

The textile industry of pakistan



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Pakistan is the world's 4th largest producer and 3rd largest consumer of cotton. Because of its plentiful, indigenous cotton supply, the textile industry is central to the Pakistani economy and is both a source of employment and a source of exports.

Pakistan's industrialization began in the 1950s with the textile industry at its center. The Textile and Clothing Industry has been the main driver of the economy for the last 50 years in terms of foreign currency earnings and jobs creation. The Textile and Clothing Industry will continue to be an important engine for future growth of the economy; there is no alternative industry or service sector that has the potential to benefit the economy with foreign currency earnings and new job creation, especially if synergy is developed amongst different sub-sectors and efforts are made to aggressively grow the Ready-Made Clothing Sector. Pakistan's Textile Industry had proved its strength in global market during the last four decades.

It has proved its strength even in post quota era by not only sustaining its position but, also showing growth during 2005 to 2007, but declined to \$11.1 billion in 2008 due to financial and economic melt-down globally.

Capacity of Pakistan's Textile Industry:

Following is an analysis of the textile industry of Pakistan.

Contribution to Gdp:

Contribution to Employment:

Industry Growth:

Contribution to Exports:

Textile industry contributes a large share to Pakistan's export and thus is a major source for foreign currency earnings. The exports of Pakistan of various years for Textile sector are as under

The exports of textile industry have shown a growing trend however they have declined in 2007 and 2008 due to global financial crisis and country's internal problems. These factors are discussed in other sections of the report. Textile exports share in total export of Pakistan has declined from 67% in 1997 to 55% in 2008.

SWOT Analysis:

The SWOT analysis of textile industry of Pakistan is as under

STRENGTHS:

Raw Material:

Pakistan has high self sufficiency in raw materials and is the 4th largest cotton producing country in the world.

Labor:

Cheap labor has always been the backbone of the economy of Pakistan.

Cheap and ample supply of labor strength both the industrial and agricultural sector. Around 39 % of the labor force works in textile industry. This low cost

of labor leads to low cost of production which gives a competitive advantage to the textile industry of Pakistan.

RICH Heritage:

Due to cultural diversity and rich heritage designers come up with new different and attractive designs which are appreciated worldwide. Our culture comprises of Punjabi, Balochi, Sindhi and Pashto values. We are also influenced by Indian and other foreign cultures such as India, USA etc through media exposure which gives Pakistani designers an inspiration and tastes of new designs and fusion of these designs, to give their best in terms of style creativity and designs.

Domestic market:

The trend of urbanization has increased income levels, coupled with increase in population the domestic demand has increased, which means more population more demand and labor.

WEAKNESSES:

Research and Development:

Developed countries are using biotechnology and genetic engineering to increase the quality and quantity of their cotton production. They are able to grow colored cotton, organic cotton and several different varieties cotton to add value to the textile chain.

In Pakistan, there is some research done on small scale by private companies to invent modified cotton fibers. Practically no efforts are being made by the APTMA in the R&D of the textile industry to enhance the quality

of its products, upgrade the technology used, and encourage effective methods of production in order to compete internationally.

Instead the industry suffers lack of latest means of production and falling cotton crop output every year. Due to low quality of cotton crop, profitability decreases and the farmer switch to the other crop such as sugar cane, maize and thus the cotton production decreases.

More dependence on cotton:

As the textile sector is heavily dependent on cotton production, low cultivation of cotton will deteriorate the textile industry. On the other hand, Pakistan lacks expertise in the development, production and marketing of synthetic products and fabrics required for items like swimwear, skiwear and industrial apparel. So far Pakistan has been unable to diversify in the export of textiles and is heavily dependent on single fibre that is cotton and its blends.

This dependence on single crop economy is restricting the diversification of exports from Pakistan

3. Labor productivity:

Despite of the abundant supply of the labor, productivity of the labor is very low. According to a study by Federal Adviser on textiles, the regional competitors of Pakistan take 75 minutes to complete and produce one piece of cloth whereas we take 133 minutes for the same work.

We also waste 30% in finishing and 12% in washing.” European buyers recommended that we should cut our costs up to 45% in sewing by getting more efficient.

Labor productivity can be improved by giving the labor appropriate training with the advancement of technology so as to make them more efficient and with lower wastage of resources. In China an average 70 hours of training are given to labor to enhance their expertise.

4. Poor infrastructure

The important resources and infrastructure, such as adequate of supply of water, continuous supply of electricity and gas, efficient logistics and transportation, tax structure, raw material supply are all basic requirements for the development of industrial base, which are not adequate for competing with foreign competitors.

However, on the other hand, the industry is faced with rising charges of the energy sector, which increases the cost of production, making it difficult to compete with the other regional rivals.

5. Poor quality standards

With the exception of big and leading units who comply with global quality standards in textiles, most of the medium and small sized units can not ensure the reliable and consistent quality standards.

Some of these textile units import second hand machinery from China, India, Korea, and Taiwan with no checks and balances on the quality of the machinery parts and tools. Preference is only given to the cheap and

workable machinery with no concern of the quality of the machine, therefore, resulting in poor quality of the end product.

The industry can generate more profit by adding more value to the product, as value can be measured in terms of quality, increased per unit price, etc. Pakistan's textile industry should focus on latest material handling techniques and should train workers. The inability to timely modernize the equipment, machinery and labor has led to the decline of Pakistani textile competitiveness.

6. Unstable political situation

Political unrest, strikes and terrorism have critically affected the economy of Pakistan. Frequent changing of the government has adversely maligned the policies of the textile sector. According to the World Trade Review " Pakistan has

failed to take necessary steps needed to meet post MultiFiber Agreement (MFA) challenges for its textile industry owing to lack of political will by the successive governments."

In 1978 World Bank surveyed the Pakistan textile industry and reported many deficiencies in this sector. It also gave certain measures to resolve these issues, but unfortunately all these problems still persist and the industry is still unable to

keep its pace with the international market. Successive governments lacked the will to reform human resources and adapt the marketing techniques that resulted present scenario in this industry.

7. System orientation and supply chain

Nowadays, customers are very systematic in their work and they expect the same professionalism from their vendors. Unfortunately, we lack this capability and are not competent to struggle in the international business, thus losing many

Opportunities.

On the other hand supply chain management is rarely implemented. We are disorganized, disconnected and distorted. Time management is very much important aspect in business and buyers expect on time delivery to match the

Retail launch of the spring/ summer or Autumn/Winter seasonal collections on time. Delayed delivery of export orders result increase in cost due to fines by the buyers and at times losing business altogether.

OPPORTUNITIES:

Pakistan Textile City:

Pakistan Textile City in Port Qasim, Karachi with an area of 1250 acres, will be completed in 2011 as a private public sector joint venture. The main purpose of the textile city is to provide the textile industry with the world class infrastructure to meet the global competitiveness and challenges and as to provide value added textile industrial zone. Its main features include one way window operation, constant supplies of gas and water, and uninterrupted power supply.

2. Marketing

Targeting the unexplored export markets with the help of aggressive sales and marketing will pave the way for the textile growth. It's all about hunting your opportunities with the handful of colorful lollipops. If we make investment in our

Sales force and train them in the fine art of marketing textile products; we can capture a much bigger market share from other smaller competitors.

3. Collaboration with foreign companies

By making partners with the foreign companies, we will be able to learn a lot from them in terms system orientation, supply chain and it would be feasible to import latest technology. We can also reduce our costs, comply with the international standards, and add value to our products, easiness in marketing our products in different foreign regions, improved labor and thus catching up with our regional competitors.

5. Producing high value products:

It's better to export yarn than raw cotton. Similarly it's better to export finished fabric than to export grey fabric. Furthermore it's very much feasible to export

Readymade garments than to only fabrics. What makes the latter better is the value added and subsequent increase in per unit price.

Therefore, the textile industry should focus on the finished products so as to create more value in their products and reap larger margin of profits.

The industry should also diversify into other areas such as technical textiles and non woven's in order decrease its dependence on conventional and commodity textiles, which is highly sensitive to per unit price and volume for the profit margin.

7. Reducing the cost of business.

China and India are much cheaper in labor, raw material and utilities as compared with Pakistan. Rising inflation also increase the cost of production. We have to control these unnecessary costs if we have to survive in the middle of the two giants of the textile sector in the world.

THREATS:

1. New competitors

Pakistan is facing new competitors in textile sector such as Bangladesh, Vietnam and Turkey. Though we cannot avoid competition but we can always stay ahead of them by reforming our strategies and educating our entrepreneurs so as to move one step forward in every aspect.

2. Phasing out of quota system

As the quota system is ruled out by WTO, there is a threat by the Chinese and Indian manufacturers to gain most of the market share. We have high costs, low labor productivity and inefficient production processes.

3. Fashion life cycle

Fashion changes day by day these days. Media has so much penetrated in our daily lives that we easily adapt ourselves as it wants us to. This has resulted in shortening the fashion lifecycle thus increasing the fashion risk.

Now the buyer does not want to wait long for his consignment because he is insecure that by the time it will reach to him he will lost its demand due to change in fashion. Therefore, they prefer to buy from neighboring countries even at higher cost to get their products instantly rather than to wait weeks or months for their consignments to reach them.

PEST ANALYSIS:

PEST analysis stands for “ Political, Economic, Social, and Technological analysis” and describes a framework of macro-environmental factors used in the environmental scanning.

Following is the PEST analysis of textile industry of Pakistan.

Political factors:

Following are the political factors that affect the textile industry of Pakistan

1 Labor Law:

The labor in Pakistan is cheap as compared to other competing countries.

The labor law specifies a minimum wages of 7000 rupees for a worker for a month, which gives an advantage to the textile industry in terms of low cost.

2 Environmental Laws:

The processing industry in the textile value chain holds an important position as far as value addition is concerned. Garments and made-ups comprising the downstream industry rely heavily on the processing sector for the provision of value added fabrics and materials.

Unfortunately the processing segment also is the most susceptible area that can be affected by global environmental regulations regime. More than 650

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units are in operations majority of which operate at a small and medium sized scale. These units carry out processes including:

Bleaching of fabric

Dyeing and finishing of fabric

Printing and finishing of fabric

The major area of concern for the textile processing sector is wastewater. Textile processing is a water intensive process. Almost .08-0.15 m³ of water is consumed to produce one kilogram of finished fabric, translating into 1,000-3,000 m³ of wastewater generation per day against a production of 12-20 ton/day of finished fabric.

Currently the wastewater generated by the industry is discharged into the local environment without any treatment that serious negative effect on the environment.

A wide range of chemicals are used by the processing industry for dyeing and printing operations. These include bleaching agents, vat dyes, azo dyes, sulphur dyes, disperse dyes and colour pigments, which are manufactured by using chemicals such as formaldehydes, hydrochloric acid, ammonia, chromium salt, soda ash, caustic soda, sodium sulphate, sulphuric acid, etc.

Extensive usage of these chemicals by the processing industry results in discharge of toxic elements as effluents, which if not treated properly have the potential to cause significant environmental degradation.

Though there are environmental laws in the country but still there is no strict implementation and the industry is not facing any problem in the form of high costs in complying with the environmental laws. But if there are strict implementations it will reasonably affect the textile industry of Pakistan.

3 Trade restrictions:

A trade restriction is an artificial restriction on the trade of goods between two countries. It is the result of protectionism. It may be direct or indirect in the form of tariffs, quotas or other duties and taxes. Following are a few restrictions the textile industry of Pakistan is facing

Import duty and Anti-dumping duty:

Government of Pakistan has imposed six percent import duty and anti-dumping duty imposed on the import of Polyester Staple Fiber (PSF) to allow the textile industry to manufacture competitive blended textile products for both domestic and export markets.

The textile industry which was heavily dependant on PSF was faced by a shortfall of 10, 000 tones each month mainly due to restricted production within the country. The tariff of six percent at the import stage and countervailing duties ranging up to 10 percent has rendered import of PSF economically infeasible and the manufacture of blended yarn textile products more difficult.

PSF constituted a direct substitute for cotton, a commodity in short supply, and timely removal of import duties on PSF would secure the textile industry competitiveness on an international and regional level.

Anti dumping Imposed on Pakistan by European Union:

An anti-dumping of 5.8% has been imposed by the European Union on Pakistan, which has put Pakistan in a desperate position to match competitiveness posed by Bangladesh, India, China, Sri-Lanka and Vietnam.

Infrastructure:

The important resources and infrastructure, such as adequate supply of water, continuous supply of electricity and gas, efficient logistics and transportation, tax structure, raw material supply are all basic requirements for the development of industrial base, which are not adequate for competing with foreign competitors.

However, on the other hand, the industry is faced with rising charges of the energy sector, which increases the cost of production, making it difficult to compete with the other regional rivals. The governments should work in this regard for maintaining a textile sector which is so important to Pakistan's economy.

Political Stability:

Political unrest, strikes and terrorism have critically affected the economy of Pakistan. Frequent changing of the government has adversely maligned the policies of the textile sector. According to the World Trade Review " Pakistan has

failed to take necessary steps needed to meet post Multi Fiber Agreement (MFA) challenges for its textile industry owing to lack of political will by the successive governments."

In 1978 World Bank surveyed the Pakistan textile industry and reported many deficiencies in this sector. It also gave certain measures to resolve these issues, but unfortunately all these problems still persist and the industry is still unable to

keep its pace with the international market.

Successive governments lacked the will to reform human resources and adapt the marketing techniques that resulted present scenario in this industry.

Economic factors:

Following are the economic factors that are affecting the textile industry of Pakistan.

Interest rates:

Pakistan has highest interest rates as compared to its competitors. For instance, Bangladesh, India and China enjoy comparatively low interest rates than Pakistan. The prevailing rates are 8.5 to 9.0 per cent in Bangladesh, 5.25 per cent in India. Market rate is 10.25 per cent, however exemption of 5 percent is provided to the textile industry and 5.58 per cent in China.

While in Pakistan, the last three to four years has seen the interest rates to have risen more than 150 percent, to 14 percent. The increase has essentially crippled the small time textiles owner, while seriously hindering growth of the textile tycoons. This has led to textile owners accusing the government and banks for maintaining detrimental policies.

It is imperative that the new government takes actions that have a positive impact on the industry as textile provides employment to 38 percent of our working class. A coherent plan should be devised by the Pakistani government that allows some sort of exemption/concession such as in India for the purpose of financing and facilitating the industries, especially textile.

Inflation rate:

The inflation rate in Pakistan was last reported at 13.04 percent in April of 2011. From 2003 until 2010, the average inflation rate in Pakistan was 10.15 percent reaching an historical high of 25.33 percent in August of 2008 and a record low of 1.41 percent in July of 2003.

Due to rising inflation, higher as compared to its competing countries the prices of Pakistan textile products have increased, thus reducing its demand as products from other countries are available relatively cheaper.

The inflation rates chart for China and India which are main competitors of Pakistanis textile industry are given which shows high inflation rates in Pakistan. The average inflation rates of China are 4.22 percent while that of India is 7.99 percent.

Social factors:

Population growth rate:

The total population in Pakistan grew to 175.0 million in 2010 from 45.9 million in 1960, a 382 percent increase in just 50 years. Pakistan has 2.54 percent of the world's total population.

The increase in population means higher demand for textile products and more workforces available for the industries.

Further Pakistan is not facing the problem of aging workforce which is being faced by China and few other European countries.

Cultural aspects:

Due to cultural diversity and rich heritage designers come up with new different and attractive designs which are appreciated worldwide. Our culture comprises of Punjabi, Balochi, Sindhi and Pashto values. We are also influenced by Indian and other foreign cultures such as India, USA etc through media exposure which gives Pakistani designers an inspiration and tastes of new designs and fusion of these designs, to give their best in terms of style creativity and designs.

Technological factors:

The technological factors that influence Pakistan's textile sector are

Research and Development Activity:

Developed countries are using biotechnology and genetic engineering to increase the quality and quantity of their cotton production. They are able to grow colored cotton, organic cotton and several different varieties cotton to add value to the textile chain.

In Pakistan, there is some research done on small scale by private companies to invent modified cotton fibers. Practically no efforts are being made by the APTMA in the R&D of the textile industry to enhance the quality

of its products, upgrade the technology used, and encourage effective methods of production in order to compete internationally.

The recent trends in textile industry of the world is using synthetic fibers, however in Pakistan there is no such advancement and industry is mainly relying on cotton crop.

Technological change:

The textile industry of Pakistan except a few big firms have low rate of technological change adaptation, most of them import used textile machinery which is used in the production process, which is not fully automated or can match the foreign competitors standards.

Porter's Five Forces Analysis:

Porter's Five Forces is a framework for industry analysis and business strategy development formed by Michael E. Porter of Harvard Business School in 1979. It draws upon Industrial Organization (IO) economics to derive five forces that determine the competitive intensity and therefore attractiveness of a market.

Attractiveness in this context refers to the overall industry profitability. An "unattractive" industry is one in which the combination of these five forces acts to drive down overall profitability. A very unattractive industry would be one approaching "pure competition", in which available profits for all firms are driven down to zero.

Following is the analysis of Porter's five forces for the textile industry of Pakistan.

Threat of the entry of new competitors:

According to Michael Porter Profitable markets that yield high returns will attract new firms. This results in many new entrants, which eventually will decrease profitability for all firms in the industry. Unless the entry of new firms can be blocked by incumbents, the abnormal profit rate will tend towards zero (perfect competition).

But as competition in this industry is not only limited to domestic competitors but it is rather global competition. Therefore the Porter's forces are explained in this wide perspective

An explanation of Pakistan's textile industry in this regard is as follows

Barriers to entry:

Capital requirements:

As the entry requires high capital therefore the entry barrier in terms of required investment is high. Without any established client portfolio it is difficult to endure increased costs in creating sample collections to show potential customers. Hence, in startup phase costs are not only associated with the manufacturing required but also with the costs for designers and creating samples. In the sense of resource dependency, barriers of entry are considered as very strong.

Risk of Retaliation:

In addition to these potential barriers of entrance, new entrants may have second thoughts about entering the new market, if existing manufacturers may retaliate on new entrants. The Pakistani textile industry though, has

such large population of manufacturers that any new actors may hardly be noticed by the competition, which minimizes the risk for retaliation.

Patents, rights:

As the textile industry is a technology oriented industry but it can't be regarded as a high tech industry so there are no patents and other restrictions which may prevent new entrants or serve as a competitive advantage for one company.

Customer Loyalty:

Considering the customers in Pakistan and dress patterns, there is not much brand loyalty. However in markets such as European and American where Pakistan exports its textile products, brand loyalty is a hurdle in establishing customer base.

Absolute cost:

Overall Pakistan has a cost advantage by having cheap labor available for the whole supply chain of the textile industry, which serves as an attraction.

The threat of substitute products or services:

When using such a broad term as Textile, there are obvious reasons for identifying substitute product groups proves difficult. Of course, there are variations in types of clothing and material. Variations in textile segment can also be identified as trends in fashion and styles. Hence products within the apparel segment can act as substitutes but the general conclusion still stands; there's no substitute to apparel.

The Bargaining Power of Customers:

Global textile & clothing industry is currently pegged at around US\$ 440 bn.

US and European markets dominate the global textile trade accounting for 64% of clothing and 39% of textile market. With the dismantling of quotas, global textile trade is expected to grow to US\$650 bn by 2012.

Although China is likely to become the supplier of choice, other low cost producers like India and Pakistan would also benefit as the overseas importers would try to mitigate their risk of sourcing from only one country.

Hence, the bargaining power of customers is strong. For that reason, it is of importance for a producer of apparel to differentiate their products or production so it will not compete with price as primary mean.

Bargaining power of suppliers :

Pakistan is a country where we have numerous players in textile industry. All are varied in terms of size and power. There has been increase in production and supply of textile products in last few decades globally, mainly due to rapidly changing social and economic structure of the countries worldwide. In past few years, especially after the removal the trade related tariffs and non tariff barriers in 2005, Asian countries such as Pakistan, India, china, Hong Kong and Japan have emerged as major players in this particular industry, mainly due to their changes on economic front and infrastructure developments.

The large number of available suppliers in Pakistan gives an initial indication of a weak bargaining position for the supplier group. Additionally, the supplier group lacks switching costs and has a low level of product

differentiation. This leads to great possibilities for textile manufacturers to scout the supplier group for best terms and prices for production. As a result, manufacturers can contact a large number of suppliers and play suppliers against each other. Such behavior weakens the bargaining power for suppliers and as a result pushes prices down and makes prices similar among suppliers.

The intensity of competitive rivalry:

The textile manufacturing segment in Pakistan is made out of numerous manufacturers which all are varied in terms of size and power. It is a massive sector with hundreds of companies producing apparel. The apparent high growth rate of total textile exports indicates that the rivalry between manufacturers is low. The growth rate is high in some product segments but even negative in others. Hence, the rivalry between apparel manufacturers is diverse since they enjoy different growth rates.

Additionally, textile as a perishable product group is in the risk of temptations to cut prices when demand slackens. For example, when there are recessions in the business cycle apparel prices will drop significantly in price.

Both these factors exemplify and indicate that the rivalry between manufacturers is high. As Pakistan's apparel manufacturers are pressured to lower prices in order to stay competitive with companies abroad, the overall rivalry within the industry is thereby increasing and is forcing companies to expand their customer base in order to keep profits up.

Analysis of Companies in Textile Industry of Pakistan:

Karachi Stock Exchange 100 Index (KSE-100 Index):

KSE-100 Index is a value weighted stock index acting as a benchmark to compare prices on the Karachi Stock Exchange (KSE) over a period of time. In determining representative companies to compute the index on, companies with the highest market capitalization are selected. However, to ensure full market representation, the company with the highest market capitalization from each sector is also included.

History:

The index was launched in late 1991 with a base of 1, 000 points. By 2001, it had grown to 1, 770 points. By 2005, it had skyrocketed to 9, 989 points. It then reached a peak of 12, 285 in February 2007. KSE-100 index touched the highest ever benchmark of 14, 814 points on December 26, 2007, a day before the assassination of former Prime Minister Benazir Bhutto, when the index nosedived. The index recovered quickly in 2008, reaching new highs near 15, 500 (citation needed) in April. However, by November 22, 2008 during the global financial crisis of 2008 it had fallen to 9, 187.

Market Indices:

KSE began with a 50 shares index. As the market grew a representative index was needed. On November 1, 1991 the KSE-100 was introduced and remains to this date the most generally accepted measure of the Exchange. The KSE-100 is a capital weighted index and consists of 100 companies representing about 90 percent of market capitalization of the Exchange. In 1995 the need was felt for an all share index to reconfirm the KSE-100 and

also to provide the basis of index trading in future. On August 29, 1995 the KSE all share index was constructed and introduced on September 18, 1995.

Listed Textile companies On Karachi Stock exchange:

The textile sector is listed on the Karachi Stock exchange under the category of personal goods. At present there are 214 textile companies listed on the Karachi Stock Exchange.

The textile sector is the third largest sector of Karachi Stock excha