Stagnation in the Growth of Pakistani Textile Industry

- Issues and solutions

By Research & Publications Directorate

The Pakistani textile sector is presently facing great hardships in surviving host of domestic problems and issues which is having a negative impact not only on the growth of Industry but also on exports of textile products. The government need to take immediate cognizance of the problems faced by the textile industry to save it from complete disaster. However, before discussing these reasons, it would be appropriate to have a look at the declining trend in the textile exports in last few years.

Table 1:Pakistan Exports Performance in Textiles & Clothing (2010-2015)

Year	Exports (US$)
2010-2011	13,805
2011-2012	12,336
2012-2013	13,064
2013-2014	13,739

Source: APTMA

The exports of Pakistani textiles and clothing is continuously showing a declining trend since September 2013. As per APTMA- the representative body of textile industry in Pakistan, there has been an overall 16.23% decline in value terms of textiles and clothing during March 2015. Pakistan's growth in textiles exports has almost stagnated as compared to its regional competitors. Table-1 depicts overall textile export performance of Pakistan, whereas Table-2 shows that exports of value-added garments increased in 2013-14 to US$ 1.9 billion after coming down to US$ 1.6 billion in 2011-12.

Primary Reasons for Stagnation in Growth

1) Shut down /Idle capacity of Textile Value Chain

Around one quarter of total installed capacity of textile industry has shut down due to energy shortages and high cost of production. The spinning sector alone has witnessed 30% impairment in production capacity, which is even higher than the industry's average. The potential idle capacity of textile value chain is mostly in Punjab. It is estimated that the differential between the value of textiles export potential and current value of exports made is equal to the closed capacity, which means that an amount of US$ 3.325 billion is the potential exports foregone.

Table 2:Exports of Value-added Garments (2010-2014)

Year	Exports (Million US$)
2010-2011	1,774
2011-2012	1,616
2012-2013	1,800
2013-2014	1,909

Source: TDAP

Table-3 gives a detailed view of closed installed capacity and potential exports of textiles:

Table 3: Idle Capacity of Textile Value Chain and Potential Exports Foregone

(Value in Million US Dollars)

Textile Item	Unit	Total Export Potential (Quantity)	Current Exports (Quantity)	% Change % Change	Potential Exports Foregone
Cotton Cloth	M. Sq. Mtrs.	2,625	1,880	-28.4%	980
Hosiery & Knitwear	M. dozens	132	111	-15.9%	451
Bed wear	M. Kgs	365	322	-11.8%	285
Towel	M. Kgs	192	160	-16.7%	155
Readymade Garments	M. dozens	41	31	-24.4%	700
Synthetic Fabrics	'000' Sq. Mtrs	843	277	-67.1%	755
Total Potential Textile Exports Foregone			**US% 3,325 million**		

Source: APTMA

2) Gas Supply Suspensions and Power Shutdowns

As indicated earlier, majority of the textile units based in Punjab have been closed down due mainly to energy shortages and high cost of production. As per estimation by APTMA on the basis of industry input and SNGPL statistics, the yearly average of gas supply suspension by SNGPL to the textile industry in Punjab has increased from just 27% in 2010 to 75% in 2015. In number of days per year of gas suspension, textile industry in Punjab suffered 260 days suspension in 2014, as against 240 days in 2013; 165 days in 2012 ; 150 days in 2011 and 100 days in 2010.

"Keeping in view the current utility circumstances, only those textile companies can survive which are self reliant, especially in the production of electricity, water supplies and other necessary utilities"

Similarly, as per data compiled by APTMA on basis of input received from its members as well as from available statistics of PEPCO and DISCOs, the average load shedding in textile industry in Punjab has increased from 2.42 hours/ day in 2011 to 8 hours/ day in 2014. As far as days of load shedding per year is concerned, this has soared to 122 days in 2014 from 37 days in 2011.

3) Multiplicity of Taxes

The various sub-sectors of the textile value chain are not zero-rated against exports and are paying different kinds of innovative taxes to the government which is causing multiplier effect on final products. This is also one of the reasons for incompetitiveness of our textile goods in the international market. These innovative taxes are in shape of multiple local, provincial and federal taxes (see Table-4), in addition to system inefficiencies:

The above Table indicates that multiplicity of taxes and system inefficiencies have burdened the spinning industry by 5.13% of sales; weaving industry by 4.20% of sales; processing industry by 7.22% of sales and the apparel and garments industry by 4.45% of sales. The multiplier effect of the textile value chain comes to around 15 percent of sales due to disintegration of the industry. The government should remove these multiple taxes and other efficiencies from the textile industry in the upcoming budget or else provide drawbacks against proceeded by SBP.

4) Lack of Government Support and Incentives

The textile industry in Pakistan is not getting the kind of support and incentives from the government as being offered by the governments of other regional competitors viz. India, China and Bangladesh. The only advantage Pakistan has is EU Market Access (EU GSP +) which is not enjoyed by China and India, except Bangladesh.

The incentives provided by governments in above countries (not available to Pakistani textile industry) are trade agreements for duty free exports; support/facilitation in setting up new plants; long term policy support; capital investment support; institutional support; textile parks/cluster development schemes; interest rate and taxation subsidy/ support etc.

Textile Incentives in Bangladesh

The Bangladeshi government provides guaranteed availability of gas to textile exporters, even at the cost of domestic consumers, in addition to 24-hour power supply to the industry. Moreover, rebates announced by the government on exports are also promptly released.

Textile Incentives in India

The Indian government introduced 'Duty Drawback Scheme' for its textile sector to neutralize the effect of excise and custom duties paid on inputs used in the manufacture of exports which is in the range of 3.5% to 11% on FOB value. The textile industry in India also enjoys export incentives under government announced Focus Market Scheme (FMS); Focus Product Scheme (FPS); Market Linked Focus Product Scheme (MLFPS) and Incremental Export Incentivization Scheme (IEIS) and Export Promotion Capital Goods (EPCG) Scheme.

Table 4: Textile Value Chain contribution in Federal, Provincial and Local Taxes and System Inefficiencies (as Percentage of Sales)

Detail of Taxes, duties and Other Levies	Spinning Sector	Weaving Sector	Processing Sector	Apparel Sector
Turnover Tax@ 1%	1%	1%	1%	1%
Transportation cost on exporting i.e. 32% sales tax on diesel	0.32%	0.19%	0.08%	0.39%
E.O.B.I tax @ 6% of wages	0.18%	0.26%	0.14%	0.44%
Export Development Surcharge (EDS)@ 0.25% of Export	0.07%	0.25%	0.24%	0.24%
Social Security @ 6% of wages	0.18%	0.16%	0.17%	0.76%
Cotton Cess @ Rs. 50 per Bale	0.13%	—	—	—
Stamp Duty @ 0.2% of export documents	0.10%	0.20%	0.19%	0.06%
Electricity Duty @ 1% of sale of power cost	0.10%	0.09%	—	0.02%
Textile Cess @ Rs. 1 per spindle	0.0013%	—	—	—
Opportunity Cost of outstanding Refunds e.g. sales tax, duty drawbacks etc.	0.30%	1.78%	5%	1.36%
Professional Tax	0.004%	—	—	—
Withholding Tax on imported cotton @ 5.50%	0.14%	—	—	—
Protective Duty on Polyester, Spares and Chemicals	1.25%	0.08%	0.17%	—
Surcharges and Levies on Energy i.e. Neelum Jehlam surcharge (NJS), Equivalent Surcharge (EQS), Debt Surcharge & Additional Surcharges	1.35%	0.19%	0.23%	0.18%
Total	**5.13%**	**4.20%**	**7.22%**	**4.45%**

Source: APTMA

It may be mentioned here that the Indian government, in its Five Year Plan 2012-2017 allocated a sum of Indian Rs. 260 billion (or US$ 5 billion) for the textile sector development, which is an increase from IRS. 140 billion (US$ 3.5 billion) in 11th Five Year Plan 2007-2012. This has resulted in textile exports growth by 76%, reaching US% 16 billion, and enhancing share of Indian textiles in the world market share from 3.5% to 5 percent. During last few years, around 14 million spindles and 36,000 Shuttless/ Airjet Looms have been added in the Indian textile Industry.

Textile Incentives in Pakistan

On the other hand, if we look at the textile outlay of Pakistani government, it presents a very dismal picture. In the Textile Policy 2009-14, an outlay of Rs. 188 billion (US% 2.3 billion) was provided to the textile sector which was reduced to only 64 billion (US$ 640 million) in the Textile Policy for 2014-19. Resultantly, due to lack of implementation of textile policy 2009-14, the textile exports from Pakistan has remained stagnant with zero percent growth and our share in the world textile market has also shrinked to just 1.8% from 2.2 percent. In addition, there was addition of only one million spindles and 1300 Shuttless/Airjet looms in the textile sector.

It may be mentioned here that after the grant of GSP plus status to Pakistan by the European Union, the Indian government provided additional rebates and incentives to its textile exporters which helped them lower their per unit rates in 1014.

5) Appreciation of Pakistani Currency

The appreciation of Pakistani Rupee against the US dollar has adversely affected the export-oriented sectors, especially the textile industry. According to APTMA, a number of textile spinning units have shutdown due to severe financial crisis and rapid appreciation in the Rupee value. The exporters say that 12% to 15% appreciation in Rupee value has disturbed their business cycle as they normally get their export payments after a lag of 90 to 120 days. APTMA Chairman has recently indicated that the Pakistani textile industry has incurred losses worth US$ 300 million in exchange rates and in huge cotton inventories.

Pakistan is the only country in South Asian region whose currency value has appreciated markedly by 5% during the period from December 2013 to April 2015, as against appreciation of only 0.25% in Bangladeshi Takka during the same period. The Indian Rupee and Sri Lankan Rupee were depreciated by 1.20% and 0.34%, respectively, during this period.

Unexplored Growth Potential

1) US$15 billion more earnings with value-addition of Surplus Yarn and Greig Fabric

Exports of high value-added products fetches more foreign exchange for any exporting country as against exports of raw materials. In the textile sector, garments, knitwear, hosiery, bed wear and towels constitute value added goods whereas cotton yarn and fabrics are categorized as low value added products which are used a basis raw material for the textile value chain.

Low value addition has always remained a key issue for the Pakistani textile industry which is impeding its sustained growth. Pakistan is exporting large quantities of cotton yarn and Greig fabrics to many countries who add value to them and earn many times more than pakistan through exports. India and China, the major textile exporting countries, are now concentrating on value added textile products instead of exporting yarn. Even Japan and South Korea, which are not producing cotton, are importing yarn to convert it into high value added products and earning valuable foreign exchange.

Table 5:Inherent Potential of Pakistani Textile Industry - Conversion of Basic Textile into Value Added Garments

Detail	Unit	Volume
Surplus Yarn exported in 2013-14	Million Kg	663
Surplus Grey Fabric exported in 2013-14	Million Sq. meter	776
Surplus Processed Fabric exported in 2013-14	Million Sq. meter	1575
Value of exported Yarn and Fabrics in 2013-14	US$ Billion	4.77
Total Processed Fabric if surplus yarn and Greig fabric converted	Million Sq. meter	4,341
Value of Garments after Value addition @ US$ 7 per piece	US$ Billion	US$ 15 Billion

Source: APTMA

According to experts, Pakistan is generating US$ 2.46 textile exports from one pound of cotton as against US$ 14.7 of China; US$ 13.31 of Bangladesh and US$ 2.96 of India. Moreover, Bangladesh consumes 0.9 million ton of cotton to export US$ 27 billion value-added textiles whereas Pakistan consumes 2.3 million ton cotton to export just US$ 13.5 billion worth of value-added textiles. These figures points towards the exports potential of Pakistani textile products.

It is imperative that Pakistan should fully exploit its value addition potential to come at par with its other regional competitors. The textile industry in Pakistan should strive hard to achieve higher value addition especially in readymade garments and knitwear by upgrading the stitching quality and the fabric quality. All these efforts definitely needs government's facilitation.

Table-5 shows that during 2013-14, Pakistan exported 663 million kilogram of surplus yarn, 776 million square meter of grey fabric and 1575 million square meter of processed/ finished fabric. If all these surplus yarn, grey and finished fabric are converted into value-added garments, Pakistan can easily fetch extra US$ 15 billion in exports. This value has been calculated based on current low cost garments and knitwear

Sr. #	Textile Sub-sector	Amount of Investment Required
1.	Spinning sector	US$ 1.73 billion
2.	Weaving sector	US$ 1.23 billion
3.	Fabric processing / finishing sector	US$ 1.176 billion
4.	Garments sector	US$ 728 million
5.	Knitwear sector	US$ 728 million
	Total investments required	**US$ 5.592**

Table 6: Investments Required in Textile Sub-sectors to boost value-added Exports

Source: ICMAP R&P Directorate

currently exported (US% 7/piece of garment) and if more value added garment is considered, this value could go even higher.

2) US$ 5.6 billion investment required for establishing Value-added Garment Units

According to APTMA, the textile sector needs investment of US$ 5.6 billion in new technology and balancing, modernizing and establishment of value added garment units in order to double the textile exports. Table-6 provides the break-up of the required investment in different textile sub-sectors, according to which spinning sector need investment of US$1.73 billion for replacing obsolete technology; weaving sector US$ 1.23 billion for ensuring that all yarn produced is weaved; US$ 1.176 billion for processing sector to ensure that no grey fabric is exported without finishing; US$ 1.456 billion required for garments and knitwear sectors.

3) US$ 7 billion more domestic textile production if smuggling and imports checked

According to a study carried out by APTMA, about 640 million kilogram of informal textile and clothing, equivalent to 3.18 kg per capita, is being smuggled into Pakistan via the Afghan Transit Trade (ATT) and other sources, which results in annual loss of US$ 7 billion to the textile chain. If Pakistani textiles are allowed to capture the entire domestic demand it would almost double the production and add around 2.5 million jobs. **Table-7** presents the total fiber production and consumption in Pakistan and the domestic imbalance met through smuggling.

Table 7: Total Fiber Production and Consumption in Pakistan

Detail	Million Kgs.	Kg / Capital
@ 180 million population		
Total Fiber / Yarn production (including imported cotton & MMF)	3,032	16.80
Less : Total Fiber / yarn consumed in textile goods for exports	2,528	
Surplus Fiber / Yarn left for domestic consumption	504	2.80
Add: (1) Smuggling and informal trade	640	3.18
(2) Imports of official and worn clothing	655	3.70
Total Fiber Consumption in Pakistan	1800	9.68

Source: APTMA

APTMA study further reveals that total fibre consumption in Pakistan is 1800 million kilogram or 9.68 kg/capita. The Pakistani textile sector is catering to just 504 million kilogram or 2.80 kg/capita of domestic consumption, as out of total production of 3,032 million kilogram fibre/yarn, 2,528 million kilogram is exported annually. The rest of the domestic demand of 7.20 kg/ capita is met through smuggling and import of worn out clothing. As per textile manufacturers, this bulk import of textiles is made through under invoicing and wrong declaration of goods due to which imported clothing are available at lower cost in domestic market. As per claim by APTMA, the impact of smuggling is worth US$ 3.3 billion annually.

Current Issues of Textile Industry & their Possible Solutions

The Pakistani textile industry is currently facing multi-dimensional challenges and pressures both at the national and international fronts. At the international front, the primary challenge is to compete with other regional and international competitors of textile products and fetch maximum foreign exchange for the country. At the national front, textile manufacturers are experiencing innumerable challenges such as high cost of doing business; serious liquidity crunch due to pending refunds; high electricity tariff, innovative taxes and levies, duties, surcharges; system inefficiencies on industry and over-valued exchange rate of Pak Rupee. According to an estimate, thirty percent capacity of the textile industry has already been closed down because of the liquidity crunch and energy constraints.

A brief of few of the current issues faced by the textile industry in Pakistan is discussed below:

1) **Interrupted Energy Supply:** Supply of gas and power, especially to Punjab-based textile units, constituting around 70% of total textile industry of Pakistan, is quite dismal and they are even operating at a cost differential of US$1 billion compared with other provinces.

2) **Pending Tax Refunds:** The textile industry refunds under the heading of sales tax, income tax and DLTL worth Rs 160 billion are lying pending with the government which has created serious liquidity crunch for the industry.

3) **High Electricity Tariff:** The textile industry has been levied Rs 120 billion in terms of raise in electricity tariff since August 2013 to date, which has mostly burdened the Punjab-based textile units as they consume 80 percent of the entire Pakistan Electric Power Company load.

4) **Innovative Taxes and System Inefficiencies:** The textile industry is burdened with innovative taxes and system inefficiencies which is estimated to be around five percent of the sales value across the stand alone textile-value chain with a multiplier effect of 15 percent on final export products. The textile industry has to bear this burden as it cannot pass it on to foreign buyers.

5) **Overvalued Exchange rate of Pak Rupee:** One recent issue that has accentuated the problems of the textile industry is the overvalued exchange rate of Pak Rupee. Since the currencies in EU and other export destinations have devalued against dollar, the Pakistani textile companies have to face 16.5 percent decline in value terms during March 2015 against the corresponding period. Resultantly, the industry failed to achieve potential of US$3.3 billion in quantitative terms."

6) **Increase in Gas Infrastructure Development Cess (GIDC):** Another important issue that has created difficulties for textile industry is increase in Gas Infrastructure Development Cess (GIDC) to Rs. 150/mmbtu for captive power generation. The entire textile industry has rejected this Cess and termed it as unsustainable that would result in 10% increase in energy cost leading to closure of the industry and further decline in exports, in addition to massive unemployment.

Possible Solutions to Current Issues of Textile Industry

Tax Refunds

1) To resolve tax refund issue, the government should follow the policy pursued by other textile competing countries of factoring-in all kinds of local and state level taxes in their drawbacks. The government should immediately reimburse and refund pending amount to textile exporters as percentage of Drawback on Local Taxes and Levies (DLTL)through the State Bank of Pakistan i.e. 5% on yarn export; 10& on processed fabric export and 15% on made-up/garments.

2) The ease liquidity and cash flow issue of textile industry, the government should restore the “No Payment No Refund System” and allow zero rating within the registered textile supply chain.

3) The PRAL's software viz. Computerized Risk-based Evaluation of Sales Tax (CREST) should be linked to networks of textile related associations so that their members could find out 'breaking of supply chain' on the spot. This is important to resolve supply chain issue of textile exporters.

Gas and Electricity Tariff

4) The present electricity tariff is based on cross-subsidy regime. To make the textile exports competitive in global market, the government should immediately eliminate the cross-subsidy and set cost-based tariff for textile manufacturing industry.

5) To resolve the electricity tariff issue faced by textile units, especially in Punjab, the government should ensure effective implementation of NEPRA determined tariff for 2014-15

6) The government should immediately withdraw new Gas Infrastructure Development Cess (GIDC) as well as old GIDC imposed by OGRA and stayed by the High Court. The GDIC should be brought down to zero level as already being offered by government to the cement industry.

7) The government should consider installation of new electricity and gas plants in Faisalabad – the textile hub of Pakistan to revitalize the closed textile units and tackle unemployment issue.

8) The gas and electricity supply to textile units should be made at regionally competitive rates.

9) The existing ban on new/ expansion of gas and electricity industry connections may be lifted.

Export Promotion

10) To arrest the declining trend in textile exports, the government should make efforts to bring back the Pakistani currency to realistic value of rupee to achieve the export targets ahead.

11) The government should encourage and incentivize the export of value-added textile products to earn maximum foreign exchange earnings, instead of relying on exports of cotton and fabrics.

12) A 15% regulatory duty maybe imposed on import of fine count yarn as well as fabrics meant for domestic consumption.

13) The textile industry may be offered zero–rated duty for import of latest machinery to replace and upgrade their obsolete machineries in order to achieve product competitiveness.

14) All kinds of duties and taxes on import of Man-Made Fibre (MMF) and other specialty fibres may be removed to bring down the input cost of manufacturing textile fabrics.

15) The government should take initiatives to sign 'Free Trade Agreements (FTAs), Regional Trade Agreements (RTAs) and Bilateral Agreements with importing countries to increase exports.

Textile Research and Development Centre

16) The government should establish a Research and Development Centre to undertake leading-edge research linking the industry with academic and professional institutions in Pakistan and abroad.

17) The R&D Centre may seek the services of cost and management accountants in acquiring state of the art cost cutting techniques to improve their cost of doing business.

18) The R&D Centre may also play a catalytical role in reviving the sick and closed textile units in the country by utilizing the professional services of CMAs and management consultants.

19) The R&D Centre may also assist the Ministry of Textile Industry in planning and effective implementing of the Textile Industrial Parks in the country.

20) The government through the State Bank of Pakistan may offer R&D support to the textile garment exporters, especially to EU and USA, specifically for the areas of product development, skill development and training, upgrading of information technology and professional consultancy.