A Literature Review on External Factors Affecting Export Competitiveness of Raw Woven Sector of Pakistan

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Abstract

The Textile Industry of Pakistan is considered as lifeline of the country's economy. It accounts for around 55% share of the total economy. Major exports from textiles are yarns, raw and finished fabrics and also a limited quantity of value-added textile items. However, from the last one-decade, the textile industry is facing a lot of problems in terms of getting and maintaining export orders. Most of the customers globally now giving preferences to other regional competitors. Due to this Pakistani Textile Industry losing its competitiveness day by day. There are very less studies carried out on this hot issue especially in context of Pakistan. There is contextual gap exist in the literature review on external factors. In this Paper author made literature review on six external factors such as exchange rate, GDP, FDI, Quota, Technology and political instability and their impact found discussed on various studies.

Key words: textile, fabrics, exports, performance, raw woven

Introduction

Competitiveness means different things to different people. To an economist, it may mean how well a country is performing compared to other countries as reflected in the standard of living and changes in national productivity. To a policymaker, it may mean how a new regulation changes the ability of affected businesses to compete. To a business owner, it may mean changes in profitability as reflected in market share for its goods and services in a low-cost market place. There is no clear-cut definition of competitiveness that is acceptable to all. Thus, it is necessary to interpret competitiveness as best suits one's needs and mission (Stephane Garelli (2002).

Competitiveness can be a "dangerous obsession"(Krugman,1994), but lack of competitiveness is a paramount constraint for firms survival, and long-run domestic development of small underdeveloped countries like Egypt, Sri Lanka and Pakistan(Mohammad Chaffai, Tiadiane Kinda,2012). Beyond the impact of macroeconomic policy, the firms of the countries specifically underdeveloped mainly depends on productive performance which is linked by producer behavior and also by external factors (Dollar and Wolff, 1993). The other most influential inefficiencies factors are connected with management experience but also with some other factors related to infrastructure, power supplies, and technology. Such inefficiencies factors are linearly correlated and found out from eight countries textile firm's efficiencies are widely influenced by international per capital differences such as Ecuador (US$2180) and India (US$640). South Africa, Ecuador, and Brazil are somehow performed better through a method of best practices, on contrary Pakistan, Morocco Siri Lanka, and Egypt are
performed non satisfactorily with high dispersion of efficiencies across firms (Mohammad Chaffai, Tiadiane Kinda, 2012). The reason for such non satisfactorily performance is due to its management as well as operational loopholes.

National competitiveness is a very complex issue, from early to modern concepts it becomes a core issue related to the performance of the nation. Early concepts discussed in the late 18 and 19 century by Adam Smith’s theory of absolute advantage (1964) and David Ricardo’s theory of comparative Advantage (1962). And modern concept about the competitiveness of the national industry is obtained by combined efforts of economic, technological, geographic, social and political factors. This was explained by Porter in 1990 in which he related by a relative factor of production, the demand of national products, international competitiveness of native suppliers and related industries, the nature of business strategy, type and structure of rivalry, government reforms for industrial support and growth, existing and upcoming threats and opportunities. The analysis of such factors is time-consuming and problematic in terms of execution plan based on such factors. There is another concept which is time-saving and much easier that is assessing the competitiveness of the nation on the basis of a particular product, type of product or industry. Lots of research done on doing a comparison of a national industry with other on aggregate commodity groups, using one or two digit concept from Standard Industrial Trade Classification (SITC). This concept gives a comprehensive macro level comparison between different sectors of single or multiple countries (Laursen, 1998; Li and Bender, 2002; Richardson and Zhang, 1999; UNIDO, 1986; Wadud, 1997; World Bank, 1994). However, this concept does not give micro-level data between different nations. This requires a lot of time and money. This approach also requires detailed descriptive techniques to compare trade status between various countries. It also helps to compare import/export trend between different countries or regions. This concept of comparing commodity product with single or multiple countries widely used in textile and apparel trade field. The comparison is made on the basis of demanded requirement fulfillment between various countries. However, comparison of such demands is missing empirically related to Pakistani Textile Industry.

The group of different firms producing goods or services that are somehow close substitutes with each other's is called industry and these firms directly compete with each other on the basis of their performance. The segments of environment analysis are considered Economic, Technological, Social and Political. The instabilities in local, national and world economies are directly related to the performance of the organization. The local condition such as rising populations, low standards of education, and lack of a transportation and commercial base are responsible for their negative impact on organizational performance. However, the fluctuations in intra organizational environment trigger the managers to develop long term planning and decisions in order to maintain the balance with the external environment (Bayode O. Babatunde, 2012). The SLEPT analysis is the most common approach to considering the external business environment. SLEPT analysis stands for Political, Economic, Social, Legal and Technological analysis and describes a framework of macro-environmental factors. The fundamental approach of SLEPT analysis is to react against change in the external environment by the organization. The value of the SLEPT is likely to relate directly to the quality of the effort put into it (Abhishek Gupta, 2013).

External Factors

Exchange Rate

The exchange rate of currency has a direct relationship with the exports of the product. It is actually the buying power of one currency in terms of other currency. It's worth of another currency. The increasing the exchange rate is called appreciation and decreases in exchange rate called depreciation of the currency. The appreciation of the exchange rate gives a negative impact on exports because of a fall in profits. Along with this fluctuation in the exchange rate has an adverse effect on the export business decision due to uncertainty in the market. In 2008 the exchange rate of US dollar against Indian and Pakistani Rupee fluctuated and gave a negative impact on the export performance of such countries.
The appreciating rupee against US dollar gave spoiled effects on textile and clothing trade of India and Pakistan. The exchange rate volatility was negatively and significantly associated with exports in select ASEAN countries (Mohamad, Nair, & Jusoff, 2009). Many researchers found the impact of exchange rate on the performance of the textile industry in terms of exports specifically is ASEAN regions is by controlling or managing the exchange rate. (However, very fewer studies shows the impact on raw woven sector Gap) One of the studies on the export performance of textile industry on the impact of the exchange rate is on managing exchange rate system after the Bangladesh government implemented managed exchange rate rule in 1979 vacating fixed exchange rate rule (Paul, 2011).

However many economies manage their exports by avoiding trade in USD, they used their own currency such as in Euro by European countries and in Yen by Chinese countries in order to save the negative impact of change exchange rate.

**Gross Domestic Product (GDP)**

The Gross Domestic Product is one way in order to access the wealth of the country. This indicator has actually represented the value of goods and services made by an economy specifically nationally during a particular period of time. The growth rate of GDP has a two-fold impact on businesses one is negative and second is positive. Two or more consecutive year of recession is a negative sign in exports (Merry Linch (Global Investment Bank). The global recession is considered when global economic rate moves below 3%. The GDP is positively related to the supply of exports but its contribution to increase exports is very low (Moniruzzaman, Toy, & Hasan, 2011). However, the importance of GDP has a direct link with the amount of production which ultimately link with an export rate. GDP has a contribution only with respect to quantity made by a nation, not with quality and order quantity for exports. One of the examples is of Indian textile exports which badly affected by a global economic slowdown in 2008, it leads towards in payment issues, delayed order completion, problems in executing orders resulting cash flow difficulties (Yoganandan.G & Jaganathan A.T, 2013). The world recession has thrown many negative impacts to Indian textile exports by specifically US economic crises which lead towards world economic crises. Further world economic condition faced impacts of this world recession in major markets of US, EU and Japan in terms of financial, socio-economic and political crises and also by other world markets (Chaudhary, 2011). Indian garment export decreases by about 6.5 % over the same period of global economic slowdown. This crisis leads towards a loss in exports by a developed nation to developing countries that also became the reason for unemployment in developing countries (Aziz, 2011). A study conducted in China used the Trade Gravity Model on China's textile exports highpoint that factors like Gross Domestic Product (GDP), population and the degree of dependence on foreign trade affected negatively the export performance of textile firms in China (Liping, 2010). In yet another study conducted in Bangladesh found strong evidence between export and growth (export-led growth) of economy predominantly in the short-run while in the long-run the impact of export to economic growth (GDP) is not very vigorous (Paul, 2011).

**Foreign Direct Investments (FDI)**

Fast growing economies depends on both domestic as well as foreign direct investments. Such fast-growing economies needed foreign direct investments specifically in those sectors that contributed a lot in generating wealth for the nation such as textile sectors of various developing countries. This need for investments is due to enhancing production capacity with the latest technologies that are very important in competing for world economies (Chaudhary, 2011). Developing countries like India got a lot of direct investments in the textile sector in the shape of Multinational companies and in making modern types of machinery (Sharma, Manisha, Prashaant, & Anu, 2009). Similarly, Bangladeshi textile export supply increased due to the enhancement of gross capital formation which means more investments in this exportable sector of textile and this gross capital formation is considered a key element in an export supply of Bangladesh (Moniruzzaman, Toy, & Hasan, 2011). There is strong evidence of positive relationship exists between successful exports of a nation with imports of investments in capitals goods, capabilities and also some of the strategic interventions for resolving market failures.
(Mohamad, Nair, & Jusoff, 2009). Similarly, Indian textile exports and economic growth has a positive relationship with gross domestic capital formation. This was proved by using Johnson's co-integration methodology to examine it during the year 1970 to 2008 (Sultan & Haque, 2011). Another study conducted in Sri Lanka in order to determine the relationship between foreign ownership, attaining technological capabilities and learning from buyers with their exporting trends in Chinese and Sri Lankan clothing factories found positive and knowingly connected (Wignaraja, 2008). There is a positive relationship between foreign investments, gross domestic formation with export performance of organizations. There is positive relationship also exists in Pakistani textile industry but how much foreign direct investments came during 2012 to 2017 in raw woven sector and reason to find why not so many foreign investments came to Pakistan specifically in the field of raw woven fabric sector needed to be explored. However, FDI can be one factor of performance which can be disturbed by any competitors by utilizing its diplomatic channels as India do normally. But a country like Pakistan must not rely on one factor that is FDI. By making other factors good it is possible to overcome the weak factor.

**Quota System**

The removal of the quota system and opening the market into more opportunities made two fold impacts on manufacturing export-oriented industries. Sri Lanka failed to be benefited completely from open market opportunities, in short, this removal was not in favor of its garments industry and also definitely adverse impact on employment because of losing competitiveness and uncertain situation of the market (Dheerasinghe, 2003). In comparison to Sri Lanka developing nations like India and Pakistan benefited a lot in terms of low wages labor and availability of skilled labor on large quantity made them able to compete in labor-intensive export products of textiles. Such countries made themselves able to produce a large number of materials and intermediate products for the domestic and international market. However low productivity, less product diversification, less innovative products, high energy cost, capital cost, lack of modern infrastructure specifically related to weaving and finishing sector undermine the textile export industry’s competitiveness (Dhiman, 2016). However, those companies who are operated domestically found more efficient in exports rather than foreign company operated in a country due to giving double taxes and other laws and also private ownership factories are more export-oriented rather than public. Labor productivity at a firm level, size of a firm, intensive raw material are determinant of export activities.

**Technology**

Similarly, the relationship of semantic technologies and interoperability with the manufacturing system is part of practice in manufacturing environment from last more than 20 year. This concept helps in improving the manufacturing set up (Panetto et al. 2016; Agostinho et al. 2016). However, in manufacturing organizations, most of the processes are structured and well organized while some of the task and processes are flexible or called less structured. The reason there is no strict laws and systems by an external system for their execution. The role of the human factor is very important in execution and formulation of activities and they can be analyzed or monitor by using a semantically enabled system. Along with human factors, other physical activities also involved in business process management. The work of Repta et al. (2016) gives concepts of this system into a different approach, it started with modeling phase and instead of a dedicated language or notation, in order to capture the entire complexity of the considered domain, ontologies based on Description Logics (DL) were used. It starts with tasks of modeling events, activities and monitoring other unfolding tasks by utilizing Semantic Web Rule Language (SWRL) for enabling a form of temporal reasoning in DL, the underlying logic formalism.

Product based semantic approaches on a manufactured product given by Milicic et al. (2016) in which systems able to analyze data and its modeling automatic. Data obtained from product life management successfully modeled mathematically by getting the advantage of the semantic model, flexible time and by allowing Sub optimal accuracy. The development of this system comprises of six steps: Data Understanding, Data Preprocessing Module, Correlation Detection, Modelling, Result Evaluation, and Visualizations. In the approach of Milicic et al. (2016), the human factor in the first step is very
important in order to understand the type of data, from where data is coming, how data is collected. It requires an expert understanding of data which are to be modeled. The role of semantic technologies and interoperability is very important specifically in manufacturing an intelligent environment. It makes a semantically enabled system for automated data analysis, monitoring the data and analysis of flexible processes by considering the human factor in planning and execution of activities. Also proposing software adapter for an end to end manufacturing platform development, web services mappings, portal, ESB and databases.

Performance of company and its type of business does not measure or access financially only such as stock price, revenues, earnings etc but also non-financial measures such as customer satisfaction, employee satisfaction, employee compensation, supplier relations relative to the competitors, franchisee's satisfaction (Kaplan 2001). However, in addition to financial business performance, a significant relationship also exists between generic strategies and non-financial business performance exists. Therefore, evaluation of the firm performance can be either objectively or subjectively. While the objective method refers to the financial performance, the subjective means non-financial performance or perception of the respondent.

Business competitive strategies, tactics have a direct important role on the performance of the company (Spanos, Zaralis, and Lioukas 2004). Performance of firms can be measured by taking into loop all stakeholder such business owners, investors, management even customers, and there is not possible to measure performance of company only by using one stakeholder. However, the performance of their operational sides is also meant to be measured.

However, in manufacturing practices, product process technology and supply chain management are also considered a very important factor for standardizing best practices. Along these two factors, another researcher added a set of new practices such as process focus, pull production and environmentally friendly processes. List of old practices which were taken as best practices are replaced by using new process equipment, increasing capacity and ability, automation in processes, introducing ICT and dynamic workplace for workers in terms of its betterment (Laugen, Acur, Boer, and Frick (2005).

**Political Instability and its Impact on Export**

Bloomberg et al. (2004) empirically look into the impact of political Instability and Violence on 177 countries over the period 1968-2000. The study finds the impact of intimidation on economic growth as negative. Which made the cost of doing business high. Further findings show that intimidation results in shifting of resources from investment spending to government spending. However, the incidence of violence differs in different groups of countries. Although radical acts are more frequent in advanced economies like that of the OECD countries their impact was less significant than developing countries. Sandler and Enders (2005) have similar views as they compare the impact of intimidation on developed and developing countries. The study argues that developed countries have a vast economy and any radical activity may result in reallocating of resources among various sectors of the economy, but however, this is not the case with the developing countries and any major radical act may jeopardize the economic growth. Like their vast economies, developed countries have better institutions and markets and can absorb the effects of intimidation. They can provide necessary fiscal and monetary stimuli to absorb the effects of radicalism, while many developing countries lack this ability. Besides, developing countries are more dependent on other countries as compared to developed ones. Therefore, any economic shock induced by such activities in other countries can affect their economic growth.

Koh (2007) examines the impact of war of intimidation on the global economy and the allocation of resources to research and development (R&D). Various costs that intimidation may have on the economy include the crowding out of private R&D expenditure by the military R&D expenditure to counter intimidation, thereby reducing economic growth. Besides, international corporations pursuing investment in other countries evaluate country risk and spend a higher amount on security which acts as a barrier to the flow of investment to the developing countries and also increases the operational costs. Counter intimidation measures increase expenditure on security which also reduces expenditure on private R&D. The crowding out of private R&D by security-related R&D would reduce the rate of
innovation over time, thereby reducing economic growth in the longer run. Gaibulloev and Sandler (2009) investigated the impact of radicalism on per capita growth in Asia for the period 1970-2004. The study found significant growth limiting the impact of intimidation. However, the impact seems to be stronger in the developing countries as compared to developed one because of the developed countries' resilience to intimidation due to their robust economies. Even though Radical activities generated by internal conflicts were found to be twice as effective in reducing growth as compared to those of international conflicts. The main growth reducing impact comes from the crowding in of government expenditure and a loss of investment associated with the increase in terrorist activities. However, Intimidation and Crime are the two most important elements of law and order, due to its increase nation's Peace, Law and Order deteriorate. Most crimes are committed by economic and poverty factors as well as social environment such as parental conflict, lack of communication, lack of respect and responsibility, abuse and neglect of children. Whereas intimidation and tribal activities have become routine affairs in Pakistan. North and South Waziristan have been a fertile land for tribal activities. The most apparent brunt in a war is Human Cost and no doubt Pakistan had to pay it from the last several years to —War on Terror (WOT). It reveals from a report presented before Pakistan Supreme Court by intelligence agencies on 27th March 2015 that in Pakistan 59,000 lives have lost since 2001(The Express Tribune, March 27, 2015). Total loss was recorded by financial agencies of Pakistan is 123 billion USD since 2001. As Pakistan's current GDP volume is $304 billion, this huge loss is 41 percent of the country's total economy size. This indicates that two-fifth of the economy not only went in the air but it also further damaged the economic growth of the country. According to the Pakistan Economic Survey 2016/17, this huge number has been worked out after thoroughly investigating the effects of war on the national economy for the last 16 years. The war on terror has been drastically affecting the country's economy, exports, physical infrastructure, tax collection, and investment and our social fabric. Since the rebellion started in Pakistan following the US invasion of Afghanistan, more than 60,000 Pakistani civilians, security forces personnel and women, and children have been killed in gun, bomb and suicide attacks. Besides, thousands of others have been seriously injured or handicapped and are unable to win bread for their children which ultimately also created other social issues in the society. On average, every year Pakistan suffered losses of $7.7 billion — more than the country's total expenditures on education, health, and other social safety schemes. In recent years, security situation has improved to some extent, largely due to successful counterterrorism efforts of the government under the framework of the comprehensive National Action Plan, backed by an extensive and highly effective counterterrorism operation Zarb-e-Azb by the armed forces, and actions by other security and law enforcement agencies and intelligence-based operations across the country. After successful completion of Zarb-e-Azb, a country-wide operation Raddul Fasaad has been launched for eliminating any residual or latent threats (Daily News, 2017).

Moreover, after the US invasion of Afghanistan, Pakistan saw a huge influx of Afghan refugees as one of the main host countries. There was a sudden rise in the number and scale of radical attacks in the country. The cumulative impact of these developments adversely impacted the overall growth rate in all major sectors of the economy. Though the normal economic and trading activities were also disrupted, resulting in higher costs of doing business and significant delays in meeting the export orders around the globe. As a result, Pakistani products gradually lost their market share to their competitors. Economic growth could not pick up as planned.

In the fiscal year 2017, $3.88 billion (Rs407.2 billion) losses to the economy were recorded, sharply lower than $6.49 billion in the fiscal year 2016, Pakistan's Economic Survey revealed. The survey gives further figures, saying that in 2001/02, the cost was $2.67 billion, 2002/03 $2.75 billion, 2003/04 $2.93 billion, 2004/05 $3.4 billion, 2005/06 $3.99 billion, 2006/07 $4.67 billion, 2007/08 $6.94 billion, 2008/09 $9.18 billion, 2009/10 $13.56 billion, 2010/11 $23.77 billion, 2011/12 $11.98 billion, 2012/13 $9.97 billion, 2013/14 $7.7 billion, 2014/15 $9.24 billion and in 2015/16 it was $6.49 billion dollars. However, Pakistan continues to be a serious victim of radicalism, including foreign-sponsored radicalism from our immediate neighborhood. A substantial portion of precious national resources, both men and material, have been diverted to address the emerging security challenges and to repair damaged infrastructure during the last several years. In addition to economic losses, cross-border intimidation in Pakistan has also been responsible for untold human sufferings due to indiscriminate, brutal radical attacks against the civilian population. But in the year 2017, the security problem due to
such emergent situation has been solved about more than 90% due to serious actions and operations conducted by Armed Forces of Pakistan. Now at the present time, the scenario regarding is much better than in the past due to this business environment also becoming feasible for investors. But apart from this the overall trade deficit is still more than exports. There is a big room available for expanding business and manufacturing. Subsidies and other financial support which were promised by GOP delayed due to a loss in economy and reserves which might be one reason for becoming less competitive as compared to their neighbors. Along with this instability in Governments due to failing in providing utilities, tax relief etc. textile industry went into strikes and shut down which also became one reason for their loss in annual production.

Conclusion

The importance of external factors in terms of Exchange rate, Technology and Political instability gives significant impact on performance of textile sector. Such factors must be controlled and improved for obtaining desired results. There is need to carry out more studies in this field because of important link with the economy of Pakistan.

References


