

## **Chapter 3 Activities of Industrial Associations**

### **3-1. Outline**

There are a large number of industrial associations relating to textiles in Pakistan. The main organisations can be classified in the following groups.

(1) Associations relating to Raw Cotton

- a. Pakistan Cotton Ginners' Association
- b. Karachi Cotton Association

(2) Associations relating to Spinning

- a. All Pakistan Textile Mills Association

(3) Associations relating to Weaving

- a. All Pakistan Cotton Power Looms Association
- b. All Pakistan Cloth Merchants Association
- c. All Pakistan Textile Processing Mills Association

(4) Organisations relating to Knitwear and Garment

- a. Pakistan Knit wear and Sweaters Exporters Association
- b. Pakistan Hosiery Manufacturers Association
- c. Pakistan Readymade Garment Manufacturers and Exporters' Association
- d. Pakistan Cotton Fashion Apparel Manufacturers and Exporters Association

With the exception of horizontally organized bodies such as APTMA almost all of these industrial associations are divided vertically into divisions. There are such bodies on a national and regional level.

The following is a consideration of the details of the main Associations. The main functions of these associations include the collection of statistical data, quota distribution, and exchange of industrial information, etc.

### 3-2. Outline of the Main Industrial Organisations

#### 3-2-1. All Pakistan Textile Mills Association (APTMA)

Location : Karachi

Year Founded : 1958

No. of Associate Members : 328

Organisation : Chairman

Vice Chairman (3)

Management Staff (20)

Standing Committees on various subjects (11)

Officials : Secretary General

Additional Secretary (1)

Deputy Secretary (2)

Staff : 36

Branch Offices: (1) Punjab Zone: Lahore

(2) Sind Baluchistan Zone: Karachi

(3) N.W.F.P. Zone: Peshawar

(4) Liaison office in Islamabad.

#### Membership Requirements :

(1) A spinning facilities of 5000 spindles or 1000 Rotors or

(2) Weaving enterprise with more than 200 looms (conventional) or 48 shuttleless looms

#### Membership Fees and Running Costs :

(1) Admission Fee: Rs 50,000, and

(2) Rs 0.50/installed spindle/annum

Rs 3.00/installed rotor/annum

Rs 16.00/installed loom/annum

Rs 64.00/installed shuttleless or air jet loom/annum

(3) R & D

Rs 0.50/spindle/annum

Rs 2.50/rotor/annum

Rs 12.50/loom/annum

Rs 52/shuttleless loom/annum.

(4) Contribution to public relation and publicity

Activities : (1) Regular Meetings : as and when required  
(2) Publications : annual report  
(3) Training : The APTMA Institute of Textile Technology founded in February, 1992 in  
Karachi  
Course : 6 month course  
No. of Trainee : 42 per course  
(4) Other activities :  
- information collection  
- statistic compilation

Facilities : Own office building with complete office facilities

Other Details : Number of total facilities owned by associate members (as of June 1991)

- (1) Spinning facilities:
  - ring spinning machines : 5.58 million spindles
  - open end machines : 74,000 rotors
- (2) Weaving facilities
  - shuttle looms : 15,000
  - shuttleless looms : 3,000

### 3-2-2. All Pakistan Cotton Power Looms Association

Location : Faisalabad  
Year Founded : 1987  
No. of Associate Members : 10,500 (number of workshops 18,000-20,000)  
Officials : One Chairman and one Vice-Chairman, 23 Board members  
Staff : Secretary, Accountanting, Administrative staff (2), Office help, Cleaning staff  
Branch Offices : Karachi, Muhltan, Lahore

Membership Requirements : Private individuals, incorporations, and associations which are not members of the APTMA and which possess between 8 and 199 looms.

Membership Fees and Running Costs : Rs 50/member to become a member and an annual membership fee of Rs 10/loom.

Activities :

Regular Meetings	: Held monthly
Publications	: None
Information Activities	: Publication and distribution of the Government information and industry related information.
Statistical Compilation	: Records of yarn and fabric production, domestic consumption, exports, etc.
Others; petitioning	: Petitions made to related governmental bodies.
adjustments	: Adjustments negotiated between members
guarantees	: None
surveys and research	: None
education, training	: None

Facilities : Offices, telephone and telefax facilities.

Other Details : Requests for

- (1) Implementation of policies aiming at a stable supply of yarn
- (2) Implementation of sector loans (for modernization, improvement and replacement of equipment) through a DFI. Although in 1987 the Government promised annual financing of 2 hundred and 50 million Rupees this has not been implemented. In the coming five years financing of one thousand two hundred and fifty million Rupees is awaited.
- (3) The Government is requested to set up industrial estates and make these available for APC-PLA members. At present there are four small scale industrial estates in the region around Faisalabad.

Other Items of Note :

(1) Facilities possessed by members

no. of looms installed : 210,000

no. of looms in operation : 205,000

(2) Number of operatives and their families

no. of operatives : about 250,000

no. of accompanying family : about one million.

(3) Exports

This sector accounts for 90% of Pakistan's exports of fabrics with a net total export income of 16,000 million Rupees/year.

The weaving workshops which are members of this association are generally of a pre-modern nature with old fashioned power loom equipment on a domestic industry scale, with the exception of a small number of workshops equipped with modernized facilities. Output is therefore of a low quality and there are problems with productivity levels. Without exaggeration it is possible to say that the modernization of this sector of Pakistan's textile industry holds the key to overall improvement in the industry.

Policies to be furthered for the modernization of this sector include the promotion of financing for equipment modernization, training and education to improve production technology, as well as the coordination and closer association of the firms of the petty industry sector which are located in the backstreets of urban centres.

### 3-2-3. All Pakistan Textile Processing Mills Association

Location : Head office, Faisalabad  
Chairman's office, Karachi

Year Founded : 1991

No. of Associate Members : about 330 companies

Officials : Chairman and Secretary General in the Karachi office  
3 Chairmen in the branch offices in 3 cities (Karachi, Faisalabad, Lahore)

Staff : 4 - in the Chairman's office in Karachi  
9 - in the branch offices

Branch Offices : Karachi, Faisalabad, Lahore (with one official and three staff in each)

Membership Requirements : All firms in the textile dyeing and finishing industries

Membership Fees and Running Costs :

- (1) Annual membership fee : Rs 4,000/member
- (2) Running costs : Rs 2,000/year/member

Activities : (1) Regular Meetings : Frequent general meeting and directors' meetings  
(2) Publications : None  
(3) Information Activities : Distribution of information concerning tax systems, trade and production, etc.  
(4) Statistical Compilation : Compiling of tax payments for sales, survey reports on workshops, etc.

Others Activities :

- (1) Surveys and research : factory reports biannually
- (2) Education or training : provision of training relating to facilities of the members as required
- (3) Others : decisions on problems of member firms through governmental study groups.

Facilities : Telephones, telex, and facsimile facilities

### 3-2-4. Pakistan Knitwear and Sweaters Exporters Association

Location : Karachi

Year Founded : 1986

No. of Associate Members: 600

Organisation : Chairman

Vice-chairman

5 members of executive committee.

Officials : Secretary General

Joint Secretary

Staff : 12

Branch Offices: One branch office at Lahore with one Secretary and a staff member

Membership Requirements : Any industrial firm, company or other corporation engaged in the export of knitwear and sweaters having a place of business in Pakistan and registered as exporter.

Membership Fees and Running Costs :

(1) Admission Fee: Rs 1,000/member

(2) Annual subscription for exports: Rs 1,000/member

(3) Annual subscription for exports above Rs 5.0 million: Rs 2,000/member

(4) R & D fee: Rs 1,000/member

Activities : (1) Regular Meetings : At least twice a year

(2) Publications : Quarterly Kitwear

(3) Training : Training in institutes

Others Activities :

(1) Information service through quarterly magazine

(2) Statistic compilation

(3) Boosting export

Facilities : Telephones, telefax

### 3-2-5. Pakistan Readymade Garment Manufacturers and Exporters' Association

Location : Karachi

Year Founded : 1980

No. of Associate Members : Approx 1800 members

Organisation : Chairman

Vice-chairman (2)

M.C. members (7)

Officials : Secretary (3)

Executive officer

Assistant executive officer

Staff : 26

Branch Offices: Lahore Zonal Office, 9. Masson Road, Lahore

Membership Requirements : Members forms issued to garment factory owner

Membership Fees and Running Costs : New membership fees: Rs.2,000/member

Renewal fees per year: Rs.1,000/member

Activities : (1) Regular Meetings : Managing committee meeting (monthly)

(2) Publications : As and when required

(3) Information Activities : Regular circulation of various activities

Others Activities :

Regular conference with government on labor laws, customs rebate, interministerial meeting, prudential meeting, etc.



3-2-6. Pakistan Cotton Fashion Apparel Manufacturers and Exporters' Association (PCFA)

Location : Karachi

Year Founded : 1983

No. of Associate Members : 550

Organisation : Executive director

Secretary

Joint secretary

Sr. executive accountants

Staff members.

Officials : Chairman

Board member (9)

Sr. Vice-chairman

Vice-chairman.

Staff : 19

Branch Offices: Nil

Membership Requirements : Must be a manufacturers & exporters of Fashion Apparel.

Membership Fees and Running Costs :

(1) Admission fee: Rs.200/member

(2) Annual fee: Rs.750/member

(3) R & D fee: Rs.500/member/annum

Activities : (1) Meetings : As and when required.

(2) Publications : Regular circulars, official catalogue of FAF, Annually

(3) Information Activities : Information about International market and local market being passed on to members.

(4) Statistical Compilation : Compilation of quota holders statistics.

Others Activities :

(1) Surveys and research : Research & development cell do that

(2) Education, training : Technical courses on ready-made garments are arranged by us in collaboration with EPB.

(3) Other activities : Fashion apparel fair in Karachi (every year) (the largest exhibition in Pakistan for textile industry.)

Facilities : Office in Karachi with facsimile, telex, photocopy machine, cyclostyle machine.

Other Details :

- (1) The liaison with the dyeing and finishing sectors is poor
- (2) There are many firms desiring to undertake joint ventures with firms of the developed countries
- (3) Training facilities are needed
- (4) Reinforcement of the financing systems is needed

### 3-2-7. Pakistan Hosiery Manufacturers' Association

Location : Karachi (Central Executive Committee Office)

Year Founded : 1960

No. of Associate Members : 600

Officials : 4 - Delegates for each branch office  
1 - Chairman (rotating to the branch offices)  
1 - Vice-Chairman (one for each branch office)  
1 - supervisors (one)

Staff : 19

Branch Offices : Karachi, West Wing, East Wing.

Membership Requirements : Manufacturer of knitted products (private individuals or incorporations)

Membership Fees and Running Costs : Rs 50 fee when joining

Annual membership fee of Rs 10/knitting machine or Rs 5/sewing machine.

Activities	: Regular Meetings	: General meeting once a year (in each of the branch offices)
	: Publications	: Annual Report
	: Information Activities	: Collection, provision and publication of industrial information
	: Statistical Compilation	: Collection and analysis of domestic and overseas statistics

Others Activities :

- (1) Petitioning to government
- (2) Quotas adjusting



**PART V TEXTILE INDUSTRY POLICY AND RELATED MEASURES**



## **PART V TEXTILE INDUSTRY POLICY AND RELATED MEASURES**

### **Chapter 1 Overview of Textile Industry Policy**

Due to the weak state of Pakistan's industrial base at the time of independence in 1947, the fundamental policy for its textile industry has historically been based upon import substitution. By taking advantage of its position as a leading world producer of raw cotton, an important raw material for textiles, Pakistan expanded the production capacity of textile products, with the result that it became self-sufficient. Today, the textile industry has become not only Pakistan's largest manufacturing industry, but it has also become the country's biggest export industry. The present state of the macro-economy, with both its current account balance and its national finances in deficit and a shortfall in savings, has made the acquisition of foreign currencies a task of the highest order, with the result that the highest priority is now being given to export promotion policy. The government is preparing a number of export promotion policies for the textile industry as well.

With the objective of producing exports which have been processed with as much added value as possible, incentives are being expanded to encourage the export of high value added products. As for policies affecting imports, although imports of raw cotton and cotton yarn have been liberalized, items such as fabrics, secondary products, garments and garment parts have been made negative import items, whereby their importation has been banned. Furthermore, the domestic textile industry is also being protected by high tariffs.

In presenting an overview of the policies and systems affecting Pakistan's textile industry, the main policies include: (1) the raw cotton price policy; (2) the minimum export price system (Export Price Check System) for cotton yarn; (3) the export income exemption system, the raw material and machinery bonded import scheme, the duty free import scheme for machinery, an export finance system, and an export credit guarantee system all aimed at promoting exports; (7) the import policy; (8) the investment promotion policy; (9) the finance policy; and (10) the industry support policy developed by the Ministry of Commerce's Export Promotion Bureau (EPB). There are facets of these policies and schemes, however, which are often found to be inconsistent with the fundamental policy objective of shifting to higher added value products, and which cause duplication in the schemes as well as contradictions.

Historically a series of export incentives consisted principally in fiscal measures have favoured the spinning sector more than the other sectors, thus resulting in higher profitability in the spinning sector. Consequently, investment has tended to concentrate on the spinning sector putting a curb on investment in the weaving, processing and garment sectors and, as a result, restraining the development of those mid and downstream sectors. A remnant of such textile industry policy which is biased in favor of the spinning sector is left over inconsistent with the present policy of the Government of giving priority to the higher value added sectors.

A price policy for raw cotton comprises the central part of Pakistan's raw material policy. Each year the

government announces a minimum price for raw cotton supplied by raw cotton farmers, so that the cotton bought by ginnerers is bought at a price which is above the minimum price. Once the raw cotton has undergone the ginning process the ginnerers sell the cotton to local spinning companies, the Cotton Export Corporation, and private shippers. In the case of cotton which is exported, the difference between the benchmark price and the minimum export price decided by the government is collected in the form of an export duty. The result is that this works to bring down the domestic market price of cotton.

Behind this policy lies the government's policy of firstly securing raw materials for the local textile industry, and secondly, adding value to raw materials so that they are exported in added value form, rather than in the form of raw cotton. Although this price policy has the effect of increasing the international competitiveness of the Pakistani spinning industry, it does cause some distortion in the structure of the textile industry. In other words, because spinners have the advantage of being able to buy locally produced cotton at prices below international price levels, they have made the most of the characteristics of these raw materials by specializing in yarn with a medium to coarse count. **This has determined the production structure of cotton yarn in Pakistan and has also hindered product diversification at the fabric, made ups and garment stages.**

As for policies aimed at the promotion of export, there is the income tax exemption on export whereby export income tax is exempted at the rate of 25% for cotton yarn, 50% for fabric, and 75% for garment exports. The exemption rate is higher the more downstream the sector is, thus reflecting the government's policy of promoting exports with high added value. It is to be verified, however, how far this system has been fruitful. In addition, a system for bonded imports of raw materials and machinery and an import duty exemption scheme for machinery are being provided, though it may not necessarily be used to its fullest potential. The Karachi Export Processing Zone (KEPZ) has been established in Karachi, and all raw materials and machinery used in the production of export products in the zone may be brought in duty-free and are also exempt from all federal and provincial taxes. With the recent change to admit spinning companies in the zone, the KEPZ may now be used by all sectors of the textile industry, including the garment industry.

As export finance system has been established by the State Bank of Pakistan and its use is open to exporters and indirect exporters. It offers finance for textile products at an interest rate of 7% for a period up to 150 days for all the textile products except raw cotton and cotton yarn. The Export Credit Guarantee System which has also been established enables exporters to take out insurance to cover the risk of recovering payment for their exports for a period between 30 and 120 days after export. This system may be used for all textile products, with the exception of raw cotton exports.

As for finance schemes, although there is comparatively little problem with receiving short-term finance for working capital, there are many problems involved with obtaining long-term finance for investment in plant and equipment. There is some institutional finance made available by the Development Finance Institutions (DFIs). However, there is not enough finance available for the dyeing and power loom sector, sectors which have a weak business base and have the greatest need for finance for investment in plant and equipment.



A look at the investment environment reveals that the new industrial policy put out by the government in April 1989 relaxed restrictions significantly and simplified procedures as a means of promoting private investment. The present government has basically adopted the same policy line in that it has moved to relax restrictions. As a result, regulations relating to investment have been eased considerably and liberalized. However, in some cases the actual application of the regulations does not necessarily reflect this policy of liberalization. In addition, there are still many relevant rules and regulations prepared by the federal, state and municipal authorities which require cumbersome procedures to be cleared by the actual investors.

As for providing public assistance in the area of quality control, the failure to implement a system for industrial standardization is a problem. The government is generally aware of the importance of this area, and is in the process of putting an appropriate system in place. At the present time there are 403 standards relating to textile products. However, they are not compulsory standards and business circles hold the view that it is somewhat premature to make standards compulsory at this stage. Therefore, the standards are not fully utilized in terms of quality control. The lack of standardized inspection criteria makes it very difficult for companies to objectively determine at what levels their products are. It is normal for a buyer's standards to be adopted in the case of export items.

The government's human resources development policy is also important given the noticeable shortage in technical experts, middle managers and skilled workers within the textile industry. Human resources development related to textiles consists mainly of training provided in the areas of spinning and weaving by 9 educational and training institutions. Despite this, there is an overall shortage in the number of educational and training organizations. Education and training is particularly weak in the areas of dyeing and sewing. Facilities dealing with these sectors face a noticeable shortage of instructors to fill up the quorum. Though both the government and the private sector recognize the inadequacy of existing educational and training organizations, and have produced proposals for the creation of new educational and training institutions, none of these plans has yet to be put into practise.

At the present time virtually no measures for the protection of the environment have been put in place for preventing pollution caused by the textile industry. However, the growth of the textile industry as a whole and the expansion of the dyeing sector are expected to cause problems in the future. It is therefore necessary to formulate policy measures to deal with such problems.

The above has provided an overview of the systems and policies which affect the textile industry. It is necessary to study whether these policies are of use in realizing the major task facing the Pakistani textile industry, that is, raising the added value of exports as much as possible.

Provided below is an analysis of relevant systems and policies required in order to effect an increase in the value of added exports. The following issues will be examined in the course of this analysis. (1) Availability of raw materials required by the high added value sector (2) Adoption of enough export incentives for the industry, including supporting industries (3) Adequacy of environment for receiving capital and technology

from foreign companies (4) Adequacy of business environment and (5) Availability of the government finance and marketing support polities.

## Chapter 2 Export Promotion Policy

### 2-1. Overview

A number of export promotion schemes and rules have been established in Pakistan. These systems (schemes and rules) have been set up in such a way that the manufacturers of export products are allowed to import under preferential conditions the raw materials, machinery, and plant that are required for the manufacture of export products. However, there is the fear that the complexity of procedures and the rigidity of their attendant conditions have meant that these systems are not being used sufficiently.

With regard to the garment industry with its high level of added value in particular, the industry requires many types of raw materials that are high in quality. Problems related to the supply of raw materials at the present time include: (1) the inability of local production to meet the needs of the industry in terms of the range of product; and (2) in cases where high quality yarn and fabric is produced locally there is a tendency to mark these products for export, with the result that local garment manufacturers are not being adequately supplied with good quality raw materials. The situation caused by the latter problem stems from the ease at which export incentives may be obtained from the government for producing exports, as well as the fact that because these exports are in large single lots the exporter has the advantage of being able to turn his product into cash in a relatively shorter period of time.

Thus, it will be necessary to depend upon raw material imports until the domestic manufacturing capacity of raw material is increased sufficiently in terms of product range, quality, and volume. At the present time, however, imports of most fabrics including lining material and garment parts are banned, and high import duties exist for these products. The situation regarding these raw materials is inadequate in terms of price, variety, quality and quantity.

If the textile industry is to maintain international competitiveness it is necessary to facilitate the free importation at a reasonable price of not only raw materials, but of efficient types of machinery. With regards to the machinery, imports have been liberalized. However, these imports are subject to high import duties and various other duties and surcharges. Though there is a scheme for importing machinery duty-free, this scheme may only be used if the manufacturer obtains a certificate which states that the items are not produced locally. In view of the circumstances described above, an examination will be made as to whether the existing government schemes are adequately fulfilling their functions with regard to the supply of imported raw materials and machinery. A list of the various schemes and rules is provided below. An overview of each scheme is shown in the end of this chapter.

(Schemes and rules for raw materials)

1. RMR: Raw Material Replenishment
2. Bonded Warehousing (S.R.O.68, 69)
3. Duty Drawback
4. Temporary Import (S.R.O.818)
5. Open Bonded Manufacturing Rules (S.R.O.722)

(Import duty exemption schemes for machinery)

1. BMR: Balancing, Modernization and Replacement (S.R.O.456)
2. Scheme for Manufacture in Bond (S.R.O.962)  
(EPU Scheme: Export Processing Unit)

## 2-2. Schemes and Rules for Raw Materials

As has been mentioned above, it has been necessary to use imported raw materials in garment production due to the requirements of garment production for an abundant and high quality range of raw materials which are not necessarily being adequately met by locally produced raw materials alone in terms of range and quality. The main types of raw materials which are required in the manufacture of garments are cotton fabrics, woven fabrics of synthetic filament yarn and of artificial filament yarn, woven fabrics of synthetic staple fibres and of artificial staple fibres, and various types of garment parts. However, as indicated by the negative import item list provided in the end of this chapter, the import of such products including fabrics and lining materials is normally prohibited. At the same time, import duties remain high. Special import scheme must be employed in order to import items on this negative import item list.

One way is to use the RMR scheme which stipulates one method which may be used to import items contained in the negative import item list. Under this scheme it is possible to import the raw materials which have been designated negative items. However, when using the RMR scheme it is necessary to pay import duty, sales tax, import surcharge, and the Iqra surcharge. Under this scheme there is a restriction on the volume of imports permitted up to the percentage of the F.O.B. value of export to be determined in each case. There is also a time restriction, according to which import license must be obtained within 6 months of completion of the previous shipment of exports.

Apart from the problems related to the procedure, it is possible to import items contained in the negative import item list by using the RMR scheme described above. However, there is the problem of the high import duties, which are as high as 80% to 90% in the case of fabrics which are typical garment raw materials. Added to these import duties, the importer/manufacturer must pay a 12.5% sales tax, a 10% import surcharge and the 5% Iqra surcharge. It gives importers constraints in terms of import amount and timing of getting import li-

cense as well. Accordingly, RMR is not a perfect system.

Another way to import negative items is to use bonded importing systems. Under these systems, negative items can be eligible for importation on condition that the products are exported. One system for importing raw materials under bonded system is to use the Bonded Warehousing Scheme as stipulated by S.R.O.68-69. Only import duties may be subject to exemption. Under this scheme it is mandatory to present a bank guarantee equivalent to the value of the duty exemption or an indemnity bond which is equivalent to twice the value of the duty exempted. Also, in addition to having to complete production within 3 months of sending the raw material to a production plant within the bonded warehouse premises, the amount of the raw material to be used in a single unit of production is to be determined in advance by a collector of Customs.

For the purpose of importing the negative items, the next way is to combine Scheme for manufacture in Bond (S.R.O.962) and Open Bonded Manufacturing Rules. This combined scheme is called EPU (Export Processing Unit).

When EPU is employed, bank guarantee for the amount of import duty is required to be submitted beforehand and the amount of materials to be used per single unit of product is specified by the collectors of customs. EPU is said to be under the process of being improved so that it can be used with more ease, but so far it has not been realized yet.

There is also another variation of importing the raw materials under the RMR scheme and receiving a duty drawback once the products have been manufactured and exported. However, as it takes a long time to receive the duty drawback there is the problem of paying the interest which is generated during the time that it takes to receive the rebate.

The other method which may be used to import items on the negative import list is to use the Temporary Import Scheme as prescribed by S.R.O.81 in order to import cut garment pieces, and garment parts. Under this Temporary Import Scheme the producer is exempted from paying import duties, sales tax, import surcharge, and the Iqra surcharge. This scheme is restrictive, however, as only a limited range of raw materials may be imported which then may be used in only the simplest of processing production. Thus, this scheme is not suitable for full-scale garment manufacturers which include cutting among the processes they perform.

As examined above, when using these special schemes for importing raw materials, the various kinds of conditions are attached. The restrictions limiting the volume of raw material imports and the volume of raw materials used per single unit of production, as well as those affecting re-export, are accompanied by complex procedures. There is also the problem that in the case of most of these schemes, permission to import is given only to producers which actually carry out production. The demands of individual producers cover a wide range of products, and are also small in terms of volume. Even from the perspective of business efficiency, these schemes may not be called good policies. There are probably very few, if any, foreign companies which would fill an order for a small lot of materials, and even assuming that they would do this, the unit price would be high. Under the existing schemes a third party (commercial importer) is not permitted to combine a number of

orders for small lots and import raw materials in bulk under the bonded system.

### 2-3. Import Schemes for Machinery

Import duty exemption schemes are shown in the end of this chapter. According to a temporary measure adopted by the government under S.R.O.597, up until June 1993 it will be possible to import shuttleless looms, machinery for manufacturing garments, knit-wear and towels, machinery for use in processing industries, and their spare parts, without having to pay import duties, and in some cases import surcharge and the Iqra surcharge as well, providing that these machinery imports be carried out as part of either new investment, expansion or balancing, modernization or replacement. This temporary measure may not be applied, however, in cases where there are locally manufactured machinery. Furthermore, no spinning machinery at all is eligible for these exemptions. In order to import spinning machinery without paying import duties etc, it is necessary to use either the BMR scheme or the scheme for manufacture in bond ruled by S.R.O.962. Both these schemes are dealt with below. Regardless of the type of the textile machinery, there is the restriction against the commercial importers that they are not allowed to import more than 20 million rupees per year.

After 30 June 1993 there will be two methods by which it will be possible to import duty free textile machinery which is not manufactured locally. One of these methods is the BMR (Balancing, Modernization and Replacement) based on S.R.O.456 (1)/88 Scheme. One problem with this scheme is that only the import duty is exempted, and that it is still necessary to pay the sales tax, import surcharge and Iqra surcharge. The next problem is that with the exception of cases where it is possible to use credit or loans, there is a limit on the value of duty-free imports. Although the maximum limit varies according to the size of the company, it ranges between 10 million and 40 million rupees. When, as is expected in the future, the power loom sector, not to mention the large-scale mill sector, expands the scale of its operations to an appropriate size, the limit on duty-free imports will become a constraint.

One other means available is to import machinery duty-free under the Scheme for Manufacture in Bond as stipulated by S.R.O.962. In the case of this method too, duty-free imports are not permitted in instances where locally manufactured machinery is available. This scheme has to be used in conjunction with the Open Bonded Manufacturing Rules as prescribed by S.R.O.722.

Under the Scheme for Manufacture in Bond, production must commence within one year of the importation of the machinery, and the manufactured product must be exported within 3 months after the production. In addition, production equipment may not be used for any other purpose during a 7-year period commencing from the installation of the new equipment. Penalties are imposed if the total production volume is not exported, and in cases where the volume of exports is less than 70% of production volume, penalty of one-tenth of the value of the import duties and other levies which should have normally been paid at the time of importation, is imposed annually.

If a company wishes to utilize this scheme, when formulating plans for its business and production it must secure foreign buyers which will import its products for at least the next 7 years, and it must also confirm that it has the technology which will enable it to produce products of a quality which will be acceptable on the export market. It must also take into account the changes which are constantly occurring on the world market together with the changes which occur in the market environment in which buyers work, as well as the changes which buyers make to their purchasing plans.

When importing with duty exemptions under S.R.O.597, and also when importing with duty exemptions under the BMR scheme and the Scheme for Manufacture in Bond, the most troublesome point with regard to the procedure used to be the necessity to obtain from the Ministry of Industries a certificate stating that the machinery which the manufacturer intends to import is not produced locally. In cases where there is locally manufactured machinery duty free import is not permitted. Recently, however, there was the improvement in this area, as CBR distributed the list of the locally manufactured machinery to all the customs offices and made it easier for the customs officers to judge the eligibility for duty exemption. New rule which compel the importer to submit the said certificate only when the conflict happens was established as well.

#### **2-4. Export Income Exemption System, etc.**

Among textile products, producers of cotton yarn, woven fabrics and garments are eligible for a partial exemption of export income. The rates of export income tax exemption for cotton yarn, fabric and garment are respectively 25%, 50% and 75%. The fact that exemptions are higher for products with higher added value corresponds with the government's policy to promote exports of high-added-value items. However, this system is plagued by several problems.

Garments are eligible for a 75% exemption, but code numbers for the eligible items are changed on a yearly basis, and there have been differences of opinion between exporters and the authorities concerning their definition. In some cases, exporters have produced and exported products with the assumption that they would be eligible for the exemption only to find out later that they were not. As long as the product codes are changed every year, it will be difficult for garment manufacturers to carry out planned production. There appear to be many problems concerning the product designations.

Exports of cotton yarn are given even higher priority because they had considerable export competitiveness to start with in addition to the present incentives. One side effect is that local cotton fabric firms have found it increasingly difficult to procure necessary yarn. Under current conditions, production of woven fabric for use in garments is centred around the power looms sector, which supplies woven fabric to garment manufacturers. Due to the factors described above, however, this sector is having difficulty in obtaining high-quality cotton yarn from spinning mills. Recently, therefore, the higher the quality of the cotton yarn, the less likelihood of its use in locally-manufactured high-added-value export products.

Another factor inhibiting the domestic supply of cotton yarn is the Central Excise Duty (CED). Cotton yarn sold locally is levied with the CED, and exports are levied with the export tax. While the former must be paid prior to factory shipment, however, the export tax need to be paid only after shipment once the export draft has been bought up by an exchange bank. This promotes exports of cotton yarn while inhibiting the local supply of this critical raw yarn.

## **2-5. Promotion of Supporting Industries**

Other constraint in promoting the production and export of garment and other high-added-value products include an insufficient supply of woven fabrics in terms of both quality and quantity and the structural weakness of the dyeing sector. The woven fabric and dyeing sectors support the garment exporters and make an indirect contribution to exports. Nevertheless, they have not received sufficient export incentives. Starting in February 1991, the government made these firms eligible for using export finance scheme provided they were certified as export firms, indicating that their products, whether manufactured or processed, had actually been exported via finished goods manufacturers. However, they remain ineligible for other incentives.

The major reason why the development of midstream sectors such as weaving and processing has been rather delayed in comparison with spinning sector can be found in the historical fact that more resources has been allocated to the spinning sector. In order to verify this issue numerically, the study team tried to analyze the situation by means of examining the trend of effective exchange rates. It was not easy, however, mainly because of frequent changes of rules and regulations, difficulty in collecting data and time restrictions.

It is commonly presumed among textile experts, however, that the various types of export incentives centering on the fiscal measures have been provided disproportionately to the spinning sector and eventually this practice have influenced the profitability and investment trend in the sector. At the same time, it is empirically difficult to deny the credibility of the hypothesis that the biased policy as such have hindered the development of midstream sector. There seems to be still a room for rectifying the policy deviation which tends to favour a specific sector.



**SCHEMES FOR IMPORTING TEXTILE RAW MATERIALS (1/3)**

Name	1. Raw Material Replenishment (RMR)
Importable items	Import restricted items, import negative items
Duty exemptions	None
Restrictions on import volume	Up to the percentage of the F.O.B. value of export to be determined in each case and subject to the conditions laid down by the chief controller of imports and exports from time to time
Conditions for re-export	Re-export to take place within 1 year
Other conditions	<ul style="list-style-type: none"> <li>* Raw material replenishment upon completion of export</li> <li>* Invoice which includes E form</li> <li>* B/L</li> <li>* Bank export certificate to be presented within 6 months from export of product in order to obtain a raw material I/L</li> <li>* Prior authority for production of exports</li> <li>* Bank guarantee</li> <li>* Declaration specified</li> </ul>
Problems	<ul style="list-style-type: none"> <li>* In relation to raw material replenishment, though an I/L is obtained by presenting the relevant certificates within 6 months of exporting the product, by commencing import procedures upon receipt of the I/L after the product has been exported, the replenishment of raw materials does not happen soon enough to commence uninterrupted production of the next item to be exported.</li> <li>* There are restrictions on import volumes.</li> <li>* Since there are no duty and tax exemptions, the producer is required to find other schemes it can use under which it can apply to import duty-free raw materials.</li> </ul>

Name	2. (1) Bonded Warehousing Rules relating to the clearance of dutiable imported goods, without payment of duty, from a warehouse located on the premises of a factory for the manufacture of goods meant primarily for export (allows the importer to warehouse the raw materials under bond in a private warehouse located on the premises of a factory)
S.R.O. No.	S.R.O. 68 (1) 70, 17 April, 1970
Importable items	Raw materials
Applicable industries	Industries manufacturing goods primarily for export
Duty exemptions	Customs duty
Conditions	<ul style="list-style-type: none"> <li>* Applicable for goods manufactured from raw materials moved from a bonded warehouse to a factory on the same premises</li> <li>* Submission of bank guarantee form</li> <li>* The materials must be used for manufacture under the supervision of a Customs employee within 3 months after the shipment from the bonded warehouse to the factory.</li> <li>* Submission of samples of items scheduled for production.</li> <li>* Submission of a monthly report detailing volume of raw materials used.</li> <li>* It is necessary to apply to Customs each time raw materials are moved from the bonded warehouse to the factory.</li> <li>* The raw materials required for product unit are to be determined by an analysis of samples by Customs.</li> <li>* The factory must at all times allow the Customs official posted to the bonded warehouse within the factory premises to carry out the inspection of goods.</li> <li>* Those materials used in the production of goods meant for sale on the local market are liable for duties and taxes. In such cases, a fee of 7% per annum is levied.</li> </ul>

SCHEMES FOR IMPORTING TEXTILE RAW MATERIALS (2/3)

Name	2. (2) Bonded Warehousing Rules relating to the clearance of dutiable imported goods, without payment of duty, for the manufacture of goods meant wholly for export (allows the importer to clear the raw materials without payment of duty, under bond to a factory which is a private warehouse)
S.R.O. No.	S.R.O. 69 (1)/70, 17 April, 1970
Importable items	Raw materials
Applicable industries	Industries manufacturing goods meant wholly for export
Duty exemptions	Customs duty
Conditions for	<ul style="list-style-type: none"> <li>* Applicable for goods manufactured from raw materials moved from a bonded warehouse to a factory on the same premises</li> <li>* Submission of an indemnity bond equal to twice the value of the duties and taxes.</li> <li>* Submission of samples of items scheduled for production.</li> <li>* The factory to be partitioned off to create a raw materials storage area and a storage space for goods, the keys of which are to be retained by Customs staff.</li> <li>* The raw materials required for product unit are to be determined by an analysis of samples by Customs.</li> <li>* The factory must at all times allow the Customs official posted to the bonded warehouse within the factory premises to carry out the inspection of goods.</li> <li>* The factory is to be sealed upon the completion for each day's work by a Customs staff member.</li> <li>* This is carried out under the supervision of a Customs employee up until the time when the goods are shipped out.</li> <li>* Damaged or defective items are either to be thrown away or sold locally upon payment of appropriate duties and taxes.</li> </ul>

Name	3. Duty Drawback
Importable items	Approximately 200 designated items (includes textile-related items such as yarn, fabrics, and garments)
Applicable industries	Those corresponding to items above
Duty exemptions	Customs duty, sales taxes, Central Excise Duty
Conditions	Applicable to those who can prove that the imported raw materials are to be used in the manufacture of export items
Problems	<ul style="list-style-type: none"> <li>* It must be proven that the imported raw materials are to be used in the manufacture of export items. This is difficult to prove in cases other than when importing the raw materials oneself.</li> <li>* A long period of time is required before export rebate is received.</li> </ul>

Name	4. Temporary Imports
S.R.O. No.	S.R.O. 818 (1)/89, 9 August, 1989
Importable items	Those corresponding to eligible industries
Applicable industries	10 industries including the garment manufacturing industry
Duty exemptions	Customs duty, sales tax, import surcharge, Iqra Surcharge
Conditions for re-export	Re-exported within 1 year (a 6-month extension is possible)
Other conditions	The ownership of the temporarily imported goods can be changed on condition that the title of the bank guarantee, insurance form and indemnity bond submitted to Customs at the time of importation are altered. Submission of a bank guarantee equal in value to the value of the customs duty, sales tax, import fee, and Iqra Surcharge. Or submission of an indemnity bond.

SCHEMES FOR IMPORTING TEXTILE RAW MATERIALS (3/3)

Name	5. Open Bonded Manufacturing Rules
S.R.O. No.	S.R.O. 722 (I) 89, 10 July, 1989
Importable items	Imported raw materials, locally produced raw materials, locally produced intermediate materials
Applicable industries	10 industries producing textile products, garments and other products
Duty exemptions	Customs duty, sales tax, surcharge, Iqra Surcharge
Conditions	<p>Up to 20% of production may be sold locally after payment of duties and levies</p> <ul style="list-style-type: none"> <li>* Submission of either a bank guarantee or an insurance guarantee.</li> <li>* Parts production by subcontractors is permitted.</li> <li>* In the case of garment production, the goods are to be produced within 1 year.</li> <li>* Goods are to be exported within 3 months of manufacture.</li> <li>* Acquisition of an analysis table showing volume of raw material required per single unit of production.</li> <li>* Defective items which cannot be exported may be sold locally in accordance with import regulations and upon payment of duties and levies.</li> <li>* All factories, new and existing, are applicable.</li> <li>* The materials are not to be used for other purposes for a 7-year period.</li> </ul> <p>(Note) According to the notification (Customs) dated 6 August, 1991, all high value added industries are eligible. The notification also stipulates items for which the Rules do not apply. The Rules are not applicable for raw cotton and cotton yarn industries.</p>

**SCHEMES FOR IMPORTING TEXTILE MACHINERY**

Name	1. Balancing, Modernization, and Replacement Scheme
S.R.O. No.	S.R.O. 456 (1)/88, 26 June, 1988
Importable items	Textile machinery not manufactured locally
Applicable industries	Textile
Duty exemptions	Customs duty
Restrictions on import volume	Applicable
Conditions	<ul style="list-style-type: none"> <li>* For balancing, modernization or replacement.</li> <li>* Initial installation of machinery permitted in processing industry and garment industry</li> <li>* Submission of indemnity bond.</li> <li>* Restrictions on import value Preparation, spinning machinery: 10 million - 40 million rupees Weaving machinery: 10 million - 30 million rupees Dyeing and finishing machinery: 10 million - 30 million rupees (However, no restriction is applicable when using loans or credit for import)</li> <li>* Purchase period Balancing and modernization can be permitted, 3 years after the initial installation in factory. Replacement can be permitted 12 years after the initial installation.</li> <li>* It is necessary to obtain from the relevant government organization(s) a certificate that states that the machinery is not manufactured locally.</li> </ul>
Name	2. Scheme for Manufacture in Bond
S.R.O. No.	S.R.O. 962 (1) 90, 12 September, 1990
Importable items	Machinery, plant and spare parts not made locally
Applicable industries	7 industries producing textile products and garments, excluding the spinning industry
Duty exemptions	Customs duty, sales tax, import surcharge, Iqra Surcharge
Conditions for re-export	Within 3 months after production
Other conditions	<ul style="list-style-type: none"> <li>* Scheme may be used under the Open Bonded Manufacturing Rules</li> <li>* Production to take place within 1 year after importation. Product to be exported within 3 months of production.</li> <li>* Not permitted for use for other purposes for a 7-year period after importation.</li> <li>* Submission of an indemnity bond.</li> <li>* Submission of a bank guarantee</li> <li>* Penalties are imposed on products sold locally. (In cases where less than 70% is exported) Payment equal to 10% of the duties and levies which should have been paid at the time of importation are to be paid annually. (In cases where more than 70% is exported) Value of domestic sales X 1/10 X value of Total duties &amp; levies at time of import. In addition to the above, a 15% per annum surcharge is levied during the interim period between the date of penalty assessment and the date of payment.</li> <li>* It is necessary to obtain from the relevant government organization(s) a certificate that states that the machinery is not manufactured locally.</li> </ul>

IMPORT NEGATIVE LIST FOR TEXTILE PRODUCTS (1/3)

Heading No.	Commodity Description
1	2
4818.2000	Handkerchiefs, cleaning tissues, towels, table-cloths,
4818.3000	serviettes, bed sheets and similar household, sanitary or
4818.5000	hospital articles, articles of apparel and clothing
4818.9000	accessories, of paper pulp, paper, cellulose wadding or webs of cellulose fibres.
5007.1010	Taffeta, other than striped taffeta.
5007.1090	Other (woven fabrics).
5007.2090	Other (woven fabrics).
5007.9010	Taffeta, other than striped taffeta.
5007.9090	Other (woven fabrics).
5111.0000	Woven fabrics of carded wool or of carded fine animal hair, other than:-- <ul style="list-style-type: none"> <li>(i) Karakuli and alpaca cloth.</li> <li>(ii) Fabrics used as lining material.</li> </ul>
5112.0000	Woven fabrics of combed wool or of combed fine animal hair, other than:-- <ul style="list-style-type: none"> <li>(i) Karakuli and alpaca cloth.</li> <li>(ii) Fabrics used as lining material.</li> </ul>
5208.0000 to 5212.0000	Woven fabrics of cotton, except the following:-- <ul style="list-style-type: none"> <li>(i) Grey cloth (fabric containing 100% by weight of cotton, unbleached and not mercerised).</li> <li>(ii) Tyre cord fabric.</li> <li>(iii) Karakuli cloth.</li> <li>(iv) Umbrella cloth.</li> <li>(v) Ribbon cloth/tape-cloth for typewriter and similar ribbons.</li> <li>(vi) Fabrics used as lining material.</li> </ul>

IMPORT NEGATIVE LIST FOR TEXTILE PRODUCTS (2/3)

5407.0000 5408.0000	Woven fabrics of synthetic filament yarn and of artificial filament yarn, except the following:--  (i) Karakuli cloth.  (ii) Umbrella cloth.  (iii) Tyre cord fabrics.  (iv) Striped taffeta.
5512.0000 to 5516.0000	Woven fabrics of synthetic staple fibres and of artificial staple fibres, except the following:--  (i) Karakuli cloth.  (ii) Striped taffeta.  (iii) Umbrella cloth.
5603.0090	Other (non-wovens, whether or not impregnated, coated, covered or laminated).
5605.0000	Metallised yarn, whether or not gimped being textile yarn, or strip or the like of heading No. 54.04 or 54.05, combined with metal in the form of thread, strip or powder or covered with metal.
5606.0000	Gimped yarn, and strip and the like of heading No. 54.04 or 54.05, gimped (other than those of heading No. 56.05 and gimped horsehair yarn); chenille yarn (including flock chenille yarn); loop wale-yarn.
5609.0019	Other (articles of yarn, strip or the like of heading No.
5609.0090	54.04 or 54.05, twine cordage, rope or cables, not elsewhere specified or included).
5701.0000 to 5705.0000	Carpets and other textile floor coverings, except synthetic turf for hockey fields.
5801.0000 to 5811.0000	Special woven fabrics, tufted textiles; lace; tapestries; trimmings, embroidery, except the following:--  (a) Cotton banding for driving machines and mechanical appliances.  (b) Corduroy velveteen.  (c) Laminated laces.  (d) Special ribbon for outside wrapping including boldue.  (e) Synthetic/nylon tapes for manufacture of rubber hose.  (f) "Velcro" tape.  (g) Velvet fents, not exceeding one metre in length.

### IMPORT NEGATIVE LIST FOR TEXTILE PRODUCTS (3/3)

- (h) Woven printed and embroidered labels.
  - (i) Articles of felt used in domestic electric appliances.
  - (j) Polyester braided thread.
  - (k) Cloth ribbon for typewriters.
  - (l) Elastic tapes/webbings and timmings consisting of textile materials combined with rubber threads.
- 5905.0000 Textile wall coverings.
- 5907.0019 Other (textile fabrics otherwise impregnated, coated or covered).
- 6001.0000 Knitted and crocheted fabrics, except 'Lycra'.  
6002.0000
- 6101.0000 Articles of apparel and clothing accessories, knitted or  
to crocheted, except elastic bands and straps, falling in sub-  
6117.0000 heading No. 6117.9010.
- 6201.0000 Articles of apparel and clothing accessories, not knitted  
to or crocheted, except the following garments, falling in  
6217.0000 sub-headings Nos. 6217.1010 and 6217.1090:--
- (a) Shoulder or other pads for garments.
  - (b) Shoulder strips for garments.
  - (c) Bows for brassiers.
- 6302.0000 Bed linen, toilet linen and kitchen linen.
- 6303.0000 Curtains (including drapes) and interior blinds; curtain  
or bed valances.

Source : Import Policy Order 1991-92.

CUSTOMS IMPORT TARIFF & SALES TAX (1/4)

No.	Description of Goods	Statutory Rate of Duty	Rate of Sales Tax
52.05	Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not put up for retail sale.	40% ad val	12.5%
52.06	Cotton yarn (other than sewing thread), containing less than 85% by weight of cotton, not put up for retail sale.	40% ad val	12.5%
52.07	Cotton yarn (other than sewing thread), put up for retail sale.	40% ad val	12.5%
52.08 5208.1100 ~ 5208.1900	Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing not more than 200g/m <sup>2</sup>	80% ad val	12.5%
5208.2100 ~ 5208.5300	Plain weave, weighing not more than 100g/m <sup>2</sup>	90% ad val	12.5%
52.09 5209.1100 ~ 5209.1900	Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing more than 200g/m <sup>2</sup>	80% ad val	12.5%
5209.2100 ~ 5209.5900		90% ad val	12.5%
52.10 5210.1100 ~ 5210.1900	Woven fabrics of cotton, containing less than 85% by weight of cotton, mixed mainly or solely with man-made fibres, weighing not more than 200g/m <sup>2</sup>	80% ad val	12.5%
5210.2100 ~ 5210.5900		90% ad val	12.5%
52.11 5211.1100 ~ 5211.1900	Woven fabrics of cotton, containing less than 85% by weight of cotton, mixed mainly or solely with man-made fibres, weighing more than 200g/m <sup>2</sup>	80% ad val	12.5%



CUSTOMS IMPORT TARIFF & SALES TAX (2/4)

5211.2100 ~ 5211.5900		90% ad val	12.5%
52.12 5212.1100	Other woven fabrics of cotton weighing not more than 200g/m <sup>2</sup>	80% ad val	12.5%
5212.1200 ~ 5212.1500		90% ad val	12.5%
5212.2100	Weighing more than 200g/m <sup>2</sup>	80% ad val	12.5%
5212.2200 ~ 5212.2500		90% ad val	12.5%
54.01	Sewing thread of man-made filaments, whether or not put up for retail sale.	Rs. 30 per kg	12.5%
54.02	Synthetic filaments yarn (other than sewing thread), not put up for retail sale, including synthetic monofilament of less than 67 decitex.	Rs. 30 per kg	12.5%
54.03	Artificial filament yarn (other than sewing thread), not put up for retail sale, including artificial monofilament of less than 67 decitex	Rs. 30 per kg	12.5%
54.04	Synthetic monofilament of 67 decitex or more and of which no cross sectional dimension exceeds 1mm: strip and the like (for example, artificial straw) of synthetic textile materials of an apparent width not exceeding 5mm.		
5404.1000	Monofilament  -other	80% ad val	12.5%
5404.9010	Yarn and strip of a width not exceeding 5mm, consisting of a core of plastic film whether or not coated with aluminium dust, sandwiched by means of a plain or coloured adhesive between two layers of artificial plastic material or covered by means of artificial or other materials on one or both sides.	40% ad val	12.5%

CUSTOMS IMPORT TARIFF & SALES TAX (3/4)

5404.9090	Other	60% ad val	12.5%
54.05 5405.0000	Artificial monofilament of 67 decitex or more and of which no cross-sectional dimension exceeds 1mm, strip and the like (for example, artificial straw) of artificial textile materials of an apparent width not exceeding 5mm.		
5405.0010	Yarn and strip of a width not exceeding 5mm, consisting of a core of plastic film whether or not coated with aluminium dust, sandwiched by means of a plain or coloured adhesive between two layers of artificial plastic material or covered by means of artificial or other materials on one or both sides.	40% ad val	12.5%
5405.0090	Other	80% ad val	12.5%
54.06	Man-made filament yarn (other than sewing thread), put up for retail sale.		
5406.1000 ~ 5406.2000	Synthetic filament yarn	Rs. 30 per kg	12.5%
54.07	Woven fabrics of synthetic filament yarn, including woven fabrics obtained from materials of heading No. 54.04	90% ad val	12.5%
54.08	Woven fabrics of artificial filament yarn, including woven fabrics obtained from materials of heading No. 54.05	90% ad val	12.5%
55.01	Synthetic filament tow.	Rs. 15 per kg	12.5%
55.02	Artificial filament tow.	Rs. 15 per kg	12.5%
55.03	Synthetic staple fibres, not carded, combed or otherwise processed for spinning.	Rs. 15 per kg	12.5%
55.04	Artificial staple fibres, not carded, combed or otherwise processed for spinning.	Rs. 15 (1) per kg	12.5%

**CUSTOMS IMPORT TARIFF & SALES TAX (4/4)**

55.05	Waste (including noils, yarn waste and garnetted stock) of man-made fibres.	Rs. 15 per kg	12.5%
55.06	Synthetic staple fibres, carded, combed or otherwise processed for spinning.	Rs. 15 per kg	12.5%
55.07	Artificial staple fibres, carded, combed or otherwise processed for spinning.	Rs. 15 <sup>(1)</sup> per kg	12.5%
55.08	Sewing thread of man-made staple fibres whether or not put up for retail sale.	Rs. 30 per kg	12.5%
55.09	Yarn (other than sewing thread) of synthetic staple fibres, not put up for retail sale.	Rs. 30 per kg	12.5%
55.10	Yarn (other than sewing thread) of artificial staple fibres, not put up for retail sale.	Rs. 30 per kg	12.5%
55.11	Yarn (other than sewing thread) of man made staple fibres, put up for retail sale.	Rs. 30 per kg	12.5%
55.12	Woven fabrics of synthetic staple fibres, containing 85% or more by weight of synthetic staple fibres.	90% ad val	12.5%
55.13	Woven fabrics of synthetic staple fibres, containing less than 85% by weight of such fibres, mixed mainly or solely with cotton, of a weight not exceeding 170g/m <sup>2</sup>	90% ad val	12.5%
55.14	Woven fabrics of synthetic staple fibres, containing less than 85% by weight of such fibres, mixed mainly or solely with cotton, of a weight exceeding 170g/m <sup>2</sup>	90% ad val	12.5%
55.15	Other woven fabrics of synthetic staple fibres.	90% ad val	12.5%
55.16	Woven fabrics of artificial staple fibres.	90% ad val	12.5%
61.01 ~ 61.14	Garments	90%	12.5%
61.17	Clothing Accessories	90%	12.5%

SOURCE : Custom Tariff and Trade Controls  
Thirteenth edition 1991-92 Part I & II

DUTY FREE IMPORT SYSTEM FOR TEXTILE MACHINERY

Type of Machinery	To June 1993	From June 1993
Shuttleless loom, knitting machinery, dyeing machinery, garment and towel manufacturing machinery and their spare parts	According to temporary measure S.R.O. 597, these machinery are exempt from customs duty, import surcharge and the Iqra surcharge	<p>* Under the BMR scheme they are exempt from import tariffs up to a certain maximum import value.</p> <p>* Under the scheme for manufacture in bond they are exempt from sales tax, import surcharge, and Iqra surcharge</p>
Spinning machinery	* According to the BMR scheme they are exempt from customs duty up to a certain maximum import value.	* According to the BMR scheme they are exempt from customs duty up to a certain maximum import value.
The same machinery as the one which is manufactured locally	Normal Imports (not eligible for tax exemptions)	Normal Imports (not eligible for tax exemptions)

### **Chapter 3 Import Control Policy**

Garments are negative import items, and it is partly as a result of this that there is no large international-type garment market to be found within Pakistan. If there was this sort of garment market, the advantages would far outweigh the disadvantages for domestic garment industry. Today, most countries which export garments have their own domestic garment markets. It is thought that there are considerable benefits to be gained from bringing foreign-made goods into the country, as this would stimulate growth and diversification in the garment market. It is expected that in the future, the Pakistani traditional dress, called shalwar kameez, will be joined by garments with an international flavour as the national income increases.

The first advantage to be gained from having a local garment market is that it would lead to expanded demand for the garment industry. Thus, in times when the export market is in a slump, it is possible for the domestic market to compensate for this to some extent. Next there is the important advantage of being able to get feedback from the domestic market. To be more precise, the needs of the domestic consumer created by their preferences with regard to materials, design, quality, durability and the like, quickly pass through to the manufacturer. And it is in the course of fulfilling these needs that the manufacturer finds that it is improving quality standards, improving design, and making a greater effort to find good materials. This in turn leads to improvements in the areas of manufacturing technology, business, and marketing. The design and fashion consciousness of consumers improves on the whole, which has a beneficial effect on the garment industry and related industries, and in turn makes it possible to raise the level of the whole textile industry.

The present situation is such that the Pakistani textile industry is not benefiting from these sorts of advantages. Pakistan can also be said to have a handicap when compared with the textile industries in ASEAN countries which have their own large domestic garment markets. In Pakistan, there are few industries which manufacture garments for the domestic market, there are doubts as to the need to protect domestic products from import.

## **Chapter 4 Investment Promotion Policy**

### **4-1. Overview**

A look at Pakistan's investment policy reveals that investment restrictions have been gradually relaxed over the past several years. At present, approval for investment is required in just the following 4 industries: arms and ammunition; security printing, currency and mint; high explosives; and radioactive substances. Approval is not required for other industries. The number of sectors in which foreign investors are not permitted have been reduced to 7. These are the agricultural land, forestry, fishing, real estate, radioactive substances, insurance, and medical sectors. Foreign investors are now allowed to own 100% shares of enterprises without government approval. Investment principal and profit may be remitted abroad, there are no restrictions on foreign currency loans, and companies which export more than 50% of their products are eligible to receive unrestricted loans from domestic financial institutions. Foreign exchange controls have been substantially liberalized as both residents and non-residents are now free to bring foreign currency into the country, retain it, and take it out of the country. Foreign engineers and management staff now do not need work permits to work in Pakistan.

As a matter of reference, the results of an evaluation of the investment environment carried out in 1991 by a research organization specializing in the analysis of country risk is provided below. Viewed in general terms as an investment market, Pakistan does not necessarily receive a high rating when compared internationally. If rated on a ABCDE scale of 5 which starts with the lowest risk, Pakistan would, overall, be ranked at level C minus. Other countries which also share this same C minus ranking include Mexico, Uruguay, Hungary, and Tunisia. India is ranked at level C, which is slightly higher than the rank of Pakistan. The factors which comprise Pakistan's investment risk rating are: economic (macro-economic) factors C minus; political factors C minus; social factors C minus; market factors C minus; and the reliability of data B minus.

This evaluation is in no way absolute. It is, though, one way of evaluating Pakistan from outside as an investment market. From the point of view of investment promotion it is important that Pakistan's ranking as a world investment market be improved. Written below are issues related to the investment environment.

### **4-2. Problems with Rules and Regulations**

When considering Pakistan as an investment site, the major obstacle facing a prospective investor is the rules and regulations related difficulties that come into play when doing business. It was already noted in Chapter 2 that the various government schemes are extremely complex in nature and are the subject of frequent modifications. Since these systems are difficult to understand even for large local firms, the problems faced by foreign investors can be virtually insurmountable. Since capital investment is carried out based on long-term planning, this becomes a formidable obstacle to investment.

A look at the government PR handbook for investment incentives shows that the regulations surrounding investment have been substantially liberalized in terms of government sanction of investment projects and control over foreign exchange. However, many of the laws and regulations concerning business activities remain unchanged, and investors must still overcome a large array of regulations established by the federal, state and city governments. It is said that as many as forty rules and regulations have to be cleared. For example, it is often said that 100% foreign ownership of companies has been approved, but in fact the relevant law requires that foreign firms capitalized at more than 100 million rupees make a public offering of stock and sell more than 50% of the stock to Pakistani investors.

In addition, even though the government has adopted liberalized policies and has created new rules, the fact of the matter is that cases are seen here and there where these rules are not being applied as intended. Let us provide one example. In early 1991 the Pakistan government liberalized the foreign exchange control system, and made it possible for both foreigners and Pakistanis to take foreign exchange out of the country so long as the amount did not exceed that which was originally brought into the country by themselves. This created a vast improvement in the situation as far as the rules were concerned. However, there are some businessmen who feel that this system is not being applied according to the letter. Because the changes in the rules have not been accurately passed on by Pakistan's central bank to other banks which deal directly with customers.

To take the example of our own experiences, the survey team needed to change leftover rupees into dollars upon leaving Pakistan. One bank said it could change only 50 rupees, while the figure given by another bank was 500 rupees. Finally, following negotiations at a third bank, we were able to change our money after the supervisor called the Central Bank and confirmed that it was indeed permitted to take out foreign currency under the new system. The entire process took a great deal of time. Given an environment in which implementing bodies are not promptly notified of new measures announced by the government, it is very difficult to do business. Cases like this damage Pakistan's credibility and viability as an investment site.

#### **4-3. Problems Regarding the Information Supply**

Another important characteristic of a good investment environment is the ease with which necessary information can be obtained. One problem felt both by foreign concerns and many local firms is the difficulty of obtaining accurate information concerning government rules and regulations. No one knows where to get the information they need. Even a leading Pakistani corporation was given the runaround by government agencies when trying to obtain specific information about eligibility for the Export Processing Unit. Furthermore, information tends to vary depending upon the source.

Against such a backdrop, it is extremely difficult for foreigners to obtain and comprehend information on complex and rapidly-changing rules, especially when said information differs from one source to the next. Not only it is unclear which government units are responsible for providing information, but there are far fewer guidebooks explaining current rules and regulations than in other nations.

Generally speaking, government efforts to promote Pakistan as an investment site are weaker than those of the ASEAN nations. The latter send frequent investment missions abroad, sponsor investment seminars and conduct PR activities to provide a full range of information. Pakistan, in comparison, is less active in this field.

#### **4-4. Living Environment for Foreigners**

Regardless of race, when persons of one race move from the country of their birth to a different environment in a different country for a fixed period of time they are bound to face various kinds of problems. In terms of climate and customs, the immigrant has no choice but to assimilate himself. However, differences in eating habits pose a serious problem. This is because it is very difficult, especially for an adult, to change the preferences for food which he has formed over a long period of time.

Today, this matter of food no longer causes hardly any problems in ASEAN countries. This is because the governments of these countries have liberalized processed food imports, so that it is now possible to obtain nearly all types of food locally. However, obtaining food remains as a problem for foreign families living in some countries.

One method which is adopted by such countries is that of having privately operated "dollar shops", established under government approval, which sell all sorts of daily sundry goods, the bulk of which are foreign processed food items. Whereas the liberalization of processed food imports depletes foreign currency reserves, these dollar shops have the opposite effect as they earn foreign exchange. The issue of establishing dollar-shops of this type is said to have been under consideration at the Ministry of Finance, it has not been realized yet.



## Chapter 5 Finance Scheme

In the case of long-term loans for financing investment in plant and equipment in the form of institutional finance, there is, at the present time, the so-called Micro Enterprise Finance Scheme which is operated by Bank Equity Limited and funded by the International Bank for Reconstruction and Development. The maximum limit for loans is 20 million rupees. The Industrial Development Bank of Pakistan grants credit for projects undertaken by small and medium-scale industries, finances small-scale projects in the provinces, and provides finance to existing companies. The Pakistan Industrial Credit and Investment Corporation also provides medium and long-term finance.

However, it is the opinion of many of the companies that although the commercial banks are comparatively more lenient in giving short-term loans for working capital, there are hardly any banks which are willing to advance long-term loans to fund investment in plant and equipment. Of the 56 companies that returned the questionnaire forms, 36 pointed out problems with the finance system. They pointed out the lack of low-interest finance, the low upper limit on finance, and procedural delays. Although there is a scheme which offers low-interest finance for the introduction of locally manufactured machinery, a similar finance scheme does not exist for purchasing imported machinery. This is a serious problem for the textile industry, particularly for the processing sector and the power loom sector which are urgently required to expand and modernize their plant and equipment.

On the other hand, enterprises in the power-loom sector are mostly small in scale and financially weak. Most of them have not enough assets to put collateral. This makes them difficult to get financed. One other reason which makes smooth financing difficult for the power loom sector enterprises, is that there is not such organizations as Credit Guarantee Association and Credit insurance corporation. Most of the weaving factories in the power loom sector, a sector which comprises of small and medium-scale weaving industries, manufacture using out-moded shuttle looms owing to their lack of funds. As a result, it is difficult for them to produce fabrics which are of a higher quality. Given that it is this sector which is largely responsible for the supply of fabric to the sectors manufacturing high added value export products. It will become necessary for this sector to be modernized and restructured. These changes should be accompanied by the modernization of plant and equipment, changing over to using shuttleless looms in particular. For the present, introduction of even moderately priced low-speed revolution shuttleless type looms might improve productivity greatly.

The weakest sector in the textile industry in terms of absolute plant & equipment and technology is the dyeing and finishing sector. It is this dyeing and finishing sector which plays a key role in the manufacture of quality products and products with high added value. For the time being, the most important step is the modernization of plant and equipment, though, the prices of equipment are expensive. As seen above, the textile industry, the power loom sector and the processing sector in particular require low-interest long-term finance to fund investment in plant and equipment.

## Chapter 6 Policy-making Mechanisms

Five fields are specifically designated as falling under the responsibility of the Ministry of Industries: industrial relations, investment, food, development, and price & marketing. A joint secretary has been appointed for each of the five sectors. Under each joint secretary are two deputy secretaries, which in turn each have two research officers under them.

In principle, the roles and responsibilities of the Ministry of Industries are divided into two categories: "vertical" activities related to a single industrial subsector; and "horizontal" activities falling across a number of subsectors. Judging from the Ministry's organization, its vertical structure is insufficient, with no units existing for some very important subsectors. The horizontal structure is also characterized by the absence of units for important fields.

In the vertical organization, which deals specifically with single subsectors, units have been established for the foodstuff and ghee subsectors but no others. Thus it is impossible to obtain an accurate picture of current industry conditions in these fields, and it is unclear just who is in charge of government policymaking. A vertical unit should be set up within the Ministry of Industries to assess current conditions in the textile subsectors and follow policymaking developments. There is a post (Joint Secretary) which is responsible for "Development" in general, but the position is not necessarily responsible only for textile industry.

The Ministry of Industries should also be paying a great deal of attention to important industry-wide issues such as industrial pollution, R&D and regional development. Yet, it is not even clear whether there are units in charge of these areas. The responsibility for dealing with issues like industrial pollution should not just be passed on to the Ministry of Environment and Urban Affairs.

Let us focus on the case of the textile industry. Because there is no division specializing in textiles, the Ministry of Industries appears to be ill-equipped to carry out studies and offer suggestions concerning textile policy. Without a strong organization, not only is it impossible for the Ministry to carry out effective coordination and consultations with the appropriate agencies concerning textile-related promotion, raw material problems, export promotion policy, pollution regulations and infrastructure-building activities, but it is difficult to provide effective policymaking leadership.

Textile Commissioner's Organization Office exists under the Ministry of Industries in Karachi and Faisalabad and are mainly responsible for gathering information and coordinating activities between the public and private sectors. However, there is no unit responsible for the textile industry in the Ministry headquarters in Islamabad, the central policymaker and the body with the greatest need for this information.

Some believe that a separate Ministry of Textile should be established independently of the current Ministry of Industries. However, this is not a particularly good policy at the very time when the government is trying to

reduce its size and spending. It is strongly felt, though, that given the importance of the textile sector the government needs an appropriate unit having as its main tasks gathering information and conducting surveys in the fields of textile-related trade, investment, finance, taxation, and industrial location as well as proposing basic policies and supporting measures for the industry. Furthermore, such a unit should facilitate information exchanges and coordinate joint activities between industry associations and textile-related units in other government ministries, while at the same time serving as a secretariat for government advisory committees.

An organizational diagram of Japan's Ministry of International Trade and Industry (MITI) was included for reference. As can be seen from this chart, vertical and horizontal organizations are clearly distinguished and divided into bureaus, departments, and divisions which have clear definition of responsibilities. Vertical divisions have been established for all industries, while horizontal division exist to deal with broader, inter-industry issues such as industrial infrastructure, regional development, pollution regulations, small business promotion, energy, and technological R&D. When a new industrial sector emerges, it is either placed under one of the existing vertical divisions or, if the sector is large enough, a new division may be established. When new industry-wide problems arise, horizontal units are similarly established to deal with them. At MITI there are frequent differences of opinion between the vertical and horizontal units, but in many cases better solutions emerge from the resulting deliberations. As a result, a heavy emphasis is placed on coordination between the two structures.

## Chapter 7 Support for Marketing

The Export Promotion Bureau within the Ministry of Commerce has put various kinds of marketing support policies in place which are aimed at export industries, including the textile industry. Its main policies are as in the following.

- 1) Participation in foreign trade fairs
- 2) Sponsorship of domestic trade fairs
- 3) Dispatch of trade delegation overseas
- 4) Holding of seminars and workshops
- 5) Operation of an export information and consultation centre in Karachi, and operation of small information centres in Lahore and Pshawar as well

Viewed from the standpoint of the promotion of exports, these types of export marketing support policies will become increasingly important in the future. Small and medium-scale companies in particular do not have branches or offices overseas and neither can they easily undertake business trips to other countries. As a result, they have a handicap when it comes to obtaining overseas marketing information, and many of these smaller companies have no means of collecting information from abroad. It would be extremely effective to strengthen the information activities of the Export Promotion Bureau.

As a matter of reference, there was a period after the Second World War when most private companies in Japan, mainly small and medium-scale in size, did not have the resources to establish overseas branch offices nor have a network of contacts, and so lacked information on overseas markets. Thus, they carried out business without knowing about the actual situation of the markets in the countries to which they exported. It was a time of so-called "blind trade". And it was because of this that in 1951 a proposal was put forward to establish a non-profit overseas marketing research organization, which resulted in government assistance for the establishment of the organization which is known as JETRO today. It established a network of branch offices in other countries, and with the objective of promoting exports it engaged in surveys of foreign markets, and made an effort to provide private companies, especially smaller companies which did not have overseas offices, with information on foreign markets. These activities in turn have contributed to the promotion of exports. Later on, South Korea, Taiwan and Hong Kong also established similar organizations which have also been successful in promoting exports.

While the EPB of the Ministry of Commerce is the Pakistan equivalent of these foreign trade promotion organizations, it is considered that the bureau's activities would be more effective if they were carried out by joining forces with the Ministry of Industries Investment Promotion Bureau which is in charge of the promotion of investment. The reason for this is that commerce and industry and trade and investment are closely linked and cannot be separated.

## Chapter 8 Industrial Standardization

### 8-1. Present Situation of Standardization

The Pakistan Standards Institution (PSI) is in charge of the implementation of industrial standardization in Pakistan. Quite a number of plans and systems are being put in place for industrial standardization (enactment of standards, quality control). At the present time there are 403 standards relating to the textile industry. However, none of these standards is compulsory. Business circles, in particular the All Pakistan Textile Manufacturers Association (APTMA), hold the view that it is somewhat premature to make standards compulsory at this stage. In addition to this, compulsory standardization is also considered premature by many individual companies which cite reasons such as the nuisance caused by inspection officers entering factories to carry out inspection, and the time and expense which would be incurred. Furthermore, a discrepancy exists in the level of production technology and equipment among factories (among the mill sector and power loom sector, etc.), and there is also the question of at what level the standards should be set. Given this and the interests of the sector, compulsory standardization appears to be extremely difficult. It may be noted that in sectors outside the textile sector a penalty clause might impose a fine of \$1,000 in cases where standards are not met.

Today the majority of companies adopt the standards of their buyers. Consequently, the dominant view is that needs to be done is to meet the demands of the buyers. The findings of a questionnaire survey (44 replies were received from the survey, there are some multiple answers) on the adoption of standards at the present time which was carried out as part of this survey are shown below.

Companies adopting buyers' standards	36
Companies adopting their own standards	15
Others	8
Of which	
Pakistan standards	7
International or individual country standards	7

It is clear at a glance that an overwhelming number of companies adopt the standards of their buyers. There are many companies which have confidence in the quality of their products because their products meet their buyers' standards. Nonetheless, as part of the process of adding higher added value to their products each company will be required to make a further effort to raise quality levels. At the same time, each sector will also be required to attain an improved level of quality.

In addition, although an increasing number of companies are installing inspection equipment to improve quality, the lack of standardized inspection criteria makes it very difficult for them to objectively determine at what levels of quality their products are. Related agencies and some industry circles are gradually becoming

aware of the need for developing a series of uniform inspection standards in order to improve quality throughout the industry.

The realization of a backward linkage effect from the downstream sector through to the upstream sector will require the supply of high-quality products and services able to meet the demands of the downstream sector. It would therefore be desirable for the standardization of products and inspection criteria to be taken up on the industry's initiative in each of the spinning, weaving, and processing sectors.

## **8-2. Outline of Related Organizations**

In addition to the PSI the Central Testing Laboratories (CTL), Textile Industry Research and Development Centre (TIRDC), Pakistan Institute of Cotton Research and Technology (PICRT), and the Pakistan Cotton Standards Institute (PCSI) are also involved in standardization and quality control. The main activities of these organizations are shown below.

PSI: Sets standards and sees that they are widely adopted

CTL: Inspects and conducts consigned testing of industrial products

TIRDC: Provides technological guidance in regard to quality control and the maintenance of machinery and equipment

PICRT: Provides guidance on the development and improvement of new varieties of cotton, supplies testing equipment

PCSI: Grades cotton and trains graders, establishes graded pricing systems

Some of these organizations, while falling under the jurisdiction of different government authorities, and have built up cooperative relationships with each other, including the joint use of inspection facilities and apparatus, PSI, CTL, and TIRDC are administered by the Ministry of Industries, while PICRT and PCSI fall under the authority of the Ministry of Food, Agriculture and Cooperatives.

## **Chapter 9 Government Support for Research and Development**

### **9-1. R&D Institutes Today**

Most government R&D related to textiles is carried out by the following two organizations, under the jurisdiction of the Ministry of Industries or the Ministry of Food, Agriculture and Cooperatives.

Textile Industry Research and Development Centre (TIRDC)

Pakistan Institute of Cotton Research and Technology (PICRT)

The first, falling under the authority of the Ministry of Industries, performs R&D in fields ranging from spinning to sewing, while PICRT, responsible to the Ministry of Food, Agriculture and Cooperatives, carries out work on raw cotton.

These organizations were established with the aid and cooperation of U.N. agencies such as UNDP, UNIDO, and FAO as well as the governments of various countries. Faced with problems of [1] aging facilities, machinery, and equipment, and [2] a shortage of qualified personnel, however, they have been unable to carry out their activities as intended.

### **9-2. Research and Development at TIRDC**

An R&D committee within TIRDC works to resolve technical problems brought before it by outside corporations. Due to the lack of staff and facilities, however, R&D work must sometimes be carried out at private factories. The committee meets every three months to check the progress of projects. It is said that, in the future, a larger budget will be essential if the organization is to carry out a meaningful range of R&D activities.

In the coming years, TIRDC intends to focus its resources on research and development. It has already fostered ties with international agencies like the International Institute for Cotton Research and Development Centre, and would like to see further development in its cooperative relationships with countries around the world.

## **Chapter 10 Governmental Support for Human Resources Development**

### **10-1. Present Situation**

An improvement in the quality of products and the addition of higher value to products are required for the continuous development of the textile industry. There are various factors involved in this, such as the need for the government to address quality and high added value in its policies, and efforts by the private sector. Among these factors, however, human resources development is the most fundamental factor in sustaining the continuous development of the textile industry.

Sources, including both direct and indirect sources, of human resources development related to the textile industry in Pakistan may be classified broadly into the four categories shown below.

- (1) School education
- (2) Vocational training institutions
  - State-operated institutions
  - Institutions operated privately and by associations
- (3) In-company education and training
- (4) Foreign organizations and companies
  - Educational and training institutions
  - Associated companies (joint venture partners, business connections)

### **10-2. School Education**

Under the Pakistan education system people may have five years of primary education and five years of intermediate education (three years of middle or lower secondary, followed by two years secondary education), so that in their 11th year of education they may proceed to higher education, that is, technical institutions and colleges and universities (students enter technical institutions, colleges and universities in their 13th year).

Technical education, which train engineers at degree level, technicians at diploma level, and skilled workers at certificate level, forms integrated part of this system. Any purposeful vocational education normally starts in the 9th year after the completion of the first three years of intermediate education, and technician education in technical institutions starts in the 11th year. Students enter engineering and technical colleges in their 13th year. In addition, special technical education programmes (teacher and instructor training programmes, apprenticeship programmes, short-term trade programmes, etc.) derived from general education courses have been set up. These programmes consist mainly of practical education and training that is based on vocational training. Human resources development related to textiles is also built in this sort of education.



In companies and factories employees who have been through these kinds of courses make up the group of employees with a technical level of a skilled worker and higher. Beneath this group there is a group of semi- and unskilled workers who have dropped out of the education system at some stage or other.

### **10-3. Human Resources Management in the Textile Sector**

The development of human resources within the textile sector is largely carried out by the nine educational and vocational institutions, and by the private sector (in-plant and on-the-job training, educational and vocational institutions operated by associations). Some training is also carried out by the vocational training institutions which are under the control of the National Training Board. Owing to relatively high importance which is placed on spinning and weaving in the present Pakistan textile industry, many of the human resources development programmes in the textile sector are to be found within these two sectors.

#### **10-3-1. Main Problems Facing Human Resources Development**

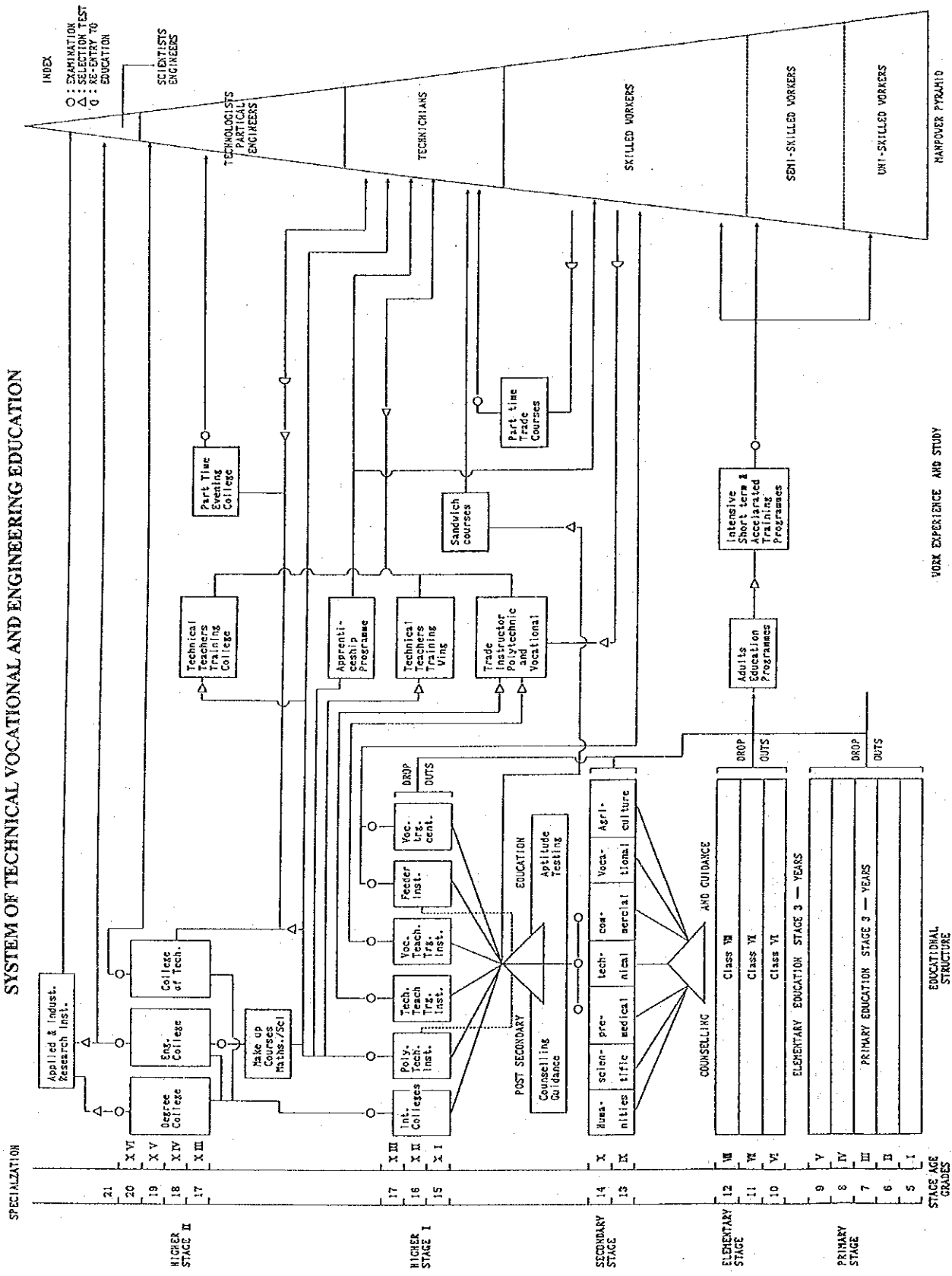
The main problems facing human resources development at the present time are: (1) a shortage of instructors in educational and vocational institutions; (2) a shortage of middle management and technical experts in companies and factories; and (3) a shortage of skilled workers.

#### **10-3-2. Shortage of Instructors and Problems**

It would be more appropriate to refer to this problem as a difficulty in maintaining staff rather than as a shortage in instructors. In the course of the present survey it became clear that there are two main factors behind this shortage in instructors. They are; [1] the high incidence of instructors being head-hunted from public organizations by the private sector due to the large difference in salaries offered by the public and private sectors; and [2] the lack of appeal of the teaching profession due to the aging and insufficiency of educational and vocational training facilities and equipment (machinery, equipment, etc.) which prevents instructors from providing adequate education and which also prevents them from displaying their true abilities as teachers.

The shortage in instructors limits what can be taught and has an adverse impact on the student's desire to learn and the level of technology and know-how which they attain. Fluctuations in education and training are passed on to the industry by way of the students and have a direct and long-term effect on the development of the industry. The introduction of the latest in machinery and technology is considered necessary in order to improve the quality of products and to raise the level of added value. However, the training of employees who can handle such technology and machinery must come first.

# SYSTEM OF TECHNICAL VOCATIONAL AND ENGINEERING EDUCATION



WORK EXPERIENCE AND STUDY  
 Source : Technical Education in Pakistan - Mir, Muhammad Arif

TRAINING FACILITIES FOR THE TEXTILE INDUSTRY  
INSTITUTIONS AND DETAILS OF PROGRAMMES OFFERED

1988/89

Name of Institution	Min. Qualification for Admission	Duration of Course	Award	Status in Industry after Qualifying	Annual Capacity (No. Students)
1. National College of Textile Engineering Faisalabad	B Sc Pre-Engineering	4 years	B Sc Engineering Spinning Weaving & Finishing	Assistant	128 ('92)
2. Govt. College of Tech, Karachi	matric.with Science	3 years	Diploma in Spinning & Weaving	Supervisor	70
3. Govt. Woolien Centre, Jhang	Matric	2 years	Certificate	Jobber/Supervisor	30
4. Govt. Weaving & Finishing Inst. Shahdara	Matric.with Science	2-1/2 years	Diploma in Weaving & Finishing	Jobber/Supervisor	40
5. Govt. College of Technology, Multan	Matric	3 years	Diploma in Spinning & Weaving	Jobber/Supervisor	88
6. Clothing Dept. Pak Swedish Inst. of Tech, Karachi	Matric	3 years	Diploma in Clothing Technology	Supervisor	25
7. Labour Directorates of Punjab and Sind Govt.	Literate	Short term (6-8 months)	Certificate	Jobber/Skilled Worker	100
8. Pakistan Inst. of Cotton Research & Tech, Karachi	B Sc Pre-Engineering	2-12 weeks	Certificate of Attendance	Quality Controller	25
9. Textile Industry Res. and Develop. Centre, Karachi	Matric	Various Short Courses	Certificate	All level from Operatives to Manager	400

**SHORTAGE OF INSTRUCTORS AS REVEALED BY THE FINDINGS OF THE INTERVIEWS  
HELD WITH THE RELEVANT EDUCATIONAL AND VOCATIONAL INSTITUTIONS**

Name of educational or vocational institutions	No. of instructors at full strength	Present no. of instructors	Salary levels, other
Government College of Technology (Karachi)	6 (textile dept. only)	2	Salary is one-seventh of private sector levels
Government College of Technology (Multan)	8 (textile dept. only)	4	One staff member recently was head-hunted by a factory
Government Weaving & Finishing institute (Shahdara)	10 (5 weaving, 5 dyeing)	7	Instructors are often head-hunted
National College of Textile Engineering (Faisalabad)	25	shortage	Salary (just after getting jobs) Instructors-3,000 rupees Factory workers-6,000 rupees Factory managers-100,000 rupees
Pakistan Swedish Institute of Technology (Karachi)	6	shortage	All graduates find work in the private sector
Textile Industry Research & Development Centre (TIRDC) (Karachi)	35	17	Instructors are head-hunted to jobs at client companies

With regard to educational and vocational training facilities and equipment, and with the exception of the National College of Textile Engineering at Faisalabad, all of the institutions listed above would like: (a) to renew their out-dated machinery and equipment; and (b) improve the content of the classes and training. There were places where instruction was provided using machinery dating back to the 1950s and 1960s, and there were also places where even though machinery existed there its age meant that it was either not able to use for instruction or not used at all. The reason given for not renewing machinery and equipment was the lack of budgeted funds.

It should be noted that TIRDC has secured a 15,000 square meter site where it plans to move and expand its facilities.

### 10-3-3. Training of Middle Management and Technical Experts and Problems

The middle management and technical experts referred to here are those who possess at least a diploma. They may be classified in the same group as the technicians in the Manpower Pyramid illustrated earlier. As all holders of a diploma from an educational or vocational institution are at a premium, the situation at present is such that demand far outstrips supply.

Many of these individuals have received education and training at provincial-government-run institutions. As noted above, the problems facing these schools, including a shortage of instructors and aging facilities and materials, are so severe that it is doubtful whether an adequate environment for the training of middle management and technical experts is being provided. The strengthening of these institutions is thus essential.

In response to the shortage of instructors, Business circles have established or are preparing for the establishment of their own schools and training institutes. The All Pakistan Textile Mills Association (APTMA) already realized the first stage of its plan.

According to APTMA, it has established one school in Karachi (mentioned below), and is currently compiling plans for another in Punjab.

In November 1991 the school began three evening classes. The classes meet three times a week and the duration of the course is six months. Each week two classes are devoted to textile-related topics, with the third covering management techniques and computer-assisted design. All of the 42 students in the first year of classes come from mill backgrounds. Class numbers were 12, 12 and 18 for spinning, weaving and processing respectively. In the future, the school plans to increase the number of students to 200. Factors taken into consideration when selecting applicants include school record, the results of a written test, and an interview. Graduates of the course are presented with a diploma in textiles (equivalent to a high school diploma).

The school also plans to establish a variety of degree courses starting in December 1992. The three- to four-year courses will include spinning, weaving, processing, knitting, clothing, management, and apparel and will ultimately have a capacity of 200 students. Sister ties have been formed with a U.S. university, and the school has already sent observation teams to the U.S. as a means of promoting the exchange of information, students and faculty members. In the future, the school would like to build similar ties with institutions in Japan. All instructors at the school must satisfy at least one of the following requirements: [1] possession of a doctoral degree in textile studies; [2] ten years' experience as a mill manager, [3] suitable experience as an instructor at a textile institution; or [4] the recommendation of an APTMA consultant and the approval of APTMA. Instructors are offered excellent remuneration.

In addition, APTMA hopes to establish a special course for corporate executives and a six-month design course for female students.

APTMA would like to establish a cooperative relationship with TIRDC. It might also be noted that UNIDO has promised financial support for construction of the college.

The organization is currently looking for a suitable site for the planned school in the Punjab region (Lahore). Training will be limited to the spinning and weaving sectors.

In addition to these two colleges, the Pakistan Knitwear and Sweaters Exporters Association (PKSEA) has established the Pakistan Knitwear Training Institute, from which students have already graduated. The institute was established with the objective of securing human resources for the Pakistan knitwear industry and for raising the quality of products. The institute has two instructors, one of whom is an expert from Sri Lanka.

Furthermore, the Pakistan Ready-made Garments Manufacturers and Exporters Association (PRG-MEA) is currently examining a proposal to establish a garment institute in cooperation with an institute in New York.

Finally, the Pakistan Cotton Fashion Apparel Manufacturers and Exporters Association (PCFA-MEA) has founded the Fashion Apparel Design and Training Institute, which began offering six-month courses in garment technology in December 1991.

Industry has also been enthusiastic about the establishment of schools and training institutes and in the future hopes to build ties with Japan to help in the operation of these facilities.

#### 10-3-4. Vocational Training for Ordinary Workers and Problems

It is usual for ordinary workers to receive most of their vocational training from on-the-job training in factories or from training in workshops. However, because the work place is a production site it is inevitable that there is only a slight sense that it is a place for education and training. The carrying out of on-the-job-training and workshops which are well planned and implemented in order to have "someone teach something to someone to some level" requires a fair amount of time and money. What is more, for textile companies which are plagued with a shortage in middle management and technical experts there are few staff available to teach. Thus, the shortage in qualified staff simply restricts the training which can be offered inside factories. The situation is such that it is not easy at all to train skilled workers within a company.

If the low standard of education and the high illiteracy rate among workers is added to this, it is undeniable that there are limitations as to the depth of instruction and training which can be offered to those to be taught. It may be concluded that part of the reason lies in the tendency of ordinary workers to drop out of the education system and to leave their rural homes to go to larger cities in search of work without having much education. These workers may be classified in the category of unskilled and semi-skilled workers in the Manpower Pyramid illustrated earlier.

Each company adopts its own methods when it comes to on-the-job training. The following are two cases of doing this: (1) there was a company where the worker received training for a period of six months as an unskilled worker upon employment, after which time he receives training for a further six months as a semi-skilled worker, upon which he is certified as a skilled worker by the company; and (2) there was a company which requested TIRDC to dispatch instructors to provide technical instruction on a regular basis. Such methods are viewed as being systematic and effective.

#### **10-4. Textile Industry Research & Development Centre**

TIRDC is the central organization involved in research and development (spinning, weaving, dyeing) and the development of human resources for the textile sector. Established in 1973 with assistance from UNIDO and UNDP, it is currently under the control of the Ministry of Industry. Its main activities are listed below.

- (1) Training (in-plant, institutional)
- (2) Consultancy
- (3) Productivity surveys
- (4) Publications and seminars
- (5) Specialized testing
- (6) Applied research
- (7) Government assignments
- (8) Feasibility studies

As for its training, it puts particular effort into on-the-job training for factory staff (departmental heads, supervisors, machine fitters, quality controllers, operators). Each year it holds around 20 training courses which have been developed in conjunction with experts from UNIDO. According to a provisional schedule for training courses to be held in 1991, there were plans to hold 8 spinning courses, 6 weaving courses, 6 dyeing and finishing courses (includes 3 synthetic fibre dyeing courses), and 3 other courses. It holds seminars which introduce the latest in technology and know-how.

TIRDC is working on strengthening its relations with related organizations both inside and outside the country. As for its international activities, it maintains relations with textile institutes and cotton research and development centres in countries such as Sri Lanka, Great Britain, United States, and India. Its domestic activities include the provision of regular services to government-related organizations, the Pakistan Standards Institution, the Investment Promotion Bureau, and the Textile Machinery Corporation.

TIRDC intends to shift its facilities so that it may expand and improve its activities. Areas in which TIRDC currently wishes to make improvements are: (1) the introduction of new teaching methods and systems; (2) improved machinery and equipment; and (3) expansion of the instructor staff.

#### 10-5. Human Resources Development Concerning Women

In comparison with the number of male students at educational and vocational institutions there are very few female students. The situation is such that there are almost no female students studying at the nine educational and vocational institutions mentioned earlier. The Government Weaving and Finishing Institute does not permit women to enroll. What is more, the Pakistan Swedish Institute of Technology admits that it will be difficult to promote the education and training of women if it does not fill half of its available places (30) with women students.

A look at the work force of Pakistan's textile industry shows that with the exception of the garment sector (where almost 50% of the work force is female), the spinning, weaving and dyeing sectors are dominated by male workers.

(Example)

There are companies which, citing reasons such as the lack of working facilities and the undeveloped transportation network (usually in regional areas), do not employ women. Though the circumstances here are somewhat different, female workers account for 75% of the garment-related work force in the Karachi Export Processing Zone (KEPZ), where a system has been put in place for transporting women to and from work by providing a bus service.

A comparison with the garment sectors of NIEs and ASEAN (where more than 90% of the work force is female) reveals that even though the garment sector which has a comparatively high female work force, the percentage of female workers in the Pakistan garment sector is still low.



## Chapter 11 Environmental Protection

### 11-1. Present Situation and Problems

"To date, environmental problems have not been raised socially. However, we recognize that the environment is important, and it is in this respect that we are currently planning to put in place legislation which will control the environment". (Ministry of Industry)

Although Pakistan has environmental standards, the situation has not become serious enough to warrant the compulsory implementation of these standards. With regard to the textile industry, the securing of water for industrial use and the disposal of waste water are the main areas in which there is concern for the environment. The situation concerning the securing of water for industrial use and the disposal of waste water as described by individual companies visited in the course of the present survey is shown below.

- Company A: Located in Sind State; uses water for public use (mainly piped water, the same applies below). It disposes of its waste water into a public waste water channel. It has nothing special in the way of pollution control equipment.
- Company B: 50% of its water is public water. It makes up the shortfall with well water and purchased water from outside. The price of the purchased water is five times that of public water.
- Company C: Uses public water. There is a serious shortage of water in Karachi. It disposes of its waste water into a public waste water channel.
- Company D: Due to problems in obtaining public water (about 80% of the water it uses is public water), the company is supplied by a special pipeline to make up this shortfall. It uses a public waste water channel to dispose of its waste water.
- Company E: Uses well water. There is no problem in obtaining public water. It uses a public waste water channel to dispose of its waste water.
- Company F: The public water it uses relies on underground water as its source. It uses a public waste water channel to dispose of its waste water.

The 44 companies mentioned earlier which replied to the questionnaire survey (includes multiple answers) rely on the following for their sources of water: (1) public water: 23 companies; (2) well water: 19 companies; and (3) river water: 2 companies. As for obtaining water, there were twelve companies which said that they had problems with obtaining the volume they required. Twelve companies replied that they had problems with the quality of the water (containing salt, muddied water, etc). Eight companies replied that they did not have any

problems. Also, there were twelve companies which prepared the water they used (mainly softening hard water); 21 did not do this. As for having equipment for the treatment of waste water, seventeen companies said they didn't have any, while the majority of companies did not reply to this question.

The findings shown above indicate that although as far as obtaining water is concerned companies somehow manage to obtain the volume they require, it is highly likely that in the future they will incur problems with both the volume and quality of water. Given that most of the companies dispose of their waste water through public channels and that most of them have not installed any equipment for the treatment of waste water, pollution of the environment is a possibility.

## **PART VI CONCLUSION AND RECOMMENDATIONS**



## PART VI CONCLUSION AND RECOMMENDATIONS

### Chapter 1 Conclusion

#### 1-1. Framework of Formulating Master Plan

Framework is defined as "a particular set of rules, ideas or beliefs which you use in order to deal with problems or to decide what to do." (\*)

(\*) Collins: COBUILD English Language Dictionary

The "Master Plan for the Development of the Textile Industry" is an industrial policy framework directed at the realization in the long term of the balanced development of the entire textile industry.

Prior to the formulation of the "Master Plan" a comprehensive analysis of the current state of Pakistan's textile industry was conducted. On the basis of this, the **"well coordinated and export oriented development of the industry as a whole"** was designated as the final goal.

The factors obstructing the overall development of the industry and the upgrading of exports were investigated as issues to be dealt with in order to achieve this final goal. Following this, research was conducted to find out the required direction of business strategy and government support in order to eliminate these obstructions and realize the balanced expansion and increased added value of the industry and the upgrading of exports.

At present, the situation is not conducive to a development process whereby the balanced expansion and upgrading of the industry can take place through forward linkage from upstream to downstream sectors and then to an even greater extent through backward linkage from the vitalized downstream sectors to the upstream sectors.

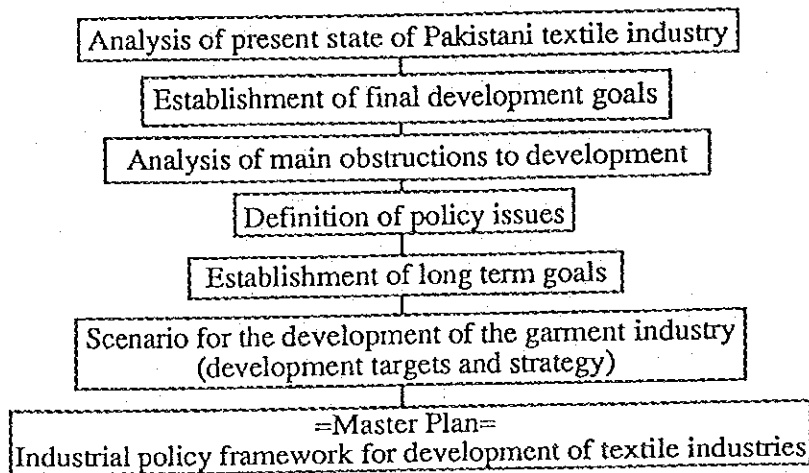
The main obstruction to the upgrading of the textile industry as a whole lies in the fact that the upgrading of the upstream sectors is obstructed by distortions in the market and market mechanism. As a result increases in added value in downstream sectors is hindered.

**Under these circumstances, the driving force for the balanced, export oriented development of the textile industry as a whole is to be found in backward linkage from downstream to upstream sectors. In other words, policy should encourage the establishment of linkage from downstream (forward) to upstream (backward). It is thus necessary to place emphasis on the development of downstream sectors (particularly the export garment sector) through government policy. It is also necessary to adjust policy to eliminate distortions in the market which hinder the natural industrial linkage between upstream, midstream and downstream. At the**

same time, it is necessary to strengthen government support, mainly in the form of technological assistance, in order to upgrade and increase the added value of upstream sectors.

The major policy issues are the development of the export garment sector, the removal of major obstructions to natural linkage within the industry and the upgrading of upstream and midstream sectors. The development of the export garment industry through policy measures should be made a priority goal for the textile industry development and indeed the nucleus of the master plan.

[Planning Framework]



The "development scenario" relating to the export garment sector is comprised of "development targets" and "strategies for development".

The ideas expressed above formed the basis for the formulation of the master plan. In essence, the aim of the plan is the achievement of targets set for the export garment industry and, with this as the driving force, the upgrading and expansion of the textile industry as a whole.

The above process was undergone in the formulation of the master plan. However, discussion with Pakistani government officials and private enterprise, discussions within the study team and exchange of opinions with academics were also used as references. The framework for the formulation of the masterplan follows the order stated above and can be represented by the above diagram.

## 1-2. Masterplan for Development

### Summary of Current Situation in Textile Industry

The quality of Pakistan's cotton yarn, fabric and knit and also its secondary products are below international levels. Thanks to its comparative advantage in raw materials, products of all categories currently enjoy price competitiveness. However, it stands in danger of being caught up with by India, Indonesia and Turkey. It seems necessary, accordingly, to progress from the lowest segment of the market to the upper layers through efforts to upgrade products. No moves are being made to upgrade or differentiate products in the industry, however, with most firms in the upstream and midstream sectors being at least satisfied with the current situation.

The spinning sector is enjoying an unprecedented investment boom resulting from extremely brisk cotton yarn exports in the past few years. As a consequence, there are very few enterprises contemplating measures for coping with possible future changes in competitive situation such as upgrading of products and preparing for demand from the export-oriented garment sector. In addition to the export boom, the government policy of offering incentives to exports has caused the spinning sector to focus its activities on overseas demand. Similar tendencies prevail in the midstream (weaving and dyeing) sector. The export-oriented garment sector, therefore, has difficulty in purchasing the materials it needs.

The garment sector has also greeted the brisk market of the last few years with the greatest of enthusiasm, turning its attention almost exclusively to exports. Unlike the upstream and midstream sectors, moves are being made to free itself from the current lowest market segment toward the upper layer. The positive moves are oriented toward the introduction of imported materials and manufacture of products of higher quality in so far as the supply of domestically produced materials is limited both in quality and quantity.

So long as the situation in the upstream and midstream sectors described above continues, stimulative policy measures will be ineffective in getting companies to upgrade their operations. It is because the current business environment does not require the industries to make efforts for upgrading. Without any action being taken by the upstream sector, such situation where upgrading in the upstream sector is transmitted to the downstream sector could not be foreseen. On the other hand, firms in the downstream sector have demonstrated enthusiasm to improve the grade of their products and, therefore, there is a quite strong possibility that the downstream sector may react to some policy measures, if implemented. If it react to the stimulus to take action, qualitative upgrading and quantitative expansion could be expected. If such upgrading in the downstream sector is realized, new movement for backward linkage would emerge.

Based on the above consideration, it is believed that policy-based support for the downstream sector would be more effective than stimulative policy measures for the mid and upstream sectors. This leads us to the conclusion that the most preferable policy issue to realize balanced development of the textile industries as a whole would be nurturing of the garment sector through stimulative policy measures.

Accordingly, the master plan for the development of the textile industry is composed of the following two approaches. (Fig. VI-1-1)

#### Approach from Two Directions

The Master Plan outlines approaches from two different directions in order to achieve the upgrading and further expansion of the textile industry. Firstly, the effects of backward linkage from downstream to upstream is expected as is a resultant forward linkage effect. The plan then envisages the spiraling development and upgrading of the textile industry as a whole, through the operation of linkage within the industry in both directions. The two approaches are as follows.

##### a) Nurturing of export garment sector through policy measures

The export-oriented garment industry, first of all, is to be developed through policies and policy measures in order to stimulate backward linkage within the industry and thereby accelerate upgrading of the upstream and midstream sectors. This approach entails the development of the export garment industry to act as a driving force for the streamlined development of the industry as a whole.

In concrete terms, the existing schemes for import of raw materials for export garments and exemption of duties on them should be reorganized and integrated, and after five years, import of raw materials should be liberalized and import duties reduced in stages. These measures will make the materials more easily available and accelerate the export-oriented development of the export garment sector.

##### b) Promotion of modernization and upgrading of upstream and midstream sectors

The improvement of technology and quality in the upstream and midstream sectors and the modernization of production facilities in the Nonmill Sector must be promoted through the implementation of teleological policies.

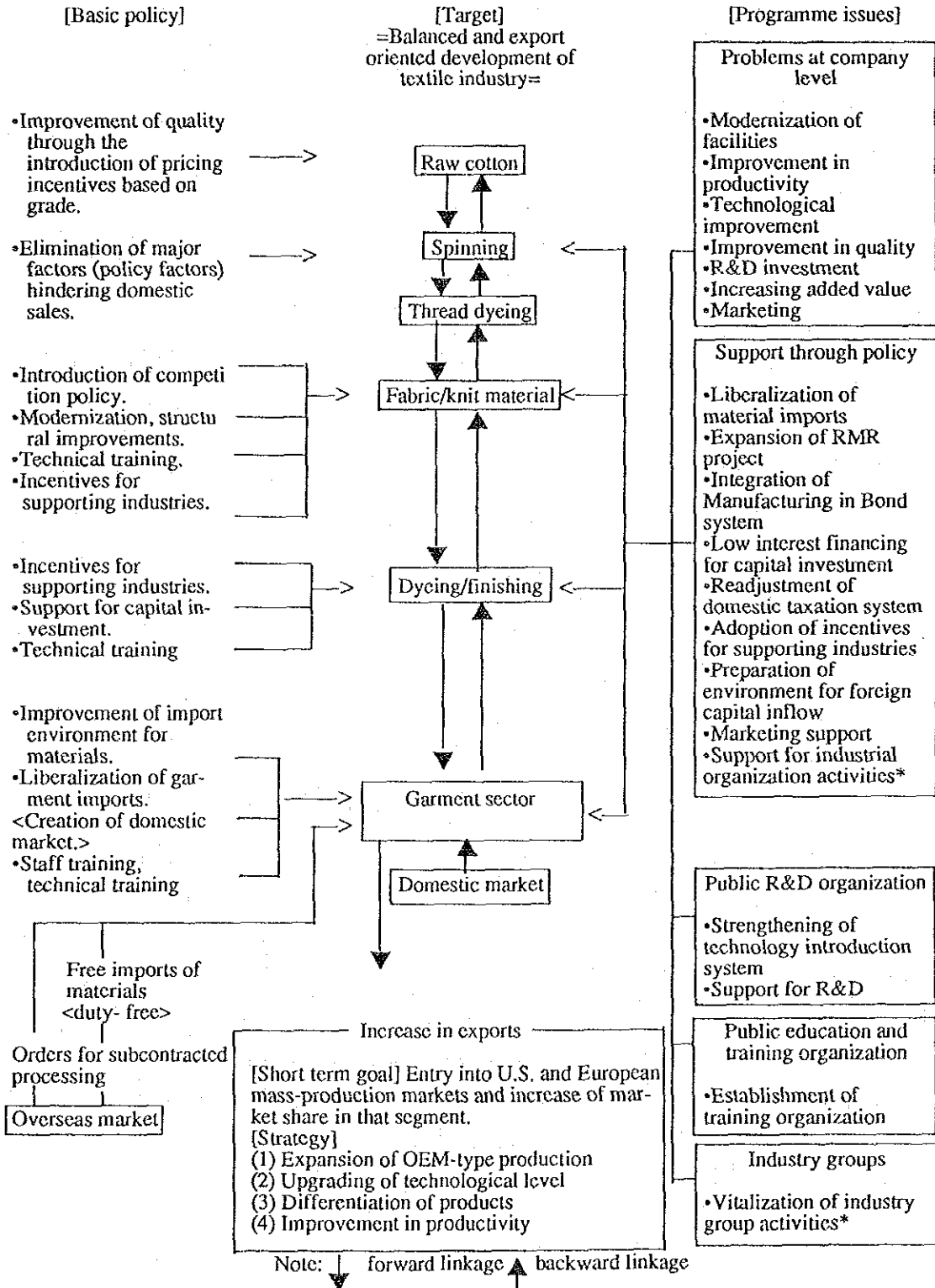
In concrete terms, efforts should be made to enhance and expand public technology guidance and training organs and to support improvements in technological levels in the upstream and midstream sectors including spinning, weaving and processing. Investment and modernization in weaving and processing sectors should be promoted through financial and tax measures.

Technological improvement in the upstream and midstream sectors and modernization of their production and management should upgrade exports from those sectors themselves and also support expansion and upgrading of the export garment sector.



**Fig. VI-1-1: Masterplan for Development of the Textile Industry**

<Concept> Use of policy measures to develop export-oriented garment industry (Establishment of backward linkage effect).  
 Policy support for modernization and structural improvement in the upstream and midstream sectors  
 (Promotion of forward linkage effect).  
 Streamlined development in textile industry through two-way linkage effect within industry.



The first step is to implement policy for the development of a systematic environment which makes possible the expansion and upgrading of an export garment sector which uses imported raw materials. Increased demand for materials accompanying expansion in the export garments sector will make it easier for the material sectors to respond to demands for higher quality materials. Upgrading in the midstream and upstream sectors is brought about as a result of this feedback effect and, in turn, a forward linkage effect will be achieved in the reverse direction, working from the upgraded upstream sectors to the downstream sectors. The balanced development of the textile industry as a whole can be expected from such an operation of both forward and backward linkage.

Until the garment sector, as the driving force for development in the textile industry, is expanded and upgraded, policy should be implemented in order to upgrade and modernize the upstream and midstream sectors. The upgrading of raw cotton through the improvement of cotton varieties, the introduction of grading system and the establishment of a pricing system based on grade, and the reform of the raw cotton price setting system is indispensable. There is also a need of policy support for the modernization of the spinning, weaving, dyeing and finishing sectors, upgrading of technological levels, and improvement of quality. The shift to more upmarket category products which the above reforms would make possible also needs the backing of government policy. The systematic and government backed modernization and structural reform of the antiquated weaving sector and processing sector is particularly important. There is also a need to analyse major obstructions to the supply of materials from upstream to downstream sectors and to institute policy to eliminate distortions in the market. The upgrading and modernization of the upstream and midstream sectors through this policy approach will provide support for the expansion and upgrading of the export garment sector.

#### Lag in Upgrading of Upstream Sectors

The fundamental goal of the masterplan is the achievement of the balanced development of the textile industry including upstream and midstream sectors. This is because a balanced industrial structure from materials to products is an important element in upgrading and increasing the added value of the industry as a whole. Upgrading in upstream sectors is linked with development in downstream industries and upgrading in downstream industries, in turn serves to promote further upgrading in upstream industries. As such the standard of the industry as a whole will be lifted. Balanced development of the textile industry is to be realized spontaneously along the lines of this model for development.

However despite its over forty year-long history, such upgrading in the upstream and midstream sectors has made only minimal progress. Most Pakistani companies in the upstream and midstream sectors are satisfied with production of the low-standard goods they have always been producing. **This in turn limits the scope for development of products among garment makers who rely on the upstream sector for materials. Upgrading of materials increases the possibilities for product development in the downstream sectors. However in the Pakistani textile industry this structure does not necessarily exist.**

The greatest obstacles to the upgrading of the upstream is the existence of the following circumstances which hinder feedback of requirement from downstream to upstream.

- a) Due to strong export demand for cotton yarn and fabric, spinning and weaving sectors do not feel necessity to respond to the upgraded demands of domestic downstream sectors.
- b) Overseas markets specifically seek lower standard cotton yarn and fabric from Pakistan. Thus there are no calls for upgrading from overseas either.
- c) As there is no garment market in Pakistan and the overseas markets are located some distance away, the garment industry receives no feedback from the market. For this reason, calls for upgrading from the garment sector to the material sector are only very faint.
- d) From the point of view of restriction of the import of materials, garment manufactures are being discouraged to work at upgrading. It is only natural that no calls for upgrading are directed at the materials sector.

#### Market Distortions Hindering Forward Linkage

It is difficult for yarn and fabric, particularly that of a higher quality, to be supplied to downstream sectors. This amounts to a structural impediment to the operation of forward linkage. This market distortion could be said to be the result of government policy. The spinning sector does not actively pursue the domestic supply due to export incentives amid strong global demand and financial demerit in selling domestically. The situation for weaving sector is the same. The following are the major factors which hinder the downstream supply of materials.

- a) Global demand is strong and there is greater financial merit in exports.
  - (1) Whereas income from the export of cotton yarn and fabric is tax deductible, the same is not true for indirect exports which are not considered as export business.
  - (2) In the case of cotton yarn, when sold domestically, CED must be paid prior to shipment, though export duty on exports may be paid after shipment. Furthermore, CED and export tax rates are identical (6 rupees per kilo as of Oct. 1991).
  - (3) Raising cash is faster through exports for both cotton yarn and fabric.
- b) For the spinning sector the scale of export demand is larger than demand from independent weaving sector and, similarly, for the weaving sector export demand is on a greater scale than that from the garment sector. Amid such an export boom it is difficult for small lot orders from domestic sources to be filled.

### Impetus for Streamlined Development

What can be learned from the above about the current state of the Pakistani textile industry is that it is difficult for the requirement of downstream to reach upstream sectors thus making it difficult for linkage beginning from upstream sectors to occur. It could be said that the supply and demand relationship in the market is in something of a stalemate situation. Starting the upgrading of the upstream through policies should be difficult. The resolution of this situation must be sought in the upgrading of downstream sectors and the operation of a feedback effect to the upstream sectors as a result of downstream's upgrading. The upgrading of the textile industry must be driven by the upgrading and expansion of downstream sectors, particularly the export garment sector, and the consequent creation of incentives for development in the upstream sectors.

**Not only will the expansion of the export garment industry provide impetus for the balanced development of the textile industry, but will also provide support for the mid- and upstream industries. At present, Pakistan's spinning and weaving industries are being supported by strong demand from overseas and are experiencing an explosive investment boom. However this may change when its 20<sup>S</sup> yarn, which currently forms the nucleus of exports, loses its competitive edge and if by that time preparation for a new export structure centered around goods of a high standard is not made. Such a situation would clearly invite the deterioration of the spinning and weaving industries. Expansion of the export garment industry would also help secure demand for the spinning and weaving industry.**

### Urgently Required Upstream Upgrading

The U.K. was originally the world center of textile production. This center moved from the U.K. to the U.S.A., then to Japan, and then to Asia. The history of a country's textile industry is a history of development then decline. The survival policies taken by each country in the face of such decline were of modernization and rationalization, followed by upgrading and differentiation of products. Pakistan's spinning and weaving industries have already been confronted with the need to modernize and rationalize.

**What becomes necessary next is upgrading. When its present categories lose their competitiveness, the industry will have to make a shift to higher standard product categories. It will be too late to begin responding to the need when that time comes. Investment for R & D and for modernization in order to achieve a shift to products of higher standards must be actively carried out while exports are strong. The upgrading of the spinning and weaving sectors must be said to be a matter requiring urgent attention.**

### Reviewing Protection Policy Toward the Weaving Sector

The history of Pakistan's weaving industry is over 40 years long. **Along with the spinning industry it can be said to have completed its transition from an import substitution industry to an export oriented industry. However a protectionist policy of restricting imports remains in place. This continuation of the protection policy beyond the import substitution period, will not only have the effect of prolonging the need for protectionism**

**but also weaken the industry.** There is a need for an active policy directed at bringing about further improvements in the quality of fabrics, which have already achieved a certain level of competitiveness in the global market, through competition with imported goods. **Fabric imports should in principle be liberalized and protectionism through tariffs should also be reviewed.**

"It is best that firms which cannot achieve efficiency even after a long period of protection should be let collapse. The operation of the principle of survival of the fittest is a way to improve efficiency in free market economics." [\*]

[\*] Oshima, H.T., 1987, Economic Growth in Monsoon Asia: University of Tokyo Press

It is important not to think that liberalizing imports of and lowering tariffs on fabric and auxiliary materials will provide damages for development in the domestic weaving industry or other associated industries. Rather this should be seen as a means to promote the strengthening of the textile industry as a whole, including these sectors. There is a need to reconsider the effects of protection of fabric and auxiliary industries. There are indeed many doubts as to whether the prohibitions on imports of fabric and high import duties are in practise protecting the industry. In reality, the effects of the protectionist policy are being offset by large volumes of imported products entering the market via the system of special permission for imports and as a result of contraband trade.

**However, liberalization of fabric imports should be carried out after a set preparatory period. Too rapid a liberalization schedule may prove detrimental. The same may be said of tariff reductions: tariffs should be reduced in stages after the lapse of a predetermined preparatory period.**

#### Liberalization of Fabric Imports and the Synthetic Fibre Industry

The effects that import liberalization and tariffs reductions for fabrics would have on the synthetic fiber industry should also be considered in the same way. Although tariffs are in place for the protection of long and short synthetic fibres and short synthetic fibre yarn, imports of each have already been liberalized. In regard to synthetic fabric as well, necessary quantities of materials for export garments are in actuality being imported tax-free through the RMR system, irrespective of the import bans and high tariffs in place under the policy of protection. Materials are also imported illegally.

Regardless of competition from imports, investment, including foreign investment, is tending to increase, albeit slowly. This is more a result of increases in demand than the government's protectionist policy. Indeed, domestic production of long polyester fibre increased from 1,650 tons in fiscal 1981/1982 to 38,000 tons in fiscal 1991/1992, a 23-fold increase over those ten years. The import-substitution ratio rose from 5.5% to 61.3% over that time. Though protectionism may be necessary in the import-substitution period, it is essential that protectionist policies be based on the premise that they do not operate to the detriment of the industry.

At present the total input volume of polyester fiber, including both domestic production and imports, in Pakistan's spinning and weaving industries stands at 50,000 tons (fiscal 1990/1991), or one-tenth of cotton yarn consumption. In other words, the ratio of use of synthetic fiber is a mere 9%. Were domestic demand for polyester products to increase, this would add momentum to domestic production and promote import substitution. At such a stage it would be a pertinent to ask whether or not any obstacles stood in the way of the development of the synthetic fiber industry, such as competition from imports, and if so it would be necessary to institute policy measures for the encouragement of import substitution.

**A 5-year preparatory period should be allowed before the liberalization of fabrics. Tariff reductions should also be made in stages and subsequent to a 5-year preparatory period. This should give the synthetic industry enough time to strengthen its structure sufficiently to enable it to compete with imports.**

At this stage there is also the problem of determining which of the cotton or the synthetic fibre industries should be given preference. In other words, a choice needs to be made regarding the industrial structure of Pakistan. One of the industry's most pressing issues at the moment is the effective use of cotton as one of the country's natural resources, through upgrading of the cotton industry, improvement in the grade of products and the development of the export garment sector to these ends. Development of the synthetic industry as a materials sector should be regarded as a secondary import-substitution issue.

#### Liberalization of Material Imports

**In order to strengthen the international competitiveness of the garment industry (in terms of quality and price), the policy measures for the removal of obstacles to the procurement of the main materials (fabric, knit material) and auxiliary materials for garments is considered urgently necessary. Imports of fabric and auxiliary materials should be liberalized after a five year period of notification.**

Although it is possible to import these materials at present, this can only be done through the "RMR scheme", or the "scheme for temporary imports for the purposes of simple processing". The scheme offers only a very narrow access to imported materials due to a range of conditions attached. Imports under the RMR scheme are allowed only up to a certain percentage of previous export results. Products must be exported within one year and penalties are imposed for non-compliance. There are also other extremely complicated rules and conditions, and processing of procedures is said to result in a great amount of time loss. It cannot be denied that these complex rules are a considerable hindrance to the efficiency of export businesses.

At the least, road to free material imports should be opened up by the simplification of conditions surrounding the RMR scheme in the five years leading up to the liberalization of imports.

### Staged Reduction of Tariffs

There is also the problem of protection of fabric and auxiliary materials through tariffs. Although there are a number of policy measures under which these tariffs are waived, there are complicated problems connected with the policy measures themselves. These measures comprise the "Open Bond Manufacturing" scheme and the "Export Processing Unit" (EPU) scheme. Extremely complicated conditions are attached to these schemes as well. Consideration must be given to the fact that reductions in efficiency due to time loss and complicated procedures associated with the fulfillment of conditions hinder international competitiveness.

The reduction of tariffs, the removal of bothersome and complicated procedures needed in the application for tax exemption, and consequent reductions in administrative costs, on the other hand, would result in increased economic and social benefits. Major impediments to the achievement of business efficiency and competitiveness need to be removed.

**In the short term it is necessary to integrate the various schemes currently in operation, ease conditions attached to them and simplify procedures. After liberalization in five years time, these tariff exemption schemes should be replaced by stage by stage tariff reductions.**

### Need for Bulk Purchases of Materials

Although importing materials in small lots increases the cost of those imports, there seems to be little concern over this. Because the garment industry itself is only small, the scale of demand for materials is naturally also small. Even so, under both the abovementioned RMR and Open Bond Manufacturing schemes, imports have to be conducted per individual production unit and per each individual order received. This further reduced procurement lots, and increases the price per unit. Serious consideration must be given to the extent to which these schemes increase material costs, reduce firms' profits and bring about a decline in international competitiveness. There is a need to consider bulk imports of materials in order to reduce costs.

There is a need to conduct fundamental reform of the practise of filing applications per factory and per order received under the RMR material import scheme and the Open Bond Manufacturing tax exemption scheme. There is a need to help develop private enterprise who will conduct bulk imports on behalf of individual users and keep stocks of standard items for which there are regular repeat orders. If the procurement of materials could be entrusted to specialist firms, this would not only reduce the cost of materials procurement for garment makers but also lead to savings in the time and overheads required for procurement.

### Reliance on Imported Materials

The production of internationally competitive products (garments) from domestic materials (fabric) is important from the perspectives of utilizing comparative advantage in terms of production factors and increasing added value. **However while problems with the quality of domestic materials remain, policies which oblige**

garment makers to use domestic materials, thereby forcing them to lose international competitiveness should not be taken. At this stage it is important to secure internationally competitive quality by relying on imported materials. This is because without the requisite competitiveness orders for commissioned production from overseas buyers cannot be received.

The countries which achieved the best rates of growth over the last 25 years and which were able to respond to changes to the external environment were those which implemented outward-looking industrial policies. The adoption of such policies also lead to increased employment and income, efficient distribution of resources, benefits of economies of scale and technological development through competition with overseas firms. The strategies of developing countries who have succeeded in promoting exports uniformly include provision for the "simple and tax-free import of materials required for export".

#### Creation of a Domestic Garment Market

The greatest obstacle to the development of a garment industry is the absence of a domestic garment market. As has been stated earlier, if such a market did exist, feedback from here would stimulate growth of the garment industry. However feedback useful in the formulation of a fashion garment strategy in the international market cannot be expected from the present market which comprises monochrome traditional Pakistani dress. The development of the garment industry could be accelerated by changing traditional dressing habits and the development of a domestic market for garments with an international flavor.

Today the import of garments is prohibited and high tariffs protect the industry. However, the garment industry which was developed as an export industry is already exposed to overseas competition. As such, what function does the protection serve? The application of an import substitution-type protection policy to an export oriented industry cannot be said to be appropriate. The import ban designed to protect the industry should be removed. Moreover the ban may be removed immediately: there is no necessity for a notification period or a preparatory period. Imports would not harm Pakistan's garment industry as it does not have its base in the domestic market. More importance should be attached to the impact that imports of garments would have on the dressing habits of the Pakistani people. Although demand gives rise to supply, supply, too, stimulates demand. If even a small amount of modern clothing begins to circulate in the market place due to market liberalization, this may stimulate change in people's dressing habits. At present the army and police wear Western clothing. By emphasizing function and introducing the same for government and public organizations, students and industrial workers, the popularization of Western clothing may be stimulated.

The present import tariff rate may be maintained if drastically lowering it would present financial problems for the government. However it must be remembered that in the long term there will be a need to permit the import of garments at a price affordable to citizens.

Tariff policies in many developing countries are designed to protect industries and secure revenue income. However there are many occasions where revenue income should be sacrificed to some extent in the interests



of industrial development. In such cases the short term reduction in revenue income from tariffs should be endured as the measures will ultimately result in higher industrial incomes resulting in increased government income from corporate tax.

#### Encouragement of the use of Domestically Produced Machinery

In India the domestic procurement of machinery and raw materials has been in general compulsory. As a result all the industries were forced to rely on poor quality domestic capital goods and input materials. The object of the policy was the promotion of self sufficiency. Because most capital goods and input materials were produced domestically, industry was generally forced to use these domestic goods at the expense of efficiency. As a result India's industry had poor international competitiveness and has been ousted from the international market by Asian countries that procured quality machinery, materials and parts at low prices from overseas while capitalizing upon traditional technology and low labour costs. [\*]

[\*] Bhagwati, J.N. and Desai, P., India: Planning for industrialization: Oxford University Press, 1972.

India's textile industry has a longer history than any other in Asia. Even so, in the 1970s and 1980s India's textile exports grew at a rate substantially lower than those from the Asian NIES and ASEAN. One of the main reason for the poor performance of exports was the high cost and inefficiency brought into the textile industry from capital intensive industries which were afforded considerable protection under government policy.

India's mistakes should not be repeated. Lessons should be learned from the fact that India itself liberalized imports of producer goods recently. An example of import substitution of capital goods can currently be seen in South Korea, alone among the Asian NIES. It is believed that it is too early for Pakistan to encourage domestic production of textile machinery.

#### The Need for Manufacturing Capability

**The most important requirement for OEM-type production, or commissioned processing, is technological capabilities sufficient to respond to buyer demands relating to product specification, quality, and price. In other words to master manufacturing capability is necessary. The capability to "manufacture better and cheaper products" in order to advance from the lower-end to the mass-production sector, as well as the ability to develop distinctive goods are particularly necessary.**

The fact that exports to the U.S. and Europe have continued to grow in recent years bespeaks the fact that many firms have acquired the technological capabilities needed to supply products to the U.S. and European lower and middle range products markets, or are in the process of realizing this. However there still remain many firms which have not reached this stage.

The most effective way of acquiring technology is by receiving guidance from overseas firms seeking supply sources while conducting subcontracted production for them. However when deciding upon tie-up partners overseas firms choose from among many firms those which have already achieved a fixed technological level. Therefore the most important issue for the Pakistani textile industry is the achievement of a technological level qualifying them as tie-up partners as quickly as possible. Firms must aim to train their technological staff using a variety of methods in order to raise the technological level of the firm as a whole.

As specialization of product category provides a short-cut to the achievement of proficiency in technology, focus should be placed on a single line instead of diversification. The development of distinctive technology also enables firms to display their unique characteristics which in turn facilitates market entry.

#### Support Through Government Policy

Another important issue is the extent to which the efforts of the private sector receive support from government. The government needs to provide support for industry by supplying the services. The most important of those is the provision of an industrial infrastructure including electrical power, water, and transportation networks. It also needs to provide support in areas of fund raising, staff training, R & D, information collection, and environmental protection measures. Government support in the areas such as the preparation of an industrial infrastructure, capital, and staff are urgently required. Government support could also be given in areas such as modernization of facilities, productivity improvement, R & D for upgrading of and development of more differentiated products, information collection (market research, surveys of industries in competing countries, technological information), and sales promotion. In countries whose textile industry developed relatively early most government support was provided in the form of public spending for the augmentation of industrial infrastructure, financial and fiscal support for investment for modernization, or support for technological training and R & D.

As well as offering support in areas of infrastructure, capital and information, the policy making bodies must also correct the abovementioned policies which have lead to the formation of obstacles to upgrading in the upstream sectors and distortion in the distribution system as well as those policies which detract from firms' efficiency and competitiveness. This would include the removal of restrictions on the import of materials for the manufacture of garments and of export incentives in the spinning sector, the reform of the system which requires the payment of CED prior to delivery, and the offering of incentives for supporting industries.

#### Unit in Charge of Textile Industry

For the timely mapping out and putting into practise of the above-mentioned policy measures, it is necessary to establish a vertically divided administrative unit in charge of the textile industry. Currently there is no such administrative unit in the Ministry of Industries. Establishment of such a policy unit should be considered. The unit will constantly monitor moves in the textile industry. It will gather statistical data, accurately grasp problems and difficulties of the industry and draw up appropriate policy measures to solve these problems and diffi-

culties, coordinating them with policies of the other government ministries and agencies and existing laws and regulations. It will also draft new laws and regulations and follow the process of their enforcement and execution of policies, monitor the process of permeation of policies, and appraise effects of the policies and revise them.

Some developing countries lagging in industry diversification set up special ministries in charge of their greatest industrial sectors (a Ministry of Textile, for example). But it is more general and efficient to establish a Ministry of Commerce and Industry in charge of mining, manufacturing and commerce. Not many countries, however, have set up policy units in charge of individual industrial sectors, or brought the concept of "vertically divided organs" into the Ministry of Commerce and Industry. (As regards the vertically divided administrative units, please refer to Annex-V. Explanation of organization and policy formulation system of the Ministry of International Trade and Industry of Japan.)

As an organization whose functions closely resemble those of the above-stated vertically divided unit, Pakistan has the Textile Commissioner's Organisation (TCO). With the technical expertise available, TCO enjoys the unique position of interpreting the industry's present problems and future requirements and thus converting into techno-economic recommendations for devising policies for smooth performance of the industry. TCO is serving as a bridge between the industry and the Government. Maintaining close contact with the industry, TCO grasps the actual situation in the industry in detail including statistical data national & international, and the interactions within different sub-sectors of textile industry. Its capacity of gathering information and data, its knowledge and experience have been contributing to mapping out of policies. But, because of its advisory status, it is not given the proper weightage in the finalisation of policies through co-ordination with the other Government Ministries/functionaries and the existing laws and regulations. It also lacks the power to follow policies through to their execution and also to monitor the process of permeation of policies.

**The experience and knowledge TCO has cultivated over many years should be efficiently utilized.** In view of its important position, it is recommended to strengthen its activities by reinforcement of specialist staff (e.g. industrial economist, at least), training to its existing staff and providing personal computers, library and information linkages with major markets as well as competing countries.

A strengthened TCO can serve as the main policy unit within the Ministry of Industries to deal with all aspects of textile industry. Then the unit would be given the right to draft policies, the power to enforce them and the authority to follow their execution. There is a need to establish branch offices of the policy unit in the main production areas such as Karachi, Faisalabad and Multan. The branch offices could be larger in their scale than the principal unit in the Ministry, if necessary.

### Environment for the Promotion of Investment

Regulation and control by the Government should be kept to a minimum. The greater the regulation and control the greater is the likelihood for hindrances to efficiency, productivity and competitiveness. Moreover, administration costs increase placing a burden on national treasury. In this respect, the recent series of measures of deregulations in the areas of trade, investment, foreign exchange and finance are highly appreciated. It should be noted, however, that a relaxation of the Foreign Capital Law alone would not reduce the troubles faced by investors. The fact that approval by IPB has become unnecessary means the reduction of just one from among many procedures. So long as the procedures related to the other existing laws and regulations remain, it cannot truly be said that procedures for foreign investment have been eased.

Increased foreign investment cannot be expected as a result of reform to the system alone. Political and social instability are regarded as the greatest economic risks for investors. Of greater importance than this is the need to create a political and social environment which would satisfy the concerns of investors.

The need for the augmentation of basic education through general education organizations and the importance of improving industrial infrastructure are already well recognized.

There is perhaps also a need to seriously investigate the day-to-day concerns and the life-style requirements of foreigners living in Pakistan. Foreign firms generally dispatch members of their own staff to a country where they invest. In recent years the number of employees who resist being sent to countries with difficult living conditions have increased. Finding employees who are prepared to live in regions where there are problems with safety and lifestyle is a burden for investor firms. Thus the level of safety and lifestyle infrastructure are important criteria for firms in the selection of countries where to invest.

One of the problems with Pakistan as a living environment is the difficulty of obtaining processed foods and high quality products needed for day-to-day living. As a result many foreign residents are forced to go overseas to buy food and other products. Moreover, in the past foreigners have had trouble getting these products safely through customs. The recent simplification of customs checks has been very well received. However the establishment of a government approved private enterprise facility where processed foods and other products could be bought with foreign currency would greatly improve the convenience of foreign residents.

The necessary infrastructure also includes the health and hygiene environment, public utilities (tap water, gas, electricity), and leisure and sports facilities.

Although there are many who ask why foreign investment has not increased despite considerable liberalization of investment regulations, few, unfortunately demonstrate an interest in what foreigners would require in their life in Pakistan.

### 1-3. Plan for Development of Export Garment Industry

#### 1-3-1. Why the Garment Industry?

The well coordinated and export oriented development of the whole textile industry has been designated as the final goal of the plan. This means the addition of higher value in each production and processing stage through to downstream, and developing the industry into one that produces garments using high added value Pakistani materials. In other words, the aim of the plan is the addition of higher value and upgrading of exports in the spinning and weaving sectors, and also to upgrade the structure of exports through a shift from yarn and fabric exports to exports of garments.

It will be the effects of linkage within the industry based on market mechanisms, that will lead to the balanced development of the industry. However in the Pakistani textile industry at present, little effort is being applied to technological improvement in upstream sectors and the supply of materials necessary in the downstream sectors has been almost neglected. This is occurring amid an export boom and the implementation of an export promotions policy in the spinning sector. In addition, demand from downstream sectors in Pakistan is still small and there is little financial merit in supplying the domestic industry. As a result, the requirement of downstream sectors cannot be absorbed by upstream sectors. Under such a market structure, forward linkage from upstream to downstream cannot function sufficiently. The situation can be described as one in which the market does not work to promote upgrading of upstream sectors.

It is likely to be a slowdown in exports of cotton yarn and fabric as a result of global supply and demand trends, that will spur the reform of this inflexible structure of the market. In 1991 the global economy experienced negative growth for the first time in post-war history and in 1992 economic growth does not seem likely to keep pace with population increase. Moreover, the number of spinning and weaving facilities is increasing, particularly in Asia, despite the fact that there is already a slight global oversupply. The situation for cotton yarn and fabric suppliers does not look likely to improve in the short term. In such a purchaser's market, it is simple for buyers to look to import substitution sources, and quality standards and trade terms look set to become increasingly strict. Importers purchase yarn and fabric and supply these materials to processors. Here, the technological requirements of customers must be satisfied entirely. If the required quality standards cannot be met, competition with other spinning and weaving firms will not be possible. It is also perhaps necessary to remain aware of the fact that in light of the emergence of newly exporting countries, there will be a limit to development of the products based on the 20's yarn.

Amid such global competition in the spinning and weaving industries, Pakistan may have to formulate a policy to ensure the survival of its industry. Its ultimate issue will be where to find a stable position in the international market. The industry will inevitably need to upgrade its products. In this case upgrading means the improvement of quality and the shift from the production of standard items to upper categories of items.

In order to open the road for increased exports in the spinning and weaving industry, it will be the time to start

preparations for future changes in the market. It would be difficult to prepare for market change after exports have dropped and the financial resources of firms weakened. It is necessary to take up the issues of quality improvement, increased productivity, the development of high count yarn, and investment for technology development now when firms are enjoying strong profits from exports. Efforts toward upgrading spinning by the private sector are to be particularly expected. Support for technological improvement in particular through the Government policy is necessary in upgrading upstream sectors.

Another factor to stimulate upgrading in upstream sector is feeding back of requirement from downstream sectors. The market mechanism will operate to make the upstream sectors respond to the requirements of the downstream sectors, if downstream sectors strengthen their demand for quality materials, the volume of that demand is of a sufficiently large scale and the situation is such that supplying domestic industry brings greater profits than exports. However at present the export garment industry is extremely small scale, and due to its size is unable to take the place of exports and absorb excess production from spinning and weaving sectors. Although there is demand for higher quality materials, in terms of volume demand is still small in comparison to overseas demand.

Against this background, it is necessary for the scale of the export garment market to be expanded and technological improvements to be made. However due to limitations in the procurement of both domestic and imported materials, the bottleneck in the dyeing and finishing sector and the lack of training in fundamental technology it would be difficult to rely on market functions for expansion of the export garment industry. In order to eliminate these problems and promote expansion of the export garment industry some sort of policy measures are necessary.

In order to achieve the final goal of balanced development, efforts toward upgrading in upstream and mid-stream sectors as well as support through the Government policy for the purpose is of the utmost necessity. In addition to such efforts by private enterprise and the Government, the expansion of the export garment industry through policy measures and the establishment of an environment where backward linkage is able to operate should be made a priority. This would ensure the achievement of still greater results.

On the basis of the reasons outlined above, in addition to proceeding with plans to upgrade upstream and midstream sectors it is necessary to make the development of the export garment industry a long term target in the development of the textile industry.

### 1-3-2. Scenario for the Development of the Garment Industry

It is possible to say that no garment market exists in Pakistan. The "Shalwar Kameez" a traditional Pakistani garment, the design of which is the same for both men and women is standard everyday wear. Consumers buy fabric of their choice at a fabric shop and get it made up at a local tailor. This does not fit into the concept of "garment" which refers to western, manufactured, ready-made clothing. However, interest in Western clothing among young upper class women in cities is emerging, albeit slowly. Moreover, middle and high income people

wear suits on an increasing number of occasions.

As there is no market in Pakistan, its garment industry was originally created as an export oriented industry and is currently growing as such. Although there is no denying the possibility that there will be a shift from traditional Pakistani dress to Western clothing this would at least be difficult to expect in the short term. The garment industry, having been established as an export industry, should developed as such in the future.

**Product development of Pakistani garments is left entirely in the hands of buyers. Price competitiveness only is used as the selling point of its products. Garments are supplied primarily to lower-end markets in Europe and the U.S. However, as history shows, this competitiveness which relies solely on price is likely to be lost sooner or later to nations newly entering the scene. Although it is necessary to both continue and strengthen present marketing strategies, in the mid-term the industry will have to formulate strategies to enable it to move out of the lower-end market and enter the mass-production market segment. At this stage the target of "entering and expanding the market share in the mass-production market in Europe and the U.S." would be a realistic one.**

**The most practical and effective strategy to this end would be to conduct trade on the basis of "international commissioned processing". Product development capability is not an essential condition for commissioned processing, nor is sales capability in overseas markets required. The most important requirements are technological standards able to satisfy the needs of buyers or the market and productivity sufficient to meet price requirements. However, in order to enter the mass-production market it would be more effective to develop strategies of "differentiation". Thus, ideally, makers should have the capacity to offer to buyers products developed on their own. Production and sales tie-ups offer opportunities for the transfer of technology.**

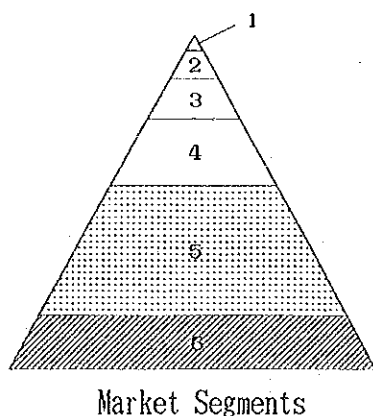
Of course when the maker's only connection with the market is through buyers, it is blind to the situation in market. Even when the only requirement is to faithfully respond to buyers' demands, this in itself is almost impossible without some knowledge of the market. In order to improve products it is important to have an independent grasp of the market and make products reflect market demands. Surveying and collecting information on the market targeted is essential. Moreover, when the entrance into a higher market segment is targeted, the collection of information on the market becomes all the more important.

(1) Targets in the development of the garment industry

#### Market Segmentation

Although marketing strategies to be formulated at the level of individual firms should be based on more micro-market segmentation, for the purposes of macro-marketing strategies for the garment industry as a whole, the broad market segmentation represented in the diagram below would form a sufficient base for research.

[Market segmentation diagram]



- 1: Haute Couture
- 2: Designer's Brand Market  
(Boutiques in first-class hotels)
- 3: Designer's Pret-a-Porter  
(High-class speciality shops)
- 4: Ready-made Garment  
(Department stores)
- 5: Mass-production Market  
(Mass retail chain stores)
- 6: Lower-end Market  
(Discount chain stores, Road-side shops)

The haute couture market (segment-1): This segment which can be described as a market for super-upmarket garments resembles an order-made market. One-off products designed by top international designers are made and retailed targeting society's most wealthy. Both the manufacturing and sales processes must be said to be fundamentally different to other market segments.

The designer's brand market (segment-2): This market is composed of the most upmarket ready-made garments. Garments designed by first class designers are produced in very limited quantities and sold in the most upmarket retail stores. In order to break into this market a marketing strategy which differs from ordinary factory production systems is needed from the outset. This cannot be said to be an appropriate market sector to consider when the development of a total textile industry in one country is under discussion.

The designer's pret-a-porter market (segment-3): Although production quantities are larger than for segment-2, this market comprises designers' garments manufactured in limited quantities and sold through high-class specialty shops. It is not always clear where the borderline between this and the designer's brand market lies. Italian garments are particularly strong in this so-called high-class market.

The ready-made garment market (segment-4): Marketing strategy in this segment focuses not on the name of the individual designer. The fundamental strategies are based on the "brand name" and product diversification. This market comes directly below the pret-a-porter market and looks set to gain territory from it. On the other hand, it is constantly exposed to competition from mass produced items. Main outlets for this are well-known department stores and specialty stores. It is a so-called middle-class market. Although the market is largely comprised of U.S., European and Japanese products, some Hong Kong products have broken into this market.

Mass-production market (segment-5): This market is comprised of mass-production or popular garments sold at volume sales stores (mass sales retail chain stores, mail order houses, etc.). Taiwanese and Korean products occupy the overwhelming bulk of the market. However recently products from ASEAN nations have made inroads into this market. In Japan this market varies slightly from that in the U.S. and Europe. If in the U.S.



"quality commensurate with price" is said to be a necessary requirement, in Japan "quality in excess of price" is demanded.

Lower-end market (segment-6): Products in this market are used by volume sale stores and mail order houses as eye-catchers or discount products, or as low priced items sold at discount chains. Products made in Taiwan, Korea, ASEAN, China, and West Asia make up the majority of this market. In the U.S. some of these products are made in Caribbean countries and products made in Mauritius and countries surrounding the Mediterranean sea have broken into this market in the E.C.

### Development Targets

Excluding a very small number of exceptions, the Pakistani garment industry supplies the lower-end market (segment-6). However this is the market which countries chasing up Pakistan will enter at some stage. If Pakistan's industry does not advance from this market it may indeed one day be forced out by competition from these countries. The mass-production market (segment-5) is directed at middle income earners. Thus it is the largest sector in the garment market in terms of both volume and value. Export expansion could be achieved most efficiently by targeting this market.

The U.S. and Western Europe have market structures which are relatively easy to penetrate. This is because, in comparison to Japan, demand ranges widely from lower to high-end products, and quality requirements are not as strict. Pakistan's garment industry should for the time being aim at entering this market segment and expanding its share there. The target for the development of the Pakistani garment industry should be "entry into and expansion of market share in the mass-production markets in the U.S. and Europe". (Fig. VI-1-2)

Due to restrictions on export volumes under the MFA, exports must be expanded in terms of value. This provides another reason why it is necessary to aim to increase added value and enter into higher market segments.

### (2) Strategies

#### Basic Strategy

The following strategies need to be adopted in order to reach the above target. **On the production side, it is necessary to attract buyers by promoting tie-ups with the outsourcing policies of overseas buyers, in other words by expanding OEM-type production. It is, therefore, necessary to increase technological capabilities enabling the industry to respond to the needs of buyers and overseas markets, and to produce more upmarket and distinctive items. In this way the industry will prove more attractive to overseas buyers.**

**On the marketing side it is necessary to pursue a strategy of diversifying markets and sales channels, and strengthening information collection and sales promotion activities. (Fig. VI-1-2)**

### Responses to MFA

One of the greatest obstacles to the expansion of exports is protectionism by industrialized countries centering around MFA. Although the 4th MFA (MFA-IV) was intended to expire in July, 1991, its expiry date has been postponed till December, 1992 for the time being by the GATT Uruguay Round.

Because MFA export quotas are calculated on the basis of countries' past export results, export quotas for countries (regions) which began exporting early such as Hong Kong, the Republic of Korea and Taiwan are relatively large. However the fact that in certain respects market entry for less developed nations has been made easier must not be overlooked. Although practises are being made to control increases in exports from the Asian NIES, the U.S. and Europe have been implementing policies which favor imports from countries who began exporting textiles at a later stage. While growth in quotas from the countries with more advanced textile industries, e.g. is limited to 0-1 percent, for countries such as ASEAN countries, this is 8 percent. However these measures would not work if ASEAN products were not competitive and demand for them were not increasing. There would be no need to expand quotas on goods for which demand was not increasing. Pakistan, as a developing country, is in the position to enjoy preferential export quotas. Thus if Pakistan is able to create demand for its products it would not be impossible for it to increase its export quota at a relatively fast pace.

Furthermore, discussion on the degradation of MFA after 1992 is taking place. Although it is not possible to be optimistic about the termination of the MFA, when it is lifted, it would be the time for the various textile industries to prove their competitiveness.

However MFA is not the only issue restricting trade. Many developing countries still protect their own industries through either high tariffs or non-tariff barriers. The only places with completely liberalized textile markets are the free trade regions, Hong Kong, Macao and Singapore, and among advanced industrialized nations, Japan. Under such circumstances, competitiveness is the only issue in expanding market share. If that is the case, conditions for each exporting country are the same. In such an environment there is no other way to increase exports than by taking on the competition.

Fig. VI-1-2 SCENARIO OF GARMENT INDUSTRY DEVELOPMENT: TARGETS AND STRATEGIES

Market Segmentation	Status Quo of the Industry		Targets and Strategies	
	Production	Marketing	Production strategies	Marketing strategies
4 MID-QUALITY MARKET (Ready-made Garment Market)	▼ No Production	▼ No supply	<ul style="list-style-type: none"> <li>○ Further strengthening of production capability</li> <li>=Development of new technology</li> <li>=Development of new products</li> <li>△ Creation of more upmarket and differentiated products</li> </ul>	<ul style="list-style-type: none"> <li>○ Fundamental strengthening of sales capability</li> <li>=Establishment of original brand</li> <li>=Promotion of product image</li> <li>=Use of more upmarket sales channels</li> </ul>
.....				
◇ TARGET: Entry into and expansion of share in the Market Segment-5◇				
5 STANDARD QUALITY MARKET (Mass-production Market)			<ul style="list-style-type: none"> <li>◎ Expansion of OEM-type production</li> <li>◎ Improvement of production capabilities</li> <li>=Acquisition of technology to cope with buyer's orders or market requirements</li> <li>=Technology upgrading through technical tie-ups and licensing</li> <li>◎ Upgrading of product quality</li> <li>◎ Creation of distinctive products (Differentiation of products)</li> <li>◎ Improvement of productivity</li> <li>=Modernization of production facilities</li> </ul>	<ul style="list-style-type: none"> <li>◎ Supply of products through buyers' brands</li> <li>◎ Strengthening of capability to 'sell'</li> <li>=Market diversification</li> <li>=Diversification of distribution channels (Tie-ups with manufacturers, department stores, Volume sales stores)</li> <li>=Collection of information</li> <li>=Sales promotion activities</li> </ul>
.....				
<p><u>In the lower sub-segment of the Mass-production Market:</u></p> <ul style="list-style-type: none"> <li>△ OEM-type production: to the US &amp; European (International sub-contracting) markets:</li> </ul>				
6 LOWER-END MARKET	△ Production of standard items:	△ Supplying to the US & European market:	→	◎ Shift to the Segment-5

(Remarks) ▼ Current state negative △ Current state positive ◎ Strategies which need to be implemented

### How to Think about the Japanese Market

Japan is the only industrialized country which hasn't put MFA in practise. From this point of view, entry into the Japanese market would be the most effective way of expanding exports. In Japan the leveling out of incomes has brought about an upgrading in consumer tastes. As a result the lower-end market is smaller than in other industrialized nations. Moreover, even in this market, requirements of quality and finish are stricter than in other industrialized countries. Products which display poor levels of technology will not sell even at a low price. Although low-priced electrical household appliances from the Asian NIES flooded the Japanese market in the mid 1980s, this only ended up being a 2-3 year boom. The greatest obstacle for U.S. and European products to enter into the Japanese market, too, is the high level of quality demanded by Japanese consumers as well as the fastidiousness of their demands.

However, it has been pointed out that in recent years there has been a slight change in Japanese consumer attitudes. As well as having been upgraded, demand has been greatly diversified. Demand for low-priced and practical goods has been undergoing latent increase. At present Hong Kong, Taiwan, the Republic of Korea, ASEAN countries and China are establishing stable shares in the lower-end market and why not for Pakistan to break into this market.

In order for Pakistani goods to enter the Japanese market it would be necessary for goods to display some distinctive feature. This feature may relate to product category, materials, quality or design. Although Japanese importers generally regard Pakistani garments as equalling Chinese products in terms of quality, transportation costs and delivery periods place them in a disadvantageous position.

In a market where comprehensive competitiveness including non-price factors is demanded, the strategy of differentiation seizing on a specific competitive edge is important and effective in marketing. Establishing distinctiveness through product development which capitalizes upon the quality of Pakistani low count cotton yarn would be effective. Thick yarn products should display the quality and essence peculiar to thick yarn. For the time being it is necessary to hurry along the improvement of low count cotton yarn and the development of distinctive products using this yarn. If progress is made in the improvement of raw cotton quality, the development of competitive middle-count yarn and its products would be possible.

### The Position of Pakistan's Garment Industry

Light industrial products from the Asian NIES entered the U.S., European and Japanese markets taking the place of Japanese products. Looking at this phenomenon from another standpoint, the relocation by Japanese companies of their production bases to Asia in the form of commissioned production and investment following the drop in the competitiveness of Japanese made products lead to the development of industries in those countries. Industrialization of these countries in the garment industry, too, occurred via a similar process.

The fall in the market share on NIES such as Hong Kong in the garment market and the increase in the share held by ASEAN countries and China has been both remarkable and sudden. In the face of growing competition from ASEAN countries and China, the garment industries in NIES have begun moving their production bases to ASEAN or China in order to maintain their competitiveness, as Japanese companies had done earlier. With the introduction of capital and technology from the Asian NIES, the garment industries in ASEAN countries and China are expanding their scale and improving their competitiveness.

The competitiveness of the ASEAN and Chinese industries will be bound to be lost to countries such as Bangladesh, Sri Lanka and Pakistan. Bangladesh and Sri Lanka are likely developing their garment industries by becoming production bases for the Asian NIES and ASEAN countries. Sri Lanka and Bangladesh have already received orders for commissioned production from Thai garment manufacturing companies. Recently Vietnam is attracting the attention of investors.

The Pakistani garment industry should strengthen the direct links with the U.S. and E.C. markets which it currently enjoys and aim at expanding its market there. While the MFA remains in place, the industry should aim at expansion of exports on a value basis. At the same time it is important to aim to introduce technology through manufacturing and sales tie-ups with overseas firms and make efforts to increase quotas through the improvement of quality. Tie-up partners should not be restricted to firms in U.S. and European countries but the industry should actively seek tie-ups with firms from Hong Kong, Taiwan, the Republic of Korea and ASEAN nations who export to the U.S. and European markets.

During the 1960s and 1970s U.S. suppliers, who had formerly imported supplies from Japan, looked to the Asian NIES as procurement bases. Subsequently they turned to ASEAN countries, and from the middle of the 1980s have been transferring their production bases to the Caribbean. Similarly, E.C. countries have begun establishing supply systems around the Mediterranean Sea and in Africa. Assuming that these become established and begin to expand, ASEAN products will be exposed to competition from products from these regions as well as South West Asia and be forced out of the lower-end market. The garment industries in ASEAN countries are likely to strengthen marketing with the aim of entering the middle-class market.

Pakistan's garment industry should at this stage set itself the goal of expanding its share in the E.C. and U.S. lower-end markets as well as entering the mass-production markets there through the development of distinctiveness in its products. It must also make efforts to break into the Japanese lower-end market. The current

position of the Pakistani garment industry is such that the most effective course of action open to it is to aim at expanding its market share in the U.S. market and breaking into the Japanese market. This could be achieved by entering the market occupied by ASEAN products while maintaining competitiveness vis-a-vis Caribbean and Mediterranean countries and other South West Asian countries.

Today it is said that Italy symbolizes upmarket products, Hong Kong middle range products and Korea and Taiwan mass-production items. This international division of labour is likely to accelerate in the future. How the Pakistani garment industry will be built into this international division of labour is of key importance.

## Chapter 2 Recommendations

The measures which are recommended for individual enterprises, the Government and public organs to adopt in order to cope with problems will be presented in this chapter. These problems and measures are summed up in Table VI-2-1. In Table VI-2-2, the contents of some concrete projects particularly important among the programmes are outlined.

Responses from enterprises, mainly technological improvements, require the efforts of each respective firm. Problems beyond the scope of individual firms should be addressed by the industry as a body. In relation to the issue of technology transfer, it is suggested that foreign technological cooperation schemes offered by developed nations be utilized.

Governmental policies recommended are to aim for general and coherent development of the textile industry on the basis of a review of the current policy system. In Chapter 1 it was stated that the driving force behind this aim should be the expansion and development of the export oriented garment sector. Accordingly, several policy revisions have been suggested for this purpose. These suggestions cover policies pertaining not only to the garment sector but also the weaving sector which supplies materials, the processing sector as a supporting sector, the spinning sector and the raw material (raw cotton) sector.

It is suggested that on a policy level there is also a need for an administrative unit to formulate policies suited to specific circumstances by keeping a constant watch on the conditions of the textile industry. Policies should be coordinated with those of other Government ministries and agencies. In addition, discussions were held on the investment environment, standardization, human resources development and environmental measures.

As for the activities and functions of public organs, suggestions call for a reinforcement and expansion of measures for further development of human resources and technological training, problems of prime importance. Lagging technology from upstream to downstream may become the biggest constraint on sustained development of Pakistan's textile industry. Apart from problems of management awareness or policies, the low technological level and quantitative personnel shortages in technological middle management are the primary concerns. Various measures should be taken promptly in the fields of human resources development and technological training.

Industrial associations should promote the organization of the industry and grapple with the problems of technological improvement, human resources development, modernization and rationalization of operations, and standardization.