Knitwear Industry - Radical reforms needed to achieve $ 2.5 billion exports

by Dr. Noor Ahmed Memon

Pakistan is the fourth largest cotton producer in the world, and is an important player in the global textile market. Its knitwear industry is the highest value-added textile sector in the country, and is distinguished by high quality of raw material and competitive value of the end product. Knitwear capacity in Pakistan is 125 million dozens of pieces. There are about 1,300 knitwear factories of various sizes in Pakistan. The capacity utilization is about 70%.

The knitwear industry is almost totally export oriented. It is highly value-added earn much more foreign exchange per kg by converting cotton into finished garments. Knitted garments are popular among all, especially in the developed countries, due to their inherent qualities like softness, coolness, sweats absorbent and durability. In 1999-2000, Pakistan exported $873 million worth of knitwear as compared to $1,751 million in 2005-06 This marks average increase of 30% per year in terms of value It further rose from $1,798 million in 2006-07 to $1,831 million in 2007-08. During the last few years, this segment of knitwear has shown an appreciable rising trend in exports. In the international market the USA is the major buyer, followed by UK, Germany, Netherlands, Italy and Spain.

Growth

Pakistan knitwear industry is comparatively quite young. In 1949 there were hardly two or three units, which were producing cotton vests and socks. The production of socks at the time was more than a cotton vest and the entire production was being consumed locally in the West Pakistan. In 1960, West Pakistan producers received their first order from East Pakistan (now Bangladesh). It was the first time that the socks and vests produced in this part left the shores for East Pakistan, now Bangladesh.

Later that decade, and in early 1970 some Americans visited Pakistan and placed orders for basic T-shirts. Till now only white vests were produced but the Americans ordered them in assorted colours. That was the beginning and the turning point for the knitwear producers. With these first orders from US the local manufacturers learned the basics of quality control at each and every step. Slowly and gradually Pakistani knitwear products became acceptable in the international market. In late 1970s and early 80s, European buyers also placed their orders with Pakistani manufacturers, At the same time the composition of local production also changed- from basic T-shirts to turtle-neck, polo shirts, long sleeves etc.

Meanwhile, a trend for knitwear in the international markets had started and imported T-shirts was capturing the world. These imported T-shirts carried slogans, painting, animals, cartoons, scenes and sayings. American and European buyers sent required designs to the Pakistani manufacturers who accepted these challenges, and screen-printing became very common in Pakistani. Gaining experience and learning from the buyers some Pakistani manufacturers in mid-80s turned to their own designs by carefully incorporting existing international fashion trends. Manufacturers like Masood Textiles in Faisalabad are now proudly introducing their own fashion designs in the world market with a great sense of pride.

In 1990's 2000's several new investments in the knitwear sector were made especially in and around Lahore. Ammar, Klass textile, Ibex, Irfan, Style, Azam, Disco, Crescent Group, Regent and Saigol Groups, based in Lahore, set up most modern production units for knitwear with state of the art technology. Some high quality machine manufacturers have also imported soft flow dyeing machines and tension-free dryers.

Table- 2 : Import of Flat Knitting Machines (Major Countries)

Quantity : Number
Value : Rs 000

Country	2007-08		2006-07	
	Quantity	Value	Quantity	Value
Japan	56	13,985	36	10,700
Denmark	41	7,214	--	--
China	25	9,399	130	23,446
Germany	19	5,083	163	34,279
Italy	11	5,583	17	3,903
Korea, Republic of	7	1,722	20	11,734
United Kingdom	33	6,856	36	5,816
U.S. America	13	3,341	39	5,200
Switzerland	11	4,629	--	--
All others	12	2,718	151	25,581
Total	228	60,530	592	120,659

Source: Federal Bureau of Statistics Government of Pakistan.

Table- 1 : Import of Knitting Machines

Quantity : Number
Value : Rs . Million

Machines	2007-08		2006-07		2005-06	
	Quantity	Value	Quantity	Value	Quantity	Value
Circular Knitting Machines	456	418.46	1000	907,13	1,188	1,040.27
Flat Knitting Machines	456	60.53	592	120.66	401	50.10
Total	684	478.99	1,592	1,027.79	1,589	1,090.37

Source: Federal Bureau of Statistics, Government of Pakistan.

According to estimates of Pakistan Hosiery Manufacturers Association there are about 1,300 knitwear units with 15,000 knitting machines are working in the country to manufacture 125 million dozen pieces of knitwear. The production of garments and made-ups in Pakistan is concerted mainly in Lahore, Faisalabad and Karachi. In Lahore all major units are vertically integrated and are involved in knitting, dyeing, finishing & stitching. Major reasons to set up vertically integrated units are the desire of the manufacturers to have full control over all the processes involved and to ensure that right products are delivered at the right time. Specialized and commercial units have not been successful to position themselves to cater to the needs of the export oriented garment industry.

Import of Machinery

The knitting technology is a unique and distinct part of the textile industry. In general, textile mills which manufacture knitted fabric, do not manufacture woven cloth. The distinctive feature of knitting industry it that it comprises highly specialized machinery and technical skills required to produce several of knits: for example machinery used to manufacture sweater bodies can not used to make hosiery, even though both are knitted products. The organization of the knitting industry ends to follow the lines of the specialized machinery used in specific kinds of production.

Now in knitwear limits of shrinkage have also been narrowed. These advancements together with availability and use of soft twisted spliced yarn have resulted in the upsurge of world-wide consumption of knitted fabrics. During the last five years more than $3.2 billion have been invested in the value-added sectors including in stitching, knitting, finishing and knitting processing. Pakistan imported large numbers of automatic flat and circular knitting machines of different brands. Import of various flat knitting machines into Pakistan decreased from 1,592 numbers valued Rs1,028 million in 2006-07 to only 684 numbers valued Rs479 million in 2007-2008, thus showing decline of 53% in terms of value. Import of flat knitting machines into Pakistan is given in Table-1 and country-wise imports of knitting machines are given in Table-2 and 3.

Table- 3 : Import of Circular Knit Machines (Major Countries)

Quantity : Number
Value : Rs 000

Country	2007-08		2006-07	
	Quantity	Value	Quantity	Value
Italy	319	293,647	655	613,298
Germany	22	21,064	25	23,943
China	3	2,144	77	68,882
Canada	16	11,029	--	--
U.K	6	6,768	9	5,658
U.S. America	7	3,486	5	4,192
Korea, Republic of	5	9,515	4	2,833
Other Asian Countries	67	63,473	135	100,961
Japan	2	1,594	47	49,244
All others	9	5,748	43	38,124
Total	456	418,468	1,000	907,135

Source: Federal Bureau of Statistics Government of Pakistan.

Table- 4 :Export of Knitwear (Hosiery) from PAkistan

Year	Quantity (000 Doz)	Value (US $ Million)
1989-90	19,048	274
1990-91	17,668	334
1991-92	23,427	425
1992-93	23,052	464
1993-94	26,450	509
1994-95	32,418	689
1995-96	30,040	703
1996-97	27,719	689
1997-98	29,312	697
1998-99	32,477	742
1999-00	39,313	873
2000-01	40,355	911
2001-02	36,556	846
2002-03	52,133	1,147
2003-04	66,894	1,459
2004-05	71,033	1,635
2005-06	78,645	1,751
2006-07	94,224	1,798
2007-08	96,610	1,831

Source: Trade Development Authority of Pakistan.

Exports

The analysis of global trade in clothing sector is a complex affair as there is a broad range of apparel produced traded. Classification is based on the structure of the fabric used i.e. knit and woven garments and within these classification, there are further classifications like men's wear, women-wear, sportswear, babies wear and hosiery items.

Knitwear goods exported from Pakistan are known for their fine quality in European and American markets. It is highly value-added, earning much valuable foreign exchange per kg cotton converted into finished garments. A series of new finishing processes have been incorporated with improved shades, texture and lustre. Some of the bulk export items, which have gained popularity, are 100% cotton T-shirts, vests, slips, children's pajama suits, sports shirts, undergarments, bathing suits, knitted garments and knitted tabulator or flat fabrics.

Export of Knitwear (Hosiery) increased from 40 million dozens worth $911 million in 2000-01 to 97 million dozens worth $1,831 million in 2007-08. Export of knitwear is given in Table-3.

Terry bathrobes are the major export item from Pakistan getting 29% of total exports. USA, UK, Germany and Netherlands are the top four trade partners for Pakistan. Pakistan primarily exports bathrobes made of cotton that constitutes 70% of total quantity exported in the category. The remaining 30% exports of Pakistan are in bathrobes made of synthetic material. Country-wise export of knitwear is given in Table-5 on the next page.

Future Challenges

Country will have to undertake aggressive tariff reforms, seek more market access and diversify knitwear export base for reaching the export target of $ 2.5 billion by the year 2009-00.

Pakistan textile industry is loosing its competitiveness in international market. Knitwear exports suffered double jeopardy of gas and electricity rate hikes as well as supply shortage during the year. Resultant effect of this severity was productivity cut and increases in cost of production rendering Pakistani knitwear uncompetitive in international markets. On the other hand Pakistan's textile sector is being hit hard by negative advisories from across the western world for travel to Pakistan. It may be noted that a political and economic crisis has brought a negative impact on the textile sector.

China, India, Sri Lanka, Vietnam, Bangladesh, Korea, Bangladesh, Jordan and Kenya are among the country's major competitors in the industry. Small unit owners would be in hot water, as they get no facilities with regards to electricity services, financing and WTO compliance issues, so that these units would not be able to compete due to high costs. Pakistan, which has a strong textiles industry failed to take advantage of the post 2005 quota free regime, China and India aided by their respective countries had their plans in place and have developed greatly.

The government also acted late in providing the incentives needed to prop up the sector. Secondly, the textile industry which was smug in the belief of having an advantage in technology and quality was humbled by the modernization drive adopted by the neighboring countries. Textile industry failed to take advantage, and instead was looking for more incentives from the Government which seems unlikely at present.

Jawed Bilwani, Chairman Pakistan Hosiery Manufacturers Association (PHMA) warned that its competitors are taking various measures to boost their knitwear exports and stimulate their economy, but the government of Pakistan has yet failed to take any serious step to boost its exports and nor decided to extend R&D support subsidy, which was being given in the previous years.

He said that China has raised tax rebates for certain exports to help producers cope with smaller profit margins as a result of slacking market demand and rising production costs. The tax rebate on textile including knitwear and garments would now be 14% after this increase. This increase of 1% comes after a similar measure in August 2008 where China increased its rebate on textiles and garments from 11% to 13%.

According to a study undertaken by National Council of Textile Organizations (NTCO), Chinese exporters have given export subsidies by Central government increased from $19 billion to $29 billion. Moreover, China has slashed benchmark rates for one-year loans and deposits by 108 basis points, the fourth rate cut in only three months. The current rate is now 5.58% on a one-year loan. It also reduced the reserve requirements of banks, giving them more money to lend to businesses.

Besides the above measures, textile industry will benefit by $2.36 billion by value added tax reform as VAT is reduced from 6% to 4%. The long discussed VAT reform was officially announced early November, 2 2008 together with other nine measures to boost domestic demand.

The Indian government announced in first week of December 2008 a provision for an additional Rs1,400 crore for modernization of the textile mills, enhanced Duty Entitlement Pass Book and duty drawback rates, reduced ECGC premium, subvention on credit rates, refund of service tax paid by exporters on various services etc.

The two major challenges are low level of technology and modernization in textiles and clothing of Pakistan, which includes the knitwear sector. Pakistan does not have resources like research centres and enough fashion training schools that help the exporters understand or compete with the rapidly changing fashions in different regions and cultures of the world.

Most of all, the Pakistani exporters are not financially strong enough to invest a huge amount to store their products in big warehouses and sell them after putting it on display in the shopping malls and shopping plazas etc abroad. In this regard the Trade Development Authority should play its role to effectively help market Pakistani textile and knitwear exports.◆

Table- 5 : Country - wise Export of Knitwear

Value in $ '000'

Countries	2003-04	2004-05	2005-06	2006-07	2007-08
U.S.A	840,600	929,399	1,087,589	1,144,244	1,157,441
United Kingdom	156,779	153,536	160,571	1,56,937	184,666
Germany	88,523	87,961	77,003	62,280	76298
The Netherlands	74,700	73,794	71,251	79,987	75,466
Italy	45,533	66,330	81,038	74,647	58,175
France	39,490	46,599	34,809	33,738	35,971
Belgium	39,982	45,153	34,212	37,231	40,892
Spain	24,323	35,956	46,977	49,141	57,979
U.A.E	21,127	34,196	16,747	15,491	27,168
Canada	34,873	32,742	42,257	48,147	48,558
Saudi Arabia	11,620	14,370	10,326	5,685	9,252
Greece	2,759	5,376	2,715	2,971	2,835
South Africa	1,082	4,805	3,232	5,685	9,252
Turkey	863	4,150	1,724	51,185	5,147
Norway	1,605	3,200	2,934	2,008	3,701
Japan	1,870	2,352	2,530	1,322	1,775
Sri Lanka	1,202	2,054	1,970	1,878	2,330
Austria	1,614	4,869	3,592	3,193	4,546
Rep of Yemen	724	1,459	812	981	829
Poland	369	1,216	372	394	1,001
Qatar	224	516	577	549	1,084
Other Countries	52,938	54,116	37,006	182,644	27,896
Total	**1,458,736**	**1,635,033**	**1,751,494**	**1,798,477**	**1,831,178**

Source: Trade Development Authority of Pakistan.