

Analyse the cotton industry of pakistan economics essay



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Pakistan is the fourth largest cotton producer in the world. This creates a wide market for the prosperous growth of the textile industry since cotton is one of the most abundantly available raw materials in the country which will lead towards industrialization. Textile Industry is, therefore, central to the Pakistan's economy. It also helps create employment and is source of earning foreign income.

Textile and clothing are the two major industries of Pakistan and contributes majorly to the total export. These industries are accounting round about 46% of the total manufacturing and also providing employment to over 28% of the total manufacturing labor force.

The Pakistan textile industry contributes more than 60% to the country's total exports,

This amounts to around 5.2 billion US dollars. The manufacturing sector contributes to around half of the total exports and textile sector contributes around 46% of the manufacturing sector's contribution. The negative growth of 2.6% declining from \$ 16.4 billion to

\$ 16.0 billion in July-April 2008-09. (Asian Social Science, Vol. 6, No. 11; November 2010)

There are approximately 1,221 ginning units, 442 spinning units, 124 large spinning units and 425 small units which produce textile products.

In Asia, Pakistan is the 8th largest exporter of textile products. The contribution of this industry to the total GDP is 8.5%. The annual volume of total world textile trade is US\$18

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Trillion which is growing at 2.5 percent. However, Out of it, Pakistan's share is less than one percent. (Horizon securities, Report on textile industry of Pakistan)

The textile industry of Pakistan is made up large-scale organized sectors as well as a highly fragmented cottage and small scale sector which include many small businesses.

Distribution of textile Industry

The textile industry consists of five major stages:

Cultivating and Harvesting

Preparatory Processes

Spinning

Weaving

Finishing

The various sectors that are a part of the textile value chain are:

Spinning, most of the spinning industry operates in an organized manner with in-house weaving, dyeing and finishing facilities.

Weaving comprises of small and medium sized entities.

The processing sector, comprising dyeing, printing and finishing sub-sectors, only a part of this sector is operating in an organized state, able to process

large quantities while the rest of the units operate as small and medium sized units.

The printing segment dominates the overall processing industry followed by textile dyeing

And fabric bleaching.

The garments manufacturing segment generates the highest employment within the textile value chain. Over 75% of the units comprise small sized units.

The knitwear industry mostly consists of factories operating as integrated units

(Knitting + processing+ making up facilities). The clothing sectors both woven and knits are mainly clustering in Karachi- Lahore and Faisalabad where sufficient ladies labor is available.

Exports of Textiles

Pakistan has recorded exports worth \$19.3 billion which not only exceeds the target set for exports in 2009-10, i. e. \$18.8 billion. Textile exports fetched a lion's share of 51.8% in value terms out of the total exports for the financial year 2009-10 Exports of textile and clothing, which crossed the \$10 billion mark, recorded a growth of 7% as compared to the last year. The textile exports recorded a substantial increase to existing market but also to markets like Turkey, Portugal and Singapore, which broadened the customer base. (Pakistan Textile Journal)

The above table shows that the textile industry has been able to retain its exports at the same level in the last five years. The cotton denim fabric has seen a steady rise over the years, while other products have maintained their position more or less the same.

One of the main reasons for this is the shift from China to other countries for importing goods.

China Vs Pakistan

Rising Labor Costs: according to a source, The labor cost used to be as low as GBP 30 /month - about 350 Yuan and now is as high as GBP 470 (\$760 or 5000 Yuan) in some places . Though the actual labor rates will fall somewhere between, it is still a huge increase. This exceptionally high increase in labor cost has driven the cost of manufacturing higher for the Chinese people. It has proven very damaging for the industry as many companies are said to not have made a profit for a very long period of time. Also, the labor class is unable to get the price they want to survive in expensive South China, they are moving towards inland China where large construction projects are coming up and the cost of living is cheap. This has led to a reduction in availability of labor for production. This has led to a higher labour cost as well as reduced availability of labor.

Table: Cost of Doing Business in Textile Sector (China & Pakistan)pic 1. JPG

This table indicates that the labor cost in Pakistan is much lower than that in China for the same number of hours. However it does indicate that electricity, transport and taxes are lower in China as compared to Pakistan.

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The rise in labor prices however are shifting the attention towards Pakistan because it is cheaper overall to export from here. The advantage of low labor costs in the Chinese textile industry is facing a threat from some other neighboring Southeast Asian countries. It stated that the average labor cost in South China's coastal cities has risen to about one dollar per hour. But according to official statistics from Vietnam, Cambodia, Bengal and Indonesia, their average labor costs are respectively 0. 29 dollar per hour, 0. 36 dollar per hour, 0. 22 dollar per hour and 0. 36 dollar per hour.

International strains and environmental concerns: increasing protectionism in international trade. After the outbreak of the financial crisis, governments to protect their own industries, by improving the safety, health, environmental standards and to take anti-dumping, countervailing measures, to build barriers to trade, China's textile and clothing exports face trade frictions become more serious. In 2009, under the framework of WTO trade remedies, foreign exports of textile products to China to investigate the project and the preliminary ruling had been more than 30, which involves the chemical fiber filament, staple fiber, curtains, ribbon, blanket, curtains cloth, cotton yarn, bed sheets, linen, narrow loom, etc. from the raw material-to-end range of products. In January 2010, foreign cases on Chinese textile products on the recall of 14 cases, including five children's plush toys, the children's clothing from 9 to inform countries including the United States, Canada, Hungary, Turkey, Oliver to other countries. So far this year by foreign countries against China's anti-dumping, countervailing duty cases, there were more than 10 cases, involving products include polypropylene,

nylon filament yarn, circular looms, polyester staple fiber, weaving, heating pad and so on.

Carbon emission targets or restricts China's textile exports into Europe and the United States another pretext. With the global climate conference in Copenhagen, Denmark, the convening of low-carbon economy has been widespread concern; the state will have units of pollution emissions and energy consumption level of more stringent regulation. On the textile and garment industry in terms of printing and dyeing industry, companies will have to withstand greater pressures. The same time, developing countries, mainly through the international carbon trading (CDM) market mechanisms to participate in international carbon emissions trading, carbon trading in China is at the bottom of the industrial chain, the carbon trading market and the standards are abroad. In developed countries has long been its technical standards to limit Chinese textile exports, carbon dioxide emission targets may restrict China's textile exports to become another excuse. (China Manufacturer)

Issues of Textile Industry

Environment: since the export of textile started in, it has seen some restriction based on environmental concerns began to emerge. Some exporters in Pakistan even had cancellation of their orders because of the lack of compliance with certain legislations in the importing countries. This causes major losses to the textile industry.

Nowadays, People are getting more concerned about the environment therefore new environmental standards are being introduced all over the

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world. Therefore, even the goods currently being exported are increasingly being expected to meet stringent environmental standards. There are a lot of processes involved in the making to textile and all these processes pollute the environment in some way. This begins when the farmers use pesticide on the cotton crop and to cultivate the natural fiber, or the emission when synthetic fiber is produced as well as the water pollution in the dyeing process that usually gets ejected in the rivers. It involves many processes and uses different chemicals from start to finish to reach the final stage of completion.

During the past few decades the awareness regarding environmental problems has increased considerably and has become an important issue in the textile trade due to various environmental and health legislations, and also environmental policy is increasingly dictated through market forces. Many chemicals used in the textile industry cause environmental and health problems. These problems may occur during the production process, with respect to emissions or occupational health problems. Other problems caused by these chemicals appear due to their presence in the final product. However, worldwide environmental problems associated with the textile industry are typically those associated with the water pollution caused by the discharge of untreated effluent and those because of use of toxic chemicals especially during processing. These chemicals can harm consumers if retained in the fabric. (Pakistan Textile Journal, October 2010)

This table shows the amount of money invested in the import of organic chemicals which is increasing as well as very high. This suggests that from all these chemicals there exist a harmful by-product which damages the

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environment at a large scale and is disapproved by many countries dealing in the textile business.

Energy Crisis: Gas load-shedding continues in Punjab and NWFP despite a significant increase in temperature. A spokesman for the All Pakistan Textile Mills Association (APTMA) claimed that 60 to 70 per cent of the industry had been affected and was unable to accept export orders coming in from around the globe. He said the textile industry had already endured over 45 days of gas disconnection over a period of four months, causing extraordinary production losses and badly affecting capability of the industry. In Punjab, he said, energy supply disruption only was causing an estimated loss of Rs1 billion per day. In the larger interest of the economy and exports, he suggested, the government should “ensure utility companies provide smooth electricity and gas supply to the textile industry”. (Pakistan Textile Industry Facing New Challenges)

The lower availability of electricity was also a key constraint for the value-added textile sector. According to State Bank's quarterly report, unfortunately, due to circular debt local refineries could not provide required Furnace Oil quantity to power generation companies. As a result, import burden has increased significantly for Furnace Oil provision. The growth seen in Jul-Dec FY10 period will be challenging to sustain in the remaining months of FY10 given the inadequate energy balances in the country. For instance, the increase of 0.5 percent in gas exploration during Jul-Nov FY10 period does not seem sufficient to fuel a quick recovery. It must be noticed here that gas constitutes more than 50 percent of total energy consumption by industries. Similarly, scanty power investments in recent years allowed only <https://assignbuster.com/analyse-the-cotton-industry-of-pakistan-economics-essay/>

a small increase in electricity generation capacity; which too often remains under-utilized due to water shortages or insufficient provision of gas and/or furnace oil. For instance, as winter rains remained low in FY10, the Hydral generation capability declined sharply in January 2010. Similarly, gas sales to Power sector also declined during H1-FY10. Consequently, the use of furnace oil (FO) for thermal generation increased. The gas load shedding to textile industries for 1 day in a week decreases the production of textile finished products due to dyeing process. (Report on textile industry, Horizon Pak)

This suggests that since the prices of fuel are increasing its causing the cost of production to go higher as well. Also the daily interruption of electricity and gas is a major concern for the textile industry because it stops and hinders the process which results in losses for the firms and industry as a whole even though major player have generators it is still a costly thing for most producers in the industry.

Poor Transport Facilities: the railway systems and freight train system are unkempt in Pakistan. The Punjab and Khyber Pakhtunkhwa textile owners have difficulties because the dyes and other finishing material first transport to Punjab from Karachi port and the finished textile product again transport to Karachi port for exporting. Ultimately double transport cost on the Punjab textile product which increase the price competition between Sindh and Punjab exporters because of this Punjab & Khyber Pakhtunkhwa textile mills. There are also inadequate locomotive engines, single track and corruption in the railway system which makes it a poor choice to transport textile. The other method of transporting through trailer requires a lot of time and is

quite expensive by road. This increases the price and reduces the profit margin.

Tariffs & trade agreements While FY10 started with significant positive noise on potential reduction/removal of tariff and trade barriers for Pak textile exporters, the same has not played out too excitingly YTD. Mar-09 removal of 5.8% anti dumping duty on Pak bed wear exports to the EU has not yet reflected in bed wear exports (-4% YTD FY10) while talks of the EU extending GSP-plus to Pakistan (which could result in reduction in tariff to 4-4.7% from 11.3-

11.7%) also appear to have reached a stalemate. With the entrance of Pakistan in the

List of Generalized System of Preferences (GSP-plus) eligible nations, Pakistan textile

Exports have the potential to reach 20 billion US dollars. (Horizon Securities, Report on Textile Industry)

The provisions of Finance Bill 2009-10 are not textile industry friendly at all. Provisions like reintroduction of 0.5% minimum tax on domestic sales, 1% withholding tax on import of textile and articles etc., are nothing but last stuck on industry's back. Reintroduction of minimum tax on domestic sales would invite unavoidable liquidity problem, which is already reached to the alarming level. The textile industry was facing negative generation of funds due to unaffordable mark up rate. (Research Journal of International Studies - Issue 14 (May, 2010))

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Therefore the taxes and duties are further driving the cost of textile industry to a higher level and are proving to create hindrance and problem for the industry with the introduction of the new policies. Also, the government doesn't not appear to be set to firm on its commitment to the textile industry as it is not helping it through these measures and is ineffectively imposing the helpful policies.

Internal issues. Depreciation of Pakistani rupee during the years raised the cost of imported inputs. In addition, double digit inflation and high cost of financing has seriously effected the growth in the textile industry. Exports are having a hard time marketing their products as the buyers are not visiting Pakistan due the political and religious instability in the country.

Need for training institutions Diploma Level Courses on should also be opened in the Textile Institutions in Faisalabad and Karachi and more courses should be introduced in the Polytechnics in areas like Multan, Hyderabad, Lahore and Gujranwala. There is a great need to have a technically trained staff to handle the textile material so as to improve the quality of our product as well as to move toward efficiently produced textile material. This will prevent loss at the hand of inexperience and untrained staff and produce a positive growth in the industry in terms of its production capabilities

Lack of Modernize Equipment Moreover, critics argue that the textile industry has obsolete equipment and machinery. The inability to timely modernize the equipment and machinery has led to the decline of Pakistani textile competitiveness. Due to obsolete technology the cost of production is higher

in Pakistan. This requires investment in the textile sector to improve and upgrade the machinery and equipment of the textile sector to bring this sector towards advancement and improved product quality.

Lack of Research & Development (R&D) in Cotton Sector The lack of research & development (R&D) in the cotton sector of Pakistan has resulted in low quality of cotton in comparison to rest of Asia. Because of the subsequent low profitability in cotton crops, farmers are shifting to other cash crops, such as sugar cane. Research in this field can lead to better yield of cotton and therefore improved quality of material. However this sector is neglected and little attention is paid to it. This is because of limited use of modern technology and method which need to be improvised in order to achieve better standards of production more effectively and efficiently.

Rising Cotton Prices: Price of cotton & other raw material used in textile industry fluctuate rapidly in Pakistan. The rapid increase in the price raw material affects the cost of production badly. The increase in raw material prices fluctuates rapidly due to double digit inflation & instable internal condition of Pakistan. Due to increase in the cost of production the demand for export & home as well decreased which result in terms of down sizing of a firm. Hence the unemployment level will also increase. Government should take serious step to survive the textile industry. In order to decrease the price raw material for textile we need to increase our production capability. Simultaneously, the government should make arrangement for introducing international system of Cotton Standardization in Pakistan to enhance quality and value of Pakistan lint cotton by utilizing the technical services of

Pakistan Cotton Standard Institute.(Research Journal of International Studies - Issue 14 (May, 2010))

Government Contribution

According to Daily times News, Pakistan Textile Mills Association (APTMA) is planning to take initiatives for the textile industry to achieve \$25 billion exports by 2014-15. it has proposed five key initiatives to the government- which include revamping agriculture research for increase in cotton productivity, 24/7 energy supply, zero rating-regime for textile value chain without hassle of refunds' accumulation, competitive interest regime and public private partnership for market access.

Moreover, The National Assembly (NA) Standing Committee on Textile Industry has unanimously recommended to the Governor State Bank of Pakistan (SBP) that a committee comprising representatives from banks and value chain of the textile sector-under the auspices of Deputy Governor SBP and Executive Director SBP-may be constituted to look into the matters related to the hike in mark-up rate, restructuring of loans obtained by the textile industry from various commercial banks.

According to the minutes of the committee meeting presided over by the chairman Haji Muhammad Akram Ansari at committee room of the SBP Karachi, Governor State Bank of Pakistan informed the committee that the banks are serving all sectors of the textile industry in all geographic areas including the ones that are facing multiple problems due to war on terror. All the banks have been positively responsive to the needs in the adverse financial impact spun off by global recession, decline in demand, power and

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energy shortages and input costs escalation. (Saturday, April 09, 2011, Daily times)

Therefore SBP is being asked to look into following the policy to evaluate whether textile companies are following proper regulations and the review of the policies will improve the condition of the textile industry by regularizing its functioning and reducing unnecessary cost

Also, APTMA has already proposed five key initiatives to the government including revamping agriculture research for increase in cotton productivity, 24/7 energy supply, zero-rating regime for textile value chain without hassle of refunds' accumulation, competitive interest regime and public-private partnership for market access. Under the first capping on export volumes, the government restricted the cotton yarn export to 50 million kilogram's per month in January 2010 (daily times, Saturday, April 09, 2011)

This suggests the government is being asked to improve its involvement strategy in the textile sector and improve the nature of business through the above recommended tactics which will provide a solution to the problem in a manner as to enhance the production and distribution of the textile products.

Conclusion

The textile industry plays a vital role for the Pakistani economy as it reels in foreign exchange and has a high contribution to the GDP. The Pakistani textile industry has a huge potential if the problems are correctly resolved and investment is made in the sector as there are many factors that contribute to the thriving of the sector and if controlled properly can result in a higher rate of growth. There are many reasons that prevent this sector to <https://assignbuster.com/analyse-the-cotton-industry-of-pakistan-economics-essay/>

utilize full capacity that need to be addressed by the government.

Government of Pakistan needs to be serious in resolving these issues as it can be a vital mode of earn better foreign exchange. The government needs to take immediate steps to curb the trade deficit which might increase if not addressed properly.

There is also an opportunity to improve its global standing as the focus is shifting from china to the other Asian producer and this can be utilized to achieve a better level of export through product improvement and the services modification provided by the industry. The textile companies need to meet more potential buyer and invite them to Pakistan to improve foreign business relationships.