

Pakistan: The third largest spinner country in Asia

by Dr. Noor Ahmed Memon

Pakistan textile sector is by far the most important sector of the economy contributing 53.7% to export earnings and engaging 38% of labour force. At present it comprises of 521 textile units (50 composite units and 471 spinning units) with installed capacity of 11.83 million spindles and 198 000 rotors. Pakistan has the third largest spinning capacity of 7.6% in Asia after China and India and 5% of the global spinning capacity. The entire value chain represents production of cotton, ginning, spinning, weaving, dyeing, printing and finally garments manufacturing. Pakistan has emerged as one of the major cotton textile product suppliers in the world with a market share of about 28% in world yarn trade and 8% in cotton cloth. The value addition in the textile sector accounts for over 9% of GDP and its weightage in the quantum index of large-scale manufacturing is 20%.

Spinning is the first process in the cotton value chain that adds value to cotton by converting it into a new product i.e. from ginned cotton into cotton yarn. Since spinning is in the beginning of value chain, all the later value added processes of weaving, knitting, processing, garments and made-ups are dependent upon this process. The effect of a sub-standard yarn production by spinning can go right across the entire value chain.

Pakistan's spinning sector caters not only to the requirements of domestic industry, but about one third of the total production of

yarn is also exported. At the time of independence of Pakistan in 1947, while many other industries were non-existent spinning sector did exist. This long history has resulted in making spinning as one of the most developed sub-sectors of Pakistan's textile sector.

Pakistani spinning industry showed a high rate of growth till 1996 when the total number of installed spindles reached 8.4 million. After this period, there were successive cotton crop failures in the country that resulted in an over-capacity in the industry. Many units were closed and total number of spindles in 1999 decreased to 8.3 million. This situation resulted in inhibiting the flow of investment in this sector. This decrease was not limited to new investment only but also for BMR investment. The major portion of the spinning industry requires investment for BMR. Government provided credit facilities through financial institutions/ banks and provided relief for BMR to spinning industry at easy terms.

At present, out of 11.83 million spindles and 198 thousand rotors, nearly 9.97 million spindles and rotors are in operation. The capacity utilization has stagnated at 84% in spindles and 59% in rotors during 2008-09. Growth of spinning industry is given in Table-1.

From 2000 through to 2009 with the combined efforts of private and public sector, the textile industry made a rapid development and became the catalyst for industrial growth. Total investment in textile industry during the 1999-2009 is now being estimated to \$7.5 billion that has led to improvement in productivity, both in terms of quality and quantity, in yarn, fabrics, home textiles and garments.

In the last five years, the textile operators imported more than \$2.90 billion worth of machinery. The spinning sector has obviously received the highest attention and resources followed by weaving and then various sub-sectors of value added segments. Besides revival of spindles, about 3.21 million spindles have also been added to the capacity during the last ten years. This has resulted in increased demand for raw cotton and polyester staple fibers. However, the weaving capacity did not increase in the same proportion and excess production of yarn could not be absorbed by local consumption.

Import of textile spinning machines decreased from 5,983 numbers worth Rs 9.38 billion in 2004-05 to only 400 numbers worth Rs 1.14 billion in 2008-09, thus showing a decline of 801% in terms of value.

On other hand import of spinning parts increased from Rs 515 million in 2005-06 to Rs 659 million in 2008-09, thus showing an average increase of 7% per annum. Import of textile spinning parts are given in Table-2.

Yarn is the primary product of the textile industry. The production and export of the value-added goods in textile sector depend upon the supply of yarn. One of the interesting aspects of textile sector is that the primary products are the output of the capital-incentive industry, while value-added goods might be produced in small-scale sector and even in the cottage industry.

Pakistani government has been putting greater emphasis on the export of value-added products and increased domestic consumption of locally made textile products. From a producer of low quality and grey cloth, the textile sector has gradually ventured into the production of fairly high quality counts, hosiery, garments and other value-added items.

Table 1: Growth of textile spinning sector

Year	No. of Mills	Installed Capacity	Working Capacity	Spindle Hours Worked (Million)
		No. of Spindles (000)	No. of Spindles (000)	
1990-91	247	5,493	4,754	39,542
1991-92	271	6,141	5,260	43,606
1992-93	284	6,768	5,433	46,364
1993-94	320	8,182	5,886	47,221
1994-95	334	8,307	5,991	49,734
1995-96	349	8,493	6,356	52,239
1996-97	357	8,137	6,465	53,625
1997-98	353	8,274	6,556	55,005
1998-99	348	8,298	6,494	55,802
1999-00	351	8,383	6,750	57,205
2000-01	353	8,594	7,105	59,219
2001-02	354	8,967	7,078	61,267
2002-03	363	9,216	7,623	64,274
2003-04	363	9,592	8,009	70,214
2004-05	423	10,906	8,817	72,255
2005-06	516	11,292	9,754	74,884
2006-07	521	11,266	10,057	76,892
2007-08	521	11,834	9,960	76,000
2008-09	521	11,834	9,968	56,300

Source:

- i) Federal Bureau of Statistics, Government of Pakistan.
- ii) Textile Commissioner's Organization Government of Pakistan.

The production of yarn significantly increased from 1,541 million Kg in 1997-98 to 2,913 million kg in 2008-2009, thus showing an average increase of 9% per annum. The share of blended yarn decreased from 25% in 1997-98 to 23% in 2008-2009. Production of yarn is given in Table-3.

Pakistan's cotton is regarded as the best among varieties of cottons of similar staples grown elsewhere in the world. Pakistan's textile industry enjoys several advantages over those of many other countries as far as the production of quality fabrics and yarn is concerned and is a world leader in the export of cotton yarn, including coarse, medium and fine varieties. Pakistan's leading buyers are Hong Kong, South Korea, China, USA, Bangladesh, Japan, Turkey, and Portugal. Export of yarn decreased from 665 million kg worth US\$1.43 billion in 2006-2007 to 524 million kg worth US\$1.11 billion in 2008-2009.

Average unit price realization of Pakistani cotton yarn in the international markets is very low compared to that of its competitors. Average unit price of cotton yarn decreased from \$2.34/kg in 2007-2008 to \$ 2.11/kg in 2008-2009.

The primary reason for that is that cotton from ginning is contaminated with non-lint components. This results in production of contaminated yarn that sells for a lower price. Second reason for low unit value realization is the product mix of Pakistani cotton yarn. More than 70% of the total yarn production is that of coarse and medium count yarns. In yarn exports, this percentage is about 99%. Coarse and medium count yarns fetch a lower price compared to fine and super fine counts that ultimately manifests in low unit value realization. Moreover, the share of other high value added yarns like dyed yarns is also very small in total exports. Export of cotton yarn is given in Table-4.

During July-December of current fiscal year, the country has exported cotton yarn worth \$728.4 million as compared to \$579.7 million during the same period of 2008-09, depicting an increase of \$148.7 million during the first six months of the current fiscal year 2009-10.

There is an acute shortage of cotton yarn globally and spinners have booked \$300 million fresh orders for export of the commodity. The global surge in the demand of cotton yarn has left adverse affect on the value-added textile sector in the shape of high priced cotton yarn and in some cases even its non-availability.

Cotton yarn is the basic ingredient of the value-added sector, however high prices have made value-added textile products uncompetitive in the international market and furthermore shortage has been making difficult for them to meet the export orders. The Federal Board of Revenue (FBR) notified the concession of duty free import of cotton yarn to ensure yarn availability for the textile chain of the country. The yarn imported would not be

allowed for retail sale and imports would be limited to textile units using it as raw material.

The value added textile exporters are finding it difficult to meet their commitments with their foreign buyers owing to high prices of cotton yarn and fear that there will be a spate of cancellation of valuable orders, losing foreign markets leading to large number of closures of the units resulting in mass unemployment.

The government has imposed quota of 50,000 tonnes per month on export of cotton yarn, but no

relief or advantage has been given to the exporters of cotton yarn. The government is providing 1% duty drawback facility on exports of dyed fabrics, 2% on export of home textile and 3% on garments & hosiery, besides mark-up loan rate facility @ 7.5% in the shape of export refinance.

Yarn exports from Pakistan will continue to increase until the value added sector rises to challenge other Asian cloth exporters, as China is moving away from yarn production because of high cost. Textile experts point out that surge in yarn exports this year is not a temporary phenomenon but it is just the start and more yarn will be shipped in coming years.

China, the largest yarn producer and consumer, will opt out of yarn production due to increase in cost. Historically, countries looked for cheaper source of cotton yarn once their per capita income crossed \$2,000 because labour cost hampers production of low value added products at competitive rates.

Per capita income of China has already crossed \$3,000. China with over 100 million spindles produces more than double the yarn produced by India, the second largest producer of yarn with around 45,000 spindles.

Installed spindles in Pakistan are 12 million, of which 10 million are working. China this year stopped production of 12 million spindles which is equivalent to the total installed capacity of Pakistan.

Another factor reducing yarn production in China is the decision of the government to give preference to food production over cotton. So it is converting cotton-sown areas and has become the largest importer of cotton in the world which has further increased the cost of yarn.

Table 3: Production of yarn (Million Kg)

Year	Cotton yarn	Blended yarn	Total
1997-98	1,151	390	1,541
1998-99	1,154	394	1,548
1999-00	1,276	402	1,678
2000-01	1,336	393	1,729
2001-02	1,385	433	1,818
2002-03	1,469	456	1,925
2003-04	1,473	466	1,939
2004-05	1,770	511	2,281
2005-06	2,006	550	2,556
2006-07	2,039	689	2,728
2007-08	2,156	653	2,809
2008-09	2,238	675	2,913

Source: Textile Commissioner's Organization, Government of Pakistan.

Table 2: Import of textile spinning parts

Year	Spindle Flyer Ring Travellers		Spindle Textile Machines		Spinning Rings		Total	
	Qty	Value	Qty	Value	Qty	Value	Qty	Value
	2005-06	148	122,873	516	270,755	214	120,978	878
2006-07	182	182,811	432	258,343	307	156,544	921	579,698
2007-08	131	304,62	159	189,722	138	66,047	428	560,395
2008-09	226	314,514	357	284,522	181	60,337	764	659,373

Source: Federal Bureau of Statistics, Government of Pakistan.

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Table 4: Export of cotton yarn

Year	Quantity	Value	Unit Value
	(000 Kg)	(000 US \$)	(\$/ Kg)
1978-79	97,929	197,586	2.02
1979-80	99,834	205,860	2.06
1980-81	95,232	207,043	2.17
1981-82	95,621	196,672	2.06
1982-83	134,100	247,317	1.84
1983-84	101,805	217,627	2.14
1984-85	125,856	260,421	2.07
1985-86	157,895	279,176	1.77
1986-87	259,668	506,089	1.95
1987-88	210,950	541,024	2.56
1988-89	291,953	600,847	2.06
1989-90	374,976	833,711	2.22
1990-91	501,072	1,183,040	2.36
1991-92	505,863	1,172,526	2.32
1992-93	555,294	1,121,510	2.02
1993-94	578,648	1,259,285	2.18
1994-95	522,091	1,528,149	2.93
1995-96	535,889	1,540,259	2.87
1996-97	508,188	1,411,519	2.78
1997-98	461,919	1,159,542	2.51
1998-99	421,481	945,169	2.24
1999-00	512,971	1,071,616	2.09
2000-01	545,134	1,076,063	1.97
2001-02	544,217	942,359	1.73
2002-03	519,329	928,358	1.79
2003-04	499,071	1,126,878	2.26
2004-05	504,722	1,056,535	2.09
2005-06	671,697	1,382,874	2.06
2006-07	665,525	1,428,041	2.15
2007-08	554,817	1,300,968	2.34
2008-09	523,790	1,114,821	2.11

Source: Trade Development Authority of Pakistan.

Pakistan's clothing sector this year was forced to pay international price for cotton yarn after a surge in its exports. As a result, the government slapped quota on yarn exports in January, 2010. All Pakistan Textile Mills Association Chairman Ejaz Gohar said that with cotton rates above Rs. 5,000 for 37.5 kg and bank mark-up in the range of 16%-18%, it was not feasible for the spinners to sell yarn at last year's prices when cotton was 60% cheaper.

The spinning sector is facing prosperous times right now due to high global demand. However, the domestic market of yarn which that accounts for 75% of the total yarn production remains most important as the capacity utilization of spinning mills depends upon the down stream value added textile sectors. ♦