difference variables are used. Thus indicating variables are stationary in first difference and are integrated of order 1, i.e., I (1).

As a second step in the estimation procedure, co-integration regression (for demand and supply relations) is estimated simultaneously, using variables having the same order of integration. To avoid identification problem, which is possible in these kinds of estimations supply function was also estimated in terms of price, but in that situation, right hand side variables were not found to be co-integrated.

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ABSTRACT

This research has seen the trade prospects for Pakistan's textile and clothing exports in the international market at the time when it has been decided in the WTO Agreement on Textiles and Clothing that the trade in this sector from the developing to developed countries should be completely free from quantitative restrictions and governed by the normal GATT rules by 2005. The paper has also reviewed the current status of Pakistan's textile industry.

Textile and clothing is the major contributor to our total exports. But in the international market the share is marginal. The reason is the increasing world competition. The quality as well as the range of goods produced is the major weakness for our textile exports. Therefore, to survive in a more liberalised and more competitive world in which we are going to enter we need to go for modern technology and for the production of high value added goods.