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WEAVING ADVANTAGE IN TEXTILE SECTOR

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Suite No. 714, Level 7, Silver Oaks Apartments, F-10 Markaz Islamabad

research@primeinstitute.org | www.primeinstitute.org

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Introduction

The global clothing and textile industry is large, diverse and fragmented. It offers products ranging from those that are very basic in nature (like ginned cotton) to complex, value-added products (designed by brands like Nike). It employs an estimated 75 million people, has a market worth that is estimated to be more than $2 trillion, and exports related to this category were to the tune of $786 billion in 2014[1]. Barring any major shock, the market is estimated to grow by an average of 7% and above in the coming years. The largest share in this market is of women's wear ($621 billion), men's wear ($402 billion) and children's wear ($186 billion) respectively[2]. A snapshot of the total textile imports and exports by top 10 countries is presented in table 1.

Table 1: Top Global Textile Importers and Exporters, 2013[3]

Country	Imports ($ bill)[4]	Country	Exports ($ bill)
EU	78	China	284
USA	28	EU	190
China	22	India	36
Vietnam	11	Turkey	28
Hong Kong	10	Bangladesh	25
Japan	9	Vietnam	22
Turkey	7	USA	20
Bangladesh	6	Korea	14
Mexico	6	Pakistan	14
Indonesia	6	Indonesia	12

Source: World Trade Statistics, WTO and Statista.

China has the largest share of this market with 35 percent, followed by EU (26 percent) and India (6.2 percent). Pakistan's share hovers around 2 percent. In short, looked from a global perspective, this is a thriving industry. This can be gauged by looking at its growth since 1990, and future projections. In 1990, textile exports were an estimated $104 billion. In 2005, the number rose to $479 billion, and it is all set to cross $1000 billion soon. This will represent a phenomenal growth of more than 860% in two and a half decades. The following table presents the fastest growing textile producers in the world.

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[1] Stats taken from World Trade Organization (WTO), '*Merchandise Trade*'. Marketline, a research firm, estimates that by 2016, the total valuation of Textile, Apparel and Luxury Goods market will reach $3.7 trillion.
[2] Figures are for 2014.
[3] https://www.wto.org/english/res_e/statis_e/its2014_e/its14_highlights2_e.pdf. The numbers have been rounded off.
[4] https://www.wto.org/english/res_e/statis_e/its2014_e/its14_merch_trade_product_e.htm

Table 2: Fastest Growing Apparel Producing Countries (data for year ending October 2013)

Country	Rank	Percent Growth
Kenya	22	22.76
Sri Lanka	12	21.40
Haiti	16	19.85
Vietnam	2	13.94
Lesotho	23	13.46
Bangladesh	3	13.43
Malaysia	21	11.25

Source: United States Fashion Industry Association

In Pakistan, the fortunes of the textile industry as a whole represent a contrasting picture compared to the healthy global scenario. The traditional part of this sector, represented by such activities as ginning, weaving, low end designs, etc, is experiencing tough times. On the other hand, the part of this industry associated with high end fashion seems to be thriving. In fact, Junaid Jamshed, a successful brand in apparel, recently sold out its product completely in September and had to ask buyers to first confirm availability of orders through internet before going to its outlets. Khaadi, another brand, started with a single store around the year 2000. At present, it has over 40 stores across Pakistan, and plans to open 40 more in the next two years. This is despite the fact that this kind of apparel has hardly two percent of the Pakistani market's share, and probably a percent of total expenditure on clothes[5].

What explains the global success of the industry on one hand, and the dismal state of the industry within Pakistan? This research report aims to find probable answers to these questions.

PRIME Institute wishes to thank Mr Kanwar Usman (Director R&D Cell, Ministry of Textile), Mr. Zaheen Uddin (COO, Saif Textiles Mills) and Mr. Khalid Mehmood Rasool (Textile Industry Expert) for their valuable insights that helped in compiling the report.

[5] Statement by Shamoon Abbasi, CEO Khaadi.

Profile of Pakistan's T&C industry

Overview:

The fibre usage pattern in the world is continuously shifting from cotton to manmade fibre and the ratio has reversed from 70-30 to 30-70 within ten years. This ratio was 80-20 in favour of cotton three decades earlier.[6] With such a drastic change in the demand pattern in the world, Pakistan has responded with a snail's pace. In fact the local production of manmade fibre is less than what we had a decade ago which means that Pakistan is already out of the 70% of the worlds market[7]

According to the economic survey of Pakistan 2013-14 the Pakistan textile industry contributes more than 52% to the country total exports, which amounted to $13.78 billion. Cotton is Pakistan's principal industrial crop, and a large portion of rural households are critically dependent upon it for their income.

Cotton based textile accounts for 46% of the total manufacturing and provides employment to 38% labor force in the manufacturing sector. However, the proportion of skilled labor is less compared to unskilled labor. It is the 4th largest producer of cotton yarn and cloth in the world. Cotton is Pakistan's basic cash crop. It ranks 2nd in export of yarn and 3rd in export of cloth and is 4th largest producer and consumer of raw cotton.[8]

The use of man-made fiber in the country is woefully low as compared to regional competitors and international market trend and therefore, needs significant increase. Promotion of MMF industry is key objective of the present Textiles Policy.

Textiles Policy 2014-19

[6] Textiles Policy 2014-19

[7] Of the estimated 16 billion bales of cotton produced in 2014, only four billion were used for value-added products, which fetched $8 billion in exports. Rest goes to low value added stuff. Source: Alauddin Masood, '*Textile Trove*', the NEWS, 13th April 2014. Other sources, however, put the total production at around 15 million bales. For example, see http://www.dawn.com/news/1173796.

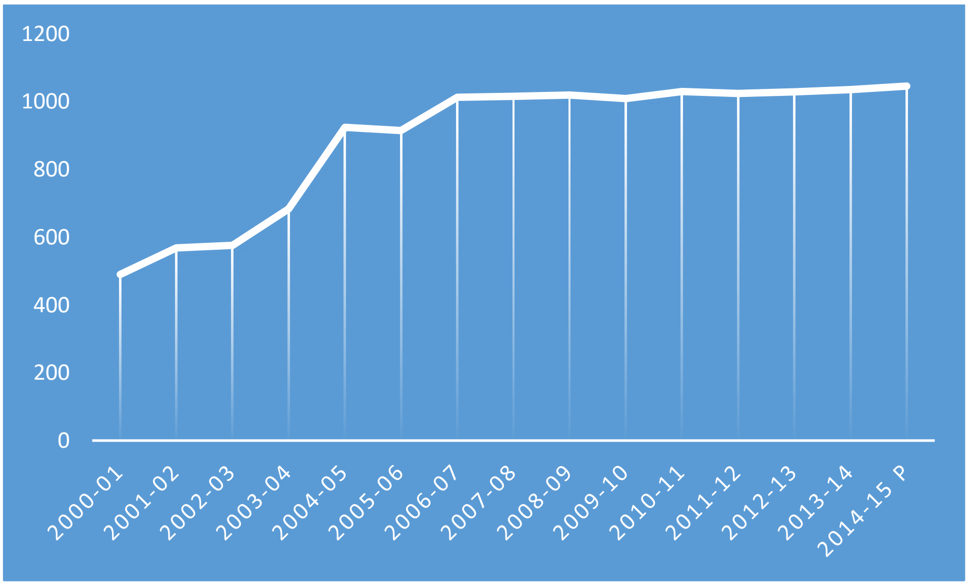
[8] http://www.brecorder.com/pakistan/industries-a-sectors/49051-textile-industry-to-get-incentives-.html

A snapshot of this sector's contribution and importance for Pakistan's economy is presented in the following table and graph.

Table 3: T & C sector's contribution for Pakistan's economy

	FY14-15
Share in GDP	9.90%
Total Exports	$13.48[9] Billion
Textile Loans	PKR 543 Billion
Share in total banking loans	20%
Textile NPLs[10]	PKR 179 Billion
Share in total NPLs	29%
Cotton Production	13.38 Million Bales
No. of listed Companies	156
Total No of Mills	442

Figure 1: Total Production of Cloth (Mln. Sq. Mtr.)



A worrying trend in the form of almost constant cloth production can be discerned from the graph that pretty much sums up the present state of the textile industry in Pakistan. A short history of the textile industry is presented below:

[9] http://www.pakinvestorsguide.com/index.php?topic=404.1470;wap2
[10] http://tribune.com.pk/story/964634/june-end-non-performing-loans-amount-to-rs630b-up-5-8/

Figure 2: Historical Time Line of Textile Industry of Pakistan

HISTORICAL TIME LINE OF TEXTILE INDUSTRY OF PAKISTAN

1950s	1960s	1970s	1980s	1990s	1999-2008	2009	2010	2011	2012
1.Pakistan industrialization began in 1950s with textile industry at its center. 2.PIDC came into being with the main objective of industrialization of major fields of the country. 3.The modern development of the sector started in 1953 with the inauguration of Valika Textile Mill. at Krachi.	1.By mid-sixities there were about 180 units of textile bleaching, printing and processing units, mostly in Karachi & Punjab. 2.New private investment began with the highly protected home market. 3.Newly established mills were based on imported technology but there was a lack of technical staff & shortages of capital.	1. By 1970-71 there were 113 textile units, 2605 spindles and 30000 looms. 2. After separation of East Pakistan, Cotton Export Corporation of Pakistan was established which meant that most of the private sector work was taken over by the state. 3. The textile industry suffered heavy losses because the export of cotton was controlled by CEC.	1. The 80s brought a relief to the textile industry due to the boom in international market and industry friendly policies of the government. 2. There was a rapid growth in spinning sector. 3. Till 1980-81 spinning continued to expand.	1. The number of units rose to 440 in 1996-97. 2. World demand for good quality and wide width fabrics grew and replacement and modernization process started. 3. Machinery for producing garments and made-ups was also freed from import duty. As a result, a huge expansion in the spinning sector took place in the first five years of 90s.	1. Textile exports in 90s were $5.2 Billion and rose to become $10.5 Billion by 2007. 2. Textile exports managed to increase at a decent growth of 16% in 2006. 3. Textile exports' share in total exports has declined from 67% in 1997 to 55% in 2008, as exports of textile sector of other countries grew.	1. The textile industry employs almost 40% (2008-09) of the industrial workforce. 2. Textile industry is being hit hard due to the ongoing energy crisis, restricting the gas supply to the textile units to only 3 days a week. 3. Pakistan's cotton cultivation has declined due to many factors ranging from cultivation of traditional varieties and via traditional methods, poor marketing, and failure in making timely payments to cotton producers.	1. (APTMA) has produced a base report for the federal government in which it has been projected that the textile industry exports would cross $16 Billion compared to its present level of around $8 Billion. 2. Significant changes to the general sales tax (GST) on industrial sector including textiles.	1. Textile exports stood at $12.5 Billion from July 2010 to May 2011. 2. Energy crisis leaves Pakistan in tatters.	1. Pakistan's $13.8 Billion textile industry is struggling to survive a critical shortage of energy to run its plants. 2. 10% of the spinning mills and fabric printing units have shut down, and half of the remaining plants are struggling to survive. 3. Thousands of textile workers poured out onto the streets of cities, burned tyres, and shouted anti-government slogans.

Under-Utilisation of Resources in the Textile Sector

As stated above, the total cloth production has almost remained stagnant since 2004-05. The following table is a further reflection of the problems afflicting the industry in the form of under-utilisation of resources. This is depicted in Table 4.

Table 4: Utilization of Resources in the Textile Sector

Year	No. of Mills	No of Spindles 000 IC	No of Looms 000 IC	No of Spindles 000 WC	No of Looms 000 WC	Spindle Hours Worked (Mln.)	Looms Hours Worked (Mln.)
2000-01	353	8,594	10	7,105	4	59,219	34.1
2001-02	354	8,967	10	7,078	5	61,267	36.3
2002-03	363	9,216	10	7,623	5	64,274	38.7
2003-04	357	9,499	10	7,934	4	69,652	32.7
2004-05	423	10,941	9	8,852	5	72,255	31.2
2005-06	437	11,168	9	9,631	4	74,884	24.8
2006-07	427	11,266	8	10,057	4	76,892	21.7
2007-08	427	11,834	8	9,960	4	76,400	21.5
2008-09	431	11,280	8	10,241	4	75,893	23.0
2009-10	439	11,392	7	10,632	4	74,654	22.4
2010-11	439	11,392	7	10,850	5	75,000	23.0
2011-12	433	11,762	7	10,660	5	76,932	22.6
2012-13	477	11,946	8	10,872	5	76,757	23.0
2013-14	442	12,310	8	11,000	5	76,950	23.0
2014-15 P	442	13,269	8	11,083	6	77,000	23.5

Two things are apparent from the above stated statistics: the underutilization of capacity in terms of installed and used capacity, and the gradually declining number of work hours in looms. As far as underutilized capacity is concerned, it is clear that this underutilization existed even before the energy crisis took hold. Thus, it is not merely the government's policies that are to blame, but also the inefficiency of the textile sector operators to utilize production capacity. The gradually declining work hours are a reflection of the state of affairs in this sector. A part of this can be blamed upon the persistent load shedding and high energy prices, but the industry's failure to compete in the international market with other competitors is also a factor. Less orders means lower production, and lower production implies lesser working hours.

> The textile sector is facing serious problems, any government support will be temporary and insufficient, thus the sector should focus and produce trending products in order to compete in the international market and in that way ensure self-reliability.
>
> Khalid Mehmood Rasool, Textile Industry Expert

Government Support to the Textile Sector

The historical timeline of the textile industry in Pakistan is a reflection of government's continued interaction with this sector. Sometimes, this interaction has had a positive effect (for example, in getting favourable access to markets) and at other times, this involvement has had negative consequences (for example, in the form of protection through various measures to avoid competition). In short, government's role has been an important one as far as fortunes of textile industry in Pakistan is concerned.

A look at two of Pakistan's textile policies is presented in the section following this one. Here, it will suffice to take a look at the case of India and Bangladesh (two relatively successful Asian stories in terms of textiles) for gauging the effectiveness of government support to this sector in comparison to Pakistan's[11].

[11] Information in the following table is taken from various government and non-government sources/research papers. For example, research on Bangladesh is taken from 'A Case Study of Bangladesh', Asia Foundation Occasional Paper No. 1, July 2010.

Table 5: Textile Policies of Bangladesh India and Pakistan

	Bangladesh	India	Pakistan
Criteria			
Increased access to markets through FTA's and preferential trade agreements	Bangladesh has signed 6 FTA's [12] and has gained preferential access for its product over time. This helped expand its exports.	India has signed 28 FTA's and has had gained preferential access for its products over time, which helped it to expand its exports.	Pakistan has signed 17 FTA's and has had gained preferential access for its products over time (latest is the Euro GSP plus status), yet its exports are declining.
Job retrenchment and training	The government has initiated various schemes in under which training of a substantial number of employees took place.	Programmes like Integrated Skill Development program provided training to over 1.5 million labour	Former textile policy (2009-14) had schemes for training, but nothing came of it. Technical training schemes proposed in new policy.
Increased Infrastructure Capacity	Over time, Bangladesh's infrastructure facilities have seen an improvement. There is improved and regular power supply, and ports like Chittagong have seen increase in their capacity in terms of handling cargo.	India has seen tremendous improvement in its infrastructure facilities over time. Although gaps still remain, the infrastructure is in much better shape now than decade or two ago. There is little or no load shedding experienced by the industry.	One of the most detrimental factors for textile industry in Pakistan is the persistent electricity shortages. This is coupled with relatively poor infrastructure facilities. Overall, Pakistan's performance is poor in this regard.
Textile Clusters	Besides the concentration around Dhaka, government's special incentives in the form of Export Processing Zones (EPZ) have attracted a substantial number of textile firms to it. Several more are planned besides the existing ones.	India already has a large presence of textile production concentration (in states like Tamil Nadu and others). 57 more textile parks/clusters have already been sanctioned, while 25 more are planned by 2017.	There have been no specialized, state led textile parks in Pakistan except for the historical concentration of textiles in areas like Faisalabad. There were plans for such clusters in the former textile policy, but none was established. The new policy again aims to establish textile clusters.
Technology Upgradation Fund		More than INR 2500 crore have already been infused for this purpose	A technology upgradation act was passed in 2010, and Rs. 17 billion (to be spent till 2015) were earmarked for this purpose in the former textile policy. No information exists on total expenditure under this head, and the 2010 Act is yet to be implemented.
Subsidized Research and Development		Substantial subsidy and support over the years from the government. Recently, a 200% waiver proposed on R&D activities.	Links between R&D institutions and Pakistan's textile industry are weak at best. A subsidy in terms of financing costs was proposed in first textile policy, but industry sources claim that nothing came of it.

[12] Information on FTA's taken from https://aric.adb.org/fta-country.

Overall, the general picture that one gets from this table is that the Pakistan government's help to this sector has mostly been restricted to claims made on paper, while in reality not much became of those claims. In contrast, the relative success of textile industries in India and Bangladesh has been ably complemented by the government's actions.

Pakistan is rapidly losing its textile market. In 2006 the share in global textiles and clothing exports of Bangladesh was 1.9 percent, India 3.4 percent and Pakistan 2.2 percent. This share increased for Bangladesh to 3.3 percent in 2013 and is further increasing. It increased for India to 4.70 percent and is further increasing but it has declined for Pakistan to 1.8 percent and is further declining.

Chairman APTMA

Textiles Policies

The wide gap between policy formulations and implementation remains a real challenge. The first ever textile policy (2009-14) was ambitious in terms of targets, but failed to achieve anything substantive. The new policy (2014-19) is also ambitious in terms of its goals, but the challenge will come in terms of its implementation. The onus falls squarely on government's shoulder in this regard. In order to gauge the gap between policy and implementation, the following table presents salient features of the 2009-14 policy and its results.

Table 6: Salient Features and Targets of 2009-14 Textile Policy

Aim	Proposed Plan	Results
Increasing Exports	To increase exports to $25 billion by 2015 from $ 9.5 billion in 2009.	In the target year, Pakistan's textile exports were $13.23 billion.[13]
Increasing productivity and value addition.	To double the productivity in production process during the policy period.	Pakistan's textile sector, as a whole, is still considered be low in terms of productivity. Barring a few exceptions (like high-end fashion), there is little sign of productivity improvements.

[13] http://www.tdap.gov.pk/tdap-statistics.php

Aim	Proposed Plan	Results
Exemption from load shedding and prioritized gas supply	Electricity will be supplied continuously, and gas will be given on priority to this sector.	The textile industry suffers from continuous load shedding, rregular gas supply and the high costs of energy.
Upgrading Technology	A Technology Upgradation Fund (TUF) to be set up with an initial allocation of Rs. 1.6 billion, to be increased upto Rs. 17 billion by 2015.	Technology up-gradation support order was initiated in 2010, but has yet to be implemented.
Increasing Exports	A cash subsidy of Rs. 87 billion, besides the total subsidy of Rs. 187 billion, proposed to enhance efforts towards greater exports in order to reach the $25 billion export mark.	Of the proposed combined subsidy of Rs. 188 billion[14], hardly Rs. 28 billion was given to the sector by the government. No figures for exclusive cash subsidy exist.
Subsidized Financing	To make financing for investment easy, a subsidy of Rs. 2.5 billion was proposed to bringing financing rates at 5%.	Industry sources claim that no such subsidy was ever given, and financing percentages remained high.
Infrastructure development	New textile estates (similar to specialized economic zones) and clusters to be set up, where first rate infrastructure facilities will be available.	No specialized zone for textiles has been set up yet since the initiation of the policy.
Rationalizing tariff structure	Tariffs will be rationalized so that they don't become an impediment to sector's development, and are acceptable to all sub-sectors.	Clear division still exists between various sub-sectors of the textile industry over tariffs. There is no acceptable schedule of tariffs.
Small producer support	In order to help the smaller, basic level producers of this sector, their sale to large exporters were to be deemed as exports. Plus, 1% reimbursement of levies and sales taxes on their produce was also proposed.	No such initiative has been implemented till date.

Source: Speech by Rana Farooq Saeed Khan, Minister for Textiles during PPP government; Business Recorder '*Textile Policy 2009-14 Review*', and various Economic Survey's.

Even the new policy, although still in its initial phases, has failed to elicit complete backing from the industry as a whole. The value added part of the industry has given its policy its

[14] Subsidy figures differ by source. Textile sector's representatives claim that the combined subsidy was around the Rs. 188 billion mark. Government sources put it at less than that. See statement by Mr. S. M. Tanweer, chairman APTMA, on the subsidy proposed in 2009-14 policy, in Dawn, 11TH February 2015 under '*Textile Policy gets Mixed Response*'.

backing, while the other sub-sectors have rejected it[15]. And the policy seems short in terms of details on how to achieve the proposed major targets[16].

Budgetary Framework

This failure to ably complement the textile industry is also apparent from government's budgetary figures.

Table 7: Development Budget of the Ministry Year (2010-11 and 2011-12)

Name of Project	Budget Allocation 2010-11	Budget Allocation 2011-12	Total Project Cost (Million Rs.)	Implementation Stage
Lahore Garment City Company	-	-	497.44	In Development Phase 1
Faisalabad Garment City Company	-	-	498.82	In Development Phase 2
Karchi Garment City Company	-	-	750 Cost of Land (Total, app, 1848)	In Development Phase 1
Upgradation of Cotton Fibre Testing Labs & Trash Analyzer Machines	-	-	28.656	
Projects under Exports Development Plan	-	-	500	

Source: Year Book 2010-11 & 2011-12, Ministry of Textile, GoP

As can be discerned from column 2 & 3 of the table, the budgetary allocations for important projects remained nil despite official proclamations of giving support to the industry. While the allocation for the development part of the policy was nil, the non-development expenditure during the same time did not subside (See Annex-I). Thus, this reflects lopsided priorities as far as government's help to the sector is concerned.

[15] See statement by Mr. S.M Tanweer, chairman APTMA, on the subsidy proposed in 2009-14 policy, in Dawn, 11TH February 2015 under '*Textile Policy gets Mixed Response*'.
[16] For example, there is little mention in terms of fiscal allocations and where they will be met from?

Issuance of SROs

Table 8: SROs Regarding Textile Industry

SRO #	Issue Date	Relating To	Description
486(I)/2015	30/06/2015	Sales Tax	Concessionary rate 2%, 3%, and 5% for five export oriented sector i.e. textile, leather carpet, and surgical & sports goods specified in SROs 486(I) 2011 is amended. 2 % rate is increased to 3 % and the value addition tax on commercial imports is reduced to 1 % from 2%.
231(I)/2011	15/03/2011	Sales Tax	Zero-rating provision for the five export oriented sectors of textiles, carpets, leather, surgical and sporting goods is only applicable for manufacturers-cum-exporters and exporters only.
1156(I)/2009	31/12/2009	Sales Tax	Pakistan custom tariff heading for allowing the import and supply of photographic film with silver emulsion (for textile use) at the rate of zero percent sales tax is replaced.
809(I)/2009	19/09/2009	Customs>> Import	Exemption of textile units from custom-duty on import of machinery and equipment. However, the same exemption is not valid for local manufacturers.
209(I)/2009	05/03/2009	Customs>> Export	Specification for the repayment of custom-duty on exports and imports for the goods specified in the schedule of this SROs
955(I)/2007	17/09/2007	Customs>> Export	Specification for the repayment of custom-duty on exports and imports for the goods specified in the schedule of this SROs
955(I)/2007	17/09/2007	Customs>> Export	Specification for the repayment of custom-duty on exports and imports for the goods specified in the schedule of this SROs
610(I)/2007	16/06/2007	Customs>> Export	Installation of new rates for custom-duties by suspending those specified in SRO 837(I)/2006
610(I)/2007	16/06/2007	Customs>> Export	Installation of new rates for custom-duties by suspending those specified in SRO 837(I)/2006
837(I)/2006	17/08/2006	Customs>> Export	Specification for the repayment of custom-duty on exports and imports for the goods specified in the schedule of this SROs
784(I)/2005	06/08/2005	Customs>> Export	Specification for the repayment of custom-duty on exports and imports for the goods specified in the schedule of this SROs
538(I)/2005	06/06/2005	Sales Tax	No exporter of textile or any other product related to textile has any claim to adjustment or refund of sales tax paid on its stock once 30th June, 2005 is passed.
36(I)/2003	09/01/2003	Sales Tax	Transfer for registration of Riaz textile from collectorate of sales tax & central excise from Rawalpindi to Lahore.
395(I)/2001	18/06/2001	Sales Tax	Exemption of textile weaving from all chargeable sales tax.
640(I)/89	17/06/1989	Sales Tax	Fabric manufacturers should seek license for manufacturing & processing of fabrics. The manufacturer will not claim refund or adjustment of sales tax. New rate of sales tax specified
642(I)/89	17/06/1989	Sales Tax	Cotton fabrics is exempted from the processes specified in the schedule of this SRO.
643(I)/89	17/06/1989	Sales Tax	Man-made fabrics are exempted from the processes specified in the schedule of the SROs.

Moreover, the Textiles Policy 2014-19 says that the textiles sector enjoyed duty free import of machinery under Textiles Policy 2009-14. This privilege (SRO 809) has been extended for another two years, but the present situation of the sector do not depict any improvement in production which was the direct impact of technological improvement in terms of advanced or improved machinery. Instead, the SROs have been largely misused,

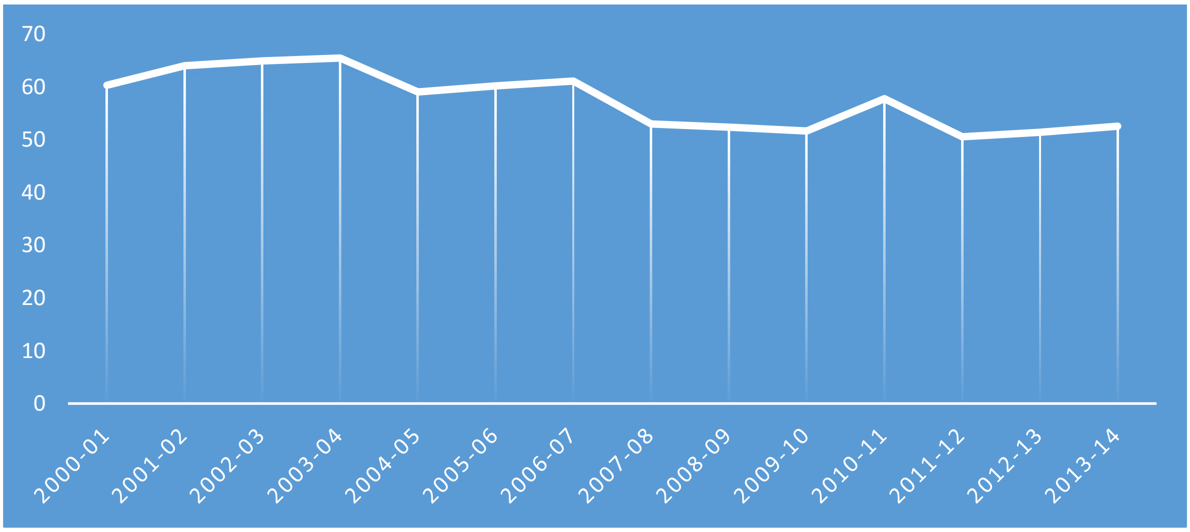
1) The importers of the textile units falsely represent their imported units among the custom exempted units under SRO 809 and they issue post-dated checks which do not realise later taking incentive of the duty free clearance for the textile units.[17]
2) The machinery imported under these preferential treatments are then used to supply products to local manufacturers (in cases where law restricts supply to local manufacturers) and un-registered firms.[18]

Export Bias Policies

Most of government support to this sector is geared towards exporting textile products rather than catering to the domestic demand in the domestic market.

For instance, SRO 231(1)/2011, provides Zero-rating for the five export oriented sectors of textiles, carpets, leather, surgical and sporting goods and the provision is only applicable for manufacturers-cum-exporters and exporters only.

Figure 3: Percentage Share of Textile Exports



[17] http://www.brecorder.com/taxation/666:/1142130:provisional-release-of-machinery-equipment-massivemisuse-of-cheques-detected/?date=2013-01-12

[18] http://customnews.pk/2014/06/mis-declaration-misuse-sros-firs-booked-dozen-fabric-importers/ http://www.thenews.com.pk/Todays-News-13-21036-FIRs-registered-against-textile-companies-in-Rs6-bnfraud

However, besides the preferential treatments, the share of textile in total exports of the country

> "If these goods after import or domestic production are sold or purchased between persons registered as manufacturers-cum-exporters or as exporters, for use or utilisation in goods meant for exports,"
>
> SRO 231(1)2011

is still 52% of the total exports as in FY09 with slight fluctuations which means SRO privileges did not aid improving exports share of textile industry in the total shares.

The Textiles Policy 2014-19 also says that Draw-back for local taxes and levies would be given to exporters of textiles products on FOB values of their enhanced exports on an incremental basis if increased beyond 10% over previous year's exports. The incentive is only for exporters, while there is no such incentive announced for the expansion of local markets within the country.

What ails Pakistan's T&C industry?

Demand and Supply side factors

The challenge for the T&C sector in Pakistan comes both from the demand as well as supply side. From the demand side, the main challenge arises in the form of an intensively competitive industry at both local and global level. Majority of Pakistan's exports and domestic produce have a highly elastic demand (meaning that they can be easily substituted). The kind of products produced by Pakistan's T&C industry are produced by many other developing countries as well, making the competition tough for Pakistan. The tough competition has been further exacerbated by erosion of Pakistan's comparative advantage in terms of relatively higher costs of production. Moreover, a major chunk of exports from Pakistan is concentrated in only a few countries. This brings in an element of uncertainty, whereby both exogenous and endogenous shocks can dampen the demand significantly. We are witnessing one such situation right now in the form of dampened global demand that has affected Pakistan's as well as global exports[19].

[19] For example, see "The Impact of World Recession on the Textile and Garment Industries of Asia." UNIDO (2010). It suggested that the trade in EU area (the largest textile market in the world) dropped by at least 5% and in some individual countries, the drop was even more pronounced (there was an

From the supply side, the two most challenging aspects for T&C industry are the high costs of production (mainly owing to high energy prices) and the government policies. Besides making the product uncompetitive, high energy costs have also led to closure of firms and underutilization of production capacity across the country due to extensive load shedding[20]. Government policies over the years have also failed to address the slide. A snapshot of the high cost of doing business in Pakistan is captured in the following table that compares selected costs of Pakistan's textile industry with its competitors.

Table 9: Comparison of Costs of Production

	Hourly Wage	Electricity Tariff per Unit[21]	Loan Rates
Pakistan	$0.50	$0.14	10
India	$0.38	$0.11	8.5
Bangladesh	$0.20	$0.09	7.75
Sri Lanka	$0.22	$0.09	8
Vietnam	$0.30	$0.07	8

Source: International Labor Organization (ILO) stats, livingwagenow.eu.

Besides the administrative frictions like long delays in claimed refunds by the Federal Board of Revenue (FBR), the main government failure comes in the form of ensuring a level playing field for Pakistani products in the global market. Even in a post-quota world, main importers of Pakistan's textile products can easily apply such regulations (like labour and environmental rules) that hurt Pakistan's exports. Majority of the times (if not all), the government is caught unawares or ill-prepared to meet these new regulations. In other words, it's primarily a failure to pre-empt the actions of importers.

Failure to capture local and global opportunities

The failure of the textile industry to optimize upon global and local opportunities presents another reason for the dismal state of affairs. Pakistan has a thriving fashion industry with an increasingly global presence, and its growing population (and growing per capita income) represents a substantial market at home. Yet the industry's bias seems to be towards exports rather than expanding and consolidating its share in the local market. In this ambition, government lends able support to the industry by specific regulations. For example, industrial

18% drop in total textile exports of Cambodia). Although the overall growth remained in positive figures, it's not growing as fast as pre-recession period.

[20] See Table-3

[21] For electricity tariffs, see http://tribune.com.pk/story/920801/textile-troubles/ and http://www.dawn.com/news/1213132.

units inside Pakistan's Economic Zones (EZ) work under the 80-20 rule (80 percent produce is meant solely for exports, while only 20 percent is allowed to make way to the local market).

Low value addition and weak research capacity

Globally, the nature of the industry has changed from bifurcation of specialized tasks between leading design brands and production units. That sort of link between these global brands and Pakistan's industry is weak at best (if not non-existent)[22]. There is little evidence of Pakistan's textiles moving in this way. Even at home, the link between the high-end brands and low-end/ basic level textile establishments is weak. The weakness in this chain also comes from absence of quality research and links between research institutions and the industry, something that can confer a comparative advantage upon the textile products.

Suggestions for improvement and revival

Avoid dumping practices

One of the most effective tools in the hands of developing countries for restricting imports from developing countries is in the form of *anti-dumping* measures. These have been used extensively against countries like Pakistan, especially in case of bed linen. Therefore, it would be wise for the industry in Pakistan to avoid such practices that lead to retaliation. Oxfam, in one of its studies, suggested that the anti-dumping measures are the most time-consuming and difficult for the exporting country. The country that levies these measures can easily make minor adjustments to prolong the case and make it difficult for the exporting country.

Use forums other than bilateral ones

Policymakers and industry's interests will be well served by trading under the guidelines/rules set by WTO. The advantage is that importers of our products cannot then take a unilateral action against our exports (as in the case of dumping). Any measures taken by them will have to have the sanction of WTO, a prospect much difficult to impose compared to unilateral actions.

Avoiding ROO regulations

Try looking for markets which have little or no Rule of Origin (ROO) regulations. In reality, these are imposed by the importing countries to counter the imbalance (or negative balance) arising out of trade in T&C. One hand, they agree to give preferential access to their market to an exporting country. But that agreement comes with the condition of ROO regulations, which compel the exporting country to buy something from the importing country (like seed

[22] Of the total of 16 billion cotton bales produced in 2016, only 4 billion were used in value addition sectors and 2 billion for domestic consumption. Remaining 10 billion bales ended up being used in low end production. Source: Alauddin Masood, '*Textile Trove*', the NEWS, 13th April 2014.

variety, equipment, etc). This tends to cancel out portion of the gains (if any) of preferential access. The 'yarn forward' policy is an example of this, which compelled countries exporting to EU and US to buy yarn from the US and EU for the T&C products to enter inside their borders.

Utilize FTA option

There are no easy ways of getting around restrictions like tariffs. A specific policy that works for one country may not work for the other country. One easy way is to get a preferential treatment like GSP Plus. Bangladesh benefitted well from this status granted by EU, but Pakistan did not gain any significant advantage from it. Another option presents itself in the form of Free Trade Agreements (FTA) with other countries. Jordan is an example in this regard. It entered into a FTA with US in 2000. In that year, Jordan's T&C exports were merely $43 million. But in 2006, its exports had crossed $1.6 billion. In recent years, Vietnam has emerged as one of the best performers in the global textile trade. This is despite the fact that its industry faces rising costs of production (mainly in terms of rising wages of labour). Yet its textile exports have managed to perform well mainly owing to FTA's that Vietnam's government has signed with other nations[23].

Remain informative of new opportunities

In a competitive environment such as the one prevailing in the T&C industry, the importance of exploring new avenues and new opportunities in time cannot be emphasized enough. Since this is a business driven by the preferences of the consumer, therefore it is imperative that nay new avenue for grabbing the customer's attention be explored. For example, *Amazon* is the biggest web based global retailer. It recently launched a separate initiative that is exclusively devoted to trading in hand woven cloths. With over a million customers, it represents a substantial market. This kind of opportunity should not be missed.

De-linking sub-sectors

The sub-sectors representing the T&C industry in Pakistan are viewed as very closely interlinked, with the fortunes of one affecting the fortunes of others. It will be ideal for the whole industry if the sub-sectors can try to find a niche for themselves. In other words, there should be an effort towards de-linking or de-coupling from each other. A classic example of this kind of market segmentation comes from top brand sellers like Nike, which do not own factories or production units. They design a product, and contract with producers to produce that product. The producers, in turn, look for the best available material and technology that adds to the value of the end product.

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[23] 'Opportunities and Challenges in Asia's Textile Sector', 12th February 2014.

Use technology to predict consumer preferences

Make use of technology to predict the preferences of the consumers, and any change in them over time. What makes technology giants like Google and Apple so successful is the use of software (based on sophisticated algorithms) that captures the preferences of the individual consumer. Based on the same data, the consumer is then sent offers by companies regarding their products. This helps in not only identifying preferences, but also helps in market expansion. This kind of technique is very much in practice around the globe now. The T&C industry in Pakistan could benefit from employing the same kind of technology.

Joint efforts through divisibility of tasks

Advantage: a clear division of responsibility, whereby leading global apparel firms concentrate on design and marketing, while the local level firms act as supply chains. Also, global brand leaders and groups [11] tend to invest in various aspects of local supply chains once they realize an advantage from being in partnership with them. They tend to be better aware of the new developments in terms of regulations that can stifle imports from countries like Pakistan, and lobby to stop their implementation. They concentrate on building a customer base outside of the country, while the local factory can concentrate its energies on expanding their domestic market. An example of this is the collaboration between internationally renowned brand Swarovski (which specializes in crystal products) and Pakistani designer Teena Durani. In return for showcasing their crystals on her textile products, Swarovski has agreed to market her products at international exhibitions.

Platform for Information and knowledge sharing

Set up a platform for information sharing and gathering. The information could be of the domestic market, the target population, research, technology, regulations and country wise requirements for imports from Pakistan. In this regard, the recent collaboration between Japan International Development Agency (JICA) and Trade Development Authority of Pakistan (TDAP) is a welcome step. Under this initiative, Japan will share information about demand for textile products, required standards and other relevant information with TDAP in order to make it easier for Pakistani exporters.

Steps to ensure quality

Besides taking in account international best practices and standards, it would not be a bad idea for domestic producers/players in the T&C industry to come up with such measures that ensure quality of the product. The example of the fashion brand Khaadi was provided above in terms of its success. The company has a specialized lab of its own, which checks for fabric quality, tear, colour fastness, etc, before using the cloth in the final output. This ensures quality, and contributes to value enhancement.

The Chinese market

Pakistan's biggest opportunity lies in its neighbourhood, in China. China is no longer the low cost manufacturer of products that it once used to be. Rather, by all accounts, it's now a consumption based economy. It is set to become the biggest importer in the world in the coming years, and the biggest consumer market. The textile and apparel market will also be a substantial part of this consumption based growth. Euro-monitor estimates that by 2019, China will surpass the US as the largest apparel consumer in terms of sales, projected to be $333 billion by that time. China is increasingly making a shift from 'manufactured in China' to 'designed in China'. This is where the opportunity for Pakistan's textile industry will arise in terms of becoming a part of Chinese apparel market (as a manufacturer and supplier rather than designer). The proposed China-Pakistan FTA will hopefully complement this intended future roadmap.

Technology use for savings

Make use of technology to reduce wastage and innovate. Technology can be an awesome tool in turning the business around, reducing wastage and creating a loyal consumer base for the business. Examples are numerous, but a few will suffice. Retailers in the textile and apparel world have to deal with a substantial amount of returns due to poor fit, material quality and overall satisfaction. In order to address this problem, 'MyShape' developed a technology that lets customers take care of size, colour, material and make. Similar software was developed by 'Fits.me'. German retail firm Quelle saw apparel returns drop by 30 percent after making use of the software. For taking care of certification and coming up with a unified certification criteria, Global Organic Textile Standards (GOTS) is a forum as well as a technological initiative that aims to educate and inform textile and apparel related businesses around the world. Its members, who receive certification, have a relatively easier access to world markets.

Conclusion

Textile industry's fortunes lie in mass scale production and economies of scale. In the present scenario, the two preferred ways for the Pakistan's T&C sector to achieve these aims is through FTA's and formation of partnerships with global value and product chains. The sector, as a whole, lacks any coherent, viable short-term, medium-term and long term strategy. Same is true of the government policies, which are usually centred on stop-gap measures rather than forming policies that is in consonance with the changes in this sector. The major problem for the industry at this moment is the increasing cost of production due to increasing cost of electricity. This has significantly dampened whatever competitive advantage that Pakistan's textile had. Aside from this, government's policies have been mostly on paper rather than on ground.

Most of the proposed initiatives under the Textile policy 2009-14 remained non-implemented. Power provision remains expensive and the increasing cost of production have made it difficult for Pakistani textile products to compete in the international market. The technology upgradation initiative and the establishment of specialized textile zones only endured on the paper.

Moreover, SROs have done nothing to ameliorate the problems in this sector and the technological improvement in this sector remains at halt. A close link between the nine subsectors is also challenging because problems in one sub-sector are affecting the others. Industry and the government are focusing on the exports rather than efforts to capture the large Pakistani consumer market. Another important factor behind the stagnant growth of this sector is the underutilization of resources which also depicts the inefficiencies in the textile sector.

For the success of this sector, government must stop giving temporary reliefs through measures like currency depreciation. Rather, government's policies should be committed towards achieving a level playing field at the global level, negotiating FTAs with those countries where Pakistani products have a competitive advantage, and giving a supporting role to the industry.

It is also recommended that instead of the government coming up with policies, it would be better for the industry to come up with a policy of its own and the government lending a supporting hand. Top down approaches would rarely work in a market that is extremely competitive and is constantly changing.

Annexure-I

NON-DEVELOPMENT BUDGET OF THE MINISTRY			
S.No.	**Name of Office**	**FY 2010-11**	**FY 2011-12**
1	**Ministry of Textile Industry**	53322000	102143000
2	**Textile Commissioner's Office, Karachi**	21675000	22189743
3	**TCO, Faisalabad**	2000000	685257
4	**Pakistan Cotton Standards Institute, Karachi**	32519000	26636000
5	**Pakistan Cotton Standards Institute, Multan**	27020000	20228000
6	**Pakistan Cotton Standards Institute, Sukkur**	23744000	16952000
7	**PCCC, Karachi**	-	20616000