

# Driving forces in pakistan textile industry business essay



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This project is given us as final assignment in strategic management class the topic is “ The driving forces those forcing to change the textile industry of Pakistan” the Pakistan is agriculture base country and the textile is the back bone of Pakistan economy. The purpose of doing such types of assignment is to getting the practical exposure of industries the implantation of knowledge and also familiar with the challenges and issues which currently the industries is facing. Driving forces play an importance role for the development of economy and for the growth of industries. Through this project assignment we are all familiar with the industries knowledge and experiences and get the depth knowledge of industries and the issues, challenges, problem, norms and value of the industry. During our project we also found that Textile industry of Pakistan is facing several problems due to political and economic environment. Currently interest rate of country is very high which has increased cost of production and makes it difficult for the industry to become cost competitive in the global market. A part interest rate problem, Production of the industry is very disturbed due to power shortage and law and order situation of the country. This assignment is providing the knowledge of industry and how to solve such issues challenges and problem and how to get the competitive advantage and how to compete rivalry and how to cope up with these changes and how to develop the directions of industries in particular situations and how sustainable in these changes which is due to the driving forces of industries.

## **Chapter 02:**

### **Literature Review:**

### **Background:**

### **Research Statement:**

“ The driving forces those are forcing to change the textile industry in Pakistan”

### **Research Objective:**

Our research objective is following

To identify the link between the driving forces and textile industries

To explore the impact of driving forces on textile industries

To identify the different driving forces prevailing in the Pakistan economy

To find out the solutions for driving forces  
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Driving forces are not ISSUES – so Solution for driving forces may not be correct.

We may rite the reactions to driving forces

To find out the reason of driving forces

**Limitation of Research:**

Our research is limited in Pakistan country only and in the textile industry and the driving force whose impact on textile the research is conducted through the data analyzing.

**Scope of Research:**

The research is conduct only in Pakistan and the research cover the driving forces which is prevailing in Pakistan economy and those who impact the textile industry only.

**Methods of Research:**

The method for the research we use the data which is taken from different source and then we analyze the data through the study and through the statically tools research method is most depend upon the data that we gather from different sources and though the online collection of data and implementation.

**Data Gathering:**

The data for this topic is gathering from employee who is currently working in textile industry and from the Pakistan textile journals, different author's articles, textile mills websites, government official ministry of textile website, all Pakistan association of textile mills, Google documents, researches etc.

**Variables:**

Variable for this research is below

Textile industries of Pakistan

Driving forces in Pakistan

### **Hypothesis:**

If driving forces is their will it impact the textile industries.

If driving forces vanished what will effect on textile industries.

If driving forces aretheir will effect and how much it effect the industry.

### **Driving Forces:**

The driving forces are the key internal forces micro environment (such as knowledge competences workforce of management and macroenvironment as well (such as economy competition technology) that shape the future of the organization Change in industries is due to the driving forces is participants and driving forces is major cause to bring change in industries & competitive condition driving forces are emerge from internal and external environment.

Driving forces can include changes in social, technological, environmental, economic andpolitical factors, for example:

Demographic factors (population increase, in/out migration, changing age/genderstructure, etc).

Laws and regulations (affecting land ownership, labour relations, environmental protection measures, etc).

Policies (subsidies, price controls or guarantees, import/export controls, quotasand tariffs, exchange rates, etc).

Markets and competition (size of or access to, local, national and international markets; growing competitiveness of producers in other regions, countries etc).

Technology (availability of new genotypes, machinery, etc).

Institutions (new actors, influences, social organization).

Information (availability, communications technology).

Non-agricultural employment opportunities (processing, manufacturing, business, services, migration/ remittances, etc.)

Natural resources (characteristics of watershed, water availability, groundwater levels, land degradation, etc).

### **Driving Forces Analysis:**

Driving force can be analyzed in two steps

Identify relevant driving force

Assessing the impact they will have

### **Types of Driving Forces:**

Some of the common driving forces of industries.

Increasing globalization of industry

Changes in cost and efficiency

Shifting from standardized to differentiated products (or vice versa)

Regulatory influences & government policy changes

Changing societal concerns, attitudes, & lifestyles

Changes in degree of uncertainty & risk

Changes in long-term industry growth rate

Changes in who buys the product & how they use it

Product innovation

Technological change/process innovation

Marketing innovation

Entry or exit of major firms

Diffusion of technical knowledge

Driving forces In Textile industries gauhar. hassan2011-04-05T15: 57: 00

Globalization? of Pakistan:

Pakistan's textile industry faces several factors, both internal and external, that affect its competitive edge in global trade.

An increase in production costs because of the heavy cost of credit finance

Government levies and taxation have weighed heavily on the industry,

Domestic cotton has not met qualitative needs of the growing spinning and textile sectors.

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Pakistan's downstream users have also impacted the market,

Government-backed supportive policies and heavy subsidies of our regional rivals like China, Bangladesh, India and Sri Lanka.

External trade and tariff barriers, such as high import duties by the U. S. and anti-dumping duties by European Union.

Pakistan's loss of preferential access under the Generalized System of Preferences (GSP) in the E. U.

### **Other Driving forces in textile industry:**

Pakistani Mills Look For the Competitive Edge

RGST to affect value-added textile sector

Zero rated status for all exports to be maintained

Government restores zero-rating for textiles

Textile Policy 2009-14 Analysis

Finance Bill to Burden Industry Further

Increasing Cost of Production

Electricity Crisis

Tight Monetary Policy

Removal of subsidy on Textile sector



United States & EU cuts imports of textile from Pakistan

Raw material Prices

Effect of Inflation

### **Pakistani Mills Look For the Competitive Edge:**

Pakistan's cotton and textile industries have adapted to changes in the global cotton trading environment during recent years by investing more than U. S. \$6 billion in production and technology upgrades. Because of that, Pakistan's domestic consumption has surpassed production by about 3 million bales. But even with increasing consumption, Pakistan's textile industry faces several factors, both internal and external, that affect its competitive edge in global trade. Many mills have incurred losses during the last two years. Those mills which could not adopt the necessary changes in the new business environment because of their financial restraints and heavy liabilities have experienced the greatest losses. To make their projects viable and to minimize losses, mills are generally curtailing their production by going into fine count yarns or closing parts of their units.

Current Forecast:

Pakistan emerged as a major player in world cotton trade after a phenomenal increase in its spinning capacity in the last few years.

Traditionally, most of the mills in Pakistan still prefer to use Pakistani cotton due to its known spinning characteristics and easy availability for making medium-count yarns. But many mills have now developed permanent plans and blends based on imported cotton to bridge the shortfall in the local

cotton supply. Recently, some mills have bought about 15, 000-20, 000 tons of Brazilian 2008 crop on call basis for shipment in 2008, and several other mills are inquiring to buy Brazilian cotton on the same basis. Some Brazilian businesses have reported as far as 2009. Some of the mills use this mode of buying to secure their short position in Pakistani cotton. If domestic price goes up, they opt to take shipment, and if prices come down to their desired level, they manage to get their import contracts settled with the shipper with mutual consent. According to private estimates, about 2. 5 million bales of different growths have been booked in 2006/07 through the end of April. By February 2007, about 1, 900, 521 bales (170 kgs each) had reached the country. Pakistan may need to buy another 300, 000-400, 000 bales, which they may cover mostly from U. S., Brazil, West Africa and Uzbekistan.

#### Pakistan's Supply And Demand

05/06

06/07

07/08 (E)

Beginning Stock

4. 45

3. 50

3. 00

Production

12. 40

12. 40

14. 20

Imports

2. 05

2. 85

2. 20

Total Supply

18. 90

18. 75

19. 40

Consumption

15. 00

15. 50

16. 00

Exports

0. 40

0. 25

0. 40

Ending Stock

3. 50

3. 00

3. 00

Total Distribution

18. 90

18. 75

19. 40

(all figures in million bales of 170 kg. each)

### **Cotton vision 2015**

Under cotton vision 2015, the government plans to bring more area under cotton cultivation particularly in Balochistan and Khyber Pakhtunkhwa.

According to the plan, the government wanted to increase cotton production by 20 million bales through potential areas of Balochistan and KP. Having considered various options for production enhancement, it was realized that the production level of 20 million bales could be achieved by 2015 with a modest increase in sowing areas in potential cotton growing areas of

Balochistan and NWFP coupled with an average of 5% growth in per hectare

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yield. The sources said that cotton alone contributes nearly 65 percent of the foreign exchange earnings of Pakistan. To bring more area under cultivation and ensure food security, the government plans to purchase 100 bulldozers for land development work in Balochistan with financial assistance of Italian government. The bulldozers procured will be deployed for development of 78 thousand hectares of land (70 percent new and 30 percent existing) throughout the life of the bulldozers. The bulldozers would be given to the farmers at the rate of Rs 550 per hour against operational cost of Rs 3994.60 per hour involving 86 percent subsidy. (February 16, 2011)

### **RGST to affect value-added textile sector**

RGST bill was most complicated than on-going GST and urged the government not to impose RGST that was going to push the export-oriented and labor intensive Textile Value Added Textile Sector to the wall. He said that the textiles exporters had strong exceptions to the government for continuously ignoring the reservations of the exporters regarding the imposition of the RGST and Zero Rate facility would not be withdrawn. But it is fact the Govt. had not yet cleared the outstanding refund claims of billions of rupees so far.

He mentioned that the government was also holding up millions of exporters' money under export rebate which was at present around 1%. Now it seems impossible in the present state of functioning that FBR could smoothly release 15% of GST refunds. To meet this shortfall in working capital, textile exporter/entrepreneur would resort to bank for financing its export for which mark-up rate itself is on a parallel rise. Thus Textile Value Added Textile

Sector would be lead to an ultimate collapse, which facing shortage and day-by-day growing bills of Gas, Electricity and basic raw material.

### **RGST may lead textile industry to bankruptcy**

He said textile industry was consuming 15 percent (600mmcf) of total load of 4000mmcf but the shortage is already being shifted on the industry which is unfair. According to him, textile industry has already lost \$1.5 billion exports last year as a sizeable capacity remained idle on account of non-availability of gas. This loss is likely to touch \$3 billion this year due to increase in value of commodities, if the gas supply to the industry is discriminatory suspended. He feared industry production loss to the extent of 30 percent ahead in case textile industry is denied gas during peak load period starting from November till February. Textile industry has already suffered from 44 days unprecedented gas load shedding during summer. The industry worries are piling up fast with regard to the next 12 months load management policy.

### **Government restores zero-rating for textiles**

The government has restored the zero-rating for textile exporters and lowered the rate of general sales tax (GST) to four to six percent on sales of textile goods in local markets from the earlier notified 17 percent. Now manufacturers will not have to pay GST on their purchases if the goods manufactured are meant to be exported.

If a registered taxpayer or exporter buys yarn with an aim to sell finished products made of it (yarn) in local markets, then he will pay four percent

GST. And afterwards, four percent GST will be charged at every level of value-addition instead of 17 percent.

If an unregistered taxpayer buys yarn, then he will be liable to pay six percent GST, and four percent GST will be charged on every step of the value-addition chain. Moreover, authorities have also clarified that the special excise duty will only be charged from other than zero-rated sectors. And those imports that are made for the purpose of exports will also remain zero-rated. The rate of withholding tax has been fixed at one percent. All these decisions will come into force with effect from April 01'2011.

The decisions announced in these respects on March 15 through presidential ordinances and subsequently notified through statutory regulatory orders (SROs) have become null and void. The new decisions were taken by finance minister Abdul Hafeez Shaikh and chairman of FBR Salman Siddique at a grand meeting with textile makers.

Delegates from Federation of Pakistan Chambers of Commerce and Industry, chambers of commerce of different cities and representatives of textile bodies participated in the meeting held at Islamabad. " This is a win-win situation for the government and textile makers," said a participant of the meeting. " There was consensus on the rates of taxes." Officials agreed to implement four to six percent GST on local sales instead of 17 percent after they were made to realize the menace of Afghan Transit Trade (ATT). " If the government had not lowered the taxes, it would have encouraged smuggling under ATT and through other channels." According to an estimate, goods

worth \$2.5 billion were smuggled into the country last year under the garb of Afghan transit trade.

## **Textile Policy 2009-14 Analysis**

The first ever National Textile Policy was announced by the government in 2009 and is being generally hailed by the stakeholders since it not only addresses some of their key concerns and demands but also shows (albeit after a long wait) the required commitment and assumption of ownership by the Textile Ministry for providing meaningful policy direction to this largest national manufacturing sector.

While the announced policy tends to be quite comprehensive and well researched its success will largely depend on the team assigned to micro manage its implementation and the operational strategy it then goes on to adopt. More often than not, perfectly good policies in the past failed to yield the desired results owing to blatant micro-management failures. Further, we find that embedded in the policy itself are measures that represent its core strength but ironically remain beyond the executionary ambit of the Textile Ministry. For example, it is all very well to announce ' Priority in Gas and Electricity Load Management', but to be able to effectively carry this out poses some serious practical challenges. First, to implement such a measure requires equal assurance and willingness by the related yet different ministries, namely Water & Power and Oil & Gas. Second, the textile industry itself is scattered and does not draw power from either dedicated textile feeders or textile specific power stations. Therefore ensuring continuity of supplies only to textile mills while switching off others, may operationally not be doable. Third, the textile industrial units (especially the small and medium

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sized) are so grossly intertwined with residential areas in virtually all industrial centers such as, Faisalabad, Gujranwala, Sialkot, Sheikhpura, Multan, etc., that it gets to be virtually impossible to separate the gas and electricity supply lines of domestic users from the industrial ones.

Perhaps a better approach would have been to consult with relevant ministries and announce that

a) Textile units in all sizes are entitled to alternative feeder arrangement that ensures continuity of supply from one feeder while the other is switched off for load management,

b) Gas to be made available at the doorstep of textile units (like in the earlier days) to overcome the current prohibitive cost of simply getting a gas connection installed; a cost that at present literally denies a significant portion of the industry from cheap, efficient and clean fuel in shape of natural gas,

c) Since gas supply management is there to stay, especially in winters, why not just announce a reduced gas tariff (like in Bangladesh) for industry that can in-turn help average out additional fuel costs undertaken by the industry during the period when gas is not available, and

d) An establishment of a joint cell consisting of representatives from related ministries and the industry to create a forum that is easily accessible to mill managements and that can at the same time ensure to resolve problems that emerge on an on-going basis.

## **Increasing Cost of Production**

Textile industry of Pakistan is facing problems in competing in the international market due to increase in the cost of production. The increase in the cost of production is due to the facts like interest rate, inflation and the continuous depreciation of Pakistani rupee value. Textile exporters rightfully demand reduction of Kibor rate to 8% to avoid a severe decline in exports. A three-year comprehensive textile policy is expected to be announced before budget 2009-10. The textile policy has been designed to enhance the exports of textile sector to \$ 25 billion in next three years. This was stated by the Minister for Textile Industry RanaFarooqSaeed Khan. Textile Minister further informed that the spinning and weaving sector would get its due share from the Export Investment Support Fund, worth Rs. 40 billion allocated in the Federal Budget 2009-10.

## **Electricity Crisis**

As a consequence of load-shedding the textile production capacity of various sub-sectors has been reduced by up to 30 per cent. The joint meeting of APTMA & other related organization was held at APTMA House to formulate a joint strategy to address the alarming electricity crisis being faced by the textile industry. The meeting unanimously decided to constitute a joint working group of electricity management for the textile industry in the larger interests of the value chain of the textile industry. The joint working group will meet shortly to design a detailed plan to pursue the following goals; immediate total exemption from Electricity load shedding for the textile industry value chain; Rationalization and reduction of electricity tariff. The load-shedding of electricity cause a rapid decrease in production which also

reduced the export order. The cost of production has also risen due to instant increase in electricity tariff. Due to load shedding some mill owner uses alternative source of energy like generator which increase their cost of production further. Due to such dramatic situation the capability of competitiveness of this industry in international market effected badly. Fig. 1. illustrates comparison between electricity production and consumption (Business Recorder Pakistan -Special report, 2009).

### **Tight Monetary Policy**

Due to the stiff monetary policy the cost of production is high. Due to high interest rate financing cost increases which cause a severe effect on production. The withholding tax of 1% also effects the production badly. The high cost of doing business is because of intensive increase in the rate of interest which has increased the problems of the industry. The government should take immediate measures to remove slowdown in the textile sector.

### **Removal of subsidy on Textile sector**

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 strick 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.

## **United States & EU cuts imports of textile from Pakistan**

United States cancel more than 50% of textile orders of Pakistan . US also impose a high duties on the import of textile of Pakistan which effect the export in a bad manner. US & EU are the major importer of Pakistan textile which create a huge difference in export of Pakistan textile after imposing a restriction on import of Pakistani textile goods.

## **Raw material Prices**

Prices of cotton & other raw material used in textile industry fluctuate rapidly in Pakistan. The rapid increase in the price raw material effects 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 downsizing 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.

## **Effect of Inflation**

Inflation rate is measured as the change in consumer price index (CPI).

Inflation is basically a general rise in the price level. It is decline in the real value of money. Inflation can have adverse effect on economy. Pakistan is

one of prey of inflation. It still faces high double digit inflation. The increase in inflation causes the increase in the cost of production of textile good which return in downsizing. The double digit inflation causes reduction in exports of textile. (FPCCI)

## **Chapter 03:**

Industry Profile: gauhar. hassan2011-04-05T15: 58: 00

I think THIS should come before the DRIVING FORCES

## **Background:**

World Textile Industry was initially started in Britain at the beginning of the 18th century was the production of textiles as the spinning and weaving machines were invented in that country. Preston barber Richard Arkwright in 1769, patented a machine that would take cotton spinning from home to the factory. Arkwright's water frame was the first textile machine to use water power rather than muscle power. From this marked the factory system started, which later spread to other industries. According to statistics, the global textile market possesses a worth of more than \$400 billion presently. The industry has faced high competition and opportunities in a more globalize environment. It was forecasted that Global textile production will grow by 25% between 2002 and 2010 and Asian region or the Asian countries will largely contribute in this sector. The WTO has taken so many steps for uplifting the textile industry sector. In 1995, WTO had renewed its MFA and adopted agreement on textiles and clothing (ATC), which states that all quotes on textile and clothing will be removed among WTO member countries. However the level of exports in textiles from developing countries

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is increasing even if in the presence of high tariffs and quantitative restriction by economically developed countries. Moreover the role of multifunctional textiles, eco-textiles, e-textiles and customized textiles are considered as the future of textile industry.

## **Types of Textile Industry:**

### **These are the industry lie in the textile sector**

Cotton industry

Woolen industry

Silk industry

Linen industry

## **Pakistan Textile Industry Description:**

Whenever we think of manufacturing industry in Pakistan, it is textile industry that immediately comes to mind that is playing an important position in terms of the employment generation and value added special contribution towards the exports. Pakistan's textile industry is one of the most important sectors of Pakistan. We can say that after agriculture sector, the textile industry is the backbone of Pakistan as it contributes significant part to the country GDP, exports as well as employment. s the fourth largest cotton producer in the world. Because of its plentiful, indigenous cotton supply, the textile industry is central to the Pakistani economy.

The Pakistan textile industry has strong base of raw material, started its journey from non existence in 1947 with meager size of 78000 spindles and

merely 3000 looms that was unorganized sector, and only 8% domestic demand was catered. The industry has gone through a long way and now possesses 443 units, 8.4 million spindles and 166,000 rotors, 20,000 shuttles less looms, 200,000 power looms, over 600 processing units and over 2500 garments units. Textiles and Clothing, no doubt is the largest industrial sector of Pakistan from the investment, employment and export point of view. It accounts for approximately 27 percent of total industrial output, absorbs about 38 percent of industrial labor force, and contributes around 60 to 65 percent to export earnings.

[Pakistan Economics Survey].

The cotton country.....

Fourth largest producer of cotton after USA, China and India.

Third largest consumer of cotton.

Third largest exporter of cotton textiles.

Second largest supplier of cotton yarn with

26% share of the international market.

## **These are the main sectors of Textile Industry:**

### **Spinning**

### **Weaving**

### **Finishing**

### **Dyeing/ Printing**

### **Pressing**

### **Fashion designing**

### **Spinning**

It is the process of converting raw material into yarn. The raw materials may be natural materials such as cotton or manmade fibers such as polyester.

Sometimes, the term spinning is also used for production of manmade filament yarn.

### **Weaving**

It is the process of making cloths like t-shirts, jeans and all, rugs, blankets and other products by crossing two set of threads over and under each other. Now, weaving machines are used for this process. Weaving is the most important sub-sector of textile. The exports of woven fabrics and other related woven made-ups form a major portion of textile exports from Pakistan.

### **Finishing**

Finishing of cloth is one of the chief arts in the textile industry. The appearance of the any product is the first concern, and the appearance of any fabric is just because of the methods of finishing.



## **Dyeing/ Printing**

The Dyeing of clothing and other materials is a fairly simple process. It doesn't consume much time and work actually it often depends on what type of dye you purchase. Printing is something through which cloths are printed with different designing and prints.

## **Pressing**

The cloths which came after the process of dyeing and printing would go for the pressing. It is simply pressing the cloths.

## **Fashion Designing**

It is new in the textile industry, actually the popularity of fashion designing begin from previous couple of years. It is the applied art dedicated to clothing and lifestyle accessories created within the cultural and social influences of a specific time.

## **Process of Textile Value Chain**

### **Challenges to textile:**

Frequent fashion changes.

Anti dumping policies imposed by major importers.

Non tariff barriers may increase such as standards relating to child labour, human rights, wages and working conditions, use of carcinogenic chemicals, inflammable materials, etc.

Increased competition from India, China, Turkey, Caribbean & Sub-Saharan countries and others who have preferential trade arrangements with major importing countries.

High power cost & frequent power cuts.

Lesser usage of eco-friendly materials.

Lack of international marketing efforts.

Higher rate of interest on loans for modernization and expansion.

Less awareness in acquiring international quality certifications.

## **Chapter 04:**

### **Company Profile:**

#### **Name**

#### **Owner**

#### **Location**

Adil Textile

Gulistan Textile Mills Limited

Quetta. Text

Accord Textile

Gulistan Spinning Mills Limited

Quetta Textile Mills Ltd

Ahmed Hassan Textile Mills Limited

Gulshan Spinning

Rashid Text.

Ahmed Spinning Mills Limited

Hafiz Textile

Ravi Textile Mills

Al -Azhar Textile

Hajra Textile

Redco Textiles

Al-Abid Silk Mills

Hala Spinning

Regent Textile

Ali Asgahar Textile

Hamid Textile Mills

Reliance Cotton

Alif Textile

Harnai Woolen Mills

Reliance Weaving

Al-Jadeed Tex