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# **A DESCRIPTIVE STUDY ON THE IDENTIFICATION OF THE BARRIERS TO INTERNATIONAL TRADE (EXPORTS) FACED BY THE TEXTILE INDUSTRY IN PAKISTAN**

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## **ABSTRACT**

This is a descriptive research which is intended to identify challenges/barriers to international trade specifically in exports which textile industry of Pakistan is currently facing. The research focus on the textile sector is because of its growth and abnormally high contribution in the economy of the world. The Consumers have also rewarded this industry as the high involvement industry in the whole world. The data was collected through personal interviews about individually faced export barriers with the export managers and owners of the firms. Later on, the difference of opinion was checked among the larger and small & medium enterprises in order to observe the impact on barriers which to be found as most and least influential on the exporting growth of the firms.

Through the proper analysis of the interviews, it was found that larger enterprises have mentioned four (intense competition, lack of governmental support, energy crisis and custom duties and hectic procedure) factors as the most influential and problematic factors. While, the small and medium enterprises have rated six factors (lack of financing capital, lack of governmental support, meeting export quality standards, lack of financial resource, energy crisis and custom duties and hectic procedures) as more disturbing in way to exports' growth. In opinion of most of the 80% of exporters little knowledge about the exports, foreign markets, trade rules and regulations and also facing problems in meeting those trading and export quality standard restrictions. While, the remaining non-exporters have rated lack of information about the foreign markets and rules and regulations of international trading, inadequate skills of the

exporting personnel and the handling of export procedures which is costly and time consuming are the potential reasons to avoid exports.

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## DEDICATION

*This research is dedicated to my parents who always pray for the success of knowledge.*

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## **CHAPTER NO 1**

### **INTRODUCTION**

This chapter is comprised of following elements:

- To state what the topic of the research will be and what kind of problems and questions the researcher will be looking at.
- To explain why the topic/problems/questions are worth looking at (e.g. what is the practical or theoretical interest here, what are the personal reason of the researcher?)
- Finding literature gap?
- To provide a brief overview of how the researcher will tackle the problems/questions in the study- i.e. what theory and methods he will use, what the structure of his study will be?

## **1.1 INTRODUCTION**

It is a descriptive research which is intended to identify the international trade challenges faced by the textile industry of Pakistan. This study focus of textile industry is due to the growth and contribution of this industry in the world economy as fashion industry (apparel & garments) has become the high involvement industry by the consumers. The research is conducted on the export challenges which textile industry is facing. Later on the difference of opinion was checked among the age and experience of the firms in order to observe the impact on the factors (challenges) which to be found most and least influential on the behavior of the firms regarding exports.

## **1.2 BACKGROUND OF THE STUDY**

Business type and growth parameters and the relationship between them are emphasized by many researchers and academicians (Franco, 1971; Gerald, Edwin & Tesper, 2005; Charles, 1996; Charles, Peter & Chan, 1990 and Eric, 2005). And most importantly international trade and business expansion strategies is much acknowledged in the literature (Bruce, 1998; Paul, Brian, 1996; J. Wills, 2001; David, 1992; W Peng, 2001; Andrew, 2001 and Brian & Jeffery, 1984). Authors (Kent, 1992; Baxter, 1995; Patric, Fabrizio, 2000; Haendal & Gerald, 1975; E. Hachemi & Udo S., 2006 and Franco, 1971) also suggested new modes of entry for the business expansion in foreign markets. Many models and theories were developed in order to enhance the practical implications of the trade concept. These models were tested and modified in different countries and on different businesses. But most of the researches in business field concerning international trade have focused on the textile sectors of different economies (Yasmeen, 2003; Frederick, 2002; PACRA, 2011; Qin, 2006; Kerry, 2008; JCR-VIS, 2010; PTSR, 2008; Tian,

2009; David, 1998; Aftab & Mehreen, 2010; Orden, 2007 and Jamshed, 2011). This selection and extraordinary focus by the researchers on the textile sector can be verified through many revenue and international trade statistics of the world. A survey conducted in 2009 reported that the total world textile exports were accounted for \$195billion and \$258billion which represented 2.2% and 2.9% of the total merchandize trade (Charles, 1996, Haendal, Dan & Gerald, 1975; Patric & Fabrizio, 2000; Baxter, 1995; Casson, 1982; Dunning, 1981; John, 2006). There are many success and failure stories observed by the researchers (Yasmeen, 2003; Frederick, 2002; PACRA, 2011; Qin, 2006; Kerry, 2008; JCR-VIS, 2010; PTSR, 2008; Tian, 2009; David, 1998; Aftab & Mehreen, 2010; Orden, 2007 and Jamshed, 2011) i.e. Garments industry growth in Bangladesh is a good example of the benefits of international trade and globalization. In 2008, Bangladesh exported 10.7 billion cheaper garments which were 9.3 and 8.9 in the last two years 2007 and 2006 respectively. Bangladesh is exporting this much garments because it has a very low cost of production as its labor cost is half of the rate in China and it has a vibrant network of supporting subsidiaries and has proven to be a good alternative of China. Free trade is much appreciated by many researchers (Charles, 1996, Haendal, Dan & Gerald, 1975; Patric & Fabrizio, 2000; Baxter, 1995; Casson, 1982; Dunning, 1981; John, 2006 and Paul & Brian, 1996). They suggested that there must be no governmental or any other influence on the imports and exports and the citizens should be free to purchase or sale across national borders. There are many failure stories of firms which were trading internationally i.e. due to the agreement of NAFTA (North American Free Trade Agreement) between Mexico and US textile industry about apparel and textile products. Due to the success of Mexican textile in US, majority of the consumers switched to Mexican apparel and garments and US local textile industry has faced a downturn of 40% in its sales of apparel products, 20% in textile products. US sales declined up

to 60% and due to lesser production 562000 people lost their jobs. But at the same time, US exports increased by \$3.84 billion from \$1.26 billion. Another example of china is important to reconsider trade policies as US and EU has made certain limits on imports of Chinese textile products in order to save their local textile industry due to which china has faced trade gap with other countries as US and EU are the biggest markets of the world.

In Pakistan, this industry has contributed 9.5% in the GDP and enhanced the taxes up to 23.5 billion. It has also enhanced the workforce level to 15 million which is ultimately an economic contribution: improvements in the balance of payments, developments in the field of agriculture from 3 mills to 600 mills and 177000 to 805 million spindles and developments in the collateral industries i.e. color, paints, dies are also exported with textiles products (PCRA, 2011).

This abnormal contribution in the economy of the world made researchers to find out the actual strength of this sector. Apart from the success stories, there are still some problems through which this industry is going which were identified by many researchers (Barbara, Carlos, 2006; Leonidou, 1995; Stamttovic & Zakic, 2009; Karakaya & Harsar, 1999; SEAM, 2004 and Koksal & Kattaneh, 2011). They concluded that the small and medium sector is facing issues in the trade of textile across borders due to some internal resistance i.e. governmental non-assistance, lack of financing capital etc. Other suggested that the large enterprises are suffering from intense competition in the international markets due to the lack of business relationship with other trade partners across national borders. These issues were present in developed and developing both economies. A survey reported that 60% of the exports are due to the developing countries. So, it was important to notify those problems in order to make proper adjustments. As for as our country (Pakistan) is concerned, its textile sector is at 12 number in the trade of textile across

borders and 8<sup>th</sup> largest exporter of cotton in Asia and 4<sup>th</sup> in the production of cotton. This sector

is contributing its 9.5% in the economy and its total exports are making 52% of the total exports of Pakistan (Zafar, 2004; Yasmeen, 2006; Aftab, 2010 and Jamshed, 2011). But there are certain issues with the industry which affected their performance in 2007 and 2009. Pakistan today, can't afford downturn in its textile sector due to its heavy investment in the GDP. Thus, a need to identify those challenges/issues which are disturbance making in the way to international trade is present. So, the focus of our research is to find out those challenges in order to resolve those barriers and enhance the productivity and growth rate of this textile sector.

### **1.3 PROBLEM STATEMENT**

What type of challenges, textile industry of Pakistan is facing in international trade especially in exports?

### **1.4 OBJECTIVE OF THE STUDY**

The objective of our study is to better identify those trade challenges/barriers which may become threats in future for the textile sector in Pakistan both in LEs and SMEs. Major objectives of the study are as follows:

- Identify the challenges imposed by the external world
- Identify the challenges imposed by the local government
- Identify the challenges from the rivalry point of view
- Identify the challenges imposed by the trade policy makers

## **1.5 SIGNIFICANCE OF THE STUDY**

A research becomes significant when it is filling the literature gap, discovers new aspects, deals with the most recent issues and helps other researchers to discover further researchable works.

Our study significance is as follows:

- Filling literature gap

From the literature findings, we came to know that very less focus is given by the Pakistani researchers on the problems identification through which textile sector is currently suffering. And nearly all of them who identified those problems in SMEs sector were due to its emerging importance not only in the national income but also in the economy of the whole world. But unfortunately, few researches are available which have given an overall insight of the problems in both large and small enterprises. So, a literature gap is found in the researches regarding problem identification in both small and large sub-sectors.

- Focusing current issues

As Pakistan is the 4<sup>th</sup> largest producer of cotton in the world and the need for garments and apparel is quickly growing. So, the demand for cotton and yarn has increased which has always been an opportunity for Pakistan to go for huge investment in exports. At the same time, apart from the opportunities there are also some issues which are problematic and disturbance creating in the growth of the trade across national borders. The most recent research on the textile performance in Pakistan by Aftab K. (2012) concluded that there are many trade barriers in the Pakistan textile industry which resulted in the fall of exports in 2011. But this research was

majorly focused on SMEs behavior towards exports. Thus, a strong need for the identification and resolution of the trade barriers is present.

- Discovering new aspects

Literature also suggested that there are several export problems which were identified in many countries. But they were different according to the environment (political, social & economical) of each country. Researches in Pakistan were focused on SMEs sector which identified export barriers in textile industry. These barriers were based on the environment of the SMEs and other factors. There is found to be few researches which were focused on both LEs and SMEs. On the other hand, there are few recommendations given by the researchers about the resolution of the trade barriers. Barriers were theoretically discovered but not empirically investigated. Thus, through interviews more insightful information will be observed and may provide fruitful results for the textile industry.

- Contribution towards future research work

This study may also contribute towards the future researches. Our research is focusing export barriers in textile industry (LEs/SMEs). Future researchers may emphasize on more in-depth analysis or can focus on the most influential barriers.

## **1.6 STRUCTURE OF THE STUDY**

A seven chapters' thesis format was assigned by the supervisor. The first (current) chapter introduces the topic and the importance of the research problem. It provides basic information about the study that what are the reasons for conducting this research, underlined objectives, and rationale of the study and delimitation of this research.

The second chapter named literature review explores past researches on challenges in the international trade faced by the textile industry in Pakistan. The past researches are in context of countries other than Pakistan. Still, few researches were also in context of Pakistani textile industry. From the study of this primary information, researcher has identified those factors which make the firms to avoid exporting.

Third chapter named “theoretical framework” explains the depth and breadth of the research. It identifies the exact need of the research.

Fourth chapter named research methodology which explains the research methodology, population, sample size, sampling method which was used to conduct this research. Questionnaire survey method is being used to get response from organizations.

In fifth chapter which is named as findings explains and analyze the interviews. Data collected through interviews is analyzed through descriptive statistics and intra-comparison (within industry).

Sixth chapter named discussion on findings explains the point of view of the researcher on the findings of the study. Then that point of view is counter checked in literature relationship.

Seventh chapter named conclusion which discusses extract of the research, recommendations, and delimitations and at the end bibliography.

## **CHAPTER NO 2**

### **LITERATURE REVIEW**

This chapter comprised of the theory development on the problem of the research. This theory development has major focus on the past researches in that particular area of research. Then a research or literature gap is identified by the researcher. This gap determines the scope and authentication of the research as a new contribution towards the existing literature. Firstly, the importance of the research question is discussed which is followed by past researches on that research question.

Before getting into the literature review, the reader must know about the research problem. The problem is the identification of export barriers. So, better is to start with introduction to international business, entry modes and their importance and then the export behavior of the firms which is the desired research problem area. The introduction and importance is stated in start in order to suggest the reader about the importance of the subject being under-discussion.

## **2.1 INTERNATIONAL TRADE THEORIES AND MOTIVES**

Many researchers (Charles, 1996,; Charles, Peter & Chan, 1990; Gerald, Edwin & Jesper, 2005; Patric & Frabrizio, 2000; Baxter, 1995 and Kent, 1992) have constructed models and presented theories of international trade in order to provide facilitation to those firms which are having potential to grow at a rapid rate but their focus remained on the advantages it provides to the firms involved in trade across national borders. As the classical trade theory stated that firms which can produce a unique product at home with cheap rates and better quality must export those products to those countries which are lacking in the production of that particular product and should also import quality products which are produced with cheap rates at some other country. This is known as trade based economic advantage and can be further divided into three advantages: absolute, comparative and equal.

Absolute advantage stated that a firm is capable of producing a product with uniqueness which is not possible for other firms to imitate. This capability is the state of absolute advantage which the firm enjoys in the competitive markets. On the other hand, if a firm has a superior advantage in producing and delivering a product to markets is known as superior advantage. Here superior advantage is actually the better production techniques and good quality product as compared to others. These advantages are the results of factor proportion theory which determines the relationship between capital and labor inputs. China is an appropriate place for the manufacturing of products in which intensive labor is required as labor rate is very cheap in this country. So, those firms which want to reduce their production cost should switch to China for the installment of the production plant.

Another theory of product life cycle in international trade (1996) also stated that the economic, superior and other advantages can only be achieved through different stages of the product life cycle. A trade starts with local production moving towards mass production, expanding business across national borders, exporting and installing a production plant or a subsidiary for the host country. It is not necessary for all firms to remain efficient in home country as its factor of production may be cost effective in other than home country location (Charles, 1996).

## **2.2 ENTRY MODES AND THEIR IMPORTANCE**

The need to go for international trade may vary according to the requirements of a firm i.e. the domestic market is saturated, product isn't acceptable to local customers, factors of production aren't achieving economies of scale, firm size is not enough to support, management is lacking in skills etc. Due to these reasons, firms usually develop entry mode strategy for international trade. Authors (Paul Brian, 1996; Bruce K., 1998; Charles, Peter & Chan, 1990; Gatignon E., 1986; Charles W., 1996; Gerald, Edwin & Jesper, 2005 and Nitsan C., 2007) have suggested that there are many entry modes but basic and commonly used entry modes are: exporting, licensing, contract manufacturing, management contract, manufacturing, assembly operations and joint venture (Charles, 1996). Every entry mode has its own advantages and disadvantages as well. But the easiest and cheapest way for trading internationally is the export entry mode (Karakaya & Hans, 1999; Koksai & Kattaneh, 2011; Stamttovic & Zakic, 2009 and Gerald, Edwin & Jesper, 2005).

## **2.3 EXPORTS AS AN ENTRY MODE**

There are number of studies (Zafar U., 2004; Barbara & Carlos, 2006; Jamshed, 2011; Yasmeen



1996; Karakaya & Hans, 1999; Koksai & Kattaneh, 2011; Stamttovic & Zakic, 2009 and Gerald, Edwin & Jesper, 2005) conducted over the past 30years on export development. All of these studies stated in common that export as entry mode is a key to increased internationalization. As there are many ways to enter in the international trade but export is the most and best common way for manufacturers to do business in international markets. The volume of export activities has a major contribution in the world's economy due to its easier implementation (Bruce K., 1998). Declining trade barriers under the umbrella of GATT, WTO, NAFTA, EUFTA etc enhanced the export opportunities. At the same time, the advancements in technology regarding communication and transportation have solved many logistical problems associated with exporting activities.

Export is not a single mode but has many other sub-modes which may also benefit the firms and they are as follows:

- Home country based departments:
  - 1) Develop an export department
  - 2) Develop a separate export department
  - 3) Export sales subsidiary
- **Foreign sales branch:** In case of close supervision of the sales in the foreign markets, the firms can open a foreign sales branch to supervise the firms' sales agents
- **Storage or warehousing facility:** When a firm feels that it has got some profit from the foreign market and still it can cover many other markets so it can open a storage facility in the foreign market to better deal with the fluctuating demands and supply relationship.
- **Foreign sales subsidiary:** It is of same nature like home country based export sales

subsidiary but the major difference is the autonomy foreign sales subsidiary enjoys

because of its foreign domicile and incorporation. This option is chosen if the firm is interested to avail the tax advantage.

- **Travelling salesperson:** A person who is the resident of the country in which the employer resides and go to foreign markets to perform sales activities. In contrast, a resident employee lives in home country and goes to abroad to serve foreign markets. But this may not be acceptable in some countries where customers prefer to interact with local salesperson so for this purpose firms appoint local nationals to perform sales duties.
- **Foreign based distributors/agents:** at this stage, firms usually hire an agent to work on behalf of the firm in attracting prospects and taking orders from them while receiving commission from the firm.

While indirect export modes are of three types:

- **Export merchant/trading firm in home country**
- **Export commission house:** It is the export buying agent who fulfills the duties of a foreign buyers' representative who are residing in the home country. It is also known as overseas customers' hired purchasing agent working in the firm's domestic markets.
- **Resident buyer:** This is the employee resident of a host country but have the domicile of the home country of the exporter and know much about the requirements of the foreign buyers in the domestic markets.

These modes are most commonly used by many multinationals and even small and medium sized firms also engage in international trade through these expansion options. Appropriate mode selection is also dependent on the nature of the product, demand in the foreign market etc (Gerald, Edwin & Jesper, 2005).

International has made economies to grow together but at the same time, it has led many economies to shut down. There are many other failure stories of international trade. Many researchers identified problems with different entry modes and their impractical usage by the management of the firms. In literature, we also found exporting problems faced by many multinationals, nationals and local firms. Taking this issue in Pakistani setting, the below literature is emphasizing those export issues/problems/barriers which hamper the performance of exports and exporting firms in different economies including Pakistan.

## **2.4 EXPORT BEHAVIOR OF FIRMS**

There are a large number of researches which have dealt with the issue of identifying those factors affecting the export performance of the firms and their perception about exports. There is a huge list of researchers (Zafar U., 2004; Barbara & Carlos, 2006; Jamshed, 2011; Yasmeen A., 2006; Paul & Brian, 1996; Bruce K., 1998; Gatignon E., 1986; Nitsan C., 2007; Charles W., 1996; Karakaya & Hans, 1999; Koksal & Kattaneh, 2011; Stamttovic & Zakic, 2009 and Gerald, Edwin & Jesper, 2005) who have mentioned trade challenges in their studies. The results of these studies were useful but no classification of the exporting barriers proved as definitive.

The first classification was made by Leonidou (2004, p. 281) who defined exports as the constraints which hinder the performance of the exporting firms in overseas markets. His research paper was a complete review of 32 empirical researches on the subject of exporting and non-exporting barriers. The only author who combined 32 studies on emphasizing export barriers and made a review of them all and explained the barriers briefly. He divided barriers into two main barriers – internal and external. Under the next level of distinction, he subdivided internal barriers into functional, informational and marketing barriers. In which marketing barriers were

again divided into product, price, placement, logistics and promotion barriers. Similarly, he divided external barriers into procedural, governmental and environmental barriers. He grouped 39 barriers which he found as relevant and meaningful are also used by other researchers in finding export barriers in different economies.

## **2.5 GENERAL EXPORT BARRIERS**

A study conducted by Zafar, Craig, Imam and Tamar (2004) identified export barriers in the Lebanese markets. They concluded that lack of governmental assistance, intense competition, varying policies of pricing and promotion and high foreign tariffs were the major barriers to exports. They also suggested that these barriers can also be formally assigned to external barrier division. Another study conducted by Viviers and Calof (1999) attributed the trade (export) development stages in which they argued that at every single stage in the export development process, presence of different barriers can be observed.

While, Tesfom & Lutz (2006, p. 262) defined as the forces which inhibits the firms to adopt, initiate or sustain export performance. They discovered through the literature that most of the researches had a focus on developing countries which remained a hot agenda for 1980s. But later on the focus of the researches diverted towards the developed countries. They identified 60 export barriers by classifying barriers as internal and external forces. The internal forces were subdivided into product and company forces. The company forces again divided into market knowledge and informational forces, human and financial resource forces while the product forces were broken into technical adaptability and product quality forces. On the other hand, the external forces were divided into market, industry and macro-environmental forces. Market forces are subdivided into procedural and customer forces. Industry forces are subdivided into

competition and industry structural forces. And finally the macro-environmental forces were subdivided into direct and indirect export forces.

There is found to be large overlap between the classifications done by Leonidou (2004) and Tesfom & Lutz (2006). Thirteen barriers/forces were identical in both classifications. Both classifications were useful but no one can be proved as definitive. Due to this overlapping, we didn't use any classification rather simply grouped export barriers as identified in the literature on the basis of a core theme of each group.

The above stated classifications were found with great difficulty depending on the nature of the barriers or according to each stage of the export development. The duplication in the exporting barriers has also been highlighted. While observing all the challenges, we admitted not to create a huge and exhaustive list of exporting barriers. The following section will highlight the most relevant barriers as possible without being granular.

### **2.5.1 Informational barriers**

Koksal and Kattaneh (2010) contributed in the field of textile exporting firms by stating difficulty in obtaining foreign market information as a potential barrier in the growth of exports. A study conducted in Thailand by OECD (2006) also reported the lack of knowledge about the trade regulations in foreign markets as a barrier found in most of the SMEs. Barbara & Carlos (2006) in their study have emphasized on the lack of information regarding the product standards in the international markets. They concluded that this barrier is the most common barrier found in majority of the SMEs of Aladi. Lots of studies identified different aspects of informational barrier. But except Leonidou (2004) no one classified this barrier into its representing elements – **analyzing foreign markets, contacting international customers, finding international**

**market data and identifying foreign opportunities.** He also added that due to the disuse of the international contacts, South African industry has suffered. Tesfom & Lutz (2006) also mentioned lack of identifying the potential foreign market opportunities as a major barrier. Thus, we may summarize that this barrier is an important barrier.

### 2.5.2 Personnel as Assets

#### 1. Management resources

The lack of management ability efficiently deal with exports has been much regarded in existing literature. Tesfom & Lutz (2006) justified the presence of this barrier by stating time and qualification constraints as potential reasons for the generation of the barrier. Leonidou (2004) also identified time constraint as a cause for this barrier generation. Another expression of management ability as a barrier was found to be the management role as starters or export initiators. This non-commitment in the management attitude in initiating exports or export marketing activities worked as a barrier to the growth of exports and exporting firms. Time constraint could easily be negated if the management attitude found as positive in export initiation. Unless the management vision is not broad in exporting growth, this management will remain a barrier. A study conducted in Vietnam by Buisman & Weilenga (2008) reported a positive relationship between management commitment and growth of exports. They notified that management attitude can work as an opportunity for firms to expand its exporting activities. On the other hand, Stamatovic & Zakic (2010) added another term to the relationship by Buisman & Weilenga (2008) while stating that the major source of the management commitment is the skill and qualification of exports. If the management of any firm has **excellent qualification/skills** in exporting field then their **commitment with the exporting activities will**

**remain at peak** and the firms' **exports will automatically grow**. Due to the lack of relevant qualification of the management in exports, firms were under threat. This threat was found very common in the majority of SMEs in developing countries as all of their industries were evolving and needed sometime to grow. Another reason behind the presence of un-qualified personnel is the poor assessment tools used by the HR teams during recruitments. This poor recruitment also affects the performance of exports.

## 2. Non-management resources

Leonidou (2004) in a study on exports of SMEs in Aladi highlighted **inadequate, less experienced and untrained exporting employees** as a barrier to growth in exports. Here the training and experience was comprised of accuracy and efficiency in those activities which weren't performed in local market settings – **communication with overseas customers (often in different and complex languages), handling logistical arrangements, special documentation, custom and tariff clearance procedures** etc. it is a common observation that skills are always in shortage and it has been accepted as a global phenomenon. But the rate of skill shortage was found to be abnormally high which have made developing countries to look like net losers of skillful individuals. Tesfom & Lutz (2006) found lack of training and experience as a cause to blame for the problem creation in exporting and export marketing activities and low quality of the manufactured products. These barriers were identified more disturbing in the developing countries. Jamshed (2011) narrated in his study on SMEs export challenges of Pakistan textile industry that the management style has been an issue for these firms for years. The employees were unable to locate potential foreign markets, less understanding about the international quality standards, delays in product delivery, low quality production etc. the root cause of the above stated issues is the untrained personnel in

approximately all of the small sector firms. Aftab (2011) also reported that same issues with Pakistan textile industry which he identified through directly meeting with the owners of the firms. But he remained specific on some of the barriers i.e. governmental non-assistance, inadequate trade policies and poor performance of export employees. He suggested that training programs aren't being offered for the employees to have proper grip on their respective job specification. Firms were unable to afford training expenses and employees unable to find any way out for experience and training. Thus, this barrier is also of high importance.

### **2.5.3 Capital as Asset**

Shortage of finance is an issue for many if not all the economies, industries and individual firms as well. Whenever a firm decides to go for business expansion, it creates many opportunities for the firm but at the same time, it also brings new types of costs. For expanding business from local to regional level might not be so difficult for a firm but trading across borders will surely become the cause of new costs creation i.e. **R&D cost, product development cost, technological up-gradation cost, transportation, logistics, promotion, custom charges, tariffs, higher interest rates, ever increasing general sales tax, complex and expensive export certification procedures** etc are the costs which have been proved as barriers to expansion in businesses. So, it is not surprising for us to find a lot of literature with references which quoted finance as a barrier to the growth of export. Leonidou (2004) stated that in every successful business a win-win approach is used. He added that top international sales/marketing firms offer credit service for the customers' facilitation. This strategy has made many firms the market leaders. But every firm can't afford this facility to offer due to the shortage of financial resources. So, this shortage of capital is actually a constraint on the export expansion of different firms. Tesfom & Lutz, 2006 in New Zealand; Jamshed, 2011; Aftab, 2011; Yasmeen, 2003;

Ahmed, 2006; OECD, 2006 in Thailand; Barbara & Carlos, 2006 in India; Kattaneh, 2010 in Sweden; Jin & Qin, 2008 in China and SEAM, 2005 in Egypt and many other researches also identified lack of finance as a strong barrier to any business operation and so to export as well. These studies were conducted in different developed and developing economies but this barrier was found prominent in both economies. The effect of this barrier was greater in developing countries whereas less found in the developed countries. Thus it is definite to recommend shortage of finance as a powerful barrier to exports and exporting firms as well.

#### **2.5.4 Product barriers**

There are number of studies (Koksal & Kattaneh, 2010; Barbara & Carlos, 2006; OECD, 2006; Tesfom & Lutz, 2006; Leonidou, 2004 and Jamshed, 2011 etc) which encountered the problem of product acceptance in foreign markets. This product acceptance or authorization was to be made by many authorities i.e. legislative, ISO quality check professionals, and at the end customers utilize those products in order to accept/reject. Leonidou (2004) argued that in different countries, the preferences of different consumers are in variation. So, firms need to develop customized products for every country and even every consumer with which it is operating. Every country has its own demanded product designs, style, and packaging and labeling requirements, so there is a strong need for firms to become local in the foreign markets in order to make their survival possible in those markets.

Tesfom & Lutz (2006) also identified many product related barriers which ultimately affected firms' exports. They stated that firms failed to sustain in the foreign markets due to the **lack of product diversification**. This product diversification may be a result of **absence of new technology** in the production system or increased cost of raw materials or the required expertise

to produce and distribute new and diversified products is absent. They also added that the EU & US markets have made very **strict laws for the goods** which are imported by them from other countries i.e. **customized packaging and labeling laws, quality checking laws, product approval laws** etc. Jamshed (2011) identified product related barriers in Pakistan textile industry and found the SMEs more in problem regarding the **availability of the poor quality raw material, obsolete quality control techniques** which halted the acceptance of the products of the firms in EU & US markets and they faced a huge downturn in 2007. OECD (2006) during a study in Thailand textile sector identified that this sector was lacking new and up-graded technology due to which it was unable to produce quality textile products. Less quality products were being rejected by the ISO quality check professionals and ultimately this industry suffered in 2006.

The need to provide new and even altered products with a demanded pack and label according to the requirements of the foreign markets is a formidable barrier to growth in exports.

### **2.5.5 Technology barriers**

Barbara & Carlos, 2006; OECD, 2006; Tesfom & Lutz, 2006; Leonidou, 2004 and Jamshed, 2011 etc are the researchers which have merely focused the benefits of technology other than the production quality. But still we found some literature on technology utilization and benefits in other fields of business. Leonidou (2004) has stated that the use of technology may enhance the image of a firm in overseas markets because: it increases **production quality of the products; communication with foreign markets becomes more efficient, logistic activities become more quick, easy and qualitative and promotion becomes easy and less expensive**. But if the technology is absent, it may lead the firm to get excluded from the foreign markets. Tesfom &

Lutz (2006) stated technology as a controversial factor in the success of a firm in local and foreign markets. This state was identified as three controversial and alarming states: **the lack of technology, the lack of new technology and choice of wrong technology**. They suggested that development of the technology or the up-gradation in the technology was not given sufficient importance. Lack of technology makes a firm out of the competition. While wrong technology may take the firm into huge losses. On the other hand, the lack of new technology means that business can only survive but can't compete globally. So, all these three states are named as barriers to export performance of the firms. The adoption of new technology can become the competitive advantage for many firms operating internationally. The real impact and importance of technology can easily be found while exporting products to developed countries. The strict rules of product acceptance, after sales services, engaging customers as a future prospects etc can only be made possible with the help of current technology adoption.

Thus, the lack of competitive advantage taken from technology adoption is a barrier to the growth in exports.

### **2.5.6 Competition as barrier**

Okpara (2011) in developing countries, Koksai & Kattaneh (2010) in Aladi, SEAM (2006) in Egypt, Jin & Qin (2008) in China, Barbara & Carlos (2006) in India, New Zealand and Sweden and OECD (2006) in Thailand etc all have mentioned competition as a barrier in the way to export expansion. This factor in foreign markets has kept many firms to remain operating in local or internal markets due to the non-entrance of other firms. But still there are firms which feel to compete on global grounds so they are trying to produce quality and competitive based products in order to make their image sustained in the foreign markets.

Leonidou (2004) stated four forces which contributed to the competition are as follows:  
**restriction on imports, high and complex quality standards set by the importing countries, abolishment of trade quota system and higher prices.**

A research on the textile industry in China conducted by Jin Z. & Ruiqi Q. (2008) explored that this industry is facing many internal as well as external trade challenges. They claimed that China is one of the top exporters of textile products in the world still it has to face export barriers. In 2008, China products were at the top in the EU and US markets. The demand of the consumers was merely the US & EU based products. Due to the decreasing demand of the local products and the consequent shortfall in the local industry alarmed the market operators to impose limits on the sale of the china products. **A limit was imposed by the EU & US markets on the imports of the china products** which disturbed its overall exports. This imposition resulted in the unemployment of 36000 people in China textile industry. This incident proved that trade policies also affect the behavior of the firms in trade across national borders.

According to SEAM Program (Support for Environmental Assessment and Management) conducted in 2006 which stated that the textile industry of Egypt has entered in an era which will change its future in trade because in EU, intense competition has got started among rivalries like Pakistan, China, India and Turkey. Due to the **abolition of quota system, China's accession to WTO**, increased awareness in the consumers regarding health issues and the increased level of environmental protection, Egypt is going to face significant changes in the textile industry of the whole world.

Okpara (2011) emphasized international competition as a strong barrier found in the developing countries. He also added that this competition is more important for those firms which are still in

the growing stage. Partial technology implementation, varying strategies for business operation and expansion etc are the root cause of the competition faced by the firms.

Koksal & Kattaneh (2010) also concluded that strong global competition is a major barrier in the field of exports. They stated that due to the global competition lot of firms has faced shut downs while other went for mergers and acquisitions. Authors also stated that foreign markets are facing fierce competition as compared to the local market. Leonidou (2004) stated four forces which contributed to the competition are as follows: **restriction on imports, high and complex quality standards set by the importing countries, abolishment of trade quota system and higher prices.**

Thus, the intense competition is another strong barrier faced by the firms.

### **2.5.7 Distribution barriers**

In general, distribution is divided into three elements: transportation, warehousing and channels of distribution. Operating at a local level, these elements/processes incur less cost as compared to those operations which are monitored and managed at national and international level. Delivering a product across national borders within limited time with safety and accepting the defective items back to home country require higher level of cost to be incurred. The **cost of product transportation** and insurance has been promoted by Leonidou (2004). He claimed that inevitable increase in the cost of transportation can be observed through the increased distances. The increased transportation cost was because of the **poor infrastructure, inter-border distances and the limited transport mean** (Tesfom & Lutz, 2006). They more emphasized on the infrastructure as a tool to deliver the demanded product with safety at the right place, at the right time and to the right person.

Leonidou (2004); Tesfom & Lutz (2006); Milner, Oliver & Rudaheranwa (2000) and Bisseker (2007) identified the complexity in determining and managing the export distribution channels. This complexity and difficulty was associated with the **access to the export channels, gaining the reliable representation in the global world and maintaining control over the export middleman**. The inability to locate potential markets and poor representation in those markets worked as a barrier to exports. These barriers were present in both product and after sales services. South Africa had also faced this barrier for number of years.

### **2.5.8 Documentation and procedural barriers**

Whenever a firm goes for exports, it needs to handle a ream of documentation to be compiled of. A study estimated that 7% of the export cost comes from the average international transaction involving the documentation of the exporting activities which are organized in 42 documents and 27 parties (Leonidou, 2004). This sort of cost, time consuming and hectic procedures are treated as barriers to exports. Leonidou also suggested that this documentation or procedural barriers can be subdivided into five factors: **export payment procedures (delays in payments and bad debts), documentation complexity, export paperwork and authorization, possible delays in duty draw backs and delays in the documentation**. Barbara & Carlos (2006) conducted a study in New Zealand to find out the export challenges faced by the SMEs from the textile sector of this country. They concluded that the biggest hurdle in the growth of export in this country was the authorization certificate which depicted the trade permission across borders by the trade regulatory authorities of New Zealand. This authorization took 5 months at least to allow the firms to expand its business in foreign markets. The same procedural barrier was identified in Thailand by OECD (2006) that the firms residing in that particular country are avoiding exports due to the strict and hectic authorization procedures which have reduced their export ratio in the

country. It is not only the authorization process but there are other processes like **custom clearance, order specification, product acceptance and clearance** and payment clearance etc are those procedures which a firm easily handles while operating in local market but it becomes difficult for them when they operate across borders. Tesfom & Lutz (2006) stated that there is no surprise in accepting that complexity and volume of documentation is posing as a barrier to exports. They also contended that time and documentation which required **complying with the domestic and foreign market based regulations** cited as the big obstacles on the way to export expansion.

Thus, complying with the documentation and hectic procedures which are complex becomes difficult and expensive in both time and cost manner.

### **2.5.9 Barriers in payment**

A perception (Zafar U., 2004; Barbara & Carlos, 2006; Jamshed, 2011; Yasmeen A., 2006; Paul & Brian, 1996; Bruce K., 1998; Gatignon E., 1986; Nitsan C., 2007; Charles W., 1996; Karakaya & Hans, 1999; Koksai & Kattaneh, 2011; Stamttovic & Zakic, 2009 and Gerald, Edwin & Jesper, 2005) observed in the owners of the SMEs of different countries regarding difficulties in international trade (exports) is that they all were worried about the payment procedures. They stated that in a local market, sometimes it becomes difficult for firms to recover cash from the market. But in international markets, payment recovery was found much difficult. Due to the **hectic clearance procedures and long shipment time** make it possible when a state comes in which neither the buyer nor the seller is in the possession of the ordered products which results in risk either for the buyer (if payment has been made in advance) or the seller (if the product is delivered before payment). The **risk of bad debt** is considered as an export barrier as identified

by Leonidou (2004) and Tesfom & Lutz (2006). Not only the risk of bad debt is a barrier but the **hectic payment procedures** which require **expensive and time consuming documentation** according to the international payment procedures are also rated as barriers to exporting firms. Tesfom also rated **methods of international payment** as a potential barrier to exports growth and stated these methods as sluggish and certainly complex when compared with the local transactions. Delay in payment, non-delay in payment due to the hectic international payment procedures are the true depiction of export barriers. Due to the lack of knowledge about foreign markets, lack of new technology and governmental non-assistance, the sellers found it difficult to operate in those foreign markets as it enhances the risk of increased bad debt (Koksal & Kattaneh, 2006).

Thus, payment is another more recommended barrier to exports.

#### **2.5.10 Barriers to exchange rates**

Leonidou (2004) found there were three areas in which exchange rates raised export related problems. The first problem was associated with the **unstable exchange rates** which ultimately led to fluctuating export prices. The second problem was the **revaluation of the currency of the exporters** which led to the offer of less favorable prices to the end-users. And the last problem was with those **currencies which couldn't be converted** into any other currencies which made repatriation of sales from foreign markets difficult. So, fluctuating prices, revaluation of exporter currency and the un-convertible currencies are the exchange rate barriers due to which there is a long list for firms who avoided exports.

On the other hand, Tesfom & Lutz (2006) identified that **uncertainties in exchange rates, fluctuating exchange rate policies** causing difficulties in export financing and **impracticable**

**exchange rates** which caused the exports of the firms decline. So, exchange rate policies which are under influence of the policy makers have negative impact on the exchange rates of currencies which is proved as a barrier.

Thus, fluctuating exchange rate policies also hinders the performance of exports.

### **2.5.11 Regulatory barriers**

Government of both host and home countries develop certain trade policies which work as trade regulation in order to give direction and making it possible to provide course of action to the industries. The trade development authorities along with the government officials work together to form the trade policy every year for all the industries which are operating within the national borders. These policies aren't designed with the consent of the industrialists which inevitably have great impact on the performance of the industries. These trade regulations act as a barrier to exports. Leonidou (2004) identified regulatory barriers as home governmental controls i.e. **imposing a restriction on the exports of certain countries and restriction on the imports of those products which are having issue of national security or foreign policy significance.** There are **tariff and non-tariff barriers** which aren't found in the literature. Due to the imposition of these tariff/ non-tariff barriers on imports, the cost of inputs also increases. When these expensive inputs are used in the production of the required product leads to addition in the cost of the finished product, distribution becomes expensive and ultimately, the demand reduces in the markets due to the increased prices.

Textile industry of Pakistan is suffering from high tariff and custom duties and procedures. State Bank of Pakistan has developed strict rules on different types of taxes and interest rates i.e. in 2008 **federal excise duty** was 0.25% but later on 15% **flood tax** was added in it which made

textile industry suffer. **Mark up rate** is 22% which in comparison to other countries is much higher i.e. Japan has a markup rate of 1.5% and some other countries are having 5% mark up rate. So, it is the regulatory authority that develops strategies for the industries without their consent which makes them suffer.

Thus, custom duties and tariff is also a hurdle towards export expansion.

### **2.5.12 Environmental barriers**

An environment is comprised of economical, political and social factors which have great impact on the performance and image of a country in the world. If these factors are not favorable for the exporting industries then may lead to shortfalls in the economy. Many researchers (Zafar U., 2004; Barbara & Carlos, 2006; Jamshed, 2011; Yasmeen A., 2006; Paul & Brian, 1996; Bruce K., 1998; Gatignon E., 1986; Nitsan C., 2007; Charles W., 1996; Karakaya & Hans, 1999; Koksal & Kattaneh, 2011; Stamttovic & Zakic, 2009 and Gerald, Edwin & Jesper, 2005) have stated this barrier as the most important in-direct barrier having huge impact on exports.

Leonidou (2004) identified certain sub-factors which define the overall scope of the environment – **political legal barriers, socio-cultural barriers and economic barriers**. These political-legal barriers are then again divided into three variables: high tariffs, strict rules and regulations and political instability. According to Jamshed and Aftab (2011) political instability, social issues and devaluation of the currency are the barriers through which exports from Pakistani textile sector has reduced. Energy crisis in Pakistan is another environmental barrier due to which the production of textile products have reduced and exports in the world has declined. In a report APTMA has declared that the textile industry is suffering 1 billion rupees a month due to the outages of electricity and gas supply. From 2009 till 2012 APTMA has to close 200 units due to

the energy crisis. These issues are not only noticed by Pakistani authors in Pakistan but many other foreign authors have also identified environment as a controversial factor if negated might produce harmful and alarming situations for the whole industry.

Thus, environment if not properly investigated and handled by the firms may lead towards great losses even in international trade.

### **2.5.13 Barriers from the governmental side**

It is closely related with the regulatory barriers and refers to the governmental assistance in export development through offering exports incentive programs. Jamshed (2011) in his study of exporting barriers in textile firms (SMEs) in Pakistan stated that due to the governmental non-assistance, textile industry is suffering from international trade (exports) decline. Mr. Saleem Ameen stated that government is not facilitating textile sector rather creating more difficulties through the **imposition of new forms of taxes, interest rates and import duties**. **50% sales tax refund** is an amount which is kept by the government for 40days and as the limit exceeds, government needs to pay back the amount to the respective industry. But government never paid back within the limit of 40days and due to which textile sector remained inactive because it was unable to invest in the foreign markets. But in 2009 government imposed a new tax named as “**reformed sales tax**” at 6% on the annual sales. According to the Minister of Textile 24 billion rupees of textile sector are stuck up on the account of **duty draw backs** and government has paid only 14% of the total amount. When the government who is the major role player in the formation of trade policies is not facilitating then there shouldn't be any issue with Trade Development Authority of Pakistan (TDAP) as well. All Pakistan Cotton Ginners Association (APCGA) has claimed that due to the **non-issuance of the permission certificate** to export

textile products to India by the TDAP will negatively affect the exports of the cotton and yarn and Pakistan textile sector may also lose a major market share. Tesfom & Lutz (2006) identified those inadequate governmental programs for the assistance of exports in textile sectors are the bottlenecks for the firms in the foreign markets. It can also be argued that government should not get involved in the operations of firms rather provide an environment for the firms to expand its operations.

Thus, governmental non-assistance towards the exports development is another strong barrier to the growth in export.

#### **2.5.14 Cultural barriers**

In a single economy, a variety of cultures can be found. This **complexity and variation in language, religion, customs, rituals and traditions** is easily be seen but it becomes difficult for firms to offer such a variety in its product line in order to make their customers satisfied. This was the problem faced when the firms deal with the single economy and within the national borders. On the other hand, when firms expand its operations across national borders they are exposed with more diverse cultures (Tefom & Lutz, 2006). Leonidou (2004) also stated that these variations lead to **different product preferences and usage, communication and distribution systems. Offering customized products, after sales services and delivery system** to different customers **increases firms' expenses** which results in the avoidance of business expansion (exports). These cost and other customization issues can be resolved if the firms have proper research and development about the country in which it is planning to operate. But researchers found that many of the businesses faced shut down due to their unfamiliar business practices in international markets. These unfamiliar business practices might be different in

different countries from formal to informal business relationships with relevant risk aversion (Leonidou, 2004).

**Religious differences** within an economy or among different economies have always remained a hot issue. These differences led to different customs, values and manners which have impact on the behavior of consumers (Leonidou, 2004; Tesfom & Lutz, 2006). Another potential difference is the **verbal and nonverbal language differences** across different economies. Lack of understanding about the language of the host country may create problems for the firms which are operating or planning to operate in that country. This language difference reduces the proper communication of the firms with its overseas customers (Koksal & Kattaneh, 2010). Changing strategies for the overseas markets and consumers by the firms may also lead to delays in the exports of the demanded products. These delays offer rivalries to capture the vacuum and enhance their market share.

Thus, cultural differences including religion and language differences have the potential to observe this serious export barrier.

So, these 14 barriers were found more influencing by the researcher. Model suggested by Leonidou and Tesfom & Lutz were helpful in determining the scope of the literature review. But no single model is being used as ideal to select barriers rather all the possible models are evaluated and the overlapping barriers were stated single time in the literature.

## **CHAPTER NO 3**

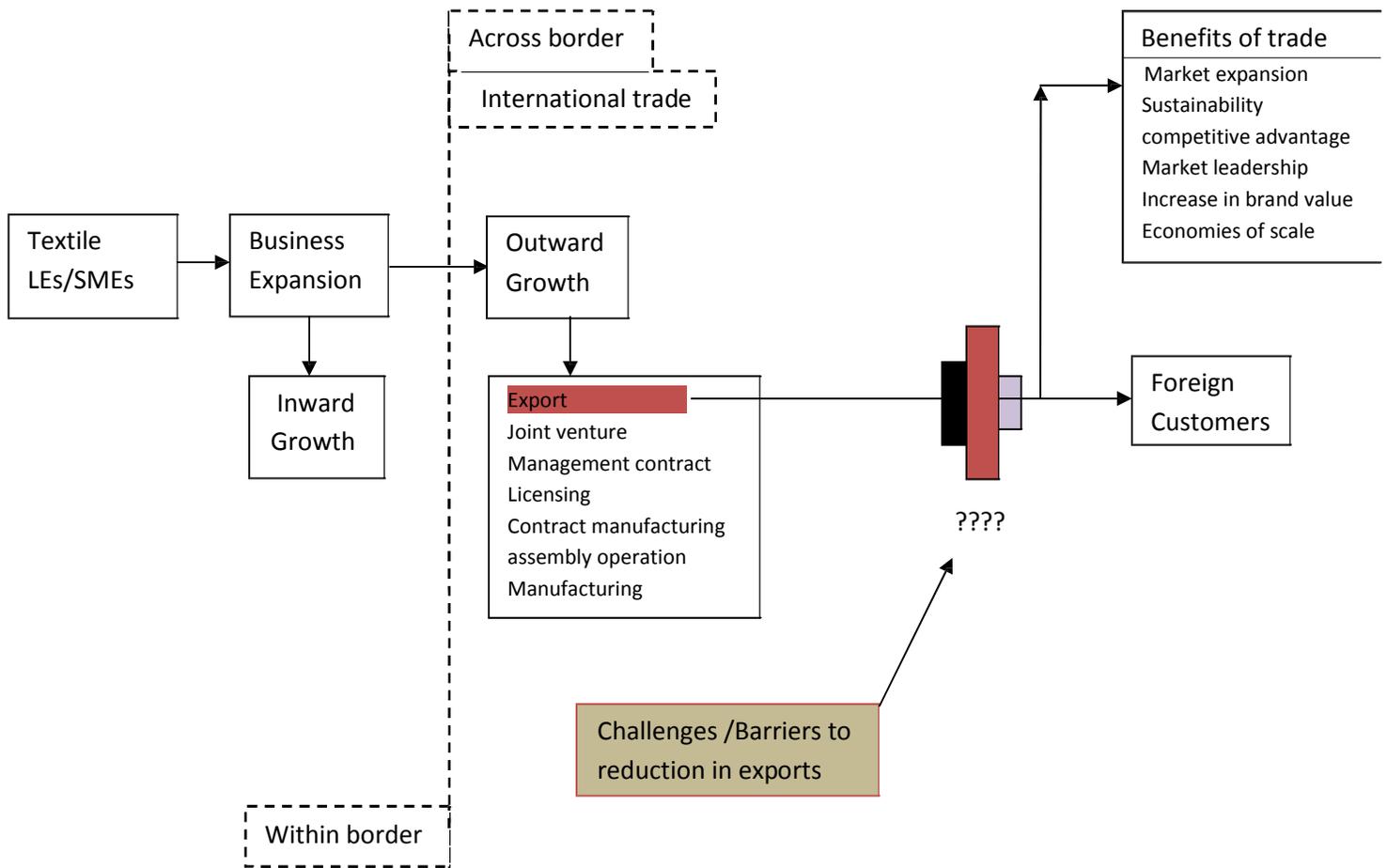
### **THEORETICAL FRAMEWORK**

This chapter is the depiction of the literature review made by the researcher. It allows the reader to get the overall picture of the scope of the research. It is usually developed to enhance the authentication of the research through proper data flow. In this flow, the entities are defined which have direct or indirect impact on the research problem. These entities are then arranged in a process to provide a sequence to the reader.

### 3.1 DIAGRAM

#### Research problem:

*“What are the challenges, Pakistan textile industry is facing in international trade (exports)”*



### 3.2 EXPLANATION

No firm in the world can claim that it has no issues with its business or operations. Rather firms use to make those issues prominent in order to resolve them. Business expansion is an opportunity, if not properly managed can become threat. When businesses expand, they start their operation in international market through a strategy of outward growth. Initially, by using exports as a mean of trade firms usually expand their scope. Scope expansion through export is

restricted by many known and unknown factors which hamper the benefits which could be consumed by the firms. So, we feel a strong need to identify those restrictions in order to remove hurdles in the way of firms' exports.

## **CHAPTER NO 4**

### **RESEARCH METHODOLOGY**

What methods to apply, how to measure progress and how to communicate about an area of a research activity are the problems which can be resolved with the help of this research methodology as it helps in achieving the stated objectives of the research (Cooper & William, 1982). Research methodology is consisted of research design, research objective, population definition, sampling method, sample size, research instrument & techniques, data collection and research questions.

## **4.1 RESEARCH OBJECTIVE**

As it addresses the need and purpose of the investigation and gives us concrete, specific and achievable goals (Cooper & William, 1982). The objective of our study is to better identify those trade challenges/barriers which may become threats in future for the textile sector in Pakistan both in LEs and SMEs. Major objectives of the study are as follows:

- Identification of those challenges which are working as barriers to Pakistan textile industry as opposed to international trade in general
- Identify the challenges imposed by the external world
- Identify the challenges imposed by the local government
- Identify the challenges from the rivalry point of view
- Identify the challenges imposed by the trade policy makers
- Critically compare and contrast LEs and SMEs of textile sector

## **4.2 RESEARCH DESIGN**

It is a plan made for the selection of the sources and types of information which are used to answer the research questions. The degree of problem crystallization, method of data collection, the purpose of the study, the relationship between study's variables, the time dimension and the research environment are the factors which are answered in the research design (Cooper & William, 1982). In case of our study, a descriptive approach was used to conduct this research and for this purpose, in-depth interviews were performed to evaluate the real export challenges/barriers in the textile industry of Pakistan. The same approach was adopted by Eisenhardt in 1991 and Neupert in 2005 in order to find out the real export (trade) barriers. Then these researches were used as written records by the researchers who later on combined the

possible export barriers according to their respective common themes. Few researchers (Zafar U., 2004; Yasmeen A., 2006; Aftab K., 2010 and Jamshed K., 2011) worked on the trade barriers in Pakistani setting but focused more on SMEs of textile. In the literature no prior research is available which discussed textile industry (LEs/SMEs) as a complete unit of analysis. So, to gain familiarity with the phenomenon of international trade challenges (majorly exports), to achieve new insights into it and to describe the actual problems faced by the textile sector, descriptive research design is the best suited design for this type of research as it was previously used in many studies which were focused on textile sectors of different economies i.e. Zafar (2004), Yasmeen (2006), Aftab (2010), Jamshed (2011) and Farah & Adeel (2011).

### **4.3 RESEARCH QUESTION**

The research question is basically the restatement of the research problem in an accurate manner in order to get a clearer picture of the problem. In case of our research, the research problem is:

“Identify the challenges which Pakistan Textile Industry is facing in international trade specifically in exports”.

Observing textile industry as a whole was difficult. So, it was easier to divide the industry into large and small enterprise divisions. These divisions facilitated the researcher to write down the research questions as they are the restatements which are more organized, focused and portray the direction of the research. Thus, the research questions are:

- What challenges large enterprises (LEs) of Pakistan Textile Industry are facing in exports?

- What challenges small and medium enterprises (SMEs) of Pakistan Textile Industry are facing in exports?

#### **4.4 RESEARCH INSTRUMENT AND TECHNIQUE**

For the purpose of problem identification in terms of export challenges, we need to collect information from export managers or owners of the firms. For the data collection, there are many tools and techniques available i.e. survey, interview, questionnaire, observation, direct experiment, laboratory experiment etc. Every tool can't be adopted for every type of research data. So, the research condition and questions can make it easier to select appropriate tool for data collection. As our research design was descriptive, so interview as a data collection tool was the best suited tool available for our research. Because in our research we have to go deeper in the details of every phenomenon and interview is the only tool through which valuable and insightful information can be gained. This selection is also supported by the previous researches Eisenhardt in 1991 and Neupert in 2005 that used this tool to collect information regarding export barriers in different economies. While, in Pakistani settings, Aftab K. (2010), Jamshed K. (2011) and Farah & Adeel (2011) also used the same tool to get the responses of the export managers regarding the export challenges in the SMEs sector of Pakistan.

The advantages of using this tool are numerous like:

- It is useful for the complex topics
- It may produce a higher response rate
- If the interviewee lacks certain reading skills, then it is easier to collect information from them through this tool (FTFI, 2007)

At the same time, there are some disadvantages as well like:

- It may be time consuming
- It can't be used for large group of people (RTRI, 2006)

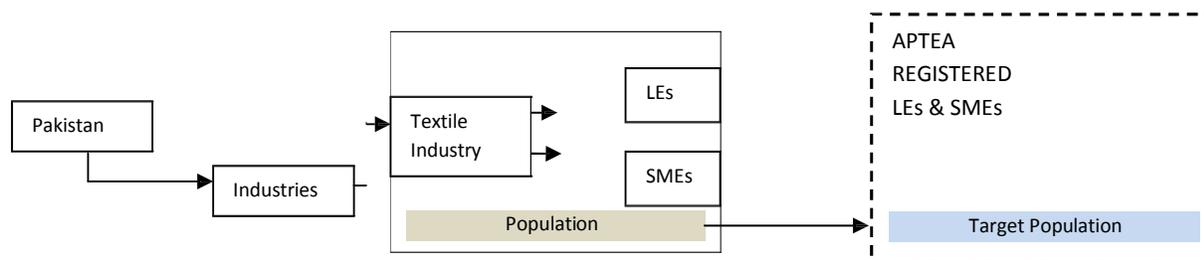
But, this tool is suggested to be useful and positive result generating by the previous researchers Aftab K. (2010) and Jamshed K. (2011). So, we have chosen interview as the data collection tool for this study.

After the selection of the data collection tool, the stated research questions are then sub-divided into interview questions in which each factor whether affecting directly or indirectly is asked from the targeted respondents. Below, there is a list of interview questions which were answered by the export managers and owners of the firms (LEs/SMEs).

Interview Questions
▶ What is the importance of international business for your firm?
▶ What strategies your firm followed before entrance in the global world?
▶ What are the current issues which your firm is facing regarding exports?
▶ What are the facilitating factors if excluded could affect firm's exports?
▶ What is the contribution of research & development in the performance of exports while stating its current issues?
▶ Is there any functional issue in the firm which is affecting its performance?
▶ State the importance of governmental assistance in the betterment of the industry while stating current issues?
▶ Explain issues with current trade policies and trade authorities?
▶ Explain the export issues in international trading?
▶ State the problems your firm is facing in foreign markets?
▶ Describe the competitive forces which are affecting export performance of your firm?
▶ State the problems in meeting the standards of (product/process/packaging) quality of foreign markets?
▶ What are the problems your firm is facing in the current energy crisis?
▶ Is there financial/resource shortage in your firm and how it affects exporting performance?
▶ Explain the environmental factors (economical, social and political) which are affecting your firms' performance in exports?
▶ What are the issues your firm is facing with custom clearance and tax payment procedures?
▶ What initiatives government should take to overcome the export challenges?
▶ What steps trade policy makers should take to reduce export prohibiting factors?

## 4.5 POPULATION DEFINITION

The population usually refers to the unit of analysis (Cooper & William, 1982). It is the total collection of elements about which we wish to make inferences. In case of our research, all the textile firms in Pakistan were selected as the population of this research – small, medium and large enterprises. Taking the whole industry as a population has many reasons behind as it enhances the scope of the study when the researcher compares intra-industry (LEs Vs SMEs) barriers to exports. At the same time, it gives a clear picture about the specific enterprise-related barriers which may be used to resolve them even separately. From the literature, it is evident that few researches (Yasmeen A., 2003; Frederick H., 2002; PACRA, 2011; Qin J., 2006; Kerry M., 2008; David R., 1998 and Tian W., 2009) placed their focus on the large enterprises and small & medium enterprises separately while there is found to be no prior research focusing overall industry barriers. Thus, a need to study export challenges in the overall industry (LEs & SMEs) is present. On the other hand, the target population of this study comprises all those textile firms which are listed/registered at the APTEA. Majority of these firms are in the field of exporting for more than 5 years and know the ins and outs of exporting opportunities and threats. So, it is a better market to get more insightful information about the export barriers/challenges. The target population is 277 in strength in which large and small & medium enterprises are included.



## **4.6 SAMPLING METHOD AND SIZE**

A method which is used to select the appropriate sample where sample becomes the true representation of the population. The need to go for a sample is due to – time, reach and cost limits (Cooper & William, 1982). A sample is chosen from a population in order to obtain conclusion about the entire population. A sample must be accurate and precise so that it can better portray the condition of the total population. For selecting a sample, different methods are available having various advantages and disadvantages as well. In case of our research, convenience sampling method is being chosen because of the cost, reach and time factors. It is a type of non-probability sampling techniques which is least reliable but normally the easiest and cheapest way to conduct research analysis. It provides freedom to choose whomever and wherever we find called as convenience. Previous researches used double, stratified and convenience sampling. Double and stratified sampling methods were used in developed countries while convenience sampling method was used in developing countries. Thus, we selected convenience sampling method for making an appropriate sample size (Cooper & William, 1982). Making it true and evident selection through the literature in which Aftab K., (2011), Farah, Adeel, (2011) and Jamshed K., (2011) also used convenience method to determine the sample size of their respective studies in the textile field and their results were very much relevant to the situation of the industry. That's why researcher has used convenience sampling is being chosen for the sample selection.

By using convenience sampling, we selected 10 textile firms, 5 from each enterprise in combination of large and small & medium enterprises. These firms were selected on the basis of cost, time and reach factors. Due to limited resource available, this sample size is taken for the convenience of the research. Later on, it was observed that these firms were rated as the top rated

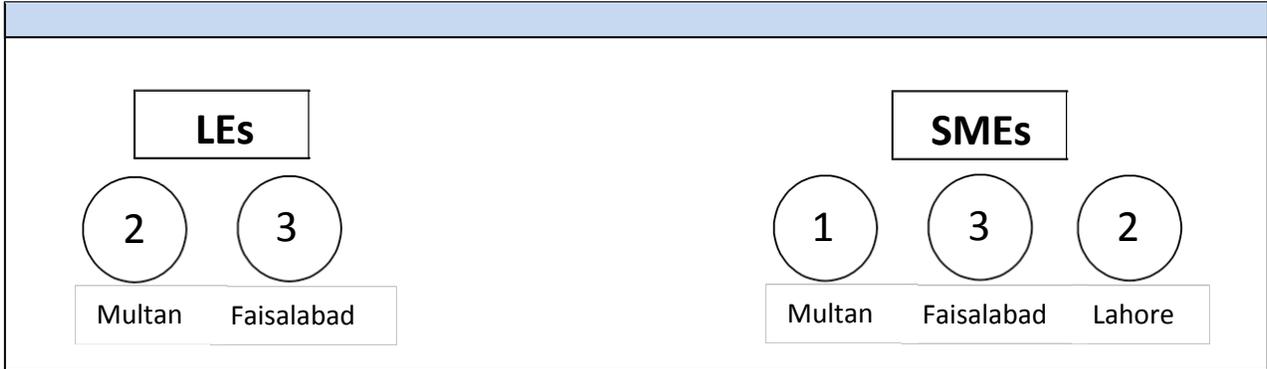
exporters by the APTEA in 2008. These firms were having experience of exports for more than 40 years except 2 SMEs which are non-exporters and 1 SME which has four years of exporting experience. Out of 10, in 4 firms owners were working on behalf of export managers while the remaining 6 firms had their own separate export managers. Due to the confidential policy of the firms, the name of the owners and respondents can't be mentioned. But the names of the organizations are mentioned with some of their relevant information which is as follows:

**FIRM PROFILE**

**Name:**  
**Address:**  
**Contact No:**  
**Email Id:**  
**Major Products:**  
**Annual Turnover:**  
**No of Employees:**  
**Stage of Business:**  
**Exporting Experience:**  
**Export Mode:**

LEs	SMEs
Sitara Textile	Afino Textile
Chenab Textile	A.I Textile
Mahmood Textile	A.Q Textile
Masood Textile	Noor Textile
Amtex Textile	Al-Fahad Textile

As the operational and demographic factors which can help in determining the difference of opinion among the most experienced and less experienced export managers and also the scope of their operations. After the close observation of the data collected from the respondents, a brief discussion was placed in order to relate these findings with the previous researches in order to validate this study.



### **Interviews of Large Enterprises**

There were 5 firms selected for the purpose of information collection regarding the export challenges in Pakistan textile industry. These firms were located in two main textile cities Multan and Faisalabad. All firms were asked to respond us but less response was noticed as most of the firms were busy in their business operations. Still, all of these firms responded and time was allocated to us to manage all the interviews. The officials of large enterprises gave deeper insights of the problems from which they were going through.

### **Interviews of Small and Medium Enterprises**

Five small and medium textile exporting firms were selected for the data collection purpose. All of them responded well. Firms from this sector are majorly unable to learn English language so the interview was conducted in Urdu language. These firms were located in Multan, Faisalabad and Lahore.

## **CHAPTER NO 5**

### **FINDINGS**

Sequentially in a quantitative research after the completion of theoretical work on research methodology, data collection process starts which leads to analysis and interpretation of that data. But this research is qualitative and empirical in nature so after the research methodology section completion, the process of finding starts. In this chapter, interview summaries are provided in which information was collected from the export professionals of different textile firms (LEs/SMEs). The findings are extracted from those summaries, interview details and other secondary sources of findings are also used.

## 5.1 FINDINGS FROM THE INTERVIEWS

The following findings were deduced from the summary of the interviews conducted with the export professionals of textile industry of Pakistan. All of the 10 firms were having internal and external export challenges/barriers based on individual firm characteristics. The table below is showing characteristics of export barriers as identified by the export management professionals of different firms.

**Table: Export Barriers**

Respondents	Barriers type	Internal	External
01	Internal	Energy crisis, environmental, govt. assistance	
02	Internal	Environmental barriers	
03	Internal	Energy crisis, functional barriers	Competitive barriers
04	External	Environmental barriers	Procedural barriers
05	Internal	Informational and marketing barriers	
06	Internal	Functional environmental and marketing barriers	
07	External		Competitive, procedural and environmental barriers
08	Internal/External	Functional environmental and marketing barriers	Competitive barriers
09	Internal	Informational and marketing barriers	
10	External		Competitive and procedural barriers

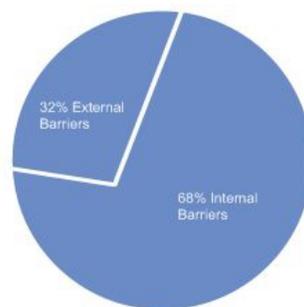
## 5.2 DESCRIPTIVE STATISTICS

### About firms' profile

Factors	Number
<b>Annual turnover</b>	
1-25million	
25-50million	
50-75million	
75-100million	1
100-125million	2
125-150million	2
150-175million	
175-200million	2
200million or more	3
<b>No of employees</b>	
50-100	
100-150	
150-200	
200-250	
250-300	
300-350	2
350-400	3
400 or more	5
<b>Stage of business</b>	
>=10years	10
5-9years	
>5 years	
<b>Exporting experience</b>	
>=10years	10
5-9years	
>5 years	

### 5.3 INTERNAL VS EXTERNAL EXPORT CHALLENGES

According to the interviews conducted, the firms which found internal forces more challenging and hurdle creating than external ones are 68%. Whereas other firms were the witness of external export forces as more vulnerable and problematic. But when the comparison is between the large enterprises and small and medium enterprises, the external barriers are more disturbing in the large enterprises sector whereas internal barriers are majorly faced by the small and medium enterprises but overall internal barriers are observed in the textile sector.

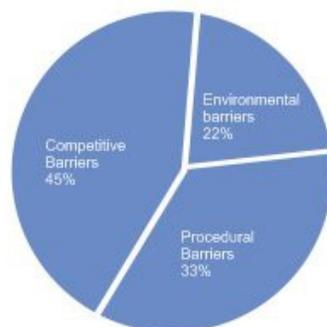


Internal and external percentage barrier chart

### 5.4 FACTORS CONTRIBUTING IN EXTERNAL BARRIERS

The ratio to external barriers is among three important contributing factors which are: competitive barriers, environmental barriers and procedural barriers with 45%, 22% and 33% respectively. Majority of the firms declared that intense competition in the foreign markets derives such forces which compel us from entering into those markets i.e. they said that due to the reduction in the sale of the American products produced locally were less consumed than the exported products from different countries like China, India, Japan and Germany etc. due to this reason, US imposed certain import restrictions on China products so that local industry could also survive. Same is the case with EU markets, where Pakistani products were unable to reach in a huge volume just because it harmed their local industry. Another reason for the intense

competition is the awareness in the developed and developing countries about the importance of exports has driven the businesses to expand their operations across national borders. Every country is trying to get specialized in a single product category to that extent where other countries can't reach. Then it exports its products to foreign markets. But other countries are also specializing in diverse portfolios of products in order to reduce product failure. One country's requirement is the high quality cotton yarn and there are eight countries which can provide the requested product, this creates intense competition. But in case of Pakistan, due to the less modernize machinery and equipments, firms aren't able to produce high quality yarn and loses its market share and giving other rivals the space to cover our industry export share.



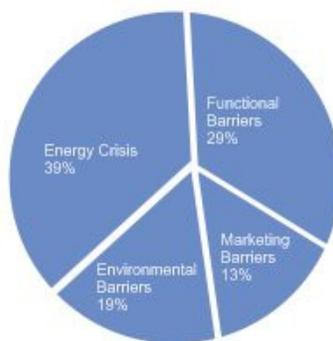
Segregated Percentages of external barrier chart

While the procedural barriers came second in the weight age of most problematic factors. Firms claimed that the hectic, non-transparent and un-known procedures of custom clearance and other quality checks made exports more worst. These procedures are even sometimes taken several weeks to assure the product clearance which reduces the demand in the targeted foreign markets which also reduces export ratio. On the other hand, environmental barriers came third in the less but still contributing factor i.e. natural disasters have abnormally hit the textile industry of Pakistan. Due to the flood, millions of crops were destroyed and industry faced a great downturn in not only in the export reduction but also in the shape of lost foreign market share.

Government started asking for 15% tax in the name of flood from the textile sector in order to cop up with the downturn which again hit the textile sector. Thus, environmental barriers are also affecting the exporting behavior of the firms in a negative approach.

## 5.5 FACTORS CONTRIBUTING TO INTERNAL BARRIERS

The interviews reported that there are many sub-factors which contribute to a single factor “internal barriers” but the major contributors are: energy crisis, functional issues, environmental issues and marketing problems with 39%, 29%, 19% and 13% contributions respectively. Firms suggested that internal barriers are more important than external barriers because if the home environment is not supportive then the firm can’t go beyond its boundaries and will remain enclosed in the local markets.



Segregated Percentages of internal barrier chart

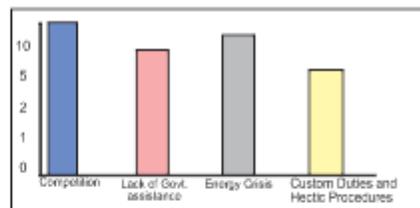
They also added that energy crisis in Pakistan is a major factor which halts the production of many firms. This short fall in the production of those textile products which are in huge demand in the foreign markets but the manufacturers are unable to provide their products to those markets just because they are producing less, having low information about the international potential markets and also affected by the environmental disasters i.e. floods and earthquakes.

## 5.6 FACTORS CONTRIBUTING TO LES AND SMES SECTORS

It is worthwhile to notice the export behavior differences among larger, medium and small enterprises. According to the interviews conducted with 15 large and 15 small & medium enterprises, there are some export barriers which are found in both large and small sectors i.e. energy crisis, lack of governmental assistance and custom duties and hectic procedures. Competition was more emphasized by large enterprises whereas lack of financing capital, lack of cost financing and meeting export standards were identified as barriers by the small and medium sectors.

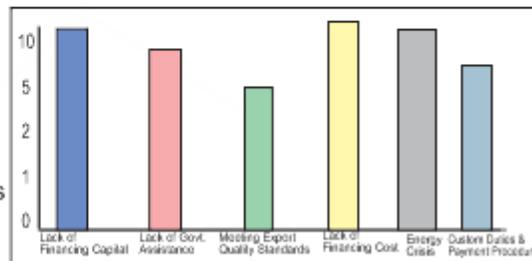
Les:

1. competition
2. lack of governmental assistance
3. energy crisis
4. custom duties and hectic procedures



SMEs:

1. lack of financing capital
2. lack of governmental support
3. meeting export quality standards
4. lack of financing cost
5. energy crisis
6. custom duties and payment procedures



The reason behind the selection of competition as a barrier was justified by the interviewees that large enterprises are exporting textile products for up to 60-70 years and know more about exporting. Many of the large enterprises in the targeted sample were exporting textile products while meeting export, product, packaging and quality standards. But due to the energy crisis and other governmental problems they were unable to reach at the peak of export expansion which

allowed other rivals to grab their spaces in the market which created an intense competitive environment in the foreign markets. So, firms need to compete on international ground which is only possible if they are not disturbed by their home country issues.

On the other hand, financial problems and custom duties and procedural problems were rated most problematic by the SMEs sector. Their selection was due to the lack of resources which are required to complete their operations in time and efficiently. They claimed that due to the shortage of energy provision, their production decreased quickly and halted the exports as well. They also said that they might go for alternate energy creation source but finance was also short so they refused this option. They have written many applications to the trade authorities and government of Pakistan as well to resolve their issue of energy outages but no implementation was seen from the authorities' side. Due to the short fall in the electricity and gas, firms' production decreased and expenses increased which made them to stop their 3<sup>rd</sup> shift and lay off many of its employees who were working on daily wages. Thus, financing is a major problem in the SMEs sector.

While, custom duties offered by the custom authorities are much higher than the other trading countries like China, Bangladesh, Korea, India, US etc. Pakistan is a developing country facing political instability and suffering from poor economic situation which make it to alter its policies as per the requirement of the situation. So, it is not possible for the government to fix the trade policies and this fluctuating nature of trade policies has affected the firms' performance in exporting field.

## **5.7 EXPORTERS VS NON-EXPORTERS**

From the information, we can make inferences that exporters as comprised of 80% of the whole sample were having little knowledge about the exports, foreign markets, trading rules and regulations but facing problems in meeting those trading and export quality standard restrictions. While those firms which gave their logical reasons behind their non-exporting behavior which depicts 20% of the sample. They stated that lack of information about the foreign markets and rules and regulations of international trading, inadequate skills of the exporting personnel and the handling of export procedures which costly and time consuming are the potential reasons to avoid exports.

## **5.8 EXPERIENCED VS LESS EXPERIENCED EXPORTERS**

90% of the experienced exporters while stating energy crisis, governmental non-assistance, and intense competition as problematic factors have also mentioned hectic payment and custom procedures as influential. On the other hand, the 10% of those exporters who were having less experience have declared lack of knowledge, personnel, technical aptness and shortage of energy as challenges to export growth.

### **Interview summaries**

These were the findings which were extracted from the interviews. The section below is comprised of two main interview summaries which are written in order to facilitate the reader about the procedural authentication of the interviews conducted by the researcher.

## 5.9 INTERVIEW SUMMARY (LARGE ENTERPRISES)



### NISHAT TEXTILE MILLS

Nishat House, 7 main Gulberg, Lahore  
042-36360154  
info@nishat.com.pk

#### Profile:

Major Products	Ginning, weaving, apparel, garments, home textile, Nishat linen
Annual Turnover	34252416276
No of Employees	1529
Stage of Business	Well established
Exporting Experience	More than 5 years
Mode of Export	Separate export department

#### Interview details

#### Importance of international trade (export)?

In the answer to this question, Mr. Saleem Ameen replied that international trade has made us survival possible because Pakistan is an agriculture based country but it lack certain product categories which aren't formed in Pakistan. So, through international trade Pakistan exports the foreign demanded products and imports in return those products whose demand in the home country is at peak. Strengthening relationships with the other countries, learning other skills and techniques and improving self performance are the key indicators to get Pakistan across national borders. He also added that Pakistan is on 12<sup>th</sup> number in the international trade of textile products, 8<sup>th</sup> in the production of textile in Asia and 4<sup>th</sup> largest producer of cotton. Textile sector is contributing 9.5% to the GDP of the country. So, it is very important for Pakistan to step forward in international trade and even go beyond the limits of exports and apply mergers and acquisitions.

### **Strategies followed by Nishat Textile regarding export?**

In the answer, he said that we are in the exporting experience for 70 years almost. We have gone through many downturns and also faced peak seasons. Our performance went down when the government was not facilitating the industry. Now a days, Pakistan is going through its toughest times in the history. We started exporting with the help of a home based traveling sales person who used to travel to foreign countries and show them our products and quality standards and collecting orders from them. Later on, due to the poor economic condition we hired a home based broker which was on the employee of our firm. That broker used to facilitate us till 1999. Brokers used to charge high margins and foreign tours to boost sales. Then we made a separate export department in 2000 whose primary tasks were to deal with every export problem.

### **Challenges faced by Nishat Textile regarding export**

While answering to this question, he added that there are several challenges through they had gone through and still going though like:

#### **1. Competition barriers**

He personally rated this barrier as the most influential barrier in the expansion of international trade. He said that there was a time when Pakistan was enjoying its peak seasons of exports in the foreign markets. But when other rivals also entered in those markets and led the competition to an intense level, the host countries imposed trade barriers (import reduction) to reduce the ratio of imported products and to save the local industry. This was happened in EU markets, when they imposed restriction on imported products because China has won their markets and their products consumption reduced by 10%. This was an alarming situation for them so they took action to reduce imports. Due to the acceptance of China products in the EU market, the EU

trade authorities reduced all the imports from all the countries in which Pakistan suffered. Pakistan industry is unable to meet product quality standards specially the SMEs sector as they are not having modernized equipments to produce high quality yarn while the rivals are providing high quality yarn because their government is providing them subsidies which is lacking in Pakistan. In these ways, competition from rivals also affects our industry.

## **2. Energy crisis**

The second most rated factor by the export professionals was the energy crisis due to which every industry in Pakistan is suffering. He added that in a report APTMA has declared that the textile industry is suffering 1 billion rupees a month due to the outages of electricity and gas supply. From 2009 till 2012 APTMA has to close 200 units due to the energy crisis. We asked that you have your own power generation plant so why there is still an issue of energy provision. He said that our power generating plant has the capacity to generate 89MW while our consumption is 138MW. He added that when they were not having PGP, their whole production for several hours in a single day got stuck due to gas and electricity shortage. But now their plant goes on at partial production while the hours of energy outages. So, plant is under-utilized and production has got decreased which halted their export performance as well.

## **3. Custom duties and hectic procedures**

The third most influential factor as rated was custom duties and procedures. The firm's representative said that when we need to import certain machinery, raw material for the production of textile products, custom authorities charge very high as the federal excise duty is 0.25% and 200% is charged in the custom clearance on the imported goods. Not only the heavy

charges are the issue but the procedures of custom clearance and trade assistance procedures are also issue generating.

#### **4. Lack of governmental assistance**

Mr. Saleem Ameen stated that government is not facilitating textile sector rather creating more difficulties through the imposition of new forms of taxes, interest rates and import duties. 50% sales tax refund is an amount which is kept by the government for 40days and as the limit exceeds, government needs to pay back the amount to the respective industry. But government never paid back within the limit of 40days and due to which textile sector remained inactive because it was unable to invest in the foreign markets. It was the textile sector which always enjoyed tax free sales but in 2009 government imposed a new tax named as “reformed sales tax” at 6% on the annual sales. Not only the sales taxes but other duty clearance procedures are not supportive. According to the Minister of Textile 24 billion rupees of textile sector are stuck up on the account of duty draw backs and government has paid only 14% of the total amount. When the government who is the major role player in the formation of trade policies is not facilitating then there shouldn't be any issue with Trade Development Authority of Pakistan (TDAP) as well. All Pakistan Cotton Ginners Association (APCGA) has claimed that due to the non-issuance of the permission certificate to export textile products to India by the TDAP will negatively affect the exports of the cotton and yarn and Pakistan textile sector may also lose a major market share.

## 5.8 INTERVIEW SUMMARY (SMALL AND MEDIUM ENTERPRISES)



### ALLAHWASAYA TEXTILE MILL

Opposite Khwaja Fareed Hospital, ALLAHWASAYA  
Chowk, Mumtazabad, Multan  
+92 321 636 7927  
inquiry@awtm.com

#### Profile:

<b>Major Products</b>	Cotton polyester yarn, open end yarn
<b>Annual Turnover</b>	2195228730
<b>No of Employees</b>	850
<b>Stage of Business</b>	Well Established
<b>Exporting Experience</b>	More than 5 years (60 yrz)
<b>Mode of Export</b>	Home Based Traveling Sales person

#### Interview details:

This expert interview was carried out with the import/export manager Najam-Ul-Hassan. The whole interview was conducted in Urdu language. Due to the time limitation and the fact that the interviewee was very busy, interview went on for 10 minutes. We made futile efforts to get maximum, positive and relevant information regarding export challenges. The aspects which remained a major focus of the interview are given below:

#### Importance of international trade (export)

The interviewee suggested that international trade is an opportunity window through which every country wants to earn more and more. Exports are the easiest, cheapest and most feasible way to operate across national borders. So, for this firm exports are also profitable to be adopted as a entry strategy in the foreign markets.

### **Strategies followed by Allahwasaya Textile regarding export**

The firm is having its home based traveling agent who used to travel across national borders in order to identify the potential markets, creating new customers, taking orders and delivering ordered products to the required destinations. The traveling sales person is the employee of the firm and is directly paid through the pay roll.

### **Challenges faced by Allahwasaya Textile regarding export**

Interviewee pointed out certain factors which were problematic and hurdle creating in the way to export expansion. Those factors are as follows:

#### **1. Informational challenges**

Firm has lack of information regarding international markets. This sort of gap is present in terms of new and potential markets development. Firm is currently dealing with many foreign markets i.e. China, Bangladesh, Honk Kong, Malaysia, Indonesia, Korea etc. But in case of AWTM, it is still unable to cover better markets due to the gap between firm and govt. support and firm's personnel's skills as governmental institutions and trade facilitators provide new and deeper insights about foreign potential markets to the firms.

#### **2. Lack of home governmental assistance**

Government of Pakistan is not providing much assistance to textile industry as necessary. Government has made many trade policies and developed diversified committees to resolve industries' issues. But the political instability, terrorism attacks and other environmental disasters i.e. flood and earthquakes etc have made government inactive or passive in the industry development approach. The objective of all trade policies from 2000 till now was the betterment

of the industrial sector of Pakistan but it was partially implemented and proven to be less effective due to the above stated factors.

### **3. Poor economic condition**

Due to the double digit increase in inflation, devaluation of Pakistani rupee, the absolute/comparative valuation of foreign currencies and acceptability of the foreign currency i.e. dollar, pound, etc led the economic condition of Pakistan worst.

### **4. High tariff and custom duties**

Textile industry of Pakistan is suffering from high tariff and custom duties and procedures. State Bank of Pakistan has developed strict rules on different types of taxes and interest rates i.e. in 2008 federal excise duty was 0.25% but later on 15% flood tax was added in it which made textile industry suffer. Markup rate is 22% which in comparison to other countries is much higher i.e. Japan has a markup rate of 1.5% and some other countries are having 5% markup rate. Thus, custom duties and tariff is also a hurdle towards export expansion.

### **5. Energy crisis**

Shortage of gas supply and frequent short falls in the provision of electricity has proven to be the biggest hurdle in the production of textile products. These energy crises have led AWTM to a reduced level of textile production which ultimately affected the demand and supply of these products in the foreign markets. Reduced energy provision led to reduced production level which resulted in the shortage of exports. Thus, energy crisis is a major challenge in this developing country for small and medium sized enterprises as larger enterprises have their own power generation plants i.e. Nishat, Masood, Mahmood, Amtex textile mills.

## **6. Lack of financing capital**

Due to the global recession, the cost of raw material, machinery parts, and other technological equipments have increased. Other energy and economical crisis have hit the backbone of the textile sector. And the major impact of all these can easily be seen in the SMEs sector as it represents the small textile production set ups in the country. All of the cost generating factors has led the small firms to reduce their production which ultimately reduces their export ratio. Thus, lack of finance is also a hurdle in the ways to export expansion. Firms can easily deal with the financing problems if the financing institutions provide loans at a cheaper rate but this is not the case. The banks have offered high percentage of interest on loans which is not feasible for firms to take.

## **7. Lack of export management skills**

He himself witnessed this lack of required managerial skills to handle exports in his firm. He also added that even the owner of the firm is not having proficient skills to solve export problems. The executive said that the export staff of this firms not having sufficient export knowledge and skills. This lack of knowledge is known by the firm itself but they aren't giving importance to this fact that their major earning portion comes from exports and if these exporting activities are handled with less care will result in contraction in the export percentage. He added that the firm is dealing with those markets which were identified by the broker. Whereas there could be other potential markets for the firms but the staff is not able to identify those markets.

## **8. High rate of financing cost**

The financial institutions and other banking service providers are offering financing to the businesses at the rate of 16% interest rate which is very high when it is given to the small and

medium textile sector. Due to heavy interest rates, the firm is unable to take loans from the banks. Another hit on the firm is by the exporting standards which require high quality yarn from the firm but the firm is not having up-graded technology and modern equipments to produce high quality products and raw materials.

### **9. Meeting product quality standards**

The interviewee answered that it is the most difficult process through which every textile sector has to go whether LEs or SMEs. He said that there was a time when WTO offered quota system for some countries which were specialized in a certain product category. But later on, WTO came to know that the quota system should be removed in order to create strong competition among goods providers to EU markets. In 2007 quota system was removed but still Pakistan had not benefited from that removal as WTO imposed more strict quality standards on the imported products. Another problem is the permission certificate by the quality check authorities in Pakistan for exporting the products in the in Indian markets but the authorities refused by telling that quality is not up to mark. Two quality checks are present: one within the national border and the other one are across national border. Every firm has to go through these checks. The internal check is more vulnerable than external one.

## **CHAPTER NO 6**

### **FINDINGS FROM SECONDARY DATA SOURCES**

Data can also be fetched from secondary sources. Secondary sources are defined as those sources which don't involve direct involvement of the experiment group or the target respondent of the research. There are several sources to get data or information regarding Pakistan textile exports but some of them were having relevant information, they are given below which:

- Production/return reports
- Pakistan textile journals (PTJ)
- Pakistan trade policies speech (2000-2012)
- Fibre2Fashion journal
- U-trade Magazine

The data is presented in a comprehensive manner by combining the data available in above stated sources in order to reduce data redundancy and making possible the provision of required information.

## 6.1 FIRMS' PERFORMANCE IN THE PAST YEARS

It is important to notice firms' outputs, returns, exports etc in order to see the effects of the problems which they faced in the past 4-5 years so that better results can be extracted and be used for future planning.

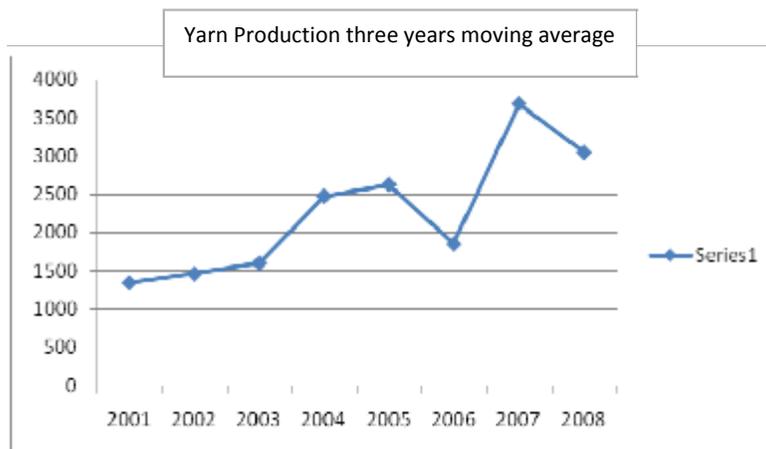


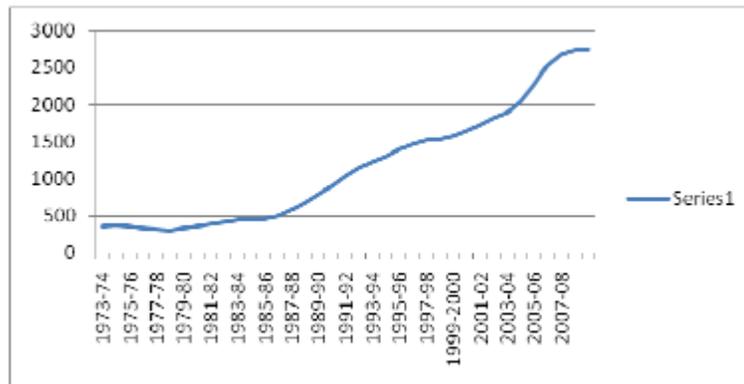
Pakistan is lagging behind in the competition with other trading countries like China, South Korea and India. WTO agreements didn't benefited Pakistan as much as to other top trading countries and Pakistan is unable to cover the major potential global markets as competitors did. Predictably low growth was observed in the years 2001 to 2003 then an increase in the returns came into existence since 2004. Then a substantial decrease in firms' annual returns reported from 2006-2007. Comparative study of the export performance of different textile trading countries also showed the same trend which was seen in the annual return table. This study showed that Pakistan share in the US market is dropped while China remained at the top with 36%, Bangladesh 21%, India 18%, Morocco 19% and Pakistan 13%. While in the EU markets, China again topped with 29% share, Vietnam 28%, India 19% and Pakistan with only 1.5%. Share of Pakistan textile industry grew since 2004 but substantially decreased in 2007 and 2008 because quota system was removed but WTO made strict trade standards which prohibited Pakistan and Bangladesh to avoid export expansion.

Year	Pakistan	China	India	Bangladesh
2004	3.22%	17.58	3.69	0.31
2005	3.54	20.52	4.23	0.35
2006	3.49	22.76	4.17	0.7
2007	3.17	24.06	4.13	0.42
2008	3.02	27.41	4.36	0.37

The above export trend was reported in context of US markets. There was another trend observed in the overall textile exports of Pakistan in past years till 2012 which are as follows:

Year	Export (Billion Dollars)
2011	12.5
2010	9.8
2009	8.01
2008	10.62
2007	10.5





It can be easily seen that in 2007 Pakistan textile exports declined due to the loss in exports in US and EU markets which ultimately affected the firms' annual return and they also decreased.

## 6.2 ECONOMIC DOWNTURNS PRODUCES BARRIERS TO EXPORTS

In 2008, the quota system was abolished and at that time, many textile firms showed their best practices and contributed a major part in the exports of Pakistan and due to their increased contribution, they made abnormal increase in their annual returns. In this (2008) year, Pakistan textile industry expanded its product range and covered a huge part of US and EU markets. But due to the economic downturn and global recession in 2009, Pakistan and other top trading countries faced decrements in their exports more specifically textile exports even imports witnessed a decline and fell by 13% --- \$34.9 billion which was \$40.4 billion in 2008. Major losses were – readymade garments dropped by 21.7%, cotton yarn 15%, bed linen 10.2%, art silk and synthetic textile 22.1% and cotton yarn decreased by 4%. Taking a long term view of Pakistan's export performance over last 10 years, Pakistan share in the global market, according to WTO data, has declined by more than 1/3 to 0.13%. This 2009 year proved to be the luckiest year in the textile history of Pakistan which led the foundation of new product diversification and new markets exposure which enhanced exports from \$9.8 billion in 2010 to \$12.5 billion in

2012. Statistics showed tremendous increased in the exports of Pakistan but still the owners of the textile firms are found to be in tension regarding the future of the whole textile industry as

### **6.3 PAYMENT DELAYS AS EXPORT BARRIERS**

Pakistan textile journal (2011) 24 billion of textile sector are stuck up on account of duty draw backs. Government announced to offer sanctions of 16 billion in 2011 and 27 billion in 2012 but paid only 14% of the sanction which made the whole textile industry to suffer. Even the claims of the year 2010-2011 aren't funded to the respective textile firms which affected their export ratio badly.

### **6.4 TRADE AUTHORITIES PRODUCING EXPORT BARRIERS**

APTMA chairman Gohar Ejaz said that 30-35% reduction is observed in the production of the textile products and it was due to the load shedding of gas and electricity. 12hrs daily power outages have hit the textile unit located at Manga-Raiwind and Multan Bhai-Pheru roads. Adil Manzoor Ilahi, Vice Chairman (PTEA) pointed out that cost of inputs and prices of raw materials have got increased.

### **6.5 TEXTILE EXPORTERS ASSOCIATION CLAIMING ENERGY CRISIS AS AN EXPORT BARRIER**

APTMA also pointed out that it has to suffer Rs. 1 billion in a month due to the lack of smooth gas supply and it also closed 200 units due to this energy crisis. Thus, from 2009 till now textile exports trend is on its edge but when the current problems are observed then it can't be said that it will remain at the peak as there are many challenges through which Pakistan textile industry is moving.

The data described in secondary sources also demonstrated that there was found relevancy among the findings from primary and secondary sources. So, the findings are authenticated.

## **CHAPTER NO 7**

### **DISCUSSION ON FINDINGS**

This chapter deals with the re-analysis through an extended technique. The technique is to compare the results of the current research with the results of the past researches found in the literature in order to authenticate current results and then finally giving implication of the research.

## **7.1 CURRENT FINDING COMPARISON WITH PAST RESEARCH FINDINGS**

From the findings it is clear that every individual firm even the whole textile industry is suffering from international trade challenges (exports). Finding statistics also reported that 68% of the exports barriers are internally (home country based) driven while 32% of them are externally (host country based) driven. These barriers which are identified through interviews were also available in the literature but in different countries and scenarios i.e. a research on SMEs sector of textile industry in Pakistan by Jamshed (2011) also given huge weight age and regarded as most influential factors. This researcher also added that these factors are affecting the export behavior of the firms that results in the reduction of export expansion. Leonidou (1995) and Kattaneh (2010) also identified internal and external factors as potential export barriers. They also suggested that it is easier to resolve internal issues while the external issues are somewhat not controllable.

Statistics also reported that external barriers are not just one single barrier but can be divided into sub-barriers as identified in the findings i.e. competitive issues, environmental and procedural issues. Respondents showed their main concern towards competition (45%) and procedural (33%) export barrier. The same factors were identified by Okpara (2011) in a study of Lebanese textile sector. OECD (2006) also reported the hurdle of intense competition in context of Thailand textile market. In another research by Jin Zhang & Zakic (2008) this factor of competition was identified when EU authorities imposed restrictions on the imported goods from China due to the fall of local goods consumption. Barbara & Carlos (2006) also narrated that

intense competition and custom procedural delays were present in the world textile industry while emphasizing more on Indian, Sweden, New Zealand and Aladi textile markets.

While, internal barriers can also be divided into sub-barriers as identified through this study which are energy crisis (39%), functional barriers (29%), environmental (19%) and marketing barriers (13%). The same results were found in the Okpara (2011) study of Lebanese textile sector which reported that export professionals are absent from the industry and termed this barrier as a sub-barrier of functional barriers. In another research conducted in the South Korean context by Stamatovic & Zakic (2010) the relationship between export expansion and skills of export management is shown. They concluded that as the skills of the export management increases, the exports go for expansion. This relationship is also found in our research which stated that textile exporting firms are lacking in export management skills that's a reason for the decline in the export percentage. While energy crisis is not only observed in Pakistan but it is present in many other developing countries as well. This energy crisis problem was previously mentioned in a research by Jamshed (2011) in the SMEs of textile sector in Pakistan.

Intra-industry comparison reported that there are certain factors which are same for both large and small sectors i.e. energy crisis, lack of governmental support, custom duties and hectic procedures while some are different for both sectors i.e. competition (LEs), meeting export standards (SMEs), lack of financing capital (SMEs) and high cost financing capital (SMEs). As findings suggested that competition is a major problem for large enterprises is also mentioned in a past research by Jin Zhang & Ruiqi (2008) conducted in the EU markets in China Imported goods context whereas, lack of government support is also rated as a big hurdle in the export expansion. The same trend was observed in two other studies conducted in Pakistani setting but focused only small and medium textile sector by Yasmeen (2006) and Ahmed (2006). All the

other factors are already mentioned in the above discussion and their relevancy and authenticity is confirmed as they were a part of previous researches.

The last comparison is between the inter-industry comparison with some other developing countries i.e. Pakistan Vs India Vs Bangladesh. The comparison showed that Indian textile industry is well satisfied in terms of its governmental assistance in trade activities while Bangladesh is having problems with its government. Indian and Bangladeshi textile firms aren't offered high cost of financing from the financial institutions whereas in Pakistan the case is opposite as its financial authorities offer cost of financing but on higher returns and taxes. Bangladeshi textile firms feel that they are having complete knowledge about the foreign markets and their potentials. On the other hand, similar factors can be observed in these rivalries like all are having issues with custom procedures, exporting standards, environmental issues and intense competition.

Factors	Pakistan (2012)	India (2008)	Bangladesh (2009)
Lack of governmental assistance	Yes	No	Yes
Hectic custom procedures	Yes	Yes	Yes
High Cost of financing capital	Yes	No	No
Lack of financial resources	Yes	No	Yes
Intense competition	Yes	Yes	Yes
Meeting export standards	Yes	Yes	Yes
Environmental barriers	Yes	Yes	Yes
Lack of export knowledge	Yes	Yes	No

## 7.2 DISCUSSION ON FINDINGS

Textile sector in Pakistan is going through the toughest times in the history. The biggest threat to Pakistan's textile industry is the maintenance of its competitive position and enhancement in its export share in the world. Competition is usually between the large enterprises of the countries because 80% of the revenue comes from the 20% of the sector which is the large enterprise sector. But there are several other direct and indirect issues which are affecting the performance and progress of the textile sector in local and international markets. Another hurdle in the way to export expansion is the global recession through which the whole world is suffering that hit the world textile industry.

There are other serious internal and external issues which are and may remain harming the performance of the textile. Internal issues like high cost of production due to the surprise and instant increase in the energy prices has remained a primary concern for the industry. The high cost of production is due to many factors i.e. higher electricity tariffs, energy crisis, political instability, increase in the interest rate, 50% sales tax refund (not implemented), reformed sales tax increments 6%, withholding tax 5%, 0.5% increment in turnover taxes, removal of subsidies and above all government reluctance in assisting the textile sector and imposing new forms of taxes like flood tax 15% and other internal disputes have made textile industry to suffer by affecting exports and making them to reduce at a very sharp rate.

The devaluation of Pakistan rupee (currency) in the last year has raised the cost of imported goods/inputs. Furthermore, high cost of financing and the double digit increase in inflation have also affected the growth rate of the textile industry. These are the environmental factors in which economical, social and cultural issues are present. The removal of the subsidies from textile

sector and the newly imposed higher tax rates were proven to be the last hit on the industry's back. Thus, all the challenges through which textile industry is suffering are very much interlinked and dependent on each other. So, there is a need to make government and other trade authorities realize the importance of the textile sector in the overall economy of the country.

## **CHAPTER NO 8**

### **CONCLUSION**

This chapter deals with the extraction of the findings from the data being analyzed. In this chapter, we normally conclude the research questions, give recommendations on the application of the research and also state the possible limitations of the research. This chapter shows the correspondence between the conclusion and the original research questions made by the researcher.

## 8.1 CONCLUSION

As noted earlier, it is a business pre-requisite, it doesn't matter that what is produced and how, to fulfill the needs of the demanded potential markets, doesn't require remaining in the local, regional and national borders rather to expand their operations internationally in order to serve foreign markets. A survey reported that economies of many countries have shifted from isolated entities to a cross border trade (Andrew, 2001). Businesses adopt foreign market entry strategy, as to fulfill their business needs or find foreign markets more demanding and potential residing which works for them as opportunity gate. While deciding about the entry into foreign markets, businesses discuss benefits, threats are anticipated, opportunities are emphasized and weaknesses are pointed out.

The decision to go across national borders led many firms to the peak of market leadership meanwhile many failure stories are also found in the environment and in the literature covering past years information about the shutdown of the firms and describing the possible reasons behind those shut downs. It is revealed from the history that firms who are market leaders today, entered the foreign markets through exporting their products in order to create demand in those markets or if existed to meet that demand. Export as an entry strategy was and still a useful tool which is less expensive, requires less time for implementation and constitutes a benefits stream for the firms entering through it. Today, the textile sector is the fastest growing sector and contributes a major proportion in the world economy. Many well established firms have developed strategic alliances with other firms in the international markets in order to reduce their expenses but there were many firms which used exports for the demand fulfillment in the foreign markets. These firms were located in the developing countries which were not in a state to go for extended strategies thus adopted exports. But they faced many challenges regarding exports to

international markets, some went to shut down and some survived through proper implementation of business practices.

Pakistan textile industry has a great contribution in the world exports in the textile products. But still this sector is facing problems in the fluency and efficiency of the export performance. The factors which have proven as challenging and problematic for exports are still not visible, if then not understandable. Due to this lack of information about the challenges, this study was initiated.

According to this study, the findings revealed that every single firm related to textile sector is suffering from certain export related problems whether Large enterprises or small & medium enterprises. A huge proportion of the firms are facing internal challenges as more problematic than the external ones. Internal barriers are those barriers which are formed or automatically created in the home country environment. They include energy crisis, functional issues, environmental problems and marketing & export issues majorly. These sub-barriers have a strong impact on the performance of every individual firm and on the whole industry as well. In case of Pakistan, these internal barriers are also visible to even a normal person but many other barriers are also present but least rated by the firms like export management staff is not having professional skills to deal with it but fewer firms listed this factor as other refused to tell us because it is against the rules of the firm.

On the other hand, external barriers are also considered important when the issue is of international trade. They include: competition issues, environmental issues and trade procedural barriers. These are the highly rated sub-barriers by the textile industry of Pakistan. Theory also supports these results because many other researches on the developing countries also portrayed these factors as issue generating and even the researches (Jamshed, 2011; Yasmeen, 2011; and

Ahmed, 2006) which were conducted in Pakistan setting also reported these factors as most influential on the exporting behavior of the firms. Due to the intense competition in the foreign markets regarding textile products, firms are facing problems of import restrictions by the host countries and creating hectic procedures to reduce import ratio of textile products. The reason behind the import restriction was the fall observed in the local industry of the host countries. Thus, external barriers are also affecting the exporting behavior of the firms in external settings.

During the study analysis, respondents from large and small & medium enterprises reported few similar and few dissimilar barriers on the basis of their separate firms' settings. Large enterprises were having problems – competition based issues, lack of governmental assistance, energy crisis and heavy custom duties and hectic trade procedures. While, small and medium enterprises reported some other barriers as well – lack of financing capital, lack of cost of financing, meeting export quality standards meanwhile stated energy crisis, lack of govt. assistance and heavy custom duties as also most influential barriers in the way to exports.

Comparing export barriers in Pakistan textile industry with other developing and developed countries reported that every country is suffering from the same challenges but the environment is different, rules and laws, judicial system and trade policies are different but still many of the challenges were found to be similar i.e. procedural barriers were also found in research studies of Germany (2002), Canada (2005), India (2008), Bangladesh (2010), South Korea (2007), Malaysia (2011), energy crisis remained a hot issue for not only Pakistani firms but also some other developing countries like South Korea, Bangladesh etc.

## 8.2 RECOMMENDATION

Current government initiatives have clearly showed that it is considering curative measures which were recommended by the stakeholders in order to address the problems faced by the textile industry of Pakistan so that textile production and exports could be enhanced. Government is initiating a new textile policy with the suggestions and recommendation of the textile associations and chamber of commerce. Some of the recommendations are given below:

- Strong focus on value addition
- Need to improve textile production by installing new and modernize production and facilitating machinery
- Export skills development in the human resource.
- Awareness of the foreign product, quality standards
- Technology up-gradation
- Capacity building
- Energy tariffs (electricity & gas)
- Focus on foreign direct investment
- Reduce the cost of operating businesses in Pakistan
- Subsidy removal must get back
- On-job-training should be offered to enhance employee skills
- Custom duties and interest rates should be low down
- Foreign market access should be made easier i.e. EU and US markets
- Introduce efficient management techniques

### **8.3 LIMITATION**

The limitations present in this research are well acknowledged. As this study is only focusing one sector i.e. textile so this focus can be extended to many other sectors as well. This research work has taken a sample of 30 textile mills in combination with LEs/SMEs in concern of data collection. This sample size is small in generalizing the results to the overall textile industry. So, by increasing the sample size, the authenticity of the results can be enhanced. This research is in its new form so it can be conducted in other sectors of the home country and in comparison with the other countries as well in which every country will be related to its own environmental factors in order to the enhance the scope of the research. Even the results might be different if the same research will be conducted with different scenarios. This research work also provides a base literature to hit the issues deeply in future.

## ANNEXURE

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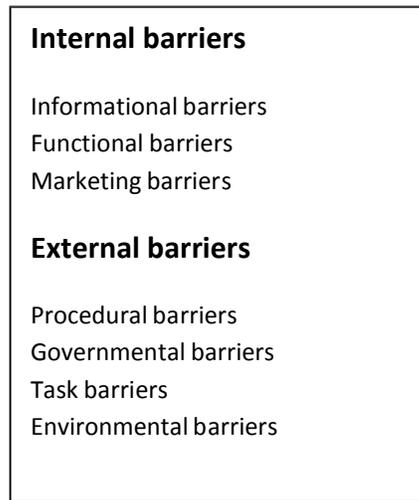
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## **Leonidou (2004) export barriers model**



## **Tesfom & Lutz (2006) export barriers model**

