

Pakistan Textile Industry Facing New Challenges

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Abstract

The Pakistan textile industry contributes more than 60 percent (US \$ 9.6 billion) to the country's total exports. However, currently this industry is facing great decline in its growth rate. The major reasons for this decline can be the global recession, internal security concerns, the high cost of production due to increase in the energy costs etc. Depreciation of Pakistani rupee that significantly raised the cost of imported inputs, rise in inflation rate, and high cost of financing has also effected seriously the growth in the textile industry. As a result neither the buyers are able to visit frequently Pakistan nor are the exporters able to travel abroad for effectively marketing their products. With an in-depth investigation it was found that the Pakistan's textile industry can once again be brought back on winning track if government takes serious actions in removing or normalizing the above mentioned hurdles. Additionally, the government should provide subsidy to the textile industry, minimize the internal dispute among the exporters, withdraw the withholding and sales taxes etc. Purchasing new machinery or enhancing the quality of the existing machinery and introducing new technology can also be very useful in increasing the research & development (R & D) related activities that in the modern era are very important for increasing the industrial growth of a country.

Keywords: Textile; exports; global recession; production; inflation; marketing; withholding.

Introduction

The Pakistan textile industry total export is around 9.6 billion US dollars. The textile industry contributes approximately 46 percent to the total output or 8.5 percent of the country GDP. In Asia, Pakistan is the 8th largest exporter of textile products providing employment to 38 percent of the work force in the country. However, the textile industry currently faces massive challenges. The All Pakistan Textile Mills Association (APTMA) needs to enhance the quality of its products. However, APTMA argues other factors such as high interest rates and cost of inputs, non conducive government policies, and non-guaranteed energy supplies hinder their competitiveness [1].

History of Pakistan Textile Industry

Increase in the cotton production and expansion of textile industry has been impressive in Pakistan since 1947. Cotton – bales increase from 1.1 million bales in 1947 to 10 million bales by 2000. Number of mills increased from 3 to 600 and spindles from about 177,000 to 805 million similarly looms and finishing units increased but not in the same proportion. Pakistan's textile industry experts feel that Pakistan has fairly large size textile industry and 60-70% of machines need replacement for the economic and quality production of products for a highly competitive market. But unfortunately it does not have any facility for manufacturing of textile machinery of balancing modernization and replacement (BMR) in the textile mills. We need to think about joint ventures for the production of complete spinning units with china, Italy and production of shuttle less looms with Korea, Taiwan and Italy.

Reflecting on the state of affairs, Abid Chinoy, Pakistan cloth merchants Association (PCMA) Chairman, Appreciated government's efforts to encourage new exports and finding new markets, which need aggressive export marketing. The steps taken on the monetary front, such as the frequent devaluation of Pak rupee in terms of dollar could not improve the cost competitiveness of exportable products due to increase in prices of the local and imported inputs of the local textile industry. During the period 1973 to December 1992, some 71 spinning units with 1,136, 835 spindles, 6,600 rotors and 7,329 looms were closed down. In 1992, a foreign consultant firm was hired by the government to look into the stagnate conditions in the local textile industry. One of the observations of the foreign consultant was "Pakistan has failed to make real progress in the international market and is being overtaken by many of the neighboring competitor countries [2].

The rise in export of value-added products from Pakistan was another point of encouragement for the textile sector. "The export of value-added products rose to 57.4% from 53.9% in 2002 which is clear sign that we are moving in the right direction," said the Chairman of all Pakistan textile mills association. The trade policy is considered an acceptable paper, but in the industry does not find anything that could lead to a high level exports achievement and remove trade imbalance.

Pakistan's textile sector earned US\$5.77 billion during the 2003 year, compared with US\$5.577 BILLION OF 2000-2001 indicating a growth of 0.69%. The total exports of textile sector in 2004 were US 5.7 billion which shows 2.5% growth it increase to 4% growth in 2005 as compared to 2004. The textile sector shows 8% negative growth in 2006. The negative growth continue in 2007 also with the value of 5%. The textile sector shows 15% growth in 2008. Now we will discuss the main reasons of crisis in textile industry step by step in detail

a. Lack of Research & Development (R&D) in Cotton Sector

The lack of research & development (R&D) in the cotton sector of Pakistan has resulted in low quality of cotton in comparison to rest of Asia. Because of the subsequent low profitability in cotton crops, farmers are shifting to other cash crops, such as sugar cane. It is the lack of proper R&D that has led to such a state. They further accuse cartels, especially the pesticide sector, for hindering proper R&D. The pesticide sector stands to benefit from stunting local R&D as higher yield cotton is more pesticide resistant [3].

b. Lack of Modernize Equipment

Moreover, critics argue that the textile industry has obsolete equipment and machinery. The inability to timely modernize the equipment and machinery has led to the decline of Pakistani textile competitiveness. Due to obsolete technology the cost of production is higher in Pakistan as compared to other countries like India, Bangladesh & China.

c. Finance Bill to Burden Industry Further

All Pakistan Textile Mills Association (APTMA) has told that government's actions are not matching with its words for the textile industry. Referring to the Prime Minister Yusuf Raza Gilani speech at the

launching ceremony of the Infrastructure Development of the Pakistan Textile City at Port Qasim Industrial Area, where Prime Minister spoke high of the textile industry contribution towards the country's economy, Chairman APTMA Tariq Mehmood said the federal budget 2009-10 is a total negation of the acknowledgement of the role of textile industry on the part of the Prime Minister. According to him, reintroduction of minimum tax on domestic sales would invite unavoidable liquidity problem, which is already reached to the alarming level. He said the textile industry was facing negative generation of funds due to unaffordable mark up rate on the one hand and acute shortage of energy supply & unimaginable power tariff for industry [1].

d. Increasing Cost of Production

The cost of production of textile rises due to many reasons like increasing interest rate, double digit inflation & decreasing value of Pakistani rupee. The above all reason increased the cost of production of textile industry which create problem for a textile industry to compete in international market.

e. Internal issues Pose a Larger Threat for Pakistan's Textile Industry

Pakistan's textile industry is going through one of the toughest period in decades. The global recession which has hit the global textile really hard is not the only cause for concern. The high cost of production resulting from an instant rise in the energy costs has been the primary cause of concern for the industry. Depreciation of Pakistani rupee during last year raised the cost of imported inputs. In addition, double digit inflation and high cost of financing has seriously effected the growth in the textile industry. Pakistan's textile exports have gone down during last three years as exporters cannot effectively market their products since buyers are not visiting Pakistan due to adverse travel advisory and it is getting more and more difficult for the exporters to travel abroad.

Textile exporters rightfully demand reduction of Kibor rate to 8% to avoid a severe decline in exports. A three-year comprehensive textile policy is expected to be announced before budget 2009-10. The textile policy has been designed to enhance the exports of textile sector to \$ 25 billion in next three years. This was stated by the Minister for Textile Industry Rana Farooq Saeed Khan. Textile Minister further informed that the spinning and weaving sector would get its due share from the Export Investment Support Fund, worth Rs. 40 billion allocated in the Federal Budget 2009-10. Rana Farooq pointed out that he has advocated the case of immediate support to textile industry in the Parliament and also in the Cabinet meetings because he is confident that only textile industry was capable enough to bale out Pakistan from the current economic crisis. He further said that although we are 4th largest producer and 3rd largest consumer of cotton but unfortunately now we are at number 12 in the international trade of textile products. Additionally, he stressed that government should take immediate measures to remove slowdown in the textile sector. He said that high cost of doing business is because of intensive increase in the rate of interest which has increased the problems of the industry. He said that record increase in markup rates is one of the major cause of defaults in servicing the loans availed by the industry, hence, the volume of non-performing loans has reached to an alarming situation. He said that power shut downs may result in massive unemployment resulting in law & order situation [4].

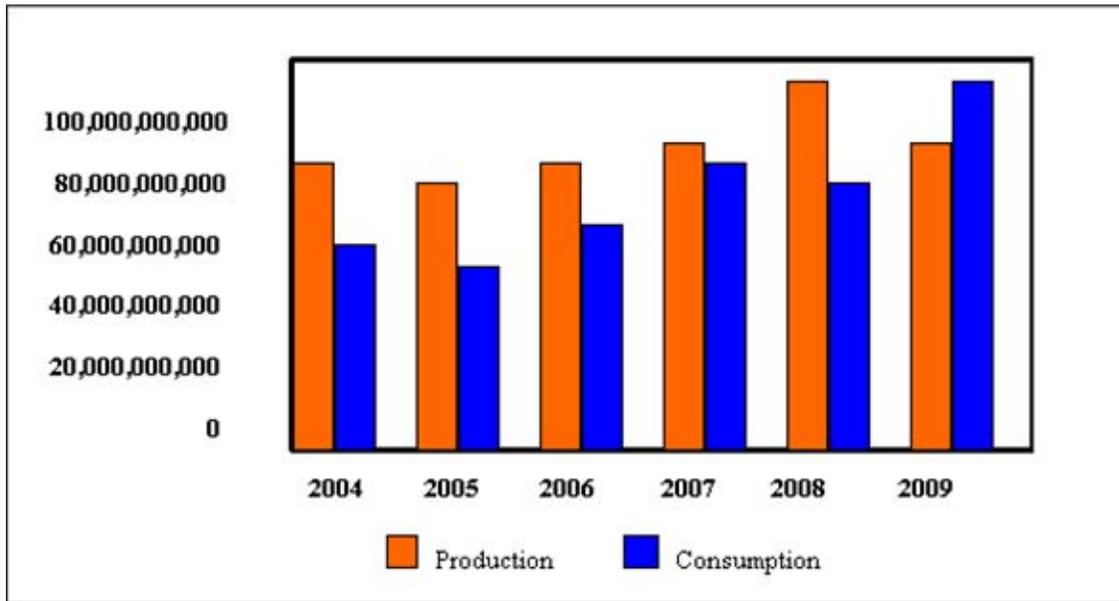
f. Energy Crisis

• Electricity Crisis

As a consequence of load-shedding the textile production capacity of various sub-sectors has been reduced by up to 30 per cent. The joint meeting of APTMA & other related organization was held at APTMA House to formulate a joint strategy to address the alarming electricity crisis being faced by the textile industry. The meeting unanimously decided to constitute a joint working group of electricity management for the textile industry in the larger interests of the value chain of the textile industry. The joint working group will meet shortly to design a detailed plan to pursue the following goals; Immediate total exemption from Electricity load shedding for the textile industry value chain; Rationalization and reduction of electricity tariff.

The load-shedding of electricity cause a rapid decrease in production which also reduced the export order. The cost of production has also risen due to instant increase in electricity tariff. Due to load shedding some mill owner uses alternative source of energy like generator which increase their cost of production further. Due to such dramatic situation the capability of competitiveness of this industry in international market effected badly. Fig. 1. illustrates comparison between electricity production and consumption [5].

Figure 1: Comparison between Electricity Production and Consumption



• Gas Shortage

Gas load-shedding continues in Punjab and NWFP despite a significant increase in temperature. A spokesman for the All Pakistan Textile Mills Association (APTMA) claimed that 60 to 70 per cent of the industry had been affected and was unable to accept export orders coming in from around the globe. He said the textile industry had already endured over 45 days of gas disconnection over a period of four months, causing extraordinary production losses and badly affecting capability of the industry. In Punjab, he said, energy supply disruption only was causing an estimated loss of Rs1 billion per day. In the larger interest of the economy and exports, he suggested, the government should “ensure utility companies provide smooth electricity and gas supply to the textile industry”[6].

g. Tight Monetary Policy

The continuity of tight monetary policy cause an intensive increase in cost of production. Due to high interest rate financing cost increases which cause a severe effect on production. The with holding tax of 1% also effect the production badly. The high cost of doing business is because of intensive increase in the rate of interest which has increased the problems of the industry. The government should take immediate measures to remove slowdown in the textile sector.

h. Removal of subsidy on Textile sector

The provisions of Finance Bill 2009-10 are not textile industry friendly at all. Provisions like reintroduction of 0.5% minimum tax on domestic sales, 1% withholding tax on import of textile and articles etc., are nothing but last strick on industry’s back. Reintroduction of minimum tax on domestic sales would invite unavoidable liquidity problem, which is already reached to the alarming level. The textile industry was facing negative generation of funds due to unaffordable mark up rate.

i. Lack of new investment

Pakistan textile industry is facing problem of Low productivity due to its obsolete textile machineries. To overcome this problem and to stand in competition, Pakistan Textile Industry will require high investments. There is a continuous trend of investing in spinning since many years. Pakistan's textile industry estimates that around Rs1, 400 billion (US\$32 billion) of investment was required till 2010 in order to achieve the government's export target." Pakistan is facing externally as well as internally problems which restricts the new investment [7]. The unpredictable internal condition of Pakistan cause a rapid decrease in foreign investment that affected all industries but especially textile industry.

j. United States & EU cuts imports of textile from Pakistan

United States cancel more than 50% of textile orders of Pakistan .US also impose a high duties on the import of textile of Pakistan which effect the export in a bad manner. US & EU are the major importer of Pakistan textile which create a huge difference in export of Pakistan textile after imposing a restriction on import of Pakistani textile goods.

k. Raw material Prices

Prices of cotton & other raw material used in textile industry fluctuate rapidly in Pakistan. The rapid increase in the price raw material effect the cost of production badly. The increase in raw material prices fluctuate rapidly due to double digit inflation & instable internal condition of Pakistan. Due to increase in the cost of production the demand for export & home as well decreased which result in terms of down sizing of a firm. Hence the unemployment level will also increase. Govt should take serious step to survive the textile industry. In order to decrease the price raw material for textile we need to increase our production capability. Simultaneously, the government should make arrangement for introducing international system of Cotton Standardization in Pakistan to enhance quality and value of Pakistan lint cotton by utilizing the technical services of Pakistan Cotton Standard Institute.

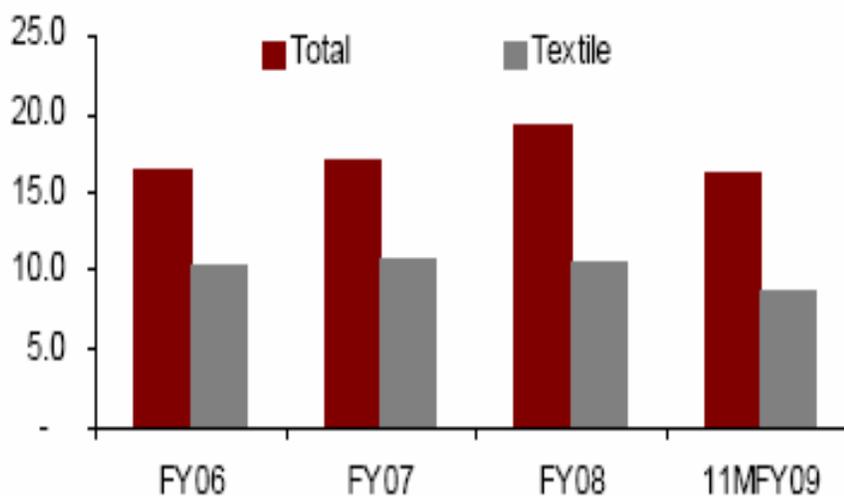
l. Export Performance of the Textile Sector

For the second year in a row, the country missed annual textile export target of 12 billion dollars by 20 percent due to high cost of production, power shortage and stiff competition with regional players. The federal government envisaging 15 percent growth had set textile export target of 12 billion dollars for FY09 against 10.35 billion dollars for FY08. However, in FY09, the country not only missed its textile export target but also registered a decline of some 6 percent as compared to FY08. "Yes, the country has fallen short of textile export target by over 2 billion dollars due to the global meltdown and several barriers faced by textile industry on the domestic front," said Mirza Ikhtiar Baig, Prime Minister's Advisor on Textile. Ikhtiar said that high cost of doing business, power shortage, poor industrial infrastructure and slow external demand are some major factors contributing to the decline in textile export. However, he is confident that during the current fiscal year textile sector will show better performance as the government is trying to remove the tariff barriers, besides exploring new textile export markets. "I am confident that the governments and the Ministry of Textile's efforts will be helpful in boosting the country's textile export and enabling it to compete with other regional competitors like India and China," Baig said [8].

Additionally, the official statistics of the State Bank of Pakistan (SBP) show that the country's textile exports is also some 2.36 percent lower than the export of fiscal year 2006-07, in which overall textile exports as per receipts stood at 10.011 billion dollars. The central bank has also revealed that out of 12 major textile export 9 registered negative growth and export of only three items - raw cotton, bed wear and towels has posted some increase. With 18.34 percent decline, readymade garments exports stood at 983 million dollars and knitwear export at 2.054 billion dollars after a decline to 4 percent in FY09 [9]. Fig. 2. shows comparison of Pakistan Textile Exports in (US\$bn) for different fiscal years.

Figure 2: Pakistan Textile Exports in (US\$bn) for different fiscal years

Graph: Pakistan exports (US\$bn)



Source: FBS

m. The Effect of Global Recession on Textile Industry

In economics, the term ‘recession’ means “The reduction of a country’s Gross Domestic Product (GDP) for at least two quarters; or in normal terms, it is a period of reduced economic activity.” Pakistan is 26th largest economy in the world, and 47th largest in terms of the dollar. It is sad to see our economy like this now. Pakistan is actually a very economically diverse country with boasting industries of textiles, agriculture, etc.

The main reason for this slump has largely been the political instability over the past few years; no proper economic policies were implemented; at least none that succeeded. This caused a very high rate of inflation, which, in 2008, had increased to a whopping 25% as compared to a 7.9% of 2006. What occurred afterwards is what we call the domino effect. The value of the Rupee crashed from 60-1 USD to 80-1 USD in only a month, the prices of commodities soared through the roof, the number of people living below poverty line increased from 60 million to 77 million, and consequently, the working class layman became virtually deprived from basic necessities like water, wheat, electricity, natural gas, and cooking oil; add to all this, the preposterous amounts of load-shedding, and what we get is a nation in shambles[10].

The above all situation of the economy badly effected the textile industry also. The demand for textile product cut down locally & internationally as well. The export order reduced due to unpredictable conditions of Pakistan & political instability. The cut down in the production of textile cause further unemployment level which decrease the living standard of peoples.

n. Effect of Inflation

Inflation rate is measured as the change in consumer price index (CPI). Inflation is basically a general rise in the price level. It is decline in the real value of money. Inflation can have adverse effect on economy. Pakistan is one of prey of inflation. It still faces high double digit inflation. The increase in inflation cause the increase in the cost of production of textile good which return in downsizing. The double digit inflation cause reduction in exports of textile [11].

o. Unemployment Caused by Textile

Unemployment occurs when a person is available to work and seeking work but currently without work. The unemployment rate in 2006 was 6.6 per cent which decreases 0.1 percent in 2007. The unemployment rate reaches to 7.5 per cent in 2008 due to global crisis. As the LSM decrease the production that's why the unemployment level rises very rapidly. The rise in unemployment level is 11 per cent in 2009. The unemployment rate in textile industry was very high during the current fiscal years because of recession & increasing cost of inputs & fluctuating situations of country. Year wise comparison of inflation and unemployment with the time can be seen in Fig. 3 and Table 1 [12].

Figure 3: Inflation and Unemployment VS Time

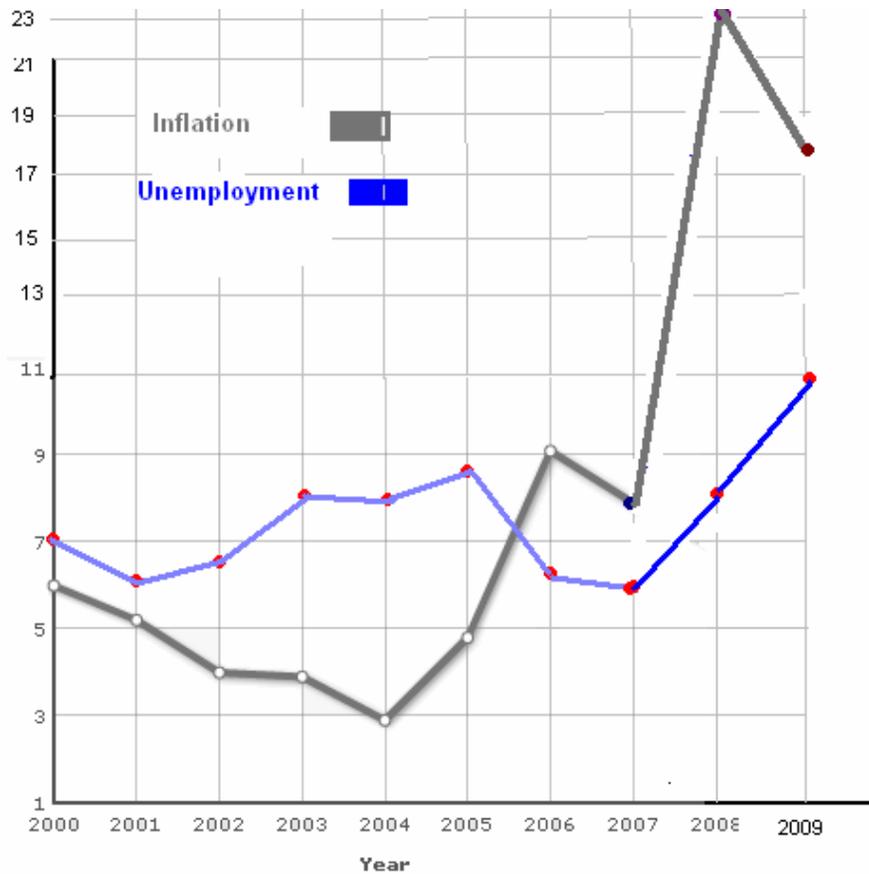


Table 1: Details of Inflation and Unemployment Rates

Year	Inflation rate (consumer prices)	Unemployment Rate %	Date of Information
2000	6%	7%	1999 est
2001	5.2%	6%	2000 est
2002	4%	6.8%	2001 est
2003	3.90 %	7.8%	2002 est.
2004	2.90 %	7.7%	2003 est.
2005	4.80 %	8.3%	FY03/04 est.
2006	9.10 %	6.6%	2005 est.
2007	7.90 %	6.5%	2006 est.
2008	23.0 %	7.5%	2007 est.
2009	17.2%	11%	2008 est

Recommendations

The government is considering curative measures on the recommendations of stakeholders to address the problems and issues faced by the textile industry of the country for enhancing its production and exports. The government is likely to announce textile policy also called National Textile Strategy in the mid of current month to help promote the textile sector of the country, sources told APP. For the purpose of this, the Textile Ministry has consulted all textile sector associations and the chambers of commerce and industry. The ministry received recommendations for zero rating on import of textile machinery, zero rating exports, tariff reduction, incessant energy supply to textile units. Issues relating to the market access and quality products with timely delivery and single digit mark up and special power tariff for the textile industry has also been recommended.

It has been suggested that textile policy might include the issue like duty free market access to European Union and United States as Pakistan is the largest importer of USA long staple cotton to the tune of \$400 million to \$500 million every year. In addition, the economic observers believe that the textile sector was passing through a difficult phase due to energy shortage in the country and needed curative measures for promotion [13].

Some other Specific Recommendations are given as under:

- Remedy though Foreign Direct Investment (FDI)
- Image Building of Pakistan to Attract Foreign Direct Investment (FDI)
- Focus on Value Addition
- Technology Up-gradation & Capacity Building
- Human Resources Development
- Reducing the cost of doing Business in Pakistan
- Need for Improving Textile Production
- Improvement in productivity
- Awareness of International Quality Standards
- Introducing concept of on-the- job-training
- Introducing efficient management techniques
- Subsidy removal should be taken a back
- Interest rate should be low down in order to survive this industry
- Electricity & gas tariff
- Removal of Energy Crisis
- Exploration of new Export Markets

Conclusions

Pakistan's textile industry is going through one of the toughest periods in decades. The global recession which has hit the global textile really hard is not the only cause for concern. Serious internal issues also effected Pakistan's textile industry very badly. The high cost of production resulting from an instant rise in the energy costs has been the primary cause of concern for the industry. Depreciation of Pakistani rupee during last year which has significantly raised the cost of imported inputs. Furthermore, double digit inflation and high cost of financing has seriously affected the growth in the textile industry. Pakistan's textile exports in turn have gone down during last three years as exporters cannot effectively market their produce since buyers are not visiting Pakistan due to adverse travel conditions and it is getting more and more difficult for the exporters to travel abroad. Pakistan's textile industry is lacking in research & development (R & D).The production capability is very low due to obsolete machinery & technology.

Pakistan is facing high cost of production due to several factors like the hike in electricity tariff, the increase in interest rate, energy crisis, devaluation of Pakistani rupee, increasing cost of inputs, political instability, removal of subsidy & internal dispute. The above all factor increase the cost of

production which decreases the exports. Exports receipts decrease from \$ 10.2 B to \$ 9.6 B. The global recession also hit badly the textile industry. Double digit inflation also caused decrease in production in textile sector which cause the increase in unemployment level.

By the removal of subsidy the industry's production get higher effected which prove as a last strike on industry's back. Govt should provide subsidy to the textile industry for the survival of this industry. Continuity of 1pc controversial withholding tax on import of essential raw material (cotton & polyester staple fibre) for industry should be withdrawn immediately. This withdrawal would enable the industry to procure some 3m cotton bales annually from outside world in order to meet the shortage and to compete with regional competitors in international market to earn foreign exchange for the country.

On imposition of 16% FED on banking and insurance services such advance taxes would play havoc with the growth of the industry in already existing adverse circumstances and needed to be withdrawn immediately. The government should not withdraw sales tax and withholding tax exemption on machinery and parts, as it would add cost besides liquidity problem for the industry.

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