



# Performance of Pakistan as textiles and clothing exporter from Asia

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Pakistan achieved a record cotton production of 12.822 million bales (170 KG/ bale) in 1991-92. Subsequently, cotton production continuously declined from 1992-93 to 1998-99 due to attacks of cotton leaf curl virus (CLCV).

The production recorded in 1998-99 was only 8.79 million bales.<sup>(1)</sup> Decline in cotton production as compared to 1991-92 was about 31.50%. Consequently, cotton prices escalated from Rs 1000/- per maund to Rs 3000 i.e., by 200% approximately resulting in substantial increase in the cost of yarn production. Other contributory factors were high mark-up rates, electricity charges, fuel prices, etc. The escalation in the cost of yarn production coincided with slump and recession in the international export market which prevented rise in sale prices of yarn proportionately. The international slump and recession persisted until 1999. During the above mentioned period spinning operations were unviable. The spinning mills incurred heavy losses. The spinning sector of the textile industry of Pakistan became sick and ailing with closed capacity of about 2 million out of installed capacity of 8.36 million spindles and 100,000 out of 166,000 rotors!

Fortunately, cotton season of 1999 – 2000 brought much needed and long awaited relief for the ailing spinning sector. Cotton production recovered from the lowest level of 8.79 million bales to 11.24 million bales i.e., increasing about 27.90%. The recovery in cotton production in Pakistan coincided with bumper crops in China, U.S.A, India and Uzbekistan.

Apprehending crash in cotton prices China off-loaded its end-season stocks aggressively in the international market. Thus, cotton prices declined significantly.

In Pakistan the prices declined to about Rs 1500/- per maund from Rs 3,000/- maund prevailing in 1998-99. The yarn prices remained stable at the level of 1998-1999. The cotton season of 1999-2000 was in fact a blessing from the heavens! The spinning mills earned fabulous profits and succeeded in wiping out their losses accumulated during the previous years from 1992-93 to 1998-1999.

### 1. BMR Programs

By this time the textile industry became fully aware of the forthcoming challenges to textile and clothing exports on account of quota phase out and the commencement of global free trade regime (WTO) with effect from 1st January, 2005. Almost all sectors of the textile industry were burdened with old and obsolete machinery. Preparation and implementation of balancing, modernization and replacement (BMR) as well as expansion programs was started by big textile groups and individual companies on priority basis in order to modernize production facilities.

### 2. Textile Vision – 2005

With the object of accelerating BMR activity in the textile industry the Government of Pakistan (GoP) announced Textile Vision – 2005 policy in 2000. The main aim of this policy was to transform the textile industry into an open, market driven, innovative and dynamic textile sector which would be internationally integrated, globally competitive and fully equipped to exploit the opportunities created by MFA phase out.

It was anticipated that as a result of implementation of this policy Pakistan would be among the top five textile exporting countries in Asia.

Under this policy a total investment of Rs 333 billion was envisaged during the period 2000 to 2005. Out of this amount Rs 200 billion were earmarked for BMR programs and the remaining Rs 133-billion were meant for expansion of the industry.

### 3. Progress of investment on BMR and expansion

According to Textile Commissioner's Organization (TCO) approximately \$ 4 billion have been invested by the textile industry on BMR programs and expansion until the end of 2003. The relevant data is tabulated as table no 1 given as under:

From the data tabulated above it is obvious that investment on BMR and expansion has been the highest in the Spinning Sector and lowest in the Garment Sector. The investment in other sectors ranges from about 36% to 93% on an average. However, these investments in various sectors of the textile industry continue unabated except the ginning and the power loom (non-mill) sector. These sectors remain the weak links of the textile value Chain.

Most of the ginning factories are equipped with old, obsolete machines and their setup does not include cotton drying, cleaning and lint cleaning machines. Cotton bales produced by most of the ginning factories in Pakistan contain high percentage of non-lint content (more than 7%) and high level of foreign contaminations including PP fires, i.e., about 20 grams per bale of 170 KG.<sup>(2)</sup>

Spinning Mills have to adopt special measures to prepare homogeneous cotton mixing and for removal of PP fibre and other contaminations which escalate the production cost.

**Table 1: Investment on BMR and Expansion (Rs in Billion)**

S. No	Sector	Investment	Allocation	Percent utilization
i	Spinning	109.86	87	126.28
ii	Weaving (Airjet and water jet looms)	43.32	80	54.15
iii	Knitting	10.38	29	35.79
iv	Wet Processing and Finishing	43.44	69	62.96
v	Garment (stitching and sewing machines)	6.00	39	15.39
vi	Synthetic / Polyester fiber	27	29	93.10
	<b>Total</b>	<b>240</b>	<b>333</b>	<b>---</b>

Source: Textile Commissioner's Organization (TCO)



Similarly Power Loom Sector is a weak link on the downstream side of the textile Chain with an installed capacity of 250,000 shuttle looms and working capacity of 210,000 looms. This sector produces about 88% of the total grey cloth production and is responsible for giving Pakistan the adverse label as producer and supplier of cheap, low quality cloth in the international export market. <sup>(3,4)</sup>

#### Exports of Textile and Clothing from Pakistan (Million US \$)

Year	2003-04	2004-05	2005-06	2006-07	2007-08
Exports of textile & Clothing	8,058.8	8,566	9,810.10	10,379.90	10,143.5
Percent Increase (Decrease)	--	6.29	14.52	5.81	(2.28)

Source: Federal Bureau of Statistics, Government of Pakistan.

#### 4. Performance as textiles and clothing exporter

As a result of investment on BMR and expansion programs the capability of the textile industry to manufacture products of the required quality at competitive prices improved significantly. Form 10<sup>th</sup> position as exporter of textile and clothing in 1995 Pakistan moved upto 9<sup>th</sup> in 2000, 7<sup>th</sup> in 2005 and 6<sup>th</sup> in 2007 as shown in Annexure-1.

The major competitors of Pakistan also achieved substantial progress. For example, China and Hong Kong maintained 1<sup>st</sup> and 2<sup>nd</sup> position respectively during 1995 to 2007. Turkey moved up from 5<sup>th</sup> position in 1995 to 3<sup>rd</sup> position in 2007. India moved upto 4<sup>th</sup> position and Republic of Korea to 5<sup>th</sup> position in 2007. Similarly Bangladesh made progress from 14<sup>th</sup> position in 1995 to 8<sup>th</sup> position in 2007.

However, Pakistan has not so far achieved 5<sup>th</sup> top position among the textile and clothing exporters in Asia as anticipated in Textiles Vision – 2005 policy. The prospects of Pakistan becoming the 5<sup>th</sup> top exporter are not bright because exports of textiles and clothing have started declining! The relevant data is reported as under:-

It is obvious from the data tabulated above that export of textile and clothing increased steadily from 2003-04 to 2006-07, but declined by 2.28% in 2007-08. These export dropped to \$ 6.5 billion between July – February 2008-09 from \$ 6.9 billion in the same period of the previous year, i.e., by about 5.8%. The decline in exports is likely to intensify further in the years ahead.

#### 5. Causes of decline

The main factor responsible for the decline in exports of textiles and clothing from Pakistan is the high cost of doing business. The rate of interest on bank loans is from 19% to 20%, gas and electricity tariffs have been increased and load-shedding has become frequent and prolonged. The freight costs have increased. The importers of textile and clothing products in U.S.A and E.U. demand a drastic price cut on textile products because of prevailing global recession and economic down turn:

It is reported that more than 200 textile mills are struggling hard to survive! <sup>(5)</sup>

The budget 2009-10 contains no proposals for incentives, reliefs and subsidies to be given to the textile industry <sup>(6)</sup>. Furthermore, the withholding tax has been increased from 2% to 3% on all imports of commercial nature.

The R&D facility which was available to textile exporters has also been withdrawn from the financial year 2008-2009. Thus, exports of textile and clothing from Pakistan have become uncompetitive in the international export market as compared to similar products from Asian competitors. For example, the governments of India, China, Bangladesh, Indonesia, Thailand and even Vietnam are providing subsidies, incentives and reliefs to their respective textile industries to maintain their stake in the world textile export market. <sup>(5)</sup>

It is therefore extremely important that the Government of Pakistan finalizes and offers a Relief Package to revive the crisis-ridden textile industry of Pakistan so that it can not only maintain its position in the international export market but also achieve the 5<sup>th</sup> top position as exporter in Asia!

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Statistics of textile and clothing exports pertaining to Asian countries are reported in this table for the period 1995 to 2007. These statistics show that Pakistan was at 10<sup>th</sup> position during 1995. Unsatisfactory performance of Pakistan in exports of textiles and clothing was mainly due to the crisis prevailing in the textile industry in the mid-nineties.

Textile and Clothing Exports of Asian Countries												Value: US \$ Million					
S. No	Country	Exports in 1995			Exports in 2000			Exports in 2005			Exports in 2007			Rank in Exports			
		Textile	Clothing	Total	Textile	Clothing	Total	Textile	Clothing	Total	Textile	Clothing	Total	1995	2000	2005	2007
1	China d	13,918	24,049	37,967	16,135	36,071	52,206	41,050	74,163	115,213	55,968	115,238	171,206	1	1	1	1
2	Hong Kong	13,815	21,297	35,112	13,441	24,214	37,655	13,830	27,292	41,122	13,417	28,765	42,182	2	2	2	2
3	Turkey b	2,527	6,119	8,646	3,672	6,533	10,205	7,076	11,833	18,909	8,731	14,001	22,732	5	6	3	3
4	Republic of Korea	12,313	4,957	17,270	12,710	5,027	17,737	10,391	2,581	12,972	10,373	1,914	12,287	3	3	5	5
5	India	4,358	4,110	8,468	5,570	5,960	11,530	8,285	8,595	16,880	9,446	9,655	19,101	6	5	4	4
6	Taipei	11,882	3,251	15,133	11,891	3,015	14,906	9,706	1,561	11,267	9,720	1,254	10,974	4	4	6	7
7	Pakistan	4,256	1,611	5,867	4,532	2,144	6,676	7,087	3,604	10,691	7,371	3,806	11,177	10	9	7	6
8	Indonesia	2,713	3,376	6,089	3,505	4,734	8,239	3,353	4,959	8,312	3,829	5,870	9,699	9	7	8	9
9	Japan	7,178	-----	7,178	7,023	534	7,557	6,905	495	7,400	7,108	523	7,631	7	8	10	10
10	Thailand	1,937	5,008	6,945	1,958	3,759	5,717	2,764	4,085	6,849	3,114	4,073	7,187	8	10	11	11
11	Bangladesh b,c	432	1,969	2,401	393	5,067	5,460	504	7,510	8,014	718	10,060	10,778	14	11	9	8
12	Malaysia d	1,129	2,266	3,395	1,270	2,257	3,527	1,356	2,479	3,835	1,470	3,159	4,629	11	12	12	12
13	Philippines cd	280	2,420	2,700	297	2,536	2,833	269	2,287	2,556	222	2,283	2,505	13	14	15	15
14	Sri Lanka c,d	164	1,758	1,922	244	2,812	3,056	136	2,874	3,010	176	3,283	3,459	15	13	13	13
15	Singapore	1,496	1,464	2,960	907	1,825	2,732	916	1,696	2,612	969	1,779	2,748	12	15	14	14

Source : Textile Asia, September - October 2008 and October, 2004  
b) Figures refer to fiscal year  
c) Estimates  
d) Includes significant exports from Processing Zones.