

GROWTH TRENDS OF PAKISTAN TEXTILE INDUSTRY

**A BRIEF REPORT ON TEXTILE INDUSTRY TREND DURING
LAST 10 YEARS WITH REASONS & RECOMMENDATIONS**

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TEXTILE INDUSTRY OF PAKISTAN

A Brief Introduction

Pakistan's textile industry is a major contributor to the national economy in terms of exports and employment. Pakistan holds the distinction of being the world's 4th largest producer of cotton as well as the 3rd largest consumer in the world.

TEXTILE INDUSTRY'S ECONOMIC CONTRIBUTION	
Exports	60%
Manufacturing	46%
Employment	38%

Source: Economic Survey of Pakistan

Textile sector is considered as the backbone of the economy. On the other hand, it is facing tough competition in the international market due to increase in cost of production, which is making it less competitive than the neighboring countries India, Bangladesh & China.

According to Pakistan Textile Journal, Pakistan is among top 10 textile exporters of the world. Textile export of world over is about \$400 billion out of which China tops the list with present export of \$55 billion, followed by Hong Kong \$38 billion, Korea \$35 billion, Taiwan \$16 billion and Indonesia, India, Bangladesh and Pakistan \$11 billion each.

During FY 2010-2011 textile exports of Pakistan have continued to grow in the first nine months. According to the Federal Bureau of Statistics (FBS) and the Trade Development Authority of Pakistan TDAP, textile exports grew by 30.38% from July 2010 to March 2011. It showed a positive sign in the constant dwindling textile industry of Pakistan; however this increase can be attributed to the rise in the price of cotton and other inputs along with a significant increase in terms of quantity as well.

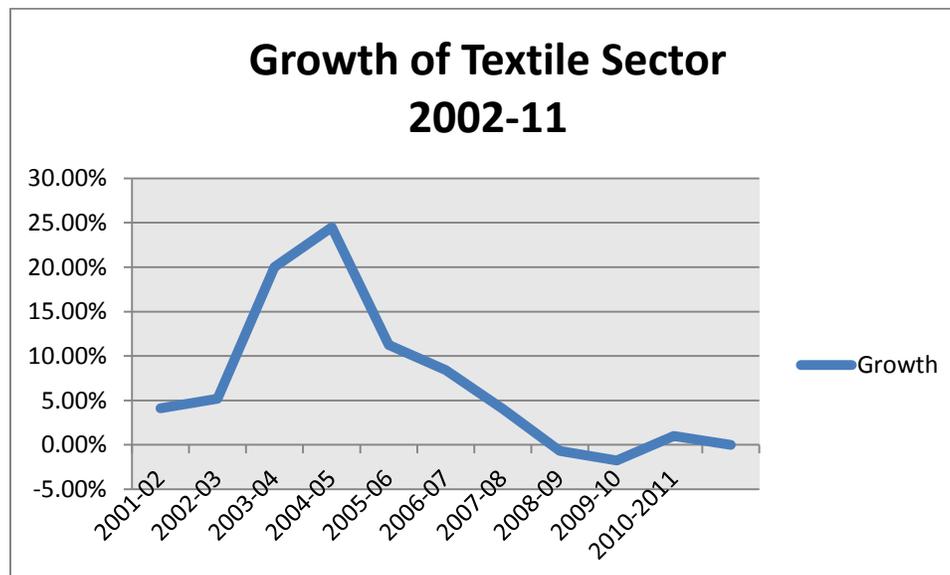
GROWTH TREND DURING LAST 10 YEARS

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 affected 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 has significantly raised the cost of imported inputs. Furthermore, double digit inflation and energy crises have affected the overall textile sector.

Growth trend of the textile industry during last 10 years is as follows;

Trend of Textile Industry during last 10 years	
YEARS	GROWTH
2001-02	4.10%
2002-03	5.20%
2003-04	20%
2004-05	24.50%
2005-06	11.23%
2006-07	8.40%
2007-08	4.05%
2008-09	-0.70%
2009-10	-1.78%
2010-2011	1%
<i>Source: Economic Survey of Pakistan</i>	
<i>State Bank of Pakistan</i>	



This table shows the growth trend of industrial sector during last 10 years. Since 2002 it was steadily growing and it increased abruptly in 2004 showing a jump from 5%-20% growth. This sudden sharp curve was due to higher input prices along with the record high exports to US making it seventh largest market for US cotton. During 2007, Pakistan economy went through worst political and economic instability due to

Benazir Bhutto's assassination followed by unstable law and order situations. Moving ahead in 2008 the textile sector showed record negative growth due to financial crunch in global economy resulting in slow down in economy growth chased by soaring oil, food and other commodity prices, softening of external demand and turmoil in the international financial market. The economy is also going through the most terrible energy crisis affecting the performance of the textile industry.

REASONS FOR DECLINE IN GROWTH

Main reasons of crisis in textile industry in Pakistan are as follows:

1. Lack of Research & development (R&D):-

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.

2. Lack of modernize equipment:-

The textile industry has obsolete equipment and machinery except few major producers. 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.

3. 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 increasing interest rate caused barrier in opening new manufacturing units & also increase the production cost of existing units. The value of Pakistani rupee is continuously decreasing which increased the cost of imported raw material. The removal of subsidy & implementation of new taxes from government also increase the cost of production. The instant increase in cost of electricity also caused an increase in production. The above all reason increased the cost of production of textile industry which create problem for a textile industry to compete in international market.

4-Energy crisis:

As a consequence of load shedding the textile production capacity of various sub-sectors has been reduced. The representatives of the all textile associations presented their serious concerns on the huge losses being incurred due to electricity & gas load

shedding and the instant rise in the Electricity tariff. They said that the industry has already been crippled due to record high load shedding.

5- 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, 16% Federal Excise Duty on banking and insurance services besides withdrawal of exemption of 16% sales tax and 4% withholding tax on machinery and parts in the Finance Bill 2009-10 are badly affecting already crippled industry.

6- 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.

7- United States & EU cuts imports of textile from Pakistan:-

US & EU are the major importer of Pakistan textile which creates a huge difference in export of Pakistan textile after imposing a restriction on import of Pakistani textile goods.

8- 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 affects the cost of production badly. Due to increase in the cost of production the demand for export & home as well decreased which result in terms of downsizing of a firms resulting in unemployment.

9- Export Performance of the Textile Sector:-

Due to high cost of production, power shortage and stiff competition with regional players, the export performance of Pakistan textile sector is suffering badly.

10-Effect of Inflation

The increase in inflation causes the increase in the cost of production of textile good which return in downsizing. The double digit inflation is also affecting exports of textiles.

11-Supply chain management:

Another problem contributing in the poor performance of our textile sector is the absence of efficient supply chain management and centralized framework. Many economic and political factors limit the ability of the exporters to meet their commitment timely and may also result in losing business in future.

RECOMMENDATIONS

Recommendations for the growth of the textile sector are as follows;

Revision of Government policies is required

There are non-conducive government policies in term of bank loans and interest rates. It is the need of the hour to develop a coherent plan by the government that allows some sort of exemption/concession to the textile sector. For example as in India; the Export-Import Bank was set up for the purpose of financing and facilitating the industries, especially textile. The government may give subsidies to share the burden of the industry.

Reducing the cost of doing Business in Pakistan

At present cost of doing business in Pakistan is higher as compared to the regional countries, which has resulted in bitter competitiveness to Pakistani Products in Foreign Markets. China and India are the bigger competitors of Pakistan. We fear if cost of doing business in Pakistan is not brought at par with other Asian countries, our products would find no place in Market both in terms of quality and price. In the context of future trade, there is an urgent need to bring all the utility charges and levy of taxes down to the minimum level.

Focus on Value Addition

Pakistan is a leading exporting nation in raw yarn, cotton, and fabrics. If we emphasis on the value added products like garments, Hosiery, knitwear and other textile made-ups, the export volume of textiles can be increased by manifolds. In this respect top priority should be given to stitching industry that leads to highest value addition and employment generation.

Technology interventions

Sophisticated technology should be introduced to compete with the other countries (India, Bangladesh & China) in the global market in term of cost and quality.

Human Resources Development

The Textile Board should establish a separate training wing as a Center of Human Resource Development where training courses should be conducted for the capacity building of labour. There is also urgent need to increase the number of such Vocational Institutions where modern technical education is provided.

Proper Energy Supply

According to sources, it is estimated that in recent past around 800 units have closed in Punjab during electricity and gas load shedding while approx. 500,000 workers lost their jobs. In order to save the industry there must be a preferential treatment with the industry in uninterrupted energy supply.

Investment in Textile Sector

The investment volume is not satisfactory in the textile sector as compared to the potential available. Government 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.