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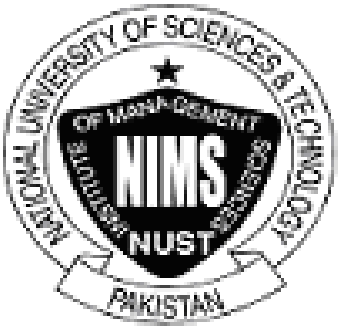


# TEXTILE INDUSTRY OF PAKISTAN: CAUSES OF SICKNESS

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Words are bound and knowledge is limited to praise Almighty ALLAH, the Lord of the worlds, the Omnipotent, the Beneficent, the Merciful and the Gracious who is the entire source of all knowledge and wisdom endowed to the mankind. Peace and blessing of Allah be upon Hazrat Muhammad, the Apostle of Allah, the greatest social reformer, and who, is the forever source of knowledge.

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# EXECUTIVE SUMMARY

Industrialization has always been considered as the rapid road to economic development in Pakistan. Pakistan's ruling classes, from the earliest days, had the firm belief that industrialization was the only road to development. The government then embarked on an ambitious industrialization program in the very first decade of the country's existence. As a, matter of fact, industry was given the priority over agriculture.

Cotton based industries are an integral part of the country's manufacturing sector. Cotton products are especially vital for the economy as they are exported in large quantities, and are a lucrative source of foreign exchange. Cotton textile industries were amongst the first to be set up in the country, and the production of these industries witnessed tremendous increases during the early 1950's. Growth rates stagnated in the second half of the decade. As the effects of the Korean boom began to wear off, cotton production stagnated.

Although textile industry has played a vital role in the economy of Pakistan and has a major share in Pakistan's export but still it facing different problems. The major problem faced by the industry is the stagnation of Pakistan Textile Export share in the world trade. There are many sick units in the industry and factors like timely BMR, no value addition, etc are the reasons of the sickness of the units.

There is a need to take steps to cure the sick units before it gets too late. The industry needs to do value addition in products; investments are needed in the right direction to revive the sick units. Well qualified employees are the requirement of today in order to have quality products and to increase the productivity of the textile sector. Therefore, alot of steps are required in order to make textile industry use its full potentials and to get out of stagnation.

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# 1.1 TEXTILE INDUSTRY

Industrialization has always been considered as the rapid road to economic development in Pakistan. The areas of the subcontinent that came to be Pakistan in 1947 were primarily agricultural areas, with the Punjab being call the granary of India and in East Pakistan the major producer of tea and jute. United India's industries, its textile and jute mills, were located in West Bengal and in the United Provinces and Bombay; all areas that acceded to India. Pakistan's ruling classes, from the earliest days, had the firm belief that industrialization was the only road to development. The government then embarked on an ambitious industrialization program in the very first decade of the country's existence. As a, matter of fact, industry was given the priority over agriculture.

The 1960's saw a continuation of the pro- industrial growth strategy, with the government providing incentives to the industry by over- valuing the exchange rates, suppressing exports of agricultural raw materials and providing tax incentives to all categories of industries. By the end of 1960's, however, it had become obvious that industrial development at the cost of agricultural growth was not a feasible strategy and was leading to certain undesirable socio-economic stratification, i.e. a more unequal distribution of wealth and concentration of economic and political power in a few hands. It became obvious that more balanced growth strategy was needed, and that agriculture and industry had to be complimentary if it were to lead to a long-term economic development.

Cotton based industries are an integral part of the country's manufacturing sector. Cotton products are especially vital for the economy as they are exported in large quantities, and are a lucrative source of foreign exchange. Cotton textile industries were amongst the first to be set up in the country, and the production of these industries witnessed tremendous increases during the early 1950's.

Growth rates stagnated in the second half of the decade. As the effects of the Korean boom began to wear off, cotton production stagnated.

The production of both cotton yarn and cotton cloth remained fairly steady during the first half of the 1960's, but showed no exceptional increases. This was partly due to the fact that profitability in the industry was low from 1961 to 1967. In the second half of the decade, yarn production was satisfactory. However, the production of textile stagnated as labor unrest swept the country, and trade unions became ever more politically active. A large number of working days were lost due to labor unrest during 1967-68 and 1968-69.

Cotton textile and yarn production was particularly disappointing during the period from 1969-70 to 1976-77. The cotton crop was severely affected during the floods of 1973 and 1974. At the same time, the international price of cotton had begun to increase.

The textile industry did not revive even in the second half of the decade, despite numerous incentives offered to it by the government. These included the abolition of import duty on textile and reduction of the interest rate on loans disbursed under the Export Finance Scheme.

The textile industry remained sluggish during the early 1980's because the protectionism barriers erected by Western Countries adversely affected the export of cloth to foreign markets. At the same time, a number of south Asian countries, including India and Thailand began to export high quality of cotton textile and the competition increased. The failure of the cotton crop in 1983-84 proved to be particularly harmful for textiles. Low production of cotton, coupled with hoarding and speculative purchases, resulted in a sharp increase in the price of raw cotton. The government tried to salvage the situation by banning the export of raw cotton and removing the surcharge on its import. However, textile production did not immediately respond to these incentives. The government

decided that no new spinning unit would be sanctioned unless it was to be set up in an under developed area. This was done to avoid the build up of idle capacity in the textile industry. The production of cotton yarn was relatively better but it, too, was affected by the imposition of trade barriers in the foreign countries.

The period from 1984-85 to 1990-91 saw the revival of the textile industry. Yarn production, in particular, showed phenomenal increases due to the upsurge in the international demand, and the tremendous increases in its international price .the government was, in fact, forced to impose restrictions on the export of cotton yarn in order to ensure its availability to domestic producers of cotton products. Cotton textile production too began to revive as larger cotton crops were harvested after 1985-86. However, textile production did not increase on the same scale as yarn production. The growth of the textile industry continued to be hampered by the continued imposition of trade barriers. Sixty % of installed looms were lying idle in March 1986. This was an effort duty on the production of blended fabrics; the demand for which is higher in the world market.

The textile industry was deregulated in 1987. The setting up of a new textile unit no longer required any sanctions. This move was taken with manufactured products. However, the wisdom of the measure is questionable, as there are serious capacity utilization problems in the textile sector. This is borne out by the fact that 50% of the installed looms were lying idle in 1990-91.

The tax and other financial concessions provided to the textile industry have only served to decrease its competitiveness. Fiscal initiatives have deserved to shield textile producers from major losses, and have made them impervious to the need for improving the quality of their product. The lack of innovation and management and prevalence of outmoded techniques of production have further eroded the profitability of the sector.

## 1.2 PAKISTAN TEXTILE INDUSTRY PERFORMANCE OVERVIEW

Over the years, Pakistan is said to be the single crop economy i.e. cotton and textile that claims the lion's share in terms of the contribution in the national economy of Pakistan.

Despite efforts to bring in diversification in country's overall economic get-up the textile sector continues to be the most important segment of the national economy. Its share in the economy, in terms of GDP, exports, employment, foreign exchange earnings, investment and revenue generation altogether placed the textile industry as the single largest determinant of the economic growth of the country.

Textile sector occupies prominent position in the economy of Pakistan it earns major share in exports, investment, employment and in contribution to GDP among all other industrial sector. Its main sub sector are: spinning, weaving, finishing, knitwear and ready wear garments among which spinning and weaving are consider most important.

### 1.2.1 GROWTH OF SUB SECTOR

#### SPINNING

It is a fact that Pakistan textile started from scratch of merely 78000 installed spindles capacity in 1948 although its cotton production that year was 1.1 million bales (170 KG). It is interesting to note that East Pakistan where no staple cotton was produced had about 15 composite textile units with spinning capacity of more than 200,000 spindles. The local entrepreneurs took the initiative of putting up textile unit to meet the textile requirement of the country. By 1960, the number of textile units shot up to 72 with working capacity of 1.49 million spindles consuming about 1.34 million bales. With the local availability of yarn, the weaving capacity also increased to 27000 looms. The govt. policy was

directed towards establishment of agro-based industries with special reference to textile industry. The table gives the detail of development of textile industry till 1999.

| Period | Installed Units | Working Spindles | Increase | | Capacity Rotors | Bale Consumed 170 Kg each |
|---|---|---|---|---|---|---|
| | | | No. | % age | | |
| 1948 | NA | 78 | - | - | - | 75 |
| 1960 | 72 | 1.491 | 1413 | 1811 | - | 145 |
| 1970 | 107 | 2.327 | 836 | 56 | - | 2.584 |
| 1980 | 179 | 2.841 | 514 | 22 | 15 | 2.354 |
| 1990 | 266 | 4.489 | 1648 | 58 | 64 | 6.385 |
| 1999 | 537 | 6.334 | 1845 | 41 | 79 | 8.80 |

Between 1948 and 1960, the spinning capacity increased tremendously. Later, in 1960's the increase was 56 %, in 70's 22% in 80's 58% while in 90's 41%. There have been numerous increases during in 80's and 90's. New technology of spinning known as open -end was introduced in Pakistan in 1976 and while 1997 about 141000 rotors had been installed, of which about 80000 rotors were operational this expansion is in spinning capacity has not been compatible with forward process. As some difficulties were experienced in managing composite textile units so entrepreneurs prefers to install spinning, weaving and finishing units separately. Yarn, cloth and other textile production also increase accordingly. In 1980-81, Pakistan produced 374.9 million Kg of yarn and it increased to about 1600 million Kg. In 1996-97, according 325% increase in 17 years. [2]

**WEAVING AND MADE- UPS**

In 1948, there were only 3000 looms. This sub sector made a tremendous progress simultaneously with spinning. Initially, weaving was attached with spinning within same premises but later separate weaving unit were installed. In 70's, power looms started working as small industries but later this sub sector grew by leaps and hounds. The position of weaving sector is:

| | Installed | Working Spindles |
|---|---|---|
| Integrated Textile Mills | 9.913 | 4.713 |
| Independent Weaving Units | 13.340 | 12000 |
| Power Looms Sector | 202.000 | 166000 |
| Total | 225.53 | 182713 |

There are about 10,000 knitting machine in country, of which about 40% capacity remains unutilized. About 6500 power looms, both in organized and unorganized sector are working. Canvas production is more than 100 million square meters of which about 90% is exported.

**INVESTMENTS**

Initially, investment in textile industry came from prominent business families owned funds and very little was borrowed from banks. Later, diversification in industry prompted the industrialists to enter into other industries requiring huge investments and they restore to borrowing from banks, financial institutions and public. This phenomenon received impetus after 1980 and in 17 years period the installed spinning capacity registered a record increased of about 120% with a total installed capacity of about 8.5 million spindles and working capacity of 6.4 million spindles. When the local private banks were nationalized they adopted very liberal industrial finance policies, which helped in expending the base of textile industry vertically and horizontally.

The textile sector expects that the volume of investment in different segments of textile industry will exceed $500 million by the end of year 2005. The import of the textile machinery in Pakistan has increased considerably in the year 2001-2002 to expand spinning and weaving capacity. The rise in import of textile machinery is due to higher demand for Pakistani textile items including yarn, fabrics, bed-wear and garments despite economic slowdown worldwide. The production of cotton cloth in Pakistan has increased by 15 per cent while cotton yarn went up by 4.5 per cent. The spinning sector witness's boom in the last three years and the industry re-invested its profit for new equipment. Besides revival of sick units, 150,000 spindles had also been added to the working capacity during last three years. An investment of Rs40 billion had been made by the textile industry last one and a half year under Textile Vision Program being monitored by the State Bank of Pakistan. An investment of Rs23 billion in textile spinning sector, Rs.5 billion in weaving, Rs4 billion in polyester fiber, Rs3 billion in processing and Rs.4 billion in knitting and garment sectors have been made. Actually, the investment in the textile sector was estimated at Rs40.353 billion in the last one and a half-year against an investment of $775 million (Rs46.5 billion envisaged in Textile Vision 2005).

The textile industry imported $405 million worth of machinery in 2001-2002 and $370 million 2000-01. The industry spent over Rs50 billion on the expansion of their units in the last two years. However, increase in import duty on the textile plant and machinery for spinning, weaving and finishing industry in the 2002-03 budgets by 5 per cent adversely affected the BMR plans of the textile sector.

After suffering stagnation for the last 5 years, the textile exports started improving; especially the value-added products performed well in the export market in spite of lower demand and depressed prices in the international market.

During the year, the textile industry acquired the most modern technology to produce quality and competitive products to meet the global change. Recent installation of two dying plants by Nishat Textile in Kasur and Kohinoor Weaving on Raiwind Road besides expansion in a number of other factories in Faisalabad, Sheikhupura and Lahore where about 1,000 new air jet looms have been installed would ultimately prove helpful in achieving value-addition in different categories. The industry has been expanding rapidly to increase the export and achieve the targets of Textile Vision 2005.

Presently, there are about 225 textile companies on the board of Karachi stock exchange. Their market values of shares are estimated around Rs.20 billion whereas, at face-value rate, the investment is estimated around Rs.50 billion. The overall value of these 225 textile companies may be around Rs.80 billion. The share rates of textile companies have been very disappointing. Hardly 20 % of the shares are selling at face value or above but 80% are below face value. Many shares of such companies are selling at below 20% face value and the investors have been lost very heavily in textile companies. The return to the investors has been negative and the hard earnings invested in textile companies have almost been lost which has shattered the confidence of the investors in textile companies.

As a matter of fact, our textile industry most of the time availed of special concessions in taxes duties and rebates. Raw cotton was to be made available to the local spinning sector at subsidized rates. Only from 1995, free export policy has been adopted removing all export duties. In this way the old demand of cotton pace of recovery is very poor. Heavy defaults have been reported.

**COTTON CONSUMPTION**

In the beginning when the spinning capacity was very negligible, the consumption was very low. As the spinning capacity was increased accordingly.

In 50 years, average consumption as percentage of productions works out to be 68%. It means averagely 32% was found surplus to domestic requirements, which was exported.

**COTTON QUALITY CONTROL**

In 50 years time, quality of cotton has been improved but not to the international standards. The spinners who were the main buyers to the Pakistan cotton didn't make efforts towards the improvement in quality. They failed to give any standardization system to the country they bought whatever was available in ginning factories and produce yarn accordingly. In other countries lie USE the spinners guide the breeders and growers about the require fibber properties best suited for yarn to be in high demand nationally and internationally.

A technology known as lint cleaning or post-cleaning was introduced in Pakistan in 1984. USA made lint-cleaners was installed and lint was subjective to cleaning process. As much as 100 lint-cleaners were installed in factories which produce high cotton. In one cotton season, perhaps in 1986-87 about 600 thousands bails of high grade were produced and almost all were exported. The local spinner did not like this cotton on one or the other excuse. Almost all countries produced lint-cleaned cotton which Pakistan exported, were used in spinning. Our spinners import cotton which is always lint-clean and it is used by them in spinning. As a result of such step-motherly treatment with lint-clean cotton the ginners stopped producing such cotton.

## 1.2.2 GROWTH OF TEXTILE INDUSTRY

Since the creation of Pakistan, the textile industry of Pakistan has played a vital role in the economy of the country and has played a major role in the development and progress of the country. Although this industry has played a major role but its growth is still called a snail paced growth.

The consumption of raw material i.e. Cotton and Fiber for the period starting from 1947 to 2003 is given in the table:

| | RAW MATERIAL | | | GROWTH % | | % OF TOTAL | |
|---|---|---|---|---|---|---|---|
| **Period** | **Cotton** | **Fiber** | **Total** | **Cotton** | **Fiber** | **Cotton** | **Fiber** |
| 1948 | 6876 | N.A | 6876 | - | N/A | 100 | N/A |
| 1949 | 8731 | N.A | 8731 | 27 | N/A | 100 | N/A |
| 1950 | 13664 | N.A | 13664 | 56 | N/A | 100 | N/A |
| 1951 | 21871 | N.A | 21871 | 60 | N/A | 100 | N/A |
| 1952 | 27119 | N.A | 27119 | 24 | N/A | 100 | N/A |
| 1953 | 49421 | N.A | 49421 | 82 | N/A | 100 | N/A |
| 1954 | 99018 | N.A | 99018 | 100 | N/A | 100 | N/A |
| 1955 | 146299 | N.A | 146299 | 48 | N/A | 100 | N/A |
| 1956 | 158436 | N.A | 158436 | 8 | N/A | 100 | N/A |
| 1957 | 164503 | N.A | 164503 | 4 | N/A | 100 | N/A |
| 1958 | 169756 | N.A | 169756 | 3 | N/A | 100 | N/A |
| 1958-59 | 181440 | N.A | 181440 | 7 | N/A | 100 | N/A |
| 1959-60 | 201184 | N.A | 201184 | 11 | N/A | 100 | N/A |
| 1960-61 | 204484 | N.A | 204484 | 2 | N/A | 100 | N/A |
| 1961-62 | 205330 | N.A | 205330 | 0 | N/A | 100 | N/A |
| 1962-63 | 213224 | N.A | 213224 | 4 | N/A | 100 | N/A |
| 1963-64 | 233540 | N.A | 233540 | 10 | N/A | 100 | N/A |
| 1964-65 | 237402 | N.A | 237402 | 2 | N/A | 100 | N/A |
| 1965-66 | 230669 | N.A | 230669 | -3 | N/A | 100 | N/A |
| 1966-67 | 243593 | N.A | 243593 | 6 | N/A | 100 | N/A |
| 1967-68 | 271896 | N.A | 271896 | 12 | N/A | 100 | N/A |
| 1968-69 | 296125 | N.A | 296125 | 9 | N/A | 100 | N/A |
| 1969-70 | 334693 | N.A | 344693 | 13 | N/A | 100 | N/A |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1970-71 | 360006 | N.A | 360006 | 8 | N/A | 100 | N/A |
| 1971-72 | 407147 | N.A | 407147 | 13 | N/A | 100 | N/A |
| 1972-73 | 463118 | N.A | 463118 | 14 | N/A | 100 | N/A |
| 1973-74 | 475348 | N.A | 475348 | 3 | N/A | 100 | N/A |
| 1974-75 | 420608 | N.A | 420608 | -12 | N/A | 100 | N/A |
| 1975-76 | 419735 | N.A | 419735 | 0 | N/A | 100 | N/A |
| 1976-77 | 343194 | N.A | 343194 | -18 | N/A | 100 | N/A |
| 1977-78 | 355986 | N.A | 355986 | 4 | N/A | 100 | N/A |
| 1978-79 | 387581 | N.A | 387581 | 9 | N/A | 100 | N/A |
| 1979-80 | 428554 | NA | 428554 | 11 | N/A | 100 | N/A |
| 1980-81 | 407523 | 37088 | 444611 | -5 | N/A | 92 | 8 |
| 1981-82 | 459,459 | 41,550 | 501,009 | 13 | 12 | 92 | 8 |
| 1982-83 | 478,716 | 37,983 | 516,699 | 4 | -9 | 93 | 7 |
| 1983-84 | 457,629 | 48,829 | 506,458 | -4 | 29 | 90 | 10 |
| 1984-85 | 459,394 | 52,237 | 511,631 | 0 | 7 | 90 | 10 |
| 1985-86 | 500,065 | 58,534 | 558,599 | 9 | 12 | 90 | 10 |
| 1986-87 | 634,886 | 62,833 | 697,719 | 27 | 7 | 90 | 10 |
| 1987-88 | 712,456 | 67,282 | 779,738 | 12 | 7 | 91 | 9 |
| 1988-89 | 809,978 | 69,256 | 879,234 | 14 | 3 | 92 | 8 |
| 1989-90 | 998,447 | 71,904 | 1,070,351 | 23 | 4 | 93 | 7 |
| 1990-91 | 1,128,978 | 85,560 | 1,214,538 | 13 | 19 | 93 | 7 |
| 1991-92 | 1,257,399 | 105,775 | 1,363,174 | 11 | 24 | 92 | 8 |
| 1992-93 | 1,318,892 | 125,525 | 1,444,417 | 5 | 19 | 91 | 9 |
| 1993-94 | 1,511,610 | 182,077 | 1,693,687 | 15 | 45 | 89 | 11 |
| 1994-95 | 1,412,732 | 192,152 | 1,604,884 | -7 | 6 | 88 | 12 |
| 1995-96 | 1,509,955 | 192,691 | 1,702,646 | 7 | 0 | 89 | 11 |
| 1996-97 | 1,444,368 | 236,692 | 1,681,060 | -4 | 23 | 86 | 14 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1997-98 | 1,471,169 | 318,923 | 1,790,092 | 2 | 35 | 82 | 18 |
| 1998-99 | 1,441,923 | 407,686 | 1,849,609 | -2 | 28 | 78 | 22 |
| 1999-00 | 1,566,348 | 404,008 | 1,970,356 | 9 | -1 | 79 | 21 |
| 2000-01 | 1,673,280 | 405,038 | 2,078,318 | 7 | 0 | 81 | 19 |
| 2001-02 | 1,755,669 | 409,557 | 2,165,226 | 5 | 1 | 81 | 19 |
| 2002-03 | 1,943,197 | 449,424 | 2,392,621 | 11 | 10 | 81 | 19 |

**(Source: www.aptma.org.pk)**

In 1947, the consumption of cotton was 6876 and 100 % of cotton production was utilized. In 1959-60 the growth in consumption of cotton was only 11%. The fiber came in to use in textile industry in 80s and onward. In 1990, the consumption of cotton was 93 % and fiber consumption was only 7% of total textile raw material consumption. From the period of 2000 to 2003 the consumption of cotton remained 81% and fiber consumption remained 19% of total raw material consumption.

| | | INSTALLED CAPACITY (in 000) | | | | | |
|---|---|---|---|---|---|---|---|
| **Period** | **Units** | **Spindles** | **Growth%** | **Rotors** | **Growth%** | **Looms** | **Growth%** |
| 1948 | NA | 78 | | 0 | 0 | 3 | |
| 1949 | NA | 137 | 75.64 | 0 | 0 | 3 | 0 |
| 1950 | NA | 182 | 32.85 | 0 | 0 | 3 | 0 |
| 1951 | NA | 225 | 23.63 | 0 | 0 | 6 | 100 |
| 1952 | NA | 499 | 121.78 | 0 | 0 | 9 | 50 |
| 1953 | NA | 649 | 30.06 | 0 | 0 | 15 | 66.67 |
| 1954 | NA | 1113 | 4.76 | 0 | 0 | 23 | 53.33 |
| 1955 | NA | 1449 | 3.29 | 0 | 0 | 24 | 4.35 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1956 | NA | 1518 | 0.06 | 0 | 0 | 25 | 4.17 |
| 1957 | NA | 1568 | 0.76 | 0 | 0 | 26 | 4.00 |
| 1958 | NA | 1569 | 0.06 | 0 | 0 | 26 | 0 |
| 1958-59 | 70 | 1581 | 0.25 | 0 | 0 | 27 | 3.85 |
| 1959-60 | 72 | 1582 | 3.66 | 0 | 0 | 27 | 0 |
| 1960-61 | 74 | 1586 | 12.53 | 0 | 0 | 28 | 3.70 |
| 1961-62 | 71 | 1644 | 3.41 | 0 | 0 | 29 | 3.57 |
| 1962-63 | 76 | 1850 | 2.82 | 0 | 0 | 30 | 3.45 |
| 1963-64 | 81 | 1913 | 4.52 | 0 | 0 | 31 | 3.33 |
| 1964-65 | 83 | 1967 | -0.63 | 0 | 0 | 31 | 0 |
| 1965-66 | 89 | 2056 | 0.24 | 0 | 0 | 30 | -3.23 |
| 1966-67 | 94 | 2043 | 6.20 | 0 | 0 | 30 | 0 |
| 1967-68 | 95 | 2048 | 10.21 | 0 | 0 | 30 | 0 |
| 1968-69 | 100 | 2175 | 8.68 | 0 | 0 | 31 | 3.33 |
| 1969-70 | 107 | 2397 | 9.90 | 0 | 0 | 30 | -3.23 |
| 1970-71 | 113 | 2605 | 14.08 | 0 | 0 | 30 | 0 |
| 1971-72 | 131 | 2863 | 2.45 | 0 | 0 | 29 | -3.33 |
| 1972-73 | 150 | 3266 | 0.60 | 0 | 0 | 29 | 0 |
| 1973-74 | 155 | 3346 | 2.64 | 0 | 0 | 29 | 0 |
| 1974-75 | 144 | 3366 | 2.63 | 0 | 0 | 29 | 0 |
| 1975-76 | 147 | 3455 | 1.10 | 2 | 0 | 29 | 0 |
| 1976-77 | 153 | 3546 | 4.02 | 5 | 150.00 | 26 | -10.34 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1977-78 | 174 | 3585 | 1.39 | 4 | -20.00 | 27 | 3.85 |
| 1978-79 | 184 | 3729 | 6.66 | 14 | 250.00 | 26 | -3.70 |
| 1979-80 | 187 | 3781 | 4.86 | 16 | 14.29 | 25 | -3.85 |
| 1980-81 | 203 | 4033 | 1.99 | 19 | 18.75 | 25 | 0 |
| 1981-82 | 210 | 4,229 | 4.86 | 23 | 21.05 | 24 | -4.00 |
| 1982-83 | 215 | 4,313 | 1.99 | 27 | 17.39 | 24 | 0 |
| 1983-84 | 216 | 4,272 | -0.99 | 29 | 7.41 | 23 | -4.17 |
| 1984-85 | 219 | 4,445 | 4.05 | 29 | 0 | 19 | -17.39 |
| 1985-86 | 227 | 4,485 | 0.90 | 37 | 27.59 | 17 | -10.53 |
| 1986-87 | 226 | 4,356 | -2.88 | 48 | 29.73 | 16 | -5.88 |
| 1987-88 | 224 | 4,393 | 0.85 | 55 | 14.58 | 17 | 6.25 |
| 1988-89 | 247 | 4,853 | 10.47 | 66 | 20.00 | 16 | -5.88 |
| 1989-90 | 266 | 5,271 | 8.61 | 72 | 9.09 | 15 | -6.25 |
| 1990-91 | 277 | 5,568 | 5.63 | 75 | 4.17 | 15 | 0 |
| 1991-92 | 307 | 6,216 | 11.64 | 81 | 8.00 | 14 | -6.67 |
| 1992-93 | 334 | 6,860 | 10.36 | 95 | 17.28 | 14 | 0 |
| 1993-94 | 471 | 8,419 | 22.73 | 138 | 45.26 | 14 | 0 |
| 1994-95 | 494 | 8,610 | 2.27 | 132 | -4.35 | 13 | -7.14 |
| 1995-96 | 503 | 8,717 | 1.24 | 143 | 8.33 | 10 | -23.08 |
| 1996-97 | 440 | 8,230 | -5.59 | 143 | 0 | 10 | 0 |
| 1997-98 | 442 | 8,368 | 1.68 | 150 | 4.89 | 10 | 0 |
| 1998-99 | 442 | 8,392 | 0.48 | 166 | 11.41 | 10 | 0 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1999-00 | 443 | 8,477 | 1.01 | 150 | -9.64 | 10 | 0 |
| 2000-01 | 444 | 8601 | 1.46 | 146 | -2.67 | 10 | 0 |
| 2001-02 | 450 | 9060 | 6.88 | 141 | -6.00 | 10 | 0 |
| 2002-03 | 453 | 9260 | 7.66 | 148 | 1.37 | 10 | 0 |

**(Source: www.aptma.org.pk)**

The number of installed spindles in 1948 was 78,000 and in 1949 the number increased to 137,000 an increase of 75.6%. Whereas in 2003, the number of installed spindles in textile industry are 9260,000 and the growth rate if installing spindles has slowed down as compared to the early years of Pakistan.

The number of rotors installed in Pakistan was only 2 in 1975-76 and in 2002-03 this number has only increased to 148. The rate of growth was very slow in these 28 years. The loom capacity, in Pakistan since 1947, had increase at a very slow rate. In the last 55 years, the capacity had increased and decreased. The increase in the capacity of looms is less than the decrease in the capacity of the looms.

| **WORKING CAPACITY (in 000)** | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Period** | **Units** | **Spindles** | **Growth%** | **Rotors** | **Growth%** | **Looms** | **Growth%** |
| 1948 | NA | 78 | | 0 | 0 | 3 | 0 |
| 1949 | NA | 137 | 75.64 | 0 | 0 | 3 | 0 |
| 1950 | NA | 182 | 32.85 | 0 | 0 | 3 | 0 |
| 1951 | NA | 225 | 23.63 | 0 | 0 | 3 | 0 |
| 1952 | NA | 302 | 34.22 | 0 | 0 | 4 | 33.33 |
| 1953 | NA | 600 | 98.68 | 0 | 0 | 7 | 75.00 |

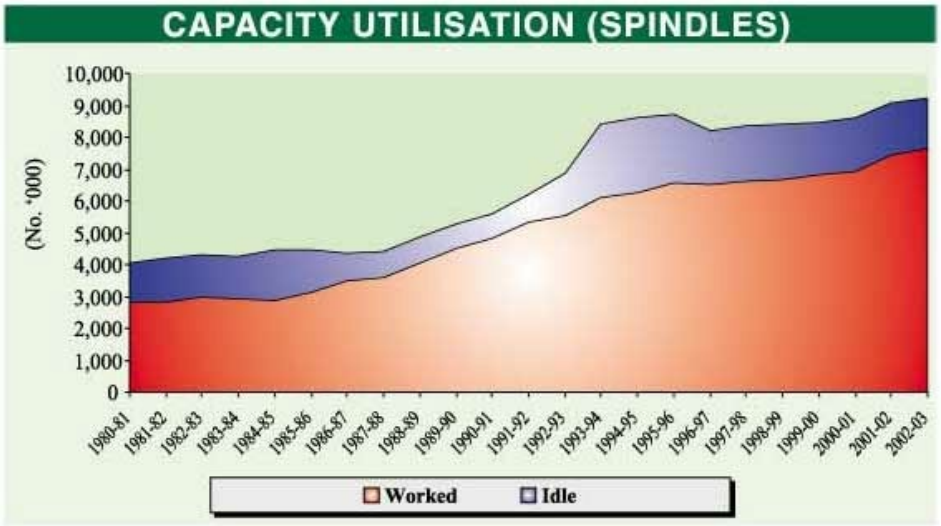
| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1954 | NA | 940 | 56.67 | 0 | 0 | 13 | 85.71 |
| 1955 | NA | 1355 | 44.15 | 0 | 0 | 19 | 46.15 |
| 1956 | NA | 1422 | 4.94 | 0 | 0 | 22 | 15.79 |
| 1957 | NA | 1447 | 1.76 | 0 | 0 | 22 | 0 |
| 1958 | NA | 1459 | 0.83 | 0 | 0 | 24 | 9.09 |
| 1958-59 | 70 | 1488 | 1.99 | 0 | 0 | 24 | 0 |
| 1959-60 | 72 | 1491 | 0.20 | 0 | 0 | 26 | 8.33 |
| 1960-61 | 74 | 1531 | 2.68 | 0 | 0 | 26 | 0.00 |
| 1961-62 | 71 | 1524 | -0.46 | 0 | 0 | 26 | 0.00 |
| 1962-63 | 76 | 1810 | 18.77 | 0 | 0 | 26 | 0.00 |
| 1963-64 | 81 | 1792 | -0.99 | 0 | 0 | 28 | 7.69 |
| 1964-65 | 83 | 1852 | 3.35 | 0 | 0 | 28 | 0.00 |
| 1965-66 | 89 | 1871 | 1.03 | 0 | 0 | 27 | -3.57 |
| 1966-67 | 94 | 1888 | 0.91 | 0 | 0 | 28 | 3.70 |
| 1967-68 | 95 | 1916 | 1.48 | 0 | 0 | 28 | 0.00 |
| 1968-69 | 100 | 2090 | 9.08 | 0 | 0 | 27 | -3.57 |
| 1969-70 | 107 | 2327 | 11.34 | 0 | 0 | 27 | 0.00 |
| 1970-71 | 113 | 2491 | 7.05 | 0 | 0 | 27 | 0.00 |
| 1971-72 | 131 | 2650 | 6.38 | 0 | 0 | 26 | -3.70 |
| 1972-73 | 150 | 3057 | 15.36 | 0 | 0 | 27 | 3.85 |
| 1973-74 | 155 | 3034 | -0.75 | 0 | 0 | 26 | -3.70 |
| 1974-75 | 144 | 2823 | -6.95 | 0 | 0 | 25 | -3.85 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1975-76 | 147 | 2579 | -8.64 | 1 | 0 | 23 | -8.00 |
| 1976-77 | 153 | 2650 | 2.75 | 1 | 0 | 19 | -17.39 |
| 1977-78 | 174 | 2585 | -2.45 | 3 | 200.00 | 14 | -26.32 |
| 1978-79 | 184 | 2645 | 2.32 | 13 | 333.33 | 13 | -7.14 |
| 1979-80 | 187 | 2701 | 2.12 | 14 | 7.69 | 14 | 7.69 |
| 1980-81 | 203 | 2833 | 4.89 | 15 | 7.14 | 13 | -7.14 |
| 1981-82 | 210 | 2,832 | -0.04 | 19 | 26.67 | 13 | 0 |
| 1982-83 | 215 | 2,986 | 5.44 | 25 | 31.58 | 12 | -7.69 |
| 1983-84 | 216 | 2,919 | -2.24 | 23 | -8.00 | 11 | -8.33 |
| 1984-85 | 219 | 2,872 | -1.61 | 21 | -8.70 | 10 | 9.09 |
| 1985-86 | 227 | 3,151 | 9.71 | 25 | 19.05 | 9 | -10.00 |
| 1986-87 | 226 | 3,469 | 10.09 | 40 | 60.00 | 8 | -11.11 |
| 1987-88 | 224 | 3,607 | 3.98 | 46 | 15.00 | 9 | 12.50 |
| 1988-89 | 247 | 4,026 | 11.62 | 60 | 30.43 | 9 | 0 |
| 1989-90 | 266 | 4,489 | 11.50 | 64 | 6.67 | 8 | -11.11 |
| 1990-91 | 277 | 4,827 | 7.53 | 67 | 4.69 | 8 | 0 |
| 1991-92 | 307 | 5,333 | 10.48 | 67 | 0 | 8 | 0 |
| 1992-93 | 334 | 5,520 | 3.51 | 79 | 17.91 | 6 | -25.00 |
| 1993-94 | 471 | 6,105 | 10.60 | 84 | 6.33 | 6 | 0 |
| 1994-95 | 494 | 6,262 | 2.57 | 74 | -11.90 | 5 | -16.67 |
| 1995-96 | 503 | 6,548 | 4.57 | 80 | 8.11 | 5 | 0 |
| 1996-97 | 440 | 6,538 | -0.15 | 87 | 8.75 | 5 | 0 |

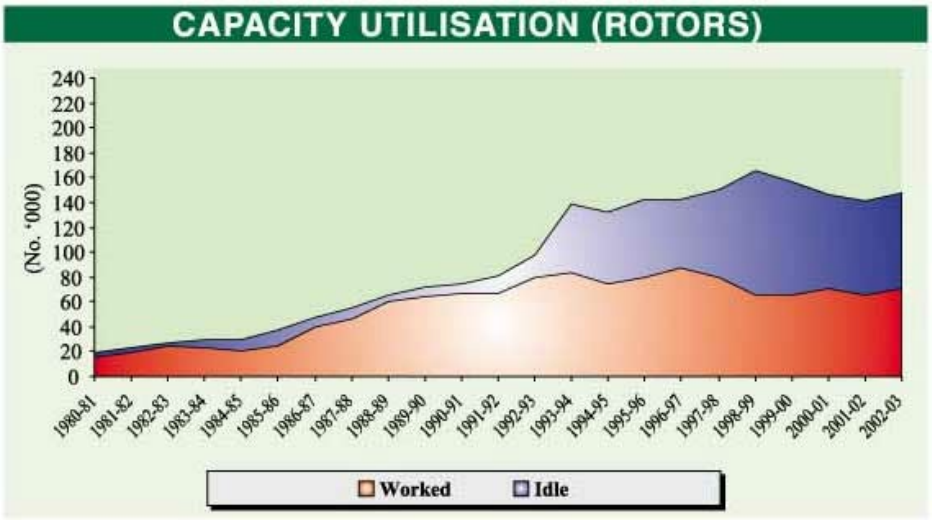
| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1997-98 | 442 | 6,631 | 1.42 | 80 | -8.05 | 4 | -20.0 |
| 1998-99 | 442 | 6,671 | 0.57 | 66 | -16.46 | 5 | 25.0 |
| 1999-00 | 443 | 6,825 | 2.31 | 66 | 0 | 4 | -20.0 |
| 2000-01 | 444 | 6913 | 1.29 | 70 | 6.06 | 4 | 0 |
| 2001-02 | 450 | 7440 | 9.01 | 66 | 0.00 | 5 | 25.00 |
| 2002-03 | 453 | 7676 | 11.04 | 70 | 0.00 | 5 | 25.00 |

**(Source: www.aptma.org.pk)**

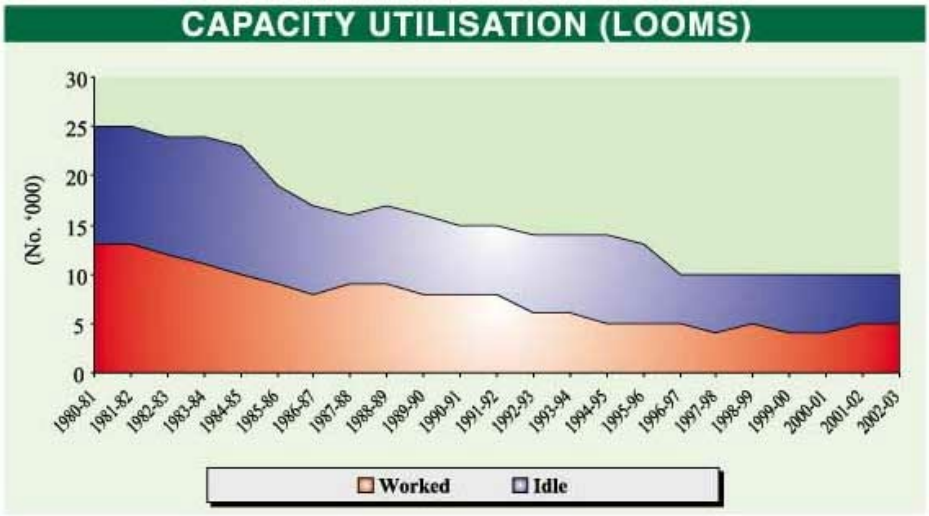
The capacity of spindles, rotors and looms were not utilized at their full. In 2002-03 the capacity of spindles was 9260,000 whereas the utilized capacity was only 7676,000. Similarly the capacity of rotors and looms was underutilized. These factors have led to the slow growth of Pakistan textile industry. Following graphs provide an overview of the capacity utilization of spindles, rotors, and looms in textile industry.




**(Source: www.aptma.org.pk)**

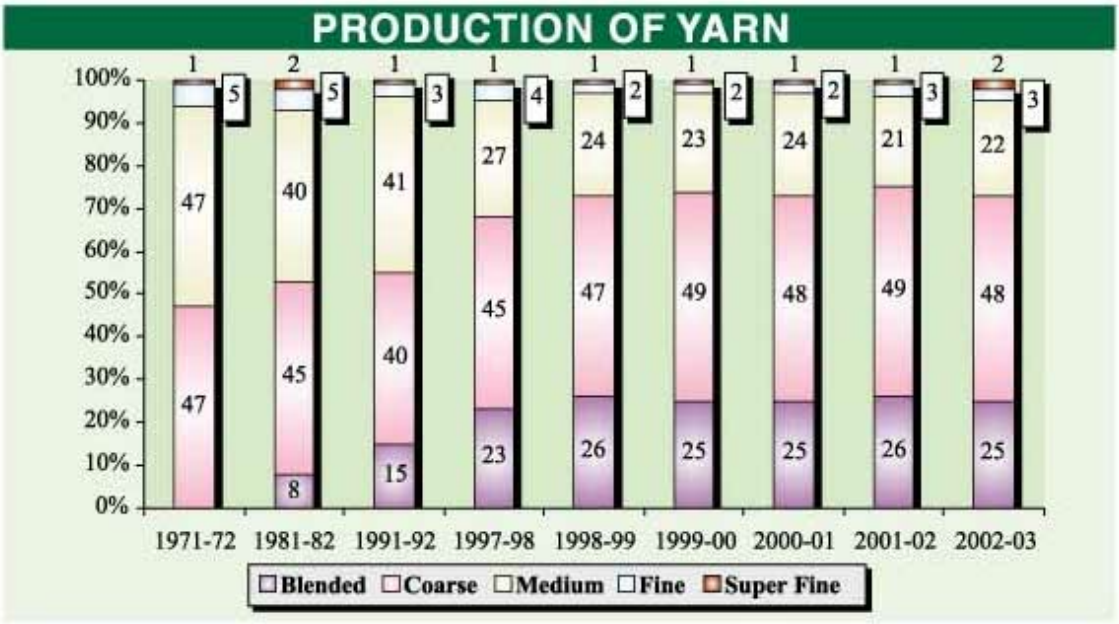



**(Source: www.aptma.org.pk)**



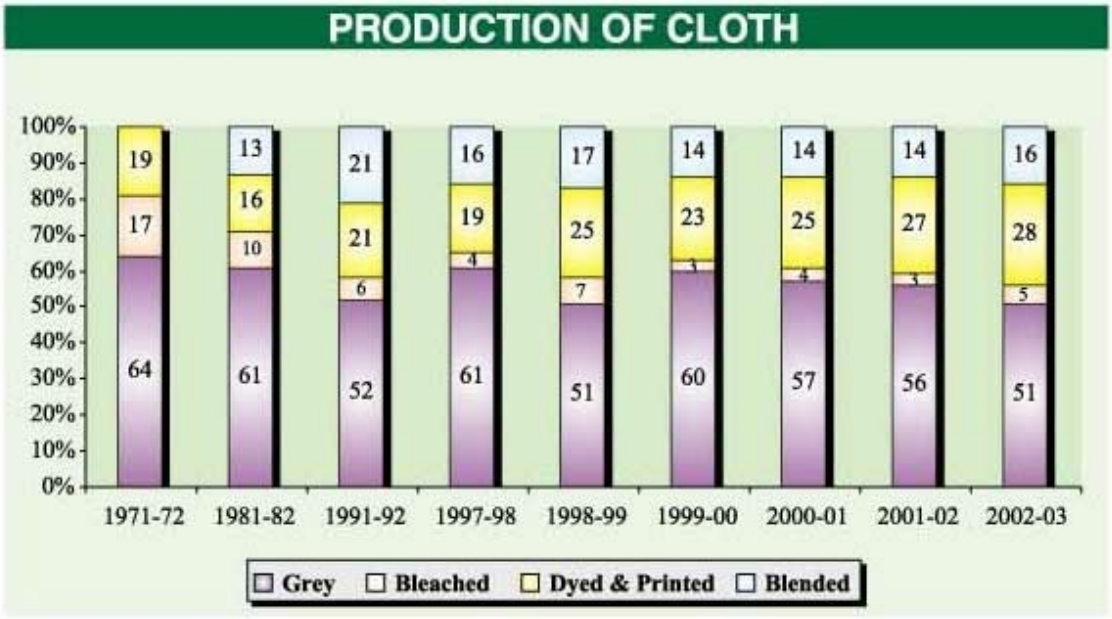

**(Source: www.aptma.org.pk)**

Following charts provide an overview of the textile industry production, exports, consumption, export price trends, industry's role in the economy of Pakistan in last 33 years.



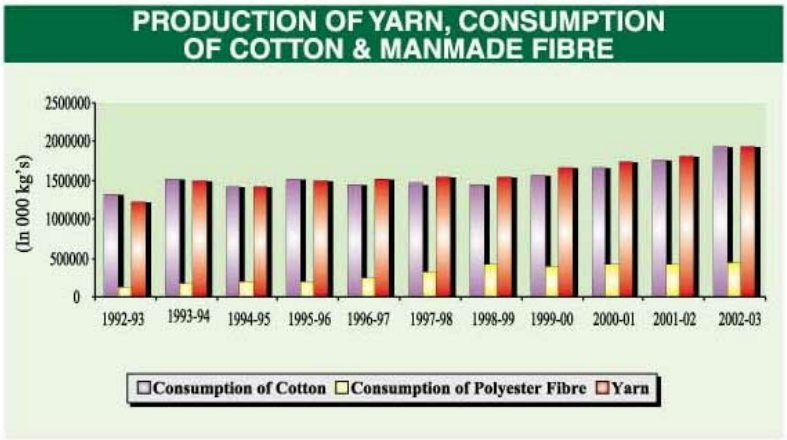

**(Source: www.aptma.org.pk)**

The production of yarn especially the blended one had increased from 8 % to 25 % in these years. The production of coarse yarn has increased only 1%, the production of medium and fine yarn has reduced in these 33 years.

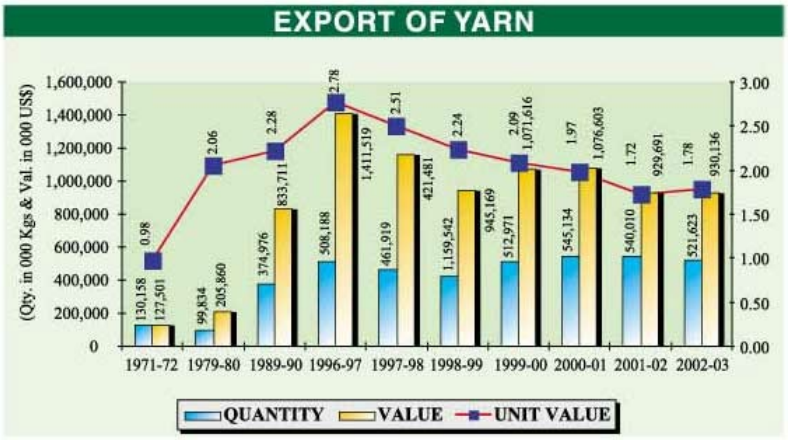



**(Source: www.aptma.org.pk)**

The production of grey cloth has reduced from 64% to 51% in 33 years. The production of dyed and printed cloth has increased to 28% whereas the blended fabric production is only 16% in 2002-03.

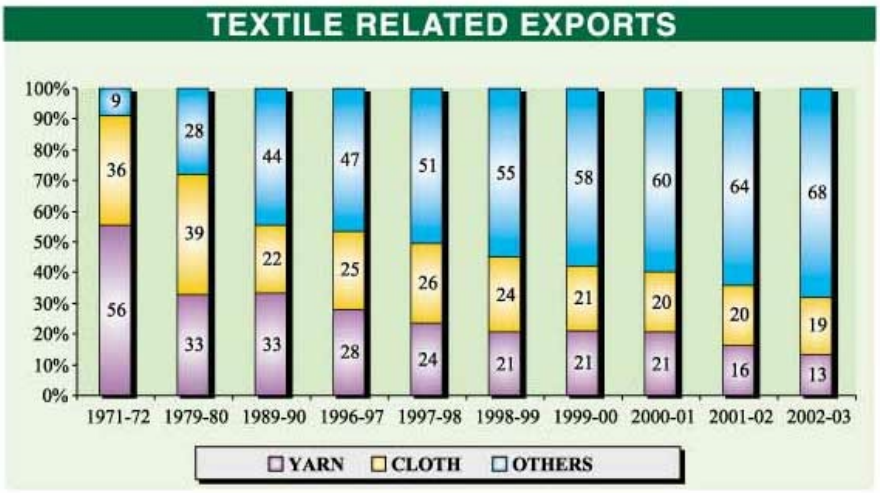



**(Source: www.aptma.org.pk)**

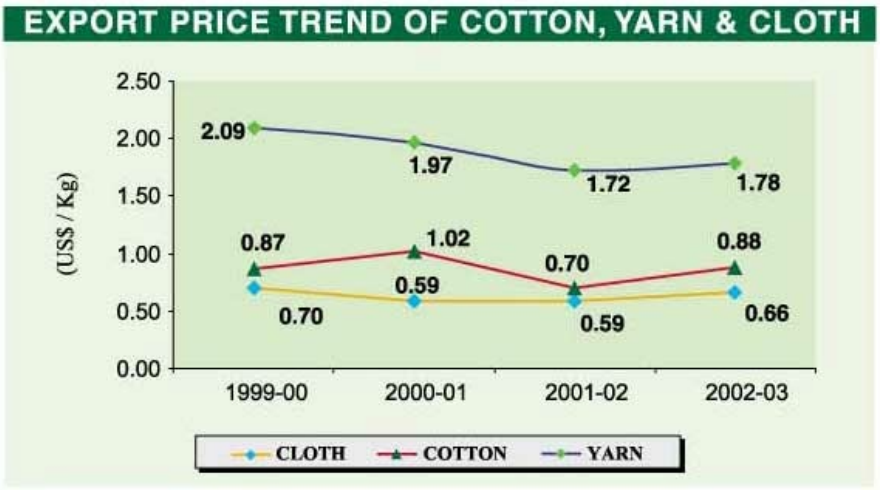



**(Source: www.aptma.org.pk)**

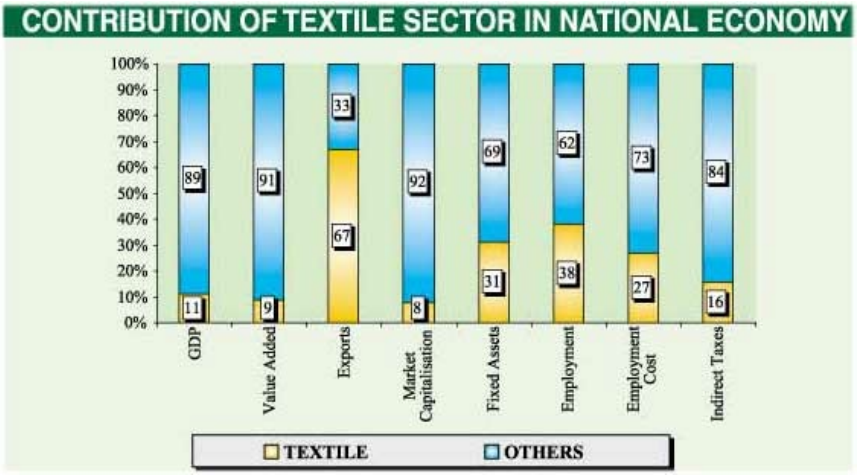

**(Source: www.aptma.org.pk)**




**(Source: www.aptma.org.pk)**




**(Source: www.aptma.org.pk)**




**(Source: www.aptma.org.pk)**

The textile sector has contributed a lot in the Pakistan economy. In GDP textiles share is 11%, in value added it is 9% and in fixed assets its contribution is 31% and in exports textile sector share is 67%


**(Source: www.aptma.org.pk)**


**(Source: www.aptma.org.pk)**


**(Source: www.aptma.org.pk)**

Pakistan share of textile exports increased from year 1990 to 1997, and then there was a decrease from a period of 1997 to 1999. In 2000, there was no share of export of cloth in world trade, whereas there was a slight increase in the yarn export share. In 2001, the Pakistan share of yarn and cloth in world trade remained stagnant.

# CHAPTER 2: CURRENT SCENARIO

# 2.1 TEXTILE INDUSTRY CURRENT SCENARIO

Textile products are a basic human requirement next only to food. Inspite of the government's efforts to diversify export as well as industrial base, the textile remains the backbone of industrial activity in the country. Its share in the economy, in terms of GDP, exports, employment, foreign exchange earnings, investment and contribution to the value added in industry; make it the single largest determinant of the growth in manufacturing sector with 46 percent share in overall manufacturing activity. The demand for textiles in the world is around $18 trillion. Pakistan has emerged as one of the major cotton textile product supplier in the world market and its share in world yarn trade is about 30 percent while its share in cotton cloth trade is about 8 percent. However, overall share of textile exports from Pakistan is around one percent. The share of textile in Pakistan's exports earnings is 68 percent and its present worth of exports is around $7 billion. [11] The value addition in the sector account for 9 percent of GDP and it employ 38 percent of industrial workers. During the last three years, Pakistan's textile sector is preparing itself to face the challenges of the post-quota regime in 2005. [11]

However, before going into further details, it is necessary to have a dispassionate and closer look at existing status of each of the sub-sectors of textile industry. These are spinning, weaving and knitting, processing and made-ups manufacturing. The analysis should begin with taking into account production and quality of indigenous raw cotton.

## 2.1.1 SNAIL'S PACE GROWTH

With the exception of a period from 1958-59 to 19974-75, the textile industry could not maintain a sustainable growth and registered its growth rate at the snail's pace in the country. In the organized sector there are 232 listed textile companies of which 153 are spinning units, 28 weaving and 51 composite units.

While the total number of textile units both listed and unlisted is however around 400.

## 2.1.2 RAW COTTON

As regards demand and supply of raw cotton, it is necessary to keep in mind a few points. Pakistan can get an output of over 20 million cotton bales from the area presently under cotton cultivation, but actual production is around 10 million bales. Locally produced cotton is sufficient to meet the demand of spinners — estimated around 9 million bales. The GOP has allowed free trade of cotton paving way for import of superior quality cotton. The local spinners use superior quality cotton for the production of yarn of coarse counts. The glut of coarse counts is mainly due to obsolescence of spinning facility over the years— spinners have not undertaken timely BMR. Weaving is mostly confined to un-organized sector using obsolete/outdated looms, which is not capable of utilizing fine and super fine counts.

## 2.1.3 INVESTMENT TREND IN TEXTILE SECTOR

Pakistan's textile industry has been investing for the last five years in modernization and the improvement of the production base, and at the same time skill development has increased at a greater pace. The textile industry has taken post-quota regime as an opportunity and has been preparing themselves to face the challenges. Accordingly, over the last five years this sector has invested $ 5.0 billion in modernization and higher value addition.

| Sectoral Shares in Total Investment in the Sector (5.9 Billion $) (1999-2004) | | |
|---|---|---|
| 1 | Spinning | 46.0 % |
| 2 | Weaving | 24 % |
| 3 | Textile processing | 12 % |
| 4 | Knitwear & Garments | 5 % |
| 5 | Made-Ups | 8 % |
| 6 | Synthetic Textile | 5 % |

**Source: Textile Commissioner Organization**

As shown in Table, the bulk of investment has gone to the spinning sector accounting for 46 percent of total investment followed by weaving (24%), textile processing (12%), made-ups (8%) and knitwear & garments and synthetic textile (5% each). Higher investment in improving production, quality, and value addition is evident from $ 2.8 billion worth of import of textile machinery during the last five years. Massive investment in this sector has also enhanced their capacity to consume about 14 million bales of cotton, up from 9.0-9.5 million bales in the late 1990s. Enhancement of capacity also resulted in approximately 450,000 job creation, rise in production and exports. Major textile items of import in the current fiscal year (2004-05) include textile winding machines, cone winding machines, looms, dying machines, machinery for preparing fabrics and bleaching and processing machines. Increased investment in textile sector has resulted in substantial increase in production of yarn (18.2%), cloth (28.5%) and synthetic fibers (26%) in 2004-05. Textile exports on the other hand has increased from $ 5.8 billion in 2001-02 to $ 8.0 billion in 2003-04. Addressing the structural weaknesses of the Pakistani textile and clothing industry may take time. The government and industry have, however, recognized the challenges that they face, and have started to implement reforms. Furthermore, Pakistan has the real

potential to become competitive due principally to its cheap labour, vast source of cotton and long established presence in EU and US markets. [11]

## 2.1.4 REFORMS IN THE TEXTILE SECTOR

The government is providing support for the local production of textile machinery. A wide ranging campaign to produce contamination free cotton in the country to promote value addition has also been started. As a result, the cotton prices are now being quoted on a PSCI grade standard basis. To ensure an abundant supply within the country, cotton is allowed to be imported and exported freely. To stabilize prices in the domestic market, the Trading Corporation of Pakistan (TCP) has been intervening as and when required. These policies have led to the level of contamination declining from 26gm to 6 gm on average. The profiles of various components of the textile industry are given in the Table.

| Import of textile machinery | | |
|---|---|---|
| **Year** | **Million US$** | **% Change** |
| 1999-2000 | 210.9 | 28.6 |
| 2000 – 01 | 370.2 | 75.5 |
| 2001 – 02 | 406.9 | 9.9 |
| 2002 – 03 | 531.9 | 30.7 |
| 2003 – 04 | 597.9 | 12.4 |
| 2004 – 05 July-March | 697.4 | 66.3 |
| Total | 2815.2 | |

**Source: Federal Bureau of Statistics**

## 2.1.5 TEXTILE CITY – GARMENT CITIES

Recognizing the importance of textile and to meet the challenges of the post-quota regime the government has formed a company, namely the Pakistan Textile City Limited (PTCL) with a mandate to establish three textile cities, one each in Karachi, Lahore and Faisalabad.

## 2.1.6 PERFORMANCE OF THE ANCILLARY TEXTILE INDUSTRY

Textile production is comprised of cotton ginning, cotton yarn, cotton fabric, fabric processing (grey-dyed-printed), home textiles, towels, hosiery & knitwear and readymade garments. These components are being produced both in the large-scale organized sector as well as in unorganized cottage / small & medium units. The performance of these various ancillary textile industries is evaluated below:-

### I) COTTON GINNING SECTOR

There are 1221 ginning factories in Pakistan, of which, 1075 are in the Punjab and the remaining 146 are in Sindh. The total capacity is approximately 20 million bales per year (assuming a 100 day ginning season). Against capacity, the total production of ginned cotton is 14.6 million bales suggesting an excess capacity of ginning in the country. [11]

Ginning is the sector, which is first in the process of value addition leading to readymade garments or other textile products. Unfortunately, the ginning sector is out-dated and needs modernization.

### II) COTTON SPINNING SECTOR

The spinning sector is the most important segment in the hierarchy of textile production. At present, it is comprised of 458 textile units (50 composite units and 408 spinning units) with 8.5 million spindles and 75 thousand rotors in

operation with capacity utilization of 87 percent and 49 percent respectively, during July-March 2004-05. This year production of cotton yarn has increased to 1710.4 thousand tones from last year's production of 1446.8 thousand tones showing an increase of over 18.2 percent. [11]

**III) WEAVING & MADE-UP SECTOR**

The problems of the power loom sector revolve round access to credit facilities to modernize their equipment as well as purchase of yarn specially when the prices of yarn increase but the prices of cloth increase with time lag. There is need for training facilities & guidance to diversify their products, especially to cater to the needs of the garment industry. However the performance of cloth sector remained better than last year.

**Installed and Worked Capacity in Weaving Sector (Nos.)**

| Category | Installed Capacity | Effective Capacity/Worked |
|---|---|---|
| Integrated Textile Units | 10249 | 49247 |
| Independent Weaving Units | 26034 | 25500 |
| Power Loom Sector | 225258 | 190000 |
| Total | 261541 | 220447 |

**Source: Textile Commissioner Organization**

**IV) COTTON CLOTH**

The production of cotton cloth had increased substantially. This sector has registered a double-digit growth of 28.5 percent this year while the non-mill sector has registered a modest growth of 16.8 percent in the same period. The export of cotton cloth has witnessed an increase of 9.2 percent during July-March 2004-05 in value terms and 4.72 percent in quantitative terms. Furthermore, the unit value of cotton cloth has increased by 4.3 percent this year. Thus, this sub-

sector serves as the main engine for down stream sectors like Bedwear, Made-ups and Garments. [11]

## V) TEXTILE DOWN-STREAM INDUSTRY

This is the most dynamic segment of textile industry. The major product groups are towels, tents & canvas, cotton bags, bed-wear, hosiery & knitwear and readymade garments including fashion apparels.

### A) HOSIERY INDUSTRY

There is about 10,000 knitting machines spread all over the country. The capacity utilization is approximately 60%. There is greater reliance on the development of this industry as there is substantial value addition in the form of knitwear. Besides locally manufactured machinery, liberal import of machinery under different modes is also being made and the capacity based on exports is being developed. This sector has tremendous export potential. This sub-sector has recorded positive exports growth of 22.8 percent over the last fiscal year. [11]

### B) READYMADE GARMENT INDUSTRY

The garment industry provides highest value addition in textile sector. It has exported readymade garments worth $ 1265 million this year. The industry is distributed in small, medium and large-scale units, most of them having 50 machines and below; large units are now coming up in the organized sector of the industry. [11]

**C) TOWEL INDUSTRY**

There are about 6500 towel looms in the country in both organized and unorganized sectors. This industry is dominantly export based and its growth depends on export outlets. Substantial increase in export of towels in the past indicate that tremendous possibilities exist for further expansion provided the existing towels manufacturing factories are geared to produce higher value towels. This sub-sector's exports increased by 31.6 percent in quantity terms and 22.4 percent in value terms, during July-March 2004-05. [11]

**D) TARPAULIN & CANVAS**

This is the highest raw cotton-consuming sector. The production capacity is more than 100 million sq. meters. This value added sector also has great potential for export. About 90 percent of its production is exported while 5-10 percent is consumed locally by Armed Forces Food Department. Exports of this sector have declined as compared to last year but are likely to pick up in the coming year as Pakistan is the cheapest source of supply of tents and canvas.

## 2.1.7 CAUSES OF DOWNTURN

According to some analysts, the GOP policies coupled with the bad lending framework of financial institutions are responsible for exponential growth of spinning. While highest quantum of funds was dished out to spinners, there was hardly any financing of down-stream industries. On top of every thing, the entry of politicians and businessmen enjoying political clout in spinning business has resulted in lending to unviable projects. The concessional financing of and over invoicing has been the main reason for huge accumulation of non-performing loans pertaining to textile industry. The highest percentage of non-performing loans belongs to state owned financial institutions, which have recklessly, as well as under pressure, lent money to such sponsors. According to

some financial analysts the average cost per spindle for units in nineties was as high as US$ 110, whereas, it should have not been more than US$ 60 per spindle.

## 2.1.8 TEXTILE VISION 2005

Despite all odds and evens, the textile sector still enjoys the most important position in the national economy. It has been placed under special focus through Vision 2005 by present team of the economic managers. In order to make the textile industry internationally competitive, it deserves a special place in our economic policies. The much publicized program i.e. Textile Vision 2005, which covers improvement of cotton quality, project finance, promotional measures, marketing strategies and quota policy is now in final stages. Before the textile policy, the government took following steps, which include,

- Permission to allow the export of raw cotton right from the beginning of the session,
- Setting up of Ginning Research Institute,
- Reduction of custom duty on the import of saw gins,
- Amendment in Karachi Cotton Association by laws to permit shift from varieties to grades
- Grading by PCSI at Ginneries
- With drawl of excise duty on import of raw cotton under the restriction envisaged in Vision 2005 and in order for the focus to shift to the higher value added sector, it has been decided to with draw with immediate effect the export finance facility for yarn and gray cloth.With drawl of the export finance facility for yarn, however, has sent a shock wave among the spinners.

APTAMA has said that on one hand the government resolves to provide all facilities necessary for promoting the textile exports and on the other it has decided to with draw the export refinance facility on al accounts of yarn and cloth.

According to Chairman APTMA the yarn and gray cloth comprise 42 % of the total textile exports from Pakistan. Export Refinance is a significant incentive tool for promoting export of yarn and gray cloth in increasingly competitive international markets. He expressed his fears that the sudden and complete with drawl of export refinance facility on yarn and gray cloth could jeopardize a very significant portion of the Pakistan's Textile Exports. Particularly when all other competing countries are offering the same facility on these products at a very low interest rate. Unless new products and new markets for export are sufficiently developed, the government should not remove the existing equilibrium lest the existing market share of Pakistan's textile exports could be lost.

While appreciating the government for identification of the textile industry as the main vehicle for achieving the ambitious export target of $10 billion for the current fiscal. The APTAMA fully accept the government's emphasis on value addition as a step in the right direction.

However, until the spadework is done for documentation any abrupt change in existing system may prove counter productive. Spadework includes the implementation towards production and export of value addition item i.e. commercial spinners of yarn and weavers of gray cloth are provided sufficient funds for establishing new units of BMR. The abrupt with drawl of export refinance facility from low value added items to high value added items is like setting the bird in hand to go in the hope of catching the bird in the bush.

The shifting of export refinancing should be gradual in particular gray cloth, yarn of fine counts, dyed yarn, lycra etc. which come under the category of value added items should be allowed refinance till such time that the higher value

added production is achieved. The switch from low value added should be gentle and smooth. Any sudden change, like for torrential flood in the hilly ravines, would carry with it good and bad indiscriminately.

Whatever the concerns expressed by the textile sector and even by the other sectors for that matter clamoring for incentives has become a feature of our economy.

The time has come to judge what we have taken form our country and what we have given in return. People are fade up with cliches. Economy is suffering from huge foreign and domestic debts having a bad impact on our sovereignty. A vast majority of the people is compelled to live below the poverty line due to non-availability of even level playing ground. Policies of privileges should come to an end now.

# CHAPTER 3: TEXTILE PRODUCTS

# 3.1 PAKISTAN'S MAJOR TEXTILE PRODUCTS

## 3.1.1 READY MADE GARMENTS

Pakistan produces ready-made garments of all pattern and styles, of the latest fashions and quality. The industry is adequately equipped to produces latest fashions to suit tastes and needs in any part of the world. The products also include utility items such as services, uniforms, overalls, shirts, trousers, sports shirts, jeans night suits, uniforms for schools, workers in industrial concerns catering establishments etc.

Leading Pakistani designers, garment manufacturers and exporters display their designs and products regularly round the world in international fairs and exhibitions and in trade centers like Paris-London, New York, Tokyo and Berlin. Two fashion fairs are also organized annually in Pakistan namely the Pakistan Textiles and Clothing Fair, held in winter, and the Fashion Apparel Fair scheduled in summer.

Hosiery and Knitwear

Cotton knits are now available in the latest variety knits in Pakistan. Hosiery goods exported from Pakistan are known for their fine quality in European and American markets. A series of new finishing processes have been incorporated with improved shades, texture and luster. Some of the bulk export items, which have gained popularity, are 100% cotton T-shirts, vests, slips, children's pajama suits, sports shirts, undergarments, bathing suits, knitted garments and knitted tabulator or flat fabrics. Manufacturers follow international sizes and specifications. They also welcome buyer's samples, specifications and designs.

### 3.1.2 BED WEARS

The bed wear has a distinctive identity. Pakistan manufactures the best quality printed and dyed bed sheets, quilt covers fitted bed sheets, flannelette bed sheets matching pillow covers that are displayed in famous departmental stores in Europe and United States. The industry produces exquisite designs, suited to the requirements of each country and its people. Exports are moving among others, to such quality-conscious markets as France, Germany, Benelux, United Kingdom, Norway, Sweden and the United States.

### 3.1.3 COTTON FABRICS

Cotton and Cotton products occupy a pivotal position in the economy of Pakistan. Pakistani weaving industry has been producing sophisticated quality fabrics in line with the latest overseas demand. Made of superior Cotton, the textile fabrics of Pakistan are distinguished for their quality, texture, lustrous color and rich combination of superior designs and competitive prices.

Pakistan's textile industry enjoys several advantages over many other countries as far as the production of quality fabrics concerned, which include availability of high-grade locally produced raw cotton and trained manpower.

### 3.1.4 SOFT/STUFFED TOYS

Soft toys are textile-oriented, defined as those, which are made of fabric and filled with soft and lightweight material. Soft toys are manufactured in a variety of forms and shapes, but mostly they take the forms of various animals. That includes Pandas, Dogs, Rabbits, Kangaroos, Ducks, Elephants, Turtles, Tigers, and Monkeys & Bears. They are also very useful for young girls and school going children as they have pockets and straps and can be used as fashionable purses and school bags. The principal markets of soft/stuffed toys

are USA, UK, Germany, France and Italy Miansons Textiles (Pvt.) Limited has a separate department, which deals in a large variety of Pakistani Stuffed Toys.

### 3.1.5 COTTON BAGS

Pakistan's cotton bags are made of 100% cotton cloths in different sizes. The products include shopping bags in gray, bleached, and dyed and hand printed with pigment colors according to the buyer's requirements for advertising and promotional activities of their products. Prints are made for prolonged colorfastness. Kit bags made of canvas cloths in different weight per sq. meter also made for sports, camping purposes and for requirements of armed forces, schools, industrial, agricultural and miscellaneous commercial needs.

### 3.1.6 TERRY TOWEL

Pakistan's towels are produced in an assortment of patterns with soft and eye-catching colors, guaranteed fast to sunlight and machine wash. A complete line of towels, bath towels, hand towels, face towels, kitchen towels and wash towels are available in a variety of designs and patterns. Jacquard towels are woven two-fold yarn in floral pattern and in a combination of colors.

### 3.1.7 COTTON YARN

Pakistan's cotton is regarded as the best among varieties of cottons of similar staples grown elsewhere in the world. Pakistan's textile industry enjoys several advantages over those of many other countries as far as the production of quality fabrics and yarn is concerned and is a world leader in the export of cotton yarn, including coarse, medium and fine varieties. Pakistan's leading buyers are Japan, Republic of Korea and Hong Kong.

# CHAPTER 4:
# BALANCING, MODERNIZATION AND REPLACEMENT (BMR) PROGRAM

## 4.1 BMR IN TEXTILE INDUSTRY

It appears that the wide-ranging balancing, modernization and replacement (BMR) program of the textile industry was launched. The relatively liberal sanctions of long term credit by the banks for financing BMR for textile industry on an extensive scale may result in liquidity crunch in banks with entailing possibility of considerably reduced availability of bank credit to other important sectors of the economy and therefore special concurrence of the SBP for BMR financing by the banks may make things comfortable for them.

Credit for BMR was promised at 14% mark up. This shows that SBP was willing to support BMR financing of the textile industry, which is a welcome development.

It may be emphasized here that BMR in textile industry has been over due for sometime past but the industry has been beset with the problems during the last few years while on the other hand the massive amount of defaulted loans in the leading banks made it rather difficult to accord attention to long term financing needs of the textile industry. However, the overall situation with t he banks and also with the home textile industry has seemingly changed in 2000 and in this context, the launching of BMR program in the country's largest industry CAN BE TERMED IS indeed most welcome. It may be pointed out here that a large number of spindles stood idle last year due partly to their vintage and party to other factors, which adversely affected the productivity of these mills. It may be expected that these marginalized units may benefit from the BMR program, which with support from SBP and banks.

It may be recall here that long term financing was generally provided by development finance institutions (DFI's) in collaboration with the consortia of commercial banks, but lately this modality faced out and foreign lines of credit to

old DFI's also dried up. The textile industry is mainly dependent on PAYEE Scheme or supplier's credit beside cash licensing for the import of certain machinery and spares. It goes without saying that BMR program would also involve institutional, financing in foreign exchange, which would have to be arranged by DFI's and lease financing agencies. It was estimated that the industry would require an amount of $ 400 million for completing the BMR program in addition to which the industry is reported to have already imported machinery worth $300 million. [13] It is not clear as to whether this amount was spent by t he industry from its own resource or did it arrange foreign loan by it self.

It may be further emphasized here that value added section of textile industry should be accorded priority and should not be confined to the spinning sector of the industry.

The major commercial banks and Development Financial Institutions (DFI's) would soon be offering financing for Balancing, Modernization and Replacement (BMR) mainly to the textile sector to enable this export oriented sector to be competitive in the export market.

While the committees constituted by the government for recommending the mark up rate for BMR financing, probably on floating rates, the textile experts feel that the issue of mark up rate should be allowed to decide by the market forces. Since the textile is running with out BMR for more than a decade it requires at least Rs. 40 billion for the current fiscal and an aggregated amount of Rs. 333 billion during next five years. [13]Those funds are said to be required to stand with the pressures of quota free market and demands of the choosy international market, said the textile experts.

Keeping in view the past record of various segments of the manufacturing sector regarding utilization of the bank funds, the situation demands for evolving

of a mechanism to keep an eye over utilization of the public money under BMR financing allowed by the government. There were some bad instances in the past that the financial facilities were misused by a number of manufacturing units on various pretexts. They generally transfer the funds to their sister organizations, which were originally meant for BMR purposes.

The banks of DFI are which are being assigned to provide BMR financing are the custodians of the depositor's money. Spending of these finances on any project, which does not pay back properly, deprive the depositors of the actual return on their hard earned money. Hence the situation demands that a fool proof mechanism is required to protect depositors and the share holders of the financing sector as the financing is actually provided by the public and not by the government or any financial institution from its own resources. The immaculate credit worthiness is the key true growth of economy. Hence any provision for allowing investors money to any sector requires extra prudential banking whatever and whosoever the sector requiring the funds.

Being dominate by the privileged class i.e. politicians, feudal and other influential peoples; the textile industry has always enjoyed the lion's share of the banking system in Pakistan. It is however unfortunate that the results produced by the textile sector do not justify to the amount spent on it so far.

Despite availability of locally made produced raw material i.e. cotton and all out support extended by the previous government. However, the industry was unable to break the psychological barriers of $5 billion exports because the beneficiaries of the banking facilities were not honest for increasing exports but to fatten their purse with the public money. [14] Although the banks' kitties were kept open for the textile sector right from the early 90's but the facility did not produce any tangible results rather it culminated into a big financial scam in the banks. Out of the total stuck up loans of the banking sector the largest amount of defaulted loan held by the textile sector. It is generally alleged that those who the

access to the bank loans never bothered to think about the repayment of the loans and that was the reason why they did not mind about the mark up rates. The huge loans allowed to the textile sector were neither used for establishment of any new unit or expansion of the project. It may be mentioned that not a single new unit has been set up in the country for the last 10 years.

According to a careful assessment, currently 345 large-scale units are in operation most of them are spinning units. The average age of these 345 units registered with the APTMA as its members is estimated between 17 to 18 years with a few exceptions, no balancing, modernization and replacement (BMR) has taken place in these units for the last ten years. The reason for this stagnation is stated to be stated to be the non-availability of financing for BMR purposes. This is of course a sorry state of affairs as it amounts to be suicidal for export oriented industries which to face strong competition in the export market. BMR provision is of vital importance even for the newly set up industries especially in a situation of rapid changes of technology around the worldwide majority of the existing textile units are based either on second hand machinery or obsolete technology. Accepting the textile industry as a priority sector of the national economy for increasing exports, the present government has however assured to provide all possible facilities rewired by the textile sector for boosting textile production and exports.

The present finance minister, at a meeting, emphasized on innovative and dynamic financial products and services would require to be offered by the banking sector. The venture capital, leasing to group entrepreneurs to cater the present and future requirements at all levels of the production chain.

The value addition is not limited to textile made ups but any product that secures a higher price than the basic product, is value addition.

The SBP governor proposed that in order to give transparency to the credit facility and efficient processing of loan cases, the SBP governor proposed a mechanism in which representatives of the banks; Textile Association and SMEDA could review and recommend cases of groups or companies for Financing by the banks.

About $400 million is required for BMR of the textile industry, which should be provided by the banks at the earliest at reasonable rates of mark up. There is a need for providing financing as well as government's permission for establishing warehouses and marketing offices in the major international markets around the world so as to cut down the long delivery time of the textile exports. [14]

According to informed sources, banks and development financial institutions are currently exploring the possibility of offering finances to textile sector for BMR projects at a floating rate.

They are however yet to finalize their recommendations on this and other relevant issues and forward the same to the State Bank of Pakistan. The SBP would then evaluate the recommendations before providing its own input in the textile vision 2005. A long term textile policy being drawn to prepare Pakistan to compete in a quota free and restriction free markets by 2005.

The issue came under discussion at a meeting of top executives of four lead banks including HBL, UBL, NBP and MCB and three development financial institutions i.e. PICIC, NDFC and Small Business and Finance Corporation. The participants discussed pros and cons of financing BMR projects of the textile industry at floating interest rates with a minimum benchmark. They said it was not clear which debt-raising instrument would be used for determining floating lending rates.

Normally floating rates are worked out by adding certain basis points over treasury bills but the use of other instruments like a proposed government bond with tradable coupons cannot be ruled out.

It was felt in the meeting that the need for having a floating interest rate for financing BMR projects of textile industry over five years for the purpose of consistency and for keeping banks and DFI's from unnecessary competition.

According to initial projections of textile vision 2005 the textile sector would need at least Rs.333 billion in the next five years of which Rs.40 billion is needed in 2001. [13]

Two committees have already been set up one for developing eligibility criteria for financing and the other for formulating strategies for technical evaluation and pricing of textile machinery.

# CHAPTER 5: CAUSES OF SICKNESS

# 5.1 CAUSES OF SICKNESS

Textile industry expanded remarkably and once it was considered to be the backbone, after agriculture, of the economy. The number of textile mills grew from 3 to 600 during the last 50 years and profits earned during the 50's and 60's and the same subsequent years have been tremendous. But unfortunately, there has been serious lack of foresight on the part of mill owners and the agencies responsible for the growth and development of textile industry for almost doing nothing for establishing a regular source of supply of textile machinery and essential accessories, which is a basic need for healthy running and replacement of outdated and old machines of the textile mills.

Other major factors for the sicknesses of the textile industry are:

## 1. TIMELY BMRs

BMRs were not undertaken when they made huge profits; instead they preferred to increase production capacity. During this period the quality of product and productivity suffered resulting in the set back on the export front.

At this stage the mill owners were forced to realize the need for the BMR, but the cost of imported machine had become extremely high. Huge funds/loans were required from the banks and DFI's that every mill could not afford and manage, resulting in the continued deterioration of most of the plant and equipment.

## 2. VALUE ADDITION

Value addition is essential but has not been realized since the beginning and this grave negligence has proved to be one of the obstacles in the continued profitable operation of mills.

## 3. COTTON PRICES

Prices are usually higher when compared on the international level. Apart from basic factors like the area under cotton, seed quality, pesticides, water management, rains and winds etc. the “cotton pundits” (growers, ginners, exporters, mill owners, and others) have vested interest in the cotton crop. They kept releasing crop estimates from time to time to safeguard their interest. Such a situation caused erratic fluctuation in the cotton price, eventually the stability of prices in the market.

## 4. MANMADE FIBRE

Use of manmade fiber like polyester and viscose should be encouraged and policies are formulated so that adequate supply of such fiber is ensured at competitive prices.

## 5. EXPORT COMMITMENTS

Export commitments are announced in advance of the final determination of the cotton crop production and mills requirement. Such a situation causes abnormal fluctuations in the prices and adversely affects cotton buying by the mills undermining operation plans of the mills.

## 6. QUALITY PRODUCTS

Quality is another basic in mill operations. It starts from cotton fields and ends till the products are safely delivered in the hands of the customers. All other efforts and controls will be of no value unless “total quality control” at every stage and step of cotton growing, ginning, spinning, weaving, finishing and packaging is effectively undertaken.

## 7. EFFECTIVENESS OF MANAGEMENT

The significance of management's contribution must be recognized in the successful operation of industry. Many organizations fail for many reasons, but most common reason is the failure on the part of management.

No matter how good the market may be in terms of financial, technical and personnel situation the success or failure of the enterprise will ultimately depend on the effectiveness of management.

It may be true that some of the mills have genuine reasons for getting sick; in most cases sickness is due to inexperienced and financially weak new comers in the industry. In the larger interest of textile industry, the government, APTAMA, banks and financial institutions should prepare a plan to encourage successful and competent textile mill owners to take over such sick units on easy terms, so that the investment made can become fruitful.

## 8. NO FOCUS ON STRATEGIC TEXTILE VISION

No doubt Pakistan has some internationally reputed textile mills but the number is too small to compete the challenges especially the WTO. Pakistan can never become a swimmer by investing $ 4 to 5 billions although it is enough to keep our head above water. [4] Actually industry lacks the real understanding of the post 2005 era and has no focus on strategic textile vision.

## 9. QUALITY OF LABOR

Another major reason of textile units sickness is the quality of labor available to the industry. The textile industry has mostly uneducated labor and primary enrolment in textile sector is even lower than countries like Bangladesh. They don not have the required skills and knowledge to have a cost effective manufacturing.

## 10. TECHNOLOGY

The textile industry does not have the technology to undertake cost effective manufacturing because of which its cost structures are higher than other countries textile industry. In Pakistan Textile and Clothing Industry growth rate is 1% per year while it is 8-12 % in India and 9-16% in China. Further more Pakistan also lack trendy textile technologies being practice in advanced countries.

## 11. HALFHEARTED ATTENTION

In spite of enormous, distinct advantages and incentives the textile industry enjoys, the aspect of achieving competitiveness in terms of quality, quantity, value addition, price optimization, and BMR is conspicuously missing from our industry as well as the textile products, mainly because of half-hearted attention paid by the industry in general.

## 12. ATTAINING COMPETITIVENESS

It is unfortunate that the aspect of attaining competitiveness in all aspects of the performance, which is crucially significant to survive in the face of future challenges, was neglected and the industry opted for easy money and handsome profits from the elementary trade of raw cotton and semi-value added cotton yarn. To tell the truth the textile industry in general avoided indulging with comparatively painstaking business of weaving process. The handsome profits earned by the textile industry through rudimentary level of production consequently created a crop of lethargic people in the industry.

The textile industry generally speaks against the free export of raw cotton with the tall claims that the raw cotton is required by the local industry for value

addition, but it will be interesting to note that the textile mills themselves carry out the major export business of the raw cotton.

However, with the internationalization of the trade and diversification in a large variety of textile products, the period of easy going is now going to be over, especially with the phasing out of the quota system. The industry is now confronted with more demanding and choosy buyers, competition and deregulated global market. The situation demands for recovery of the lost time and make all out efforts for attaining and maintaining competitiveness in all segments of the industry in view of the already improved competitiveness in the developed world with the use of high-tech and state of the art technology.

## 13. NO EXPLOITATION OF AVAILABILITY OF RAW COTTON

The traditional edge of availability of raw cotton within the country has not been fully exploited by our economic managers. It will be interesting to note that the export value of our raw cotton, which was $1.03 per KG some 45 years ago in 1951-52 while, is still roving around $1.47 per KG. The value of Egyptian cotton is more than double of Pakistan cotton in the international market simply because they have been able to developed good quality staple as against the poor quality cotton produced in the country, despite the lavish spending on R&D which runs into billions of rupees every year. The major chunk of the funds allocated for research and development go into salary bills of the white elephants hired by different governments on political considerations in the past. We failed in developing even a single variety of long staple cotton, which is the major handicap of the textile industry in producing yarn of fine quality.

## 14. UTILIZATION OF FUNDS

It is however unfortunate that in many cases, instead of utilizing the funds on BMR, the companies was allegedly involved in lending the available funds to the associate companies. This practice not only forced them to neglect the aspect of improvement through the process of BMR but also entrapped with cash flow problems. In most of such cases they were sitting on the borrowing limits, their projects landed into serious financial problems and ultimately fell into the ranks of sick industries.

## 15. GROWTH ON ADHOC BASIS

Unfortunately the growth of the textile industry in Pakistan has been by and large on adhoc basis, without any planning. As a result of this many textile mills, from the point of location, layout, and implementation of environmental management system is next to impossible. Relocating of these mills, because of time and expenses involved is not possible and since they may not be able to comply with the technical criteria and environmental regulations, many old established companies might face closure.

## 16. GROWTH OF TEXTILE INDUSTRY

With the exception of a period from 1958-59 to 19974-75, the textile industry could not maintain a sustainable growth and registered its growth rate at the snail's pace in the country. In the organized sector there are 232 listed textile companies of which 153 are spinning units, 28 weaving and 51 composite units. While the total number of textile units both listed and unlisted is however around 440.

The weaving capacity of the textile industry in our country is static at 10,000 shuttles less looms for past many years. The capacity of conventional

looms is also around 15,000, which have no match with the quantum jump the industry has taken in the spinning sector. Instead of going for value added products, the frenzy for setting up spinning projects dictated the minds of the industry over the years which took the 4.1 million spindles in 1981 to a massive number of 8.5 million spindles in 1996-97, while the rotor capacity also jumped from 21 million to 133 million. [8]

## 17. REVIVAL OF SICK UNITS

Lack of marketing by the government and exaggerated prices demanded by the creditors, mainly banks and DFI's is not only discouraging revival of some 4000 small and medium industrial units officially identified as sick units but is also resulting in the increase of many other units which are heading towards a similar fate.

Lack of proper marketing is prolonging the revival of the some 4000 identified sick units in various sectors and of all sizes. This is not only shying away local but also foreign investments which could help the revival of these units which are collectively blocking a massive amount of Rs.35 billion. This indeed is a great financial loss to the national economy.

So far no real attempts have been made to sell off these sick units despite interest shown by the foreign investors to buy out the units, which could be the first step towards their revival for the benefit of the economy. Instead of providing an investor friendly package of information about individual units the policy makers have chosen to impart only a much crude form of information to the potential investors. This is just not enough to make information about the available machine and corporate set up available to attract a potential investor.

According to an analyst the latest telecommunications technology such as the internet to provide the specific information and data about the sick units to

better attract investors who thus far have remained indifferent to the sell off the sick units. He also stressed the need to upgrade the detailed information about the sick units nationwide which has not been upgraded during last decade in general and last five years in particular. It is imperative to identify the status of an individual sick unit particularly due to presence of many persons claiming the ownership of a particular sick unit due to corporate laws, which takes years for the dissolution of a company and thus its ownership.

The bureaucratic red tape also deprived the potential investors of the proper guidance while the biggest problem with the sick units in the delayed disbursement of loans to the banks and DFI's, which failed to achieve one of their major aims—of industrial development.

In addition, the creditors that are the banks and the DFI's are demanding highly exaggerated prices to shy away the investors to help revive the sick units. The practice is creating conflicts of interest as banks and DFI's, the creditors, are unwilling to sell the units at an economically viable price being more interested to recover their loans plus the mark up irrespective at a particular selling price.

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# CHAPTER 1: TEXTILE INDUSTRY

## 1.1 TEXTILE INDUSTRY

Industrialization has always been considered as the rapid road to economic development in Pakistan. The areas of the subcontinent that came to be Pakistan in 1947 were primarily agricultural areas, with the Punjab being call the granary of India and in East Pakistan the major producer of tea and jute. United India's industries, its textile and jute mills, were located in West Bengal and in the United Provinces and Bombay; all areas that acceded to India. Pakistan's ruling classes, from the earliest days, had the firm belief that industrialization was the only road to development. The government then embarked on an ambitious industrialization program in the very first decade of the country's existence. As a, matter of fact, industry was given the priority over agriculture.

The 1960's saw a continuation of the pro- industrial growth strategy, with the government providing incentives to the industry by over- valuing the exchange rates, suppressing exports of agricultural raw materials and providing tax incentives to all categories of industries. By the end of 1960's, however, it had become obvious that industrial development at the cost of agricultural growth was not a feasible strategy and was leading to certain undesirable socio-economic stratification, i.e. a more unequal distribution of wealth and concentration of economic and political power in a few hands. It became obvious that more balanced growth strategy was needed, and that agriculture and industry had to be complimentary if it were to lead to a long-term economic development.

Cotton based industries are an integral part of the country's manufacturing sector. Cotton products are especially vital for the economy as they are exported in large quantities, and are a lucrative source of foreign exchange. Cotton textile industries were amongst the first to be set up in the country, and the production of these industries witnessed tremendous increases during the early 1950's.

Growth rates stagnated in the second half of the decade. As the effects of the Korean boom began to wear off, cotton production stagnated.

The production of both cotton yarn and cotton cloth remained fairly steady during the first half of the 1960's, but showed no exceptional increases. This was partly due to the fact that profitability in the industry was low from 1961 to 1967. In the second half of the decade, yarn production was satisfactory. However, the production of textile stagnated as labor unrest swept the country, and trade unions became ever more politically active. A large number of working days were lost due to labor unrest during 1967-68 and 1968-69.

Cotton textile and yarn production was particularly disappointing during the period from 1969-70 to 1976-77. The cotton crop was severely affected during the floods of 1973 and 1974. At the same time, the international price of cotton had begun to increase.

The textile industry did not revive even in the second half of the decade, despite numerous incentives offered to it by the government. These included the abolition of import duty on textile and reduction of the interest rate on loans disbursed under the Export Finance Scheme.

The textile industry remained sluggish during the early 1980's because the protectionism barriers erected by Western Countries adversely affected the export of cloth to foreign markets. At the same time, a number of south Asian countries, including India and Thailand began to export high quality of cotton textile and the competition increased. The failure of the cotton crop in 1983-84 proved to be particularly harmful for textiles. Low production of cotton, coupled with hoarding and speculative purchases, resulted in a sharp increase in the price of raw cotton. The government tried to salvage the situation by banning the export of raw cotton and removing the surcharge on its import. However, textile production did not immediately respond to these incentives. The government

decided that no new spinning unit would be sanctioned unless it was to be set up in an under developed area. This was done to avoid the build up of idle capacity in the textile industry. The production of cotton yarn was relatively better but it, too, was affected by the imposition of trade barriers in the foreign countries.

The period from 1984-85 to 1990-91 saw the revival of the textile industry. Yarn production, in particular, showed phenomenal increases due to the upsurge in the international demand, and the tremendous increases in its international price .the government was, in fact, forced to impose restrictions on the export of cotton yarn in order to ensure its availability to domestic producers of cotton products. Cotton textile production too began to revive as larger cotton crops were harvested after 1985-86. However, textile production did not increase on the same scale as yarn production. The growth of the textile industry continued to be hampered by the continued imposition of trade barriers. Sixty % of installed looms were lying idle in March 1986. This was an effort duty on the production of blended fabrics; the demand for which is higher in the world market.

The textile industry was deregulated in 1987. The setting up of a new textile unit no longer required any sanctions. This move was taken with manufactured products. However, the wisdom of the measure is questionable, as there are serious capacity utilization problems in the textile sector. This is borne out by the fact that 50% of the installed looms were lying idle in 1990-91.

The tax other financial concessions provided to the textile industry have only served to decrease its competitiveness. Fiscal initiatives have deserved to shield textile producers from major losses, and have made them impervious to the need for improving the quality of their product. The lack of innovation and management and prevalence of outmoded techniques of production have further eroded the profitability of the sector.

## 1.2 PAKISTAN TEXTILE INDUSTRY PERFORMANCE OVERVIEW

Over the years, Pakistan is said to be the single crop economy i.e. cotton and textile that claims the lion's share in terms of the contribution in the national economy of Pakistan.

Despite efforts to bring in diversification in country's overall economic get-up the textile sector continues to be the most important segment of the national economy. Its share in the economy, in terms of GDP, exports, employment, foreign exchange earnings, investment and revenue generation altogether placed the textile industry as the single largest determinant of the economic growth of the country.

Textile sector occupies prominent position in the economy of Pakistan it earns major share in exports, investment, employment and in contribution to GDP among all other industrial sector. Its main sub sector are: spinning, weaving, finishing, knitwear and ready wear garments among which spinning and weaving are consider most important.

### 1.2.1 GROWTH OF SUB SECTOR

#### SPINNING

It is a fact that Pakistan textile started from scratch of merely 78000 installed spindles capacity in 1948 although its cotton production that year was 1.1 million bales (170 KG). It is interesting to note that East Pakistan wear no staple cotton was produced had about 15 composite textile units with spinning capacity of more than 200,000 spindles. The local entrepreneurs took the initiative of putting up textile unit to meet the textile requirement of the country. By 1960, the number of textile units shot up to 72 with working capacity of 1.49 million spindles consuming about 1.34 million bales. With the local availability of yarn, the weaving capacity also increased to 27000 looms. The govt. policy was

directed towards establishment of agro-based industries with special reference to textile industry. The table gives the detail of development of textile industry till 1999.

| Period | Installed Units | Working Spindles | Increase | | Capacity Rotors | Bale Consumed 170 Kg each |
|---|---|---|---|---|---|---|
| | | | No. | % age | | |
| 1948 | NA | 78 | - | - | - | 75 |
| 1960 | 72 | 1.491 | 1413 | 1811 | - | 145 |
| 1970 | 107 | 2.327 | 836 | 56 | - | 2.584 |
| 1980 | 179 | 2.841 | 514 | 22 | 15 | 2.354 |
| 1990 | 266 | 4.489 | 1648 | 58 | 64 | 6.385 |
| 1999 | 537 | 6.334 | 1845 | 41 | 79 | 8.80 |

Between 1948 and 1960, the spinning capacity increased tremendously. Later, in 1960's the increase was 56 %, in 70's 22% in 80's 58% while in 90's 41%. There have been numerous increases during in 80's and 90's. New technology of spinning known as open -end was introduced in Pakistan in 1976 and while 1997 about 141000 rotors had been installed, of which about 80000 rotors were operational this expansion is in spinning capacity has not been compatible with forward process. As some difficulties were experienced in managing composite textile units so entrepreneurs prefers to install spinning, weaving and finishing units separately. Yarn, cloth and other textile production also increase accordingly. In 1980-81, Pakistan produced 374.9 million Kg of yarn and it increased to about 1600 million Kg. In 1996-97, according 325% increase in 17 years. [2]

## WEAVING AND MADE- UPS

In 1948, there were only 3000 looms. This sub sector made a tremendous progress simultaneously with spinning. Initially, weaving was attached with spinning within same premises but later separate weaving unit were installed. In 70's, power looms started working as small industries but later this sub sector grew by leaps and hounds. The position of weaving sector is:

| | Installed | Working Spindles |
|---|---|---|
| Integrated Textile Mills | 9.913 | 4.713 |
| Independent Weaving Units | 13.340 | 12000 |
| Power Looms Sector | 202.000 | 166000 |
| Total | 225.53 | 182713 |

There are about 10,000 knitting machine in country, of which about 40% capacity remains unutilized. About 6500 power looms, both in organized and unorganized sector are working. Canvas production is more than 100 million square meters of which about 90% is exported.

## INVESTMENTS

Initially, investment in textile industry came from prominent business families owned funds and very little was borrowed from banks. Later, diversification in industry prompted the industrialists to enter into other industries requiring huge investments and they restore to borrowing from banks, financial institutions and public. This phenomenon received impetus after 1980 and in 17 years period the installed spinning capacity registered a record increased of about 120% with a total installed capacity of about 8.5 million spindles and working capacity of 6.4 million spindles. When the local private banks were nationalized they adopted very liberal industrial finance policies, which helped in expending the base of textile industry vertically and horizontally.

The textile sector expects that the volume of investment in different segments of textile industry will exceed $500 million by the end of year 2005. The import of the textile machinery in Pakistan has increased considerably in the year 2001-2002 to expand spinning and weaving capacity. The rise in import of textile machinery is due to higher demand for Pakistani textile items including yarn, fabrics, bed-wear and garments despite economic slowdown worldwide. The production of cotton cloth in Pakistan has increased by 15 per cent while cotton yarn went up by 4.5 per cent. The spinning sector witness's boom in the last three years and the industry re-invested its profit for new equipment. Besides revival of sick units, 150,000 spindles had also been added to the working capacity during last three years. An investment of Rs40 billion had been made by the textile industry last one and a half year under Textile Vision Program being monitored by the State Bank of Pakistan. An investment of Rs23 billion in textile spinning sector, Rs.5 billion in weaving, Rs4 billion in polyester fiber, Rs3 billion in processing and Rs.4 billion in knitting and garment sectors have been made. Actually, the investment in the textile sector was estimated at Rs40.353 billion in the last one and a half-year against an investment of $775 million (Rs46.5 billion envisaged in Textile Vision 2005).

The textile industry imported $405 million worth of machinery in 2001-2002 and $370 million 2000-01. The industry spent over Rs50 billion on the expansion of their units in the last two years. However, increase in import duty on the textile plant and machinery for spinning, weaving and finishing industry in the 2002-03 budgets by 5 per cent adversely affected the BMR plans of the textile sector.

After suffering stagnation for the last 5 years, the textile exports started improving; especially the value-added products performed well in the export market in spite of lower demand and depressed prices in the international market.

During the year, the textile industry acquired the most modern technology to produce quality and competitive products to meet the global change. Recent installation of two dying plants by Nishat Textile in Kasur and Kohinoor Weaving on Raiwind Road besides expansion in a number of other factories in Faisalabad, Sheikhupura and Lahore where about 1,000 new air jet looms have been installed would ultimately prove helpful in achieving value-addition in different categories. The industry has been expanding rapidly to increase the export and achieve the targets of Textile Vision 2005.

Presently, there are about 225 textile companies on the board of Karachi stock exchange. Their market values of shares are estimated around Rs.20 billion whereas, at face-value rate, the investment is estimated around Rs.50 billion. The overall value of these 225 textile companies may be around Rs.80 billion. The share rates of textile companies have been very disappointing. Hardly 20 % of the shares are selling at face value or above but 80% are below face value. Many shares of such companies are selling at below 20% face value and the investors have been lost very heavily in textile companies. The return to the investors has been negative and the hard earnings invested in textile companies have almost been lost which has shattered the confidence of the investors in textile companies.

As a matter of fact, our textile industry most of the time availed of special concessions in taxes duties and rebates. Raw cotton was to be made available to the local spinning sector at subsidized rates. Only from 1995, free export policy has been adopted removing all export duties. In this way the old demand of cotton pace of recovery is very poor. Heavy defaults have been reported.

## COTTON CONSUMPTION

In the beginning when the spinning capacity was very negligible, the consumption was very low. As the spinning capacity was increased accordingly.

In 50 years, average consumption as percentage of productions works out to be 68%. It means averagely 32% was found surplus to domestic requirements, which was exported.

**COTTON QUALITY CONTROL**

In 50 years time, quality of cotton has been improved but not to the international standards. The spinners who were the main buyers to the Pakistan cotton didn't make efforts towards the improvement in quality. They failed to give any standardization system to the country they bought whatever was available in ginning factories and produce yarn accordingly. In other countries lie USE the spinners guide the breeders and growers about the require fibber properties best suited for yarn to be in high demand nationally and internationally.

A technology known as lint cleaning or post-cleaning was introduced in Pakistan in 1984. USA made lint-cleaners was installed and lint was subjective to cleaning process. As much as 100 lint-cleaners were installed in factories which produce high cotton. In one cotton season, perhaps in 1986-87 about 600 thousands bails of high grade were produced and almost all were exported. The local spinner did not like this cotton on one or the other excuse. Almost all countries produced lint-cleaned cotton which Pakistan exported, were used in spinning. Our spinners import cotton which is always lint-clean and it is used by them in spinning. As a result of such step-motherly treatment with lint-clean cotton the ginners stopped producing such cotton.

## 1.2.2 GROWTH OF TEXTILE INDUSTRY

Since the creation of Pakistan, the textile industry of Pakistan has played a vital role in the economy of the country and has played a major role in the development and progress of the country. Although this industry has played a major role but its growth is still called a snail paced growth.

The consumption of raw material i.e. Cotton and Fiber for the period starting from 1947 to 2003 is given in the table:

| | RAW MATERIAL | | | GROWTH % | | % OF TOTAL | |
|---|---|---|---|---|---|---|---|
| Period | Cotton | Fibre | Total | Cotton | Fibre | Cotton | Fibre |
| 1948 | 6876 | N.A | 6876 | - | N/A | 100 | N/A |
| 1949 | 8731 | N.A | 8731 | 27 | N/A | 100 | N/A |
| 1950 | 13664 | N.A | 13664 | 56 | N/A | 100 | N/A |
| 1951 | 21871 | N.A | 21871 | 60 | N/A | 100 | N/A |
| 1952 | 27119 | N.A | 27119 | 24 | N/A | 100 | N/A |
| 1953 | 49421 | N.A | 49421 | 82 | N/A | 100 | N/A |
| 1954 | 99018 | N.A | 99018 | 100 | N/A | 100 | N/A |
| 1955 | 146299 | N.A | 146299 | 48 | N/A | 100 | N/A |
| 1956 | 158436 | N.A | 158436 | 8 | N/A | 100 | N/A |
| 1957 | 164503 | N.A | 164503 | 4 | N/A | 100 | N/A |
| 1958 | 169756 | N.A | 169756 | 3 | N/A | 100 | N/A |
| 1958-59 | 181440 | N.A | 181440 | 7 | N/A | 100 | N/A |
| 1959-60 | 201184 | N.A | 201184 | 11 | N/A | 100 | N/A |
| 1960-61 | 204484 | N.A | 204484 | 2 | N/A | 100 | N/A |
| 1961-62 | 205330 | N.A | 205330 | 0 | N/A | 100 | N/A |
| 1962-63 | 213224 | N.A | 213224 | 4 | N/A | 100 | N/A |
| 1963-64 | 233540 | N.A | 233540 | 10 | N/A | 100 | N/A |
| 1964-65 | 237402 | N.A | 237402 | 2 | N/A | 100 | N/A |
| 1965-66 | 230669 | N.A | 230669 | -3 | N/A | 100 | N/A |
| 1966-67 | 243593 | N.A | 243593 | 6 | N/A | 100 | N/A |
| 1967-68 | 271896 | N.A | 271896 | 12 | N/A | 100 | N/A |
| 1968-69 | 296125 | N.A | 296125 | 9 | N/A | 100 | N/A |
| 1969-70 | 334693 | N.A | 344693 | 13 | N/A | 100 | N/A |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1970-71 | 360006 | N.A | 360006 | 8 | N/A | 100 | N/A |
| 1971-72 | 407147 | N.A | 407147 | 13 | N/A | 100 | N/A |
| 1972-73 | 463118 | N.A | 463118 | 14 | N/A | 100 | N/A |
| 1973-74 | 475348 | N.A | 475348 | 3 | N/A | 100 | N/A |
| 1974-75 | 420608 | N.A | 420608 | -12 | N/A | 100 | N/A |
| 1975-76 | 419735 | N.A | 419735 | 0 | N/A | 100 | N/A |
| 1976-77 | 343194 | N.A | 343194 | -18 | N/A | 100 | N/A |
| 1977-78 | 355986 | N.A | 355986 | 4 | N/A | 100 | N/A |
| 1978-79 | 387581 | N.A | 387581 | 9 | N/A | 100 | N/A |
| 1979-80 | 428554 | NA | 428554 | 11 | N/A | 100 | N/A |
| 1980-81 | 407523 | 37088 | 444611 | -5 | N/A | 92 | 8 |
| 1981-82 | 459,459 | 41,550 | 501,009 | 13 | 12 | 92 | 8 |
| 1982-83 | 478,716 | 37,983 | 516,699 | 4 | -9 | 93 | 7 |
| 1983-84 | 457,629 | 48,829 | 506,458 | -4 | 29 | 90 | 10 |
| 1984-85 | 459,394 | 52,237 | 511,631 | 0 | 7 | 90 | 10 |
| 1985-86 | 500,065 | 58,534 | 558,599 | 9 | 12 | 90 | 10 |
| 1986-87 | 634,886 | 62,833 | 697,719 | 27 | 7 | 90 | 10 |
| 1987-88 | 712,456 | 67,282 | 779,738 | 12 | 7 | 91 | 9 |
| 1988-89 | 809,978 | 69,256 | 879,234 | 14 | 3 | 92 | 8 |
| 1989-90 | 998,447 | 71,904 | 1,070,351 | 23 | 4 | 93 | 7 |
| 1990-91 | 1,128,978 | 85,560 | 1,214,538 | 13 | 19 | 93 | 7 |
| 1991-92 | 1,257,399 | 105,775 | 1,363,174 | 11 | 24 | 92 | 8 |
| 1992-93 | 1,318,892 | 125,525 | 1,444,417 | 5 | 19 | 91 | 9 |
| 1993-94 | 1,511,610 | 182,077 | 1,693,687 | 15 | 45 | 89 | 11 |
| 1994-95 | 1,412,732 | 192,152 | 1,604,884 | -7 | 6 | 88 | 12 |
| 1995-96 | 1,509,955 | 192,691 | 1,702,646 | 7 | 0 | 89 | 11 |
| 1996-97 | 1,444,368 | 236,692 | 1,681,060 | -4 | 23 | 86 | 14 |
| 1997-98 | 1,471,169 | 318,923 | 1,790,092 | 2 | 35 | 82 | 18 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1998-99 | 1,441,923 | 407,686 | 1,849,609 | -2 | 28 | 78 | 22 |
| 1999-00 | 1,566,348 | 404,008 | 1,970,356 | 9 | -1 | 79 | 21 |
| 2000-01 | 1,673,280 | 405,038 | 2,078,318 | 7 | 0 | 81 | 19 |
| 2001-02 | 1,755,669 | 409,557 | 2,165,226 | 5 | 1 | 81 | 19 |
| 2002-03 | 1,943,197 | 449,424 | 2,392,621 | 11 | 10 | 81 | 19 |

**(Source: www.aptma.org.pk)**

In 1947, the consumption of cotton was 6876 and 100 % of cotton production was utilized. In 159-60 the growth in consumption of cotton was only 11%. The fiber came in to use in textile industry in 80s and onward. In 1990, the consumption of cotton was 93 % and fiber consumption was only 7% of total textile raw material consumption. From the period of 2000 to 2003 the consumption of cotton remained 81% and fiber consumption remained 19% of total raw material consumption.

| | | INSTALLED CAPACITY (in 000) | | | | | |
|---|---|---|---|---|---|---|---|
| **Period** | **Units** | **Spindles** | **Growth%** | **Rotors** | **Growth%** | **Looms** | **Growth%** |
| 1948 | NA | 78 | | 0 | 0 | 3 | |
| 1949 | NA | 137 | 75.64 | 0 | 0 | 3 | 0 |
| 1950 | NA | 182 | 32.85 | 0 | 0 | 3 | 0 |
| 1951 | NA | 225 | 23.63 | 0 | 0 | 6 | 100 |
| 1952 | NA | 499 | 121.78 | 0 | 0 | 9 | 50 |
| 1953 | NA | 649 | 30.06 | 0 | 0 | 15 | 66.67 |
| 1954 | NA | 1113 | 4.76 | 0 | 0 | 23 | 53.33 |
| 1955 | NA | 1449 | 3.29 | 0 | 0 | 24 | 4.35 |
| 1956 | NA | 1518 | 0.06 | 0 | 0 | 25 | 4.17 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1957 | NA | 1568 | 0.76 | 0 | 0 | 26 | 4.00 |
| 1958 | NA | 1569 | 0.06 | 0 | 0 | 26 | 0 |
| 1958-59 | 70 | 1581 | 0.25 | 0 | 0 | 27 | 3.85 |
| 1959-60 | 72 | 1582 | 3.66 | 0 | 0 | 27 | 0 |
| 1960-61 | 74 | 1586 | 12.53 | 0 | 0 | 28 | 3.70 |
| 1961-62 | 71 | 1644 | 3.41 | 0 | 0 | 29 | 3.57 |
| 1962-63 | 76 | 1850 | 2.82 | 0 | 0 | 30 | 3.45 |
| 1963-64 | 81 | 1913 | 4.52 | 0 | 0 | 31 | 3.33 |
| 1964-65 | 83 | 1967 | -0.63 | 0 | 0 | 31 | 0 |
| 1965-66 | 89 | 2056 | 0.24 | 0 | 0 | 30 | -3.23 |
| 1966-67 | 94 | 2043 | 6.20 | 0 | 0 | 30 | 0 |
| 1967-68 | 95 | 2048 | 10.21 | 0 | 0 | 30 | 0 |
| 1968-69 | 100 | 2175 | 8.68 | 0 | 0 | 31 | 3.33 |
| 1969-70 | 107 | 2397 | 9.90 | 0 | 0 | 30 | -3.23 |
| 1970-71 | 113 | 2605 | 14.08 | 0 | 0 | 30 | 0 |
| 1971-72 | 131 | 2863 | 2.45 | 0 | 0 | 29 | -3.33 |
| 1972-73 | 150 | 3266 | 0.60 | 0 | 0 | 29 | 0 |
| 1973-74 | 155 | 3346 | 2.64 | 0 | 0 | 29 | 0 |
| 1974-75 | 144 | 3366 | 2.63 | 0 | 0 | 29 | 0 |
| 1975-76 | 147 | 3455 | 1.10 | 2 | 0 | 29 | 0 |
| 1976-77 | 153 | 3546 | 4.02 | 5 | 150.00 | 26 | -10.34 |
| 1977-78 | 174 | 3585 | 1.39 | 4 | -20.00 | 27 | 3.85 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1978-79 | 184 | 3729 | 6.66 | 14 | 250.00 | 26 | -3.70 |
| 1979-80 | 187 | 3781 | 4.86 | 16 | 14.29 | 25 | -3.85 |
| 1980-81 | 203 | 4033 | 1.99 | 19 | 18.75 | 25 | 0 |
| 1981-82 | 210 | 4,229 | 4.86 | 23 | 21.05 | 24 | -4.00 |
| 1982-83 | 215 | 4,313 | 1.99 | 27 | 17.39 | 24 | 0 |
| 1983-84 | 216 | 4,272 | -0.99 | 29 | 7.41 | 23 | -4.17 |
| 1984-85 | 219 | 4,445 | 4.05 | 29 | 0 | 19 | -17.39 |
| 1985-86 | 227 | 4,485 | 0.90 | 37 | 27.59 | 17 | -10.53 |
| 1986-87 | 226 | 4,356 | -2.88 | 48 | 29.73 | 16 | -5.88 |
| 1987-88 | 224 | 4,393 | 0.85 | 55 | 14.58 | 17 | 6.25 |
| 1988-89 | 247 | 4,853 | 10.47 | 66 | 20.00 | 16 | -5.88 |
| 1989-90 | 266 | 5,271 | 8.61 | 72 | 9.09 | 15 | -6.25 |
| 1990-91 | 277 | 5,568 | 5.63 | 75 | 4.17 | 15 | 0 |
| 1991-92 | 307 | 6,216 | 11.64 | 81 | 8.00 | 14 | -6.67 |
| 1992-93 | 334 | 6,860 | 10.36 | 95 | 17.28 | 14 | 0 |
| 1993-94 | 471 | 8,419 | 22.73 | 138 | 45.26 | 14 | 0 |
| 1994-95 | 494 | 8,610 | 2.27 | 132 | -4.35 | 13 | -7.14 |
| 1995-96 | 503 | 8,717 | 1.24 | 143 | 8.33 | 10 | -23.08 |
| 1996-97 | 440 | 8,230 | -5.59 | 143 | 0 | 10 | 0 |
| 1997-98 | 442 | 8,368 | 1.68 | 150 | 4.89 | 10 | 0 |
| 1998-99 | 442 | 8,392 | 0.48 | 166 | 11.41 | 10 | 0 |
| 1999-00 | 443 | 8,477 | 1.01 | 150 | -9.64 | 10 | 0 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2000-01 | 444 | 8601 | 1.46 | 146 | -2.67 | 10 | 0 |
| 2001-02 | 450 | 9060 | 6.88 | 141 | -6.00 | 10 | 0 |
| 2002-03 | 453 | 9260 | 7.66 | 148 | 1.37 | 10 | 0 |

**(Source: www.aptma.org.pk)**

The number of installed spindles in 1948 was 78,000 and in 1949 the number increased to 137,000 an increase of 75.6%. Whereas in 2003, the number of installed spindles in textile industry are 9260,000 and the growth rate if installing spindles has slowed down as compared to the early years of Pakistan.

The number of rotors installed in Pakistan was only 2 in 1975-76 and in 2002-03 this number has only increased to 148. The rate of growth was very slow in these 28 years. The loom capacity, in Pakistan since 1947, had increase at a very slow rate. In the last 55 years, the capacity had increased and decreased. The increase in the capacity of looms is less than the decrease in the capacity of the looms.

| WORKING CAPACITY (in 000) | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Period** | **Units** | **Spindles** | **Growth%** | **Rotors** | **Growth%** | **Looms** | **Growth%** |
| 1948 | NA | 78 | | 0 | 0 | 3 | 0 |
| 1949 | NA | 137 | 75.64 | 0 | 0 | 3 | 0 |
| 1950 | NA | 182 | 32.85 | 0 | 0 | 3 | 0 |
| 1951 | NA | 225 | 23.63 | 0 | 0 | 3 | 0 |
| 1952 | NA | 302 | 34.22 | 0 | 0 | 4 | 33.33 |
| 1953 | NA | 600 | 98.68 | 0 | 0 | 7 | 75.00 |
| 1954 | NA | 940 | 56.67 | 0 | 0 | 13 | 85.71 |

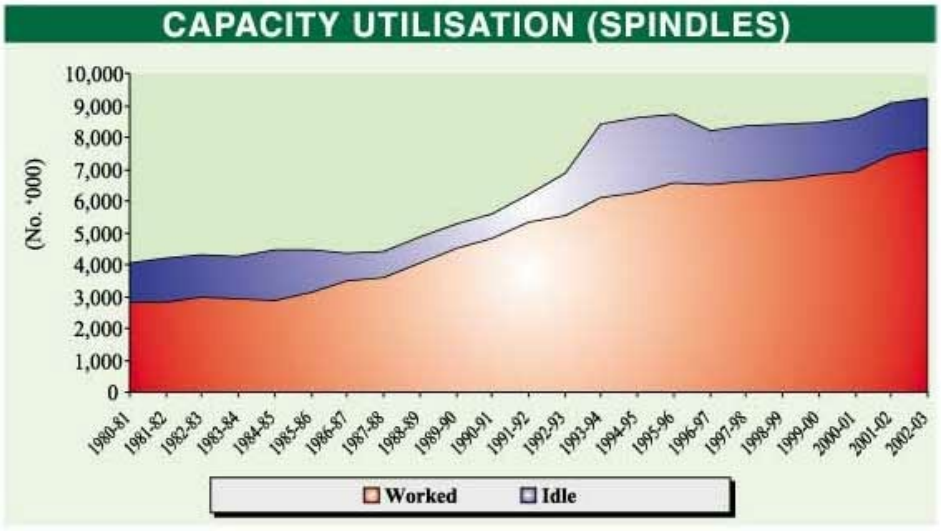
| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1955 | NA | 1355 | 44.15 | 0 | 0 | 19 | 46.15 |
| 1956 | NA | 1422 | 4.94 | 0 | 0 | 22 | 15.79 |
| 1957 | NA | 1447 | 1.76 | 0 | 0 | 22 | 0 |
| 1958 | NA | 1459 | 0.83 | 0 | 0 | 24 | 9.09 |
| 1958-59 | 70 | 1488 | 1.99 | 0 | 0 | 24 | 0 |
| 1959-60 | 72 | 1491 | 0.20 | 0 | 0 | 26 | 8.33 |
| 1960-61 | 74 | 1531 | 2.68 | 0 | 0 | 26 | 0.00 |
| 1961-62 | 71 | 1524 | -0.46 | 0 | 0 | 26 | 0.00 |
| 1962-63 | 76 | 1810 | 18.77 | 0 | 0 | 26 | 0.00 |
| 1963-64 | 81 | 1792 | -0.99 | 0 | 0 | 28 | 7.69 |
| 1964-65 | 83 | 1852 | 3.35 | 0 | 0 | 28 | 0.00 |
| 1965-66 | 89 | 1871 | 1.03 | 0 | 0 | 27 | -3.57 |
| 1966-67 | 94 | 1888 | 0.91 | 0 | 0 | 28 | 3.70 |
| 1967-68 | 95 | 1916 | 1.48 | 0 | 0 | 28 | 0.00 |
| 1968-69 | 100 | 2090 | 9.08 | 0 | 0 | 27 | -3.57 |
| 1969-70 | 107 | 2327 | 11.34 | 0 | 0 | 27 | 0.00 |
| 1970-71 | 113 | 2491 | 7.05 | 0 | 0 | 27 | 0.00 |
| 1971-72 | 131 | 2650 | 6.38 | 0 | 0 | 26 | -3.70 |
| 1972-73 | 150 | 3057 | 15.36 | 0 | 0 | 27 | 3.85 |
| 1973-74 | 155 | 3034 | -0.75 | 0 | 0 | 26 | -3.70 |
| 1974-75 | 144 | 2823 | -6.95 | 0 | 0 | 25 | -3.85 |
| 1975-76 | 147 | 2579 | -8.64 | 1 | 0 | 23 | -8.00 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1976-77 | 153 | 2650 | 2.75 | 1 | 0 | 19 | -17.39 |
| 1977-78 | 174 | 2585 | -2.45 | 3 | 200.00 | 14 | -26.32 |
| 1978-79 | 184 | 2645 | 2.32 | 13 | 333.33 | 13 | -7.14 |
| 1979-80 | 187 | 2701 | 2.12 | 14 | 7.69 | 14 | 7.69 |
| 1980-81 | 203 | 2833 | 4.89 | 15 | 7.14 | 13 | -7.14 |
| 1981-82 | 210 | 2,832 | -0.04 | 19 | 26.67 | 13 | 0 |
| 1982-83 | 215 | 2,986 | 5.44 | 25 | 31.58 | 12 | -7.69 |
| 1983-84 | 216 | 2,919 | -2.24 | 23 | -8.00 | 11 | -8.33 |
| 1984-85 | 219 | 2,872 | -1.61 | 21 | -8.70 | 10 | 9.09 |
| 1985-86 | 227 | 3,151 | 9.71 | 25 | 19.05 | 9 | -10.00 |
| 1986-87 | 226 | 3,469 | 10.09 | 40 | 60.00 | 8 | -11.11 |
| 1987-88 | 224 | 3,607 | 3.98 | 46 | 15.00 | 9 | 12.50 |
| 1988-89 | 247 | 4,026 | 11.62 | 60 | 30.43 | 9 | 0 |
| 1989-90 | 266 | 4,489 | 11.50 | 64 | 6.67 | 8 | -11.11 |
| 1990-91 | 277 | 4,827 | 7.53 | 67 | 4.69 | 8 | 0 |
| 1991-92 | 307 | 5,333 | 10.48 | 67 | 0 | 8 | 0 |
| 1992-93 | 334 | 5,520 | 3.51 | 79 | 17.91 | 6 | -25.00 |
| 1993-94 | 471 | 6,105 | 10.60 | 84 | 6.33 | 6 | 0 |
| 1994-95 | 494 | 6,262 | 2.57 | 74 | -11.90 | 5 | -16.67 |
| 1995-96 | 503 | 6,548 | 4.57 | 80 | 8.11 | 5 | 0 |
| 1996-97 | 440 | 6,538 | -0.15 | 87 | 8.75 | 5 | 0 |
| 1997-98 | 442 | 6,631 | 1.42 | 80 | -8.05 | 4 | -20.0 |

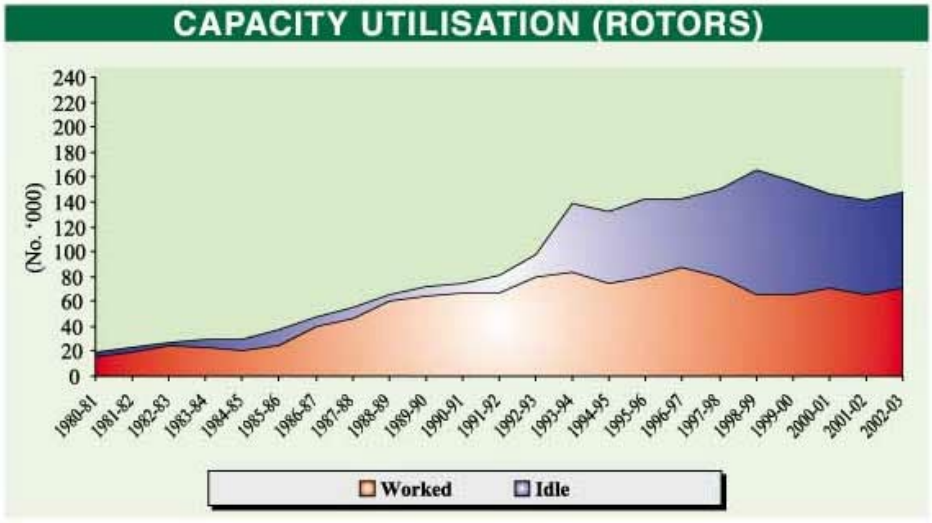
| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1998-99 | 442 | 6,671 | 0.57 | 66 | -16.46 | 5 | 25.0 |
| 1999-00 | 443 | 6,825 | 2.31 | 66 | 0 | 4 | -20.0 |
| 2000-01 | 444 | 6913 | 1.29 | 70 | 6.06 | 4 | 0 |
| 2001-02 | 450 | 7440 | 9.01 | 66 | 0.00 | 5 | 25.00 |
| 2002-03 | 453 | 7676 | 11.04 | 70 | 0.00 | 5 | 25.00 |

**(Source: www.aptma.org.pk)**

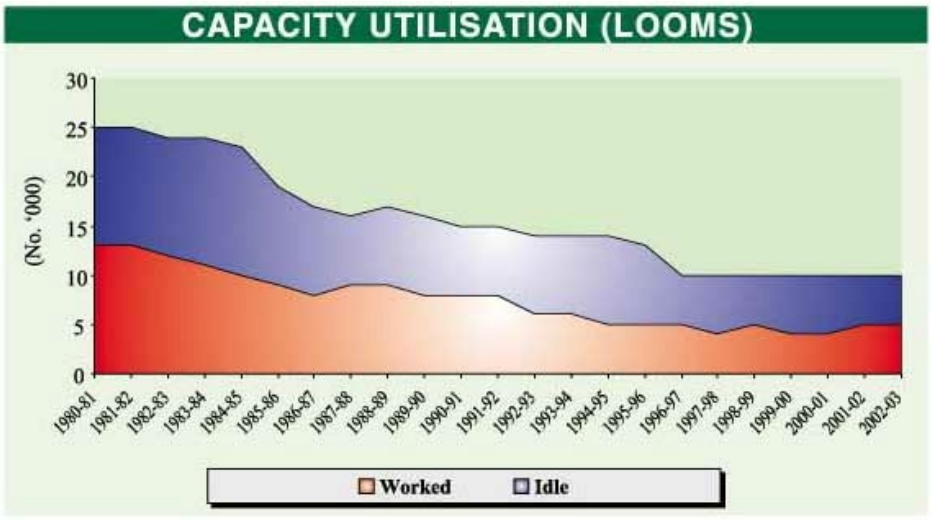
The capacity of spindles, rotors and looms were not utilized at their full. In 2002-03 the capacity of spindles was 9260,000 whereas the utilized capacity was only 7676,000. Similarly the capacity of rotors and looms was underutilized. These factors have led to the slow growth of Pakistan textile industry. Following graphs provide an overview of the capacity utilization of spindles, rotors, and looms in textile industry.




**(Source: www.aptma.org.pk)**

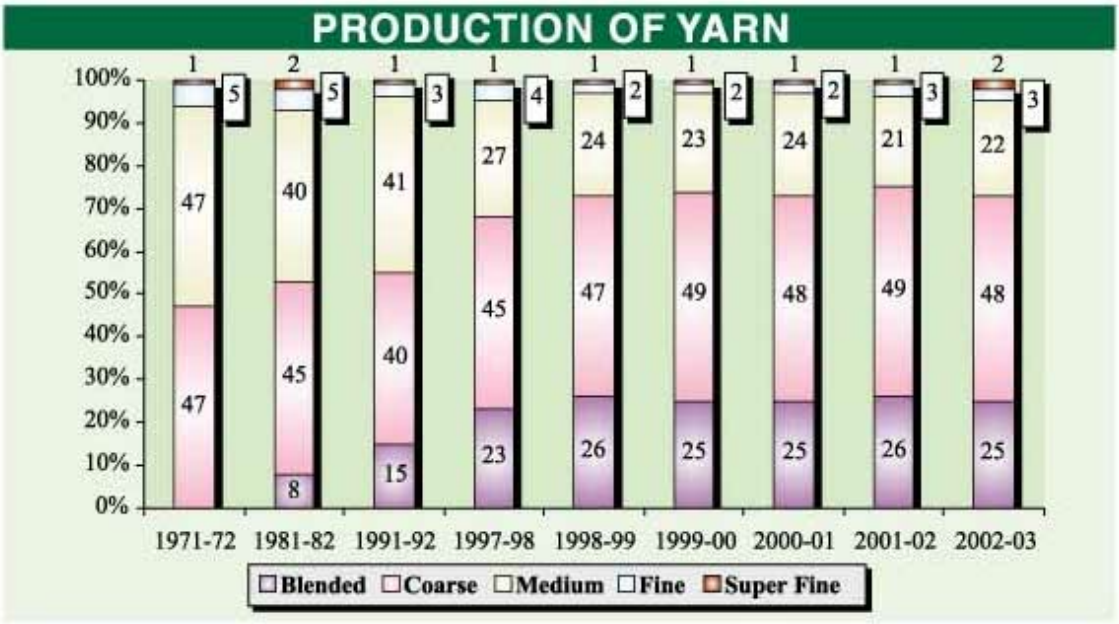



**(Source: www.aptma.org.pk)**



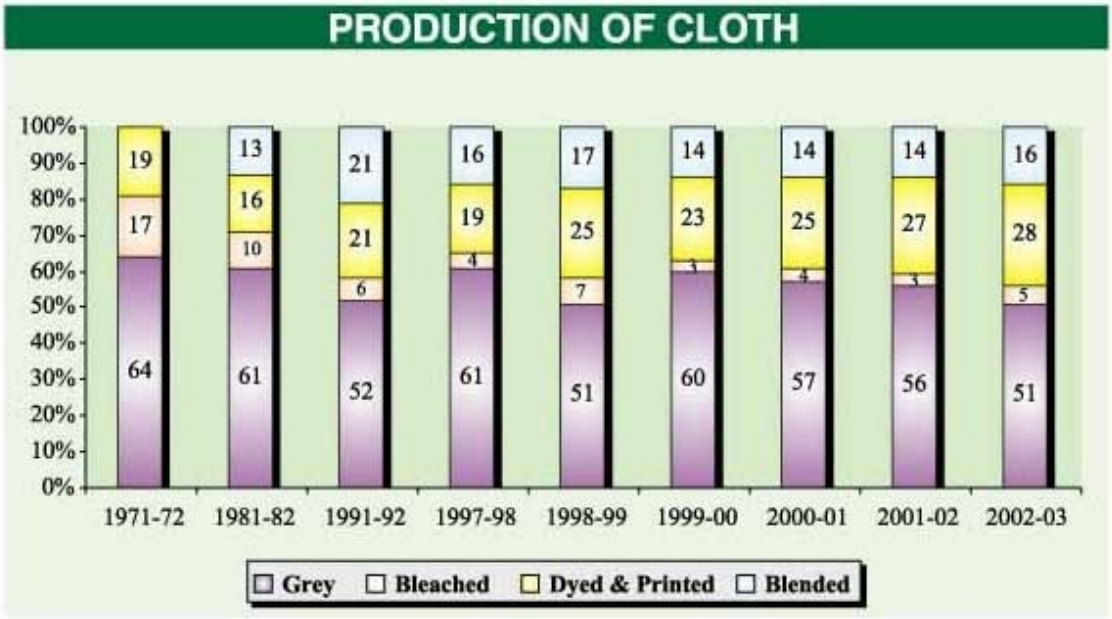

**(Source: www.aptma.org.pk)**

Following charts provide an overview of the textile industry production, exports, consumption, export price trends, industry's role in the economy of Pakistan in last 33 years.



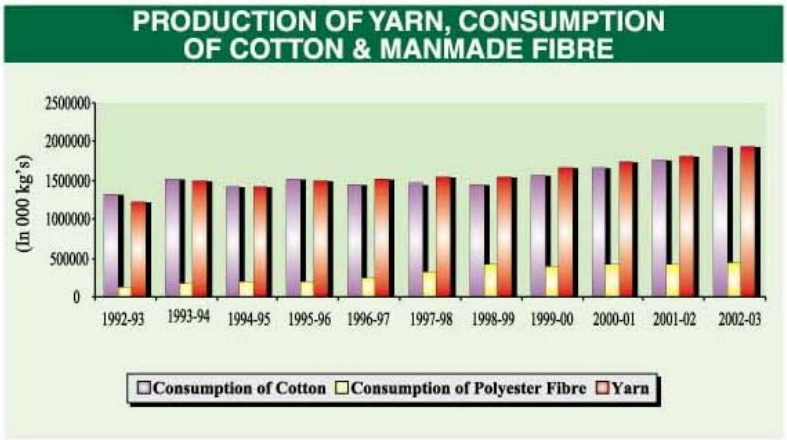

**(Source: www.aptma.org.pk)**

The production of yarn especially the blended one had increased from 8 % to 25 % in these years. The production of coarse yarn has increased only 1%, the production of medium and fine yarn has reduced in these 33 years.

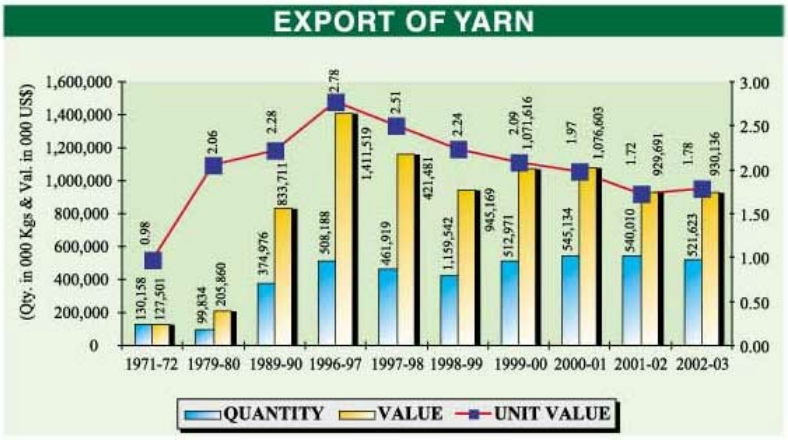



**(Source: www.aptma.org.pk)**

The production of grey cloth has reduced from 64% to 51% in 33 years. The production of dyed and printed cloth has increased to 28% whereas the blended fabric production is only 16% in 2002-03.



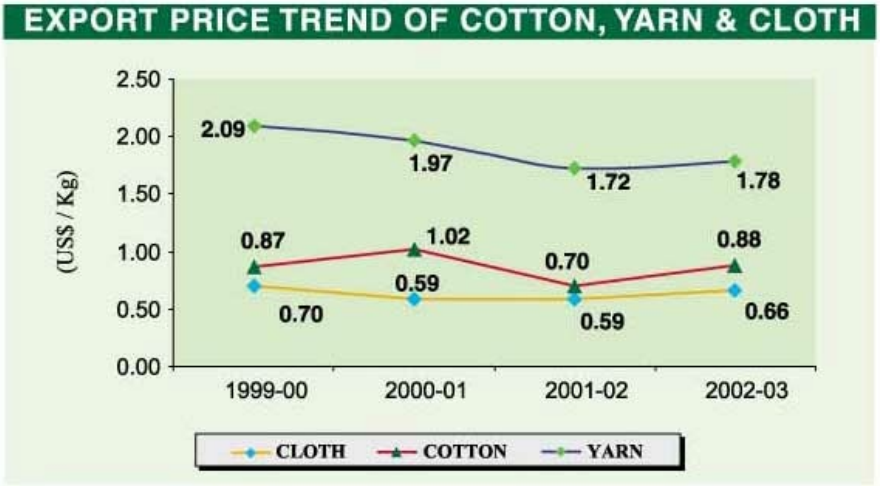

**(Source: www.aptma.org.pk)**



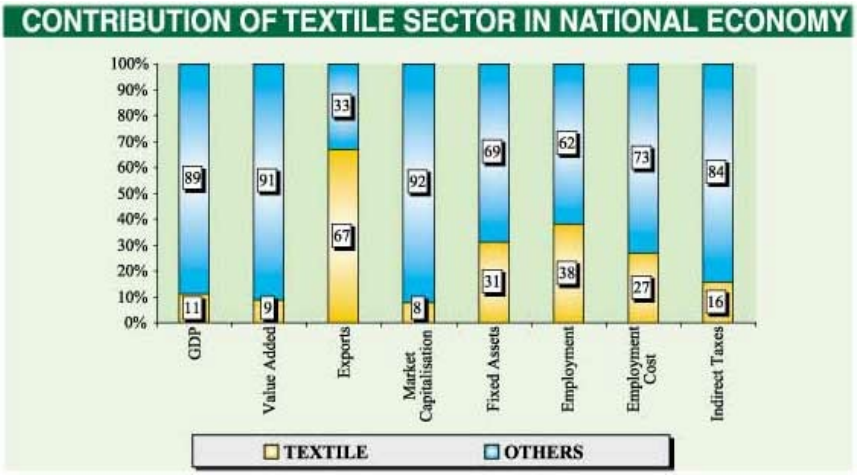

**(Source: www.aptma.org.pk)**


**(Source: www.aptma.org.pk)**


**(Source: www.aptma.org.pk)**




**(Source: www.aptma.org.pk)**




**(Source: www.aptma.org.pk)**


**(Source: www.aptma.org.pk)**


**(Source: www.aptma.org.pk)**


**(Source: www.aptma.org.pk)**

# CHAPTER 2: CURRENT SCENARIO

## 2.1 TEXTILE INDUSTRY CURRENT SCENARIO

Textile products are a basic human requirement next only to food. Inspite of the government's efforts to diversify export as well as industrial base, the textile remains the backbone of industrial activity in the country. Its share in the economy, in terms of GDP, exports, employment, foreign exchange earnings, investment and contribution to the value added in industry; make it the single largest determinant of the growth in manufacturing sector with 46 percent share in overall manufacturing activity. The demand for textiles in the world is around $18 trillion. Pakistan has emerged as one of the major cotton textile product supplier in the world market and its share in world yarn trade is about 30 percent while its share in cotton cloth trade is about 8 percent. However, overall share of textile exports from Pakistan is around one percent. The share of textile in Pakistan's exports earnings is 68 percent at its present worth of exports is around $7 billion. [11] The value addition in the sector account for 9 percent of GDP and it employ 38 percent of industrial workers. During the last three years, Pakistan's textile sector is preparing itself to face the challenges of the post-quota regime in 2005. [11]

However, before going into further details, it is necessary to have a dispassionate and closer look at existing status of each of the sub-sectors of textile industry. These are spinning, weaving and knitting, processing and made-ups manufacturing. The analysis should begin with taking into account production and quality of indigenous raw cotton.

### 2.1.1 SNAIL'S PACE GROWTH

With the exception of a period from 1958-59 to 19974-75, the textile industry could not maintain a sustainable growth and registered its growth rate at the snail's pace in the country. In the organized sector there are 232 listed textile companies of which 153 are spinning units, 28 weaving and 51 composite units.

While the total number of textile units both listed and unlisted is however around 400.

### 2.1.2 RAW COTTON

As regards demand and supply of raw cotton, it is necessary to keep in mind a few points. Pakistan can get an output of over 20 million cotton bales from the area presently under cotton cultivation, but actual production is around 10 million bales. Locally produced cotton is sufficient to meet the demand of spinners — estimated around 9 million bales. The GOP has allowed free trade of cotton paving way for import of superior quality cotton. The local spinners use superior quality cotton for the production of yarn of coarse counts. The glut of coarse counts is mainly due to obsolescence of spinning facility over the years— spinners have not undertaken timely BMR. Weaving is mostly confined to un-organized sector using obsolete/outdated looms, which is not capable of utilizing fine and super fine counts.

### 2.1.3 INVESTMENT TREND IN TEXTILE SECTOR

Pakistan's textile industry has been investing for the last five years in modernization and the improvement of the production base, and at the same time skill development has increased at a greater pace. The textile industry has taken post-quota regime as an opportunity and has been preparing them selves to face the challenges. Accordingly, over the last five years this sector has invested $ 5.0 billion in modernization and higher value addition.

| Sectoral Shares in Total Investment in the Sector (5.9 Billion $) (1999-2004) | | |
|---|---|---|
| 1 | Spinning | 46.0 % |
| 2 | Weaving | 24 % |
| 3 | Textile processing | 12 % |
| 4 | Knitwear & Garments | 5 % |
| 5 | Made-Ups | 8 % |
| 6 | Synthetic Textile | 5 % |

**Source: Textile Commissioner Organization**

As shown in Table, the bulk of investment has gone to the spinning sector accounting for 46 percent of total investment followed by weaving (24%), textile processing (12%), made-ups (8%) and knitwear & garments and synthetic textile (5% each). Higher investment in improving production, quality, and value addition is evident from $ 2.8 billion worth of import of textile machinery during the last five years. Massive investment in this sector has also enhanced their capacity to consume about 14 million bales of cotton, up from 9.0-9.5 million bales in the late 1990s. Enhancement of capacity also resulted in approximately 450,000 job creation, rise in production and exports. Major textile items of import in the current fiscal year (2004-05) include textile winding machines, cone winding machines, looms, dying machines, machinery for preparing fabrics and bleaching and processing machines. Increased investment in textile sector has resulted in substantial increase in production of yarn (18.2%), cloth (28.5%) and synthetic fibers (26%) in 2004-05. Textile exports on the other hand has increased from $ 5.8 billion in 2001-02 to $ 8.0 billion in 2003-04. Addressing the structural weaknesses of the Pakistani textile and clothing industry may take time. The government and industry have, however, recognized the challenges that they face, and have started to implement reforms. Furthermore, Pakistan has the real

potential to become competitive due principally to its cheap labour, vast source of cotton and long established presence in EU and US markets. [11]

### 2.1.4 REFORMS IN THE TEXTILE SECTOR

The government is providing support for the local production of textile machinery. A wide ranging campaign to produce contamination free cotton in the country to promote value addition has also been started. As a result, the cotton prices are now being quoted on a PSCI grade standard basis. To ensure an abundant supply within the country, cotton is allowed to be imported and exported freely. To stabilize prices in the domestic market, the Trading Corporation of Pakistan (TCP) has been intervening as and when required. These policies have led to the level of contamination declining from 26gm to 6 gm on average. The profiles of various components of the textile industry are given in the Table.

| Import of textile machinery | | |
|---|---|---|
| **Year** | **Million US$** | **% Change** |
| 1999-2000 | 210.9 | 28.6 |
| 2000 – 01 | 370.2 | 75.5 |
| 2001 – 02 | 406.9 | 9.9 |
| 2002 – 03 | 531.9 | 30.7 |
| 2003 – 04 | 597.9 | 12.4 |
| 2004 – 05 July-March | 697.4 | 66.3 |
| Total | 2815.2 | |

**Source: Federal Bureau of Statistics**

## 2.1.5 TEXTILE CITY – GARMENT CITIES

Recognizing the importance of textile and to meet the challenges of the post-quota regime the government has formed a company, namely the Pakistan Textile City Limited (PTCL) with a mandate to establish three textile cities, one each in Karachi, Lahore and Faisalabad.

## 2.1.6 PERFORMANCE OF THE ANCILLARY TEXTILE INDUSTRY

Textile production is comprised of cotton ginning, cotton yarn, cotton fabric, fabric processing (grey-dyed-printed), home textiles, towels, hosiery & knitwear and readymade garments. These components are being produced both in the large-scale organized sector as well as in unorganized cottage / small & medium units. The performance of these various ancillary textile industries is evaluated below:-

### I) COTTON GINNING SECTOR

There are 1221 ginning factories in Pakistan, of which, 1075 are in the Punjab and the remaining 146 are in Sindh. The total capacity is approximately 20 million bales per year (assuming a 100 day ginning season). Against capacity, the total production of ginned cotton is 14.6 million bales suggesting an excess capacity of ginning in the country. [11]

Ginning is the sector, which is first in the process of value addition leading to readymade garments or other textile products. Unfortunately, the ginning sector is out-dated and needs modernization.

### II) COTTON SPINNING SECTOR

The spinning sector is the most important segment in the hierarchy of textile production. At present, it is comprised of 458 textile units (50 composite units and 408 spinning units) with 8.5 million spindles and 75 thousand rotors in

operation with capacity utilization of 87 percent and 49 percent respectively, during July-March 2004-05. This year production of cotton yarn has increased to 1710.4 thousand tones from last year's production of 1446.8 thousand tones showing an increase of over 18.2 percent. [11]

### III) WEAVING & MADE-UP SECTOR

The problems of the power loom sector revolve round access to credit facilities to modernize their equipment as well as purchase of yarn specially when the prices of yarn increase but the prices of cloth increase with time lag. There is need for training facilities & guidance to diversify their products, especially to cater to the needs of the garment industry. However the performance of cloth sector remained better than last year.

Installed and Worked Capacity in Weaving Sector (Nos.)

| Category | Installed Capacity | Effective Capacity/Worked |
|---|---|---|
| Integrated Textile Units | 10249 | 49247 |
| Independent Weaving Units | 26034 | 25500 |
| Power Loom Sector | 225258 | 190000 |
| Total | 261541 | 220447 |

**Source: Textile Commissioner Organization**

### IV) COTTON CLOTH

The production of cotton cloth had increased substantially. This sector has registered a double-digit growth of 28.5 percent this year while the non-mill sector has registered a modest growth of 16.8 percent in the same period. The export of cotton cloth has witnessed an increase of 9.2 percent during July-March 2004-05 in value terms and 4.72 percent in quantitative terms. Furthermore, the unit value of cotton cloth has increased by 4.3 percent this year. Thus, this sub-

sector serves as the main engine for down stream sectors like Bedwear, Made-ups and Garments. [11]

## V) TEXTILE DOWN-STREAM INDUSTRY

This is the most dynamic segment of textile industry. The major product groups are towels, tents & canvas, cotton bags, bed-wear, hosiery & knitwear and readymade garments including fashion apparels.

### A) HOSIERY INDUSTRY

There are about 10,000 knitting machines spread all over the country. The capacity utilization is approximately 60%. There is greater reliance on the development of this industry as there is substantial value addition in the form of knitwear. Besides locally manufactured machinery, liberal import of machinery under different modes is also being made and the capacity based on exports is being developed. This sector has tremendous export potential. This sub-sector has recorded positive exports growth of 22.8 percent over the last fiscal year. [11]

### B) READYMADE GARMENT INDUSTRY

The garment industry provides highest value addition in textile sector. It has exported readymade garments worth $ 1265 million this year. The industry is distributed in small, medium and large-scale units, most of them having 50 machines and below; large units are now coming up in the organized sector of the industry. [11]

### C) TOWEL INDUSTRY

There are about 6500 towel looms in the country in both organized and unorganized sectors. This industry is dominantly export based and its growth depends on export outlets. Substantial increase in export of towels in the past indicate that tremendous possibilities exist for further expansion provided the existing towels manufacturing factories are geared to produce higher value towels. This sub-sector's exports increased by 31.6 percent in quantity terms and 22.4 percent in value terms, during July-March 2004-05. [11]

### D) TARPAULIN & CANVAS

This is the highest raw cotton-consuming sector. The production capacity is more than 100 million sq. meters. This value added sector also has great potential for export. About 90 percent of its production is exported while 5-10 percent is consumed locally by Armed Forces Food Department. Exports of this sector have declined as compared to last year but are likely to pick up in the coming year as Pakistan is the cheapest source of supply of tents and canvas.

## 2.1.7 CAUSES OF DOWNTURN

According to some analysts, the GOP policies coupled with the bad lending framework of financial institutions are responsible for exponential growth of spinning. While highest quantum of funds was dished out to spinners, there was hardly any financing of down-stream industries. On top of every thing, the entry of politicians and businessmen enjoying political clout in spinning business has resulted in lending to unviable projects. The concessional financing of and over invoicing has been the main reason for huge accumulation of non-performing loans pertaining to textile industry. The highest percentage of non-performing loans belongs to state owned financial institutions, which have recklessly, as well as under pressure, lent money to such sponsors. According to some financial analysts the average cost per spindle for units in nineties was as

high as US$ 110, whereas, it should have not been more than US$ 60 per spindle.

### 2.1.8 TEXTILE VISION 2005

Despite all odds and evens, the textile sector still enjoys the most important position in the national economy. It has been placed under special focus through Vision 2005 by present team of the economic managers. In order to make the textile industry internationally competitive, it deserves a special place in our economic policies. The much publicized program i.e. Textile Vision 2005, which covers improvement of cotton quality, project finance, promotional measures, marketing strategies and quota policy is now in final stages. Before the textile policy, the government took following steps, which include,

- Permission to allow the export of raw cotton right from the beginning of the session,
- Setting up of Ginning Research Institute,
- Reduction of custom duty on the import of saw gins,
- Amendment in Karachi Cotton Association by laws to permit shift from varieties to grades
- Grading by PCSI at Ginneries
- With drawl of excise duty on import of raw cotton under the restriction envisaged in Vision 2005 and in order for the focus to shift to the higher value added sector, it has been decided to with draw with immediate effect the export finance facility for yarn and gray cloth.With drawl of the export finance facility for yarn, however, has sent a shock wave among the spinners.

APTAMA has said that on one hand the government resolves to provide all facilities necessary for promoting the textile exports and on the other it has decided to with draw the export refinance facility on al accounts of yarn and cloth.

According to Chairman APTMA the yarn and gray cloth comprise 42 % of the total textile exports from Pakistan. Export Refinance is a significant incentive tool for promoting export of yarn and gray cloth in increasingly competitive international markets. He expressed his fears that the sudden and complete with drawl of export refinance facility on yarn and gray cloth could jeopardize a very significant portion of the Pakistan's Textile Exports. Particularly when all other competing countries are offering the same facility on these products at a very low interest rate. Unless new products and new markets for export are sufficiently developed, the government should not remove the existing equilibrium lest the existing market share of Pakistan's textile exports could be lost.

While appreciating the government for identification of the textile industry as the main vehicle for achieving the ambitious export target of $10 billion for the current fiscal. The APTAMA fully accept the government's emphasis on value addition as a step in the right direction.

However, until the spadework is done for documentation any abrupt change in existing system may prove counter productive. Spadework includes the implementation towards production and export of value addition item i.e. commercial spinners of yarn and weavers of gray cloth are provided sufficient funds for establishing new units of BMR. The abrupt with drawl of export refinance facility from low value added items to high value added items is like setting the bird in hand to go in the hope of catching the bird in the bush.

The shifting of export refinancing should be gradual in particular gray cloth, yarn of fine counts, dyed yarn, lycra etc. which come under the category of value added items should be allowed refinance till such time that the higher value added production is achieved. The switch from low value added should be gentle and smooth. Any sudden change, like for torrential flood in the hilly ravines, would carry with it good and bad indiscriminately.

Whatever the concerns expressed by the textile sector and even by the other sectors for that matter clamoring for incentives has become a feature of our economy.

The time has come to judge what we have taken form our country and what we have given in return. People are fade up with cliches. Economy is suffering from huge foreign and domestic debts having a bad impact on our sovereignty. A vast majority of the people is compelled to live below the poverty line due to non-availability of even level playing ground. Policies of privileges should come to an end now.

# CHAPTER 3: TEXTILE PRODUCTS

# 3.1 PAKISTAN'S MAJOR TEXTILE PRODUCTS

## 3.1.1 READY MADE GARMENTS

Pakistan produces ready-made garments of all pattern and styles, of the latest fashions and quality. The industry is adequately equipped to produces latest fashions to suit tastes and needs in any part of the world. The products also include utility items such as services, uniforms, overalls, shirts, trousers, sports shirts, jeans night suits, uniforms for schools, workers in industrial concerns catering establishments etc.

Leading Pakistani designers, garment manufacturers and exporters display their designs and products regularly round the world in international fairs and exhibitions and in trade centers like Paris-London, New York, Tokyo and Berlin. Two fashion fairs are also organized annually in Pakistan namely the Pakistan Textiles and Clothing Fair, held in winter, and the Fashion Apparel Fair scheduled in summer.

Hosiery and Knitwear

Cotton knits are now available in the latest variety knits in Pakistan. Hosiery goods exported from Pakistan are known for their fine quality in European and American markets. A series of new finishing processes have been incorporated with improved shades, texture and luster. Some of the bulk export items, which have gained popularity, are 100% cotton T-shirts, vests, slips, children's pajama suits, sports shirts, undergarments, bathing suits, knitted garments and knitted tabulator or flat fabrics. Manufacturers follow international sizes and specifications. They also welcome buyer's samples, specifications and designs.

### 3.1.2 BED WEARS

The bed wear has a distinctive identity. Pakistan manufactures the best quality printed and dyed bed sheets, quilt covers fitted bed sheets, flannelette bed sheets matching pillow covers that are displayed in famous departmental stores in Europe and United States. The industry produces exquisite designs, suited to the requirements of each country and its people. Exports are moving among others, to such quality-conscious markets as France, Germany, Benelux, United Kingdom, Norway, Sweden and the United States.

### 3.1.3 COTTON FABRICS

Cotton and Cotton products occupy a pivotal position in the economy of Pakistan. Pakistani weaving industry has been producing sophisticated quality fabrics in line with the latest overseas demand. Made of superior Cotton, the textile fabrics of Pakistan are distinguished for their quality, texture, lustrous color and rich combination of superior designs and competitive prices.

Pakistan's textile industry enjoys several advantages over many other countries as far as the production of quality fabrics concerned, which include availability of high-grade locally produced raw cotton and trained manpower.

### 3.1.4 SOFT/STUFFED TOYS

Soft toys are textile-oriented, defined as those, which are made of fabric and filled with soft and lightweight material. Soft toys are manufactured in a variety of forms and shapes, but mostly they take the forms of various animals. That includes Pandas, Dogs, Rabbits, Kangaroos, Ducks, Elephants, Turtles, Tigers, and Monkeys & Bears. They are also very useful for young girls and school going children as they have pockets and straps and can be used as fashionable purses and school bags. The principal markets of soft/stuffed toys

are USA, UK, Germany, France and Italy Miansons Textiles (Pvt.) Limited has a separate department, which deals in a large variety of Pakistani Stuffed Toys.

### 3.1.5 COTTON BAGS

Pakistan's cotton bags are made of 100% cotton cloths in different sizes. The products include shopping bags in gray, bleached, and dyed and hand printed with pigment colors according to the buyer's requirements for advertising and promotional activities of their products. Prints are made for prolonged colorfastness. Kit bags made of canvas cloths in different weight per sq. meter also made for sports, camping purposes and for requirements of armed forces, schools, industrial, agricultural and miscellaneous commercial needs.

### 3.1.6 TERRY TOWEL

Pakistan's towels are produced in an assortment of patterns with soft and eye-catching colors, guaranteed fast to sunlight and machine wash. A complete line of towels, bath towels, hand towels, face towels, kitchen towels and wash towels are available in a variety of designs and patterns. Jacquard towels are woven two-fold yarn in floral pattern and in a combination of colors.

### 3.1.7 COTTON YARN

Pakistan's cotton is regarded as the best among varieties of cottons of similar staples grown elsewhere in the world. Pakistan's textile industry enjoys several advantages over those of many other countries as far as the production of quality fabrics and yarn is concerned and is a world leader in the export of cotton yarn, including coarse, medium and fine varieties. Pakistan's leading buyers are Japan, Republic of Korea and Hong Kong.

# CHAPTER 4:
# BALANCING, MODERNIZATION AND REPLACEMENT (BMR) PROGRAM

## 4.1 BMR IN TEXTILE INDUSTRY

It appears that the wide-ranging balancing, modernization and replacement (BMR) program of the textile industry was launched. The relatively liberal sanctions of long term credit by the banks for financing BMR for textile industry on an extensive scale may result in liquidity crunch in banks with entailing possibility of considerably reduced availability of bank credit to other important sectors of the economy and therefore special concurrence of the SBP for BMR financing by the banks may make things comfortable for them.

Credit for BMR was promised at 14% mark up. This shows that SBP was willing to support BMR financing of the textile industry, which is a welcome development.

It may be emphasized here that BMR in textile industry has been over due for sometime past but the industry has been beset with the problems during the last few years while on the other hand the massive amount of defaulted loans in the leading banks made it rather difficult to accord attention to long term financing needs of the textile industry. However, the overall situation with t he banks and also with the home textile industry has seemingly changed in 2000 and in this context, the launching of BMR program in the country's largest industry CAN BE TERMED IS indeed most welcome. It may be pointed out here that a large number of spindles stood idle last year due partly to their vintage and party to other factors, which adversely affected the productivity of these mills. It may be expected that these marginalized units may benefit from the BMR program, which with support from SBP and banks.

It may be recall here that long term financing was generally provided by development finance institutions (DFI's) in collaboration with the consortia of commercial banks, but lately this modality faced out and foreign lines of credit to old DFI's also dried up. The textile industry is mainly dependent on PAYEE

Scheme or supplier's credit beside cash licensing for the import of certain machinery and spares. It goes without saying that BMR program would also involve institutional, financing in foreign exchange, which would have to be arranged by DFI's and lease financing agencies. It was estimated that the industry would require an amount of $ 400 million for completing the BMR program in addition to which the industry is reported to have already imported machinery worth $300 million. [13] It is not clear as to whether this amount was spent by t he industry from its own resource or did it arrange foreign loan by it self.

It may be further emphasized here that value added section of textile industry should be accorded priority and should not be confined to the spinning sector of the industry.

The major commercial banks and Development Financial Institutions (DFI's) would soon be offering financing for Balancing, Modernization and Replacement (BMR) mainly to the textile sector to enable this export oriented sector to be competitive in the export market.

While the committees constituted by the government for recommending the mark up rate for BMR financing, probably on floating rates, the textile experts feel that the issue of mark up rate should be allowed to decide by the market forces. Since the textile is running with out BMR for more than a decade it requires at least Rs. 40 billion for the current fiscal and an aggregated amount of Rs. 333 billion during next five years. [13]Those funds are said to be required to stand with the pressures of quota free market and demands of the choosy international market, said the textile experts.

Keeping in view the past record of various segments of the manufacturing sector regarding utilization of the bank funds, the situation demands for evolving of a mechanism to keep an eye over utilization of the public money under BMR

financing allowed by the government. There were some bad instances in the past that the financial facilities were misused by a number of manufacturing units on various pretexts. They generally transfer the funds to their sister organizations, which were originally meant for BMR purposes.

The banks of DFI are which are being assigned to provide BMR financing are the custodians of the depositor's money. Spending of these finances on any project, which does not pay back properly, deprive the depositors of the actual return on their hard earned money. Hence the situation demands that a fool proof mechanism is required to protect depositors and the share holders of the financing sector as the financing is actually provided by the public and not by the government or any financial institution from its own resources. The immaculate credit worthiness is the key true growth of economy. Hence any provision for allowing investors money to any sector requires extra prudential banking whatever and whosoever the sector requiring the funds.

Being dominate by the privileged class i.e. politicians, feudal and other influential peoples; the textile industry has always enjoyed the lion's share of the banking system in Pakistan. It is however unfortunate that the results produced by the textile sector do not justify to the amount spent on it so far.

Despite availability of locally made produced raw material i.e. cotton and all out support extended by the previous government. However, the industry was unable to break the psychological barriers of $5 billion exports because the beneficiaries of the banking facilities were not honest for increasing exports but to fatten their purse with the public money. [14] Although the banks' kitties were kept open for the textile sector right from the early 90's but the facility did not produce any tangible results rather it culminated into a big financial scam in the banks. Out of the total stuck up loans of the banking sector the largest amount of defaulted loan held by the textile sector. It is generally alleged that those who the access to the bank loans never bothered to think about the repayment of the

loans and that was the reason why they did not mind about the mark up rates. The huge loans allowed to the textile sector were neither used for establishment of any new unit or expansion of the project. It may be mentioned that not a single new unit has been set up in the country for the last 10 years.

According to a careful assessment, currently 345 large-scale units are in operation most of them are spinning units. The average age of these 345 units registered with the APTMA as its members is estimated between 17 to 18 years with a few exceptions, no balancing, modernization and replacement (BMR) has taken place in these units for the last ten years. The reason for this stagnation is stated to be stated to be the non-availability of financing for BMR purposes. This is of course a sorry state of affairs as it amounts to be suicidal for export oriented industries which to face strong competition in the export market. BMR provision is of vital importance even for the newly set up industries especially in a situation of rapid changes of technology around the worldwide majority of the existing textile units are based either on second hand machinery or obsolete technology. Accepting the textile industry as a priority sector of the national economy for increasing exports, the present government has however assured to provide all possible facilities rewired by the textile sector for boosting textile production and exports.

The present finance minister, at a meeting, emphasized on innovative and dynamic financial products and services would require to be offered by the banking sector. The venture capital, leasing to group entrepreneurs to cater the present and future requirements at all levels of the production chain.

The value addition is not limited to textile made ups but any product that secures a higher price than the basic product, is value addition.

The SBP governor proposed that in order to give transparency to the credit facility and efficient processing of loan cases, the SBP governor proposed

a mechanism in which representatives of the banks; Textile Association and SMEDA could review and recommend cases of groups or companies for Financing by the banks.

About $400 million is required for BMR of the textile industry, which should be provided by the banks at the earliest at reasonable rates of mark up. There is a need for providing financing as well as government's permission for establishing warehouses and marketing offices in the major international markets around the world so as to cut down the long delivery time of the textile exports. [14]

According to informed sources, banks and development financial institutions are currently exploring the possibility of offering finances to textile sector for BMR projects at a floating rate.

They are however yet to finalize their recommendations on this and other relevant issues and forward the same to the State Bank of Pakistan. The SBP would then evaluate the recommendations before providing its own input in the textile vision 2005. A long term textile policy being drawn to prepare Pakistan to compete in a quota free and restriction free markets by 2005.

The issue came under discussion at a meeting of top executives of four lead banks including HBL, UBL, NBP and MCB and three development financial institutions i.e. PICIC, NDFC and Small Business and Finance Corporation. The participants discussed pros and cons of financing BMR projects of the textile industry at floating interest rates with a minimum benchmark. They said it was not clear which debt-raising instrument would be used for determining floating lending rates.

Normally floating rates are worked out by adding certain basis points over treasury bills but the use of other instruments like a proposed government bond with tradable coupons cannot be ruled out.

It was felt in the meeting that the need for having a floating interest rate for financing BMR projects of textile industry over five years for the purpose of consistency and for keeping banks and DFI's from unnecessary competition.

According to initial projections of textile vision 2005 the textile sector would need at least Rs.333 billion in the next five years of which Rs.40 billion is needed in 2001. [13]

Two committees have already been set up one for developing eligibility criteria for financing and the other for formulating strategies for technical evaluation and pricing of textile machinery.

# CHAPTER 5: CAUSES OF SICKNESS

## 5.1 CAUSES OF SICKNESS

Textile industry expanded remarkably and once it was considered to be the backbone, after agriculture, of the economy. The number of textile mills grew from 3 to 600 during the last 50 years and profits earned during the 50's and 60's and the same subsequent years have been tremendous. But unfortunately, there has been serious lack of foresight on the part of mill owners and the agencies responsible for the growth and development of textile industry for almost doing nothing for establishing a regular source of supply of textile machinery and essential accessories, which is a basic need for healthy running and replacement of outdated and old machines of the textile mills.

Other major factors for the sicknesses of the textile industry are:

### 1. TIMELY BMRs

BMRs were not undertaken when they made huge profits; instead they preferred to increase production capacity. During this period the quality of product and productivity suffered resulting in the set back on the export front.

At this stage the mill owners were forced to realize the need for the BMR, but the cost of imported machine had become extremely high. Huge funds/loans were required from the banks and DFI's that every mill could not afford manage resulting in the continued deterioration of most of the plant and equipment.

### 2. VALUE ADDITION

Value addition is essential but has not been realized since the beginning and this grave negligence has proved to be one of the obstacles in the continued profitable operation of mills.

## 3. COTTON PRICES

Prices are usually higher when compared on the international level. Apart from basic factors like the area under cotton, seed quality, pesticides, water management, rains and winds etc. the “cotton pundits” (growers, ginners, exporters, mill owners, and others) have vested interest in the cotton crop. They kept releasing crop estimates from time to time to safeguard their interest. Such a situation caused erratic fluctuation in the cotton price, eventually the stability of prices in the market.

## 4. MANMADE FIBRE

Use of manmade fiber like polyester and viscose should be encouraged and policies are formulated so that adequate supply of such fiber is ensured at competitive prices.

## 5. EXPORT COMMITMENTS

Export commitments are announced in advance of the final determination of the cotton crop production and mills requirement. Such a situation causes abnormal fluctuations in the prices and adversely affects cotton buying by the mills undermining operation plans of the mills.

## 6. QUALITY PRODUCTS

Quality is another basic in mill operations. It starts from cotton fields and ends till the products are safely delivered in the hands of the customers. All other efforts and controls will be of no value unless “total quality control” at every stage and step of cotton growing, ginning, spinning, weaving, finishing and packaging is effectively undertaken.

## 7. EFFECTIVENESS OF MANAGEMENT

The significance of management's contribution must be recognized in the successful operation of industry. Many organizations fail for many reasons, but most common reason is the failure on the part of management.

No matter how good the market may be in terms of financial, technical and personnel situation the success or failure of the enterprise will ultimately depend on the effectiveness of management.

It may be true that some of the mills have genuine reasons for getting sick; in most cases sickness is due to inexperienced and financially weak new comers in the industry. In the larger interest of textile industry, the government, APTAMA, banks and financial institutions should prepare a plan to encourage successful and competent textile mill owners to take over such sick units on easy terms, so that the investment made can become fruitful.

## 8. NO FOCUS ON STRATEGIC TEXTILE VISION

No doubt Pakistan has some internationally reputed textile mills but the number is too small to compete the challenges especially the WTO. Pakistan can never become a swimmer by investing $ 4 to 5 billions although it is enough to keep our head above water. Actually industry lacks the real understanding of the post 2005 era and has no focus on strategic textile vision.

## 9. QUALITY OF LABOR

Another major reason of textile units sickness is the quality of labor available to the industry. The textile industry has mostly uneducated labor and primary enrolment in textile sector is even lower than countries like Bangladesh. They don not have the required skills and knowledge to have a cost effective manufacturing.

## 10. TECHNOLOGY

The textile industry does not have the technology to undertake cost effective manufacturing because of which its cost structures are higher than other countries textile industry. In Pakistan Textile and Clothing Industry growth rate is 1% per year while it is 8-12 % in India and 9-16% in China. Further more Pakistan also lack trendy textile technologies being practice in advanced countries.

## 11. HALFHEARTED ATTENTION

In spite of enormous, distinct advantages and incentives the textile industry enjoys, the aspect of achieving competitiveness in terms of quality, quantity, value addition, price optimization, and BMR is conspicuously missing from our industry as well as the textile products, mainly because of half-hearted attention paid by the industry in general.

## 12. ATTAINING COMPETITIVENESS

It is unfortunate that the aspect of attaining competitiveness in all aspects of the performance, which is crucially significant to survive in the face of future challenges, was neglected and the industry opted for easy money and handsome profits from the elementary trade of raw cotton and semi-value added cotton yarn. To tell the truth the textile industry in general avoided indulging with comparatively painstaking business of weaving process. The handsome profits earned by the textile industry through rudimentary level of production consequently created a crop of lethargic people in the industry.

The textile industry generally speaks against the free export of raw cotton with the tall claims that the raw cotton is required by the local industry for value

addition, but it will be interesting to note that the textile mills themselves carry out the major export business of the raw cotton.

However, with the internationalization of the trade and diversification in a large variety of textile products, the period of easy going is now going to be over, especially with the phasing out of the quota system. The industry is now confronted with more demanding and choosy buyers, competition and deregulated global market. The situation demands for recovery of the lost time and make all out efforts for attaining and maintaining competitiveness in all segments of the industry in view of the already improved competitiveness in the developed world with the use of high-tech and state of the art technology.

## 13. NO EXPLOITATION OF AVAILABILITY OF RAW COTTON

The traditional edge of availability of raw cotton within the country has not been fully exploited by our economic managers. It will be interesting to note that the export value of our raw cotton, which was $1.03 per KG some 45 years ago in 1951-52 while, is still roving around $1.47 per KG. The value of Egyptian cotton is more than double of Pakistan cotton in the international market simply because they have been able to developed good quality staple as against the poor quality cotton produced in the country, despite the lavish spending on R&D which runs into billions of rupees every year. The major chunk of the funds allocated for research and development go into salary bills of the white elephants hired by different governments on political considerations in the past. We failed in developing even a single variety of long staple cotton, which is the major handicap of the textile industry in producing yarn of fine quality.

## 14. UTILIZATION OF FUNDS

It is however unfortunate that in many cases, instead of utilizing the funds on BMR, the companies was allegedly involved in lending the available funds to the associate companies. This practice not only forced them to neglect the aspect of improvement through the process of BMR but also entrapped with cash flow problems. In most of such cases they were sitting on the borrowing limits, their projects landed into serious financial problems and ultimately fell into the ranks of sick industries.

## 15. GROWTH ON ADHOC BASIS

Unfortunately the growth of the textile industry in Pakistan has been by and large on adhoc basis, without any planning. As a result of this many textile mills, from the point of location, layout, implementation of environmental management system is next to impossible. Relocating of these mills, because of time and expenses involved is not possible and since they may not be able to comply with the technical criteria and environmental regulations, many old established companies might face closure.

## 16. GROWTH OF TEXTILE INDUSTRY

With the exception of a period from 1958-59 to 19974-75, the textile industry could not maintain a sustainable growth and registered its growth rate at the snail's pace in the country. In the organized sector there are 232 listed textile companies of which 153 are spinning units, 28 weaving and 51 composite units. While the total number of textile units both listed and unlisted is however around 440.

The weaving capacity of the textile industry in our country is static at 10,000 shuttles less looms for past many years. The capacity of conventional looms is also around 15,000, which have no match with the quantum jump the

industry has taken in the spinning sector. Instead of going for value added products, the frenzy for setting up spinning projects dictated the minds of the industry over the years which took the 4.1 million spindles in 1981 to a massive number of 8.5 million spindles in 1996-97, while the rotor capacity also jumped from 21 million to 133 million. [8]

## 17. REVIVAL OF SICK UNITS

Lack of marketing by the government and exaggerated prices demanded by the creditors, mainly banks and DFI's is not only discouraging revival of some 4000 small and medium industrial units officially identified as sick units but is also resulting in the increase of many other units which are heading towards a similar fate.

Lack of proper marketing is prolonging the revival of the some 4000 identified sick units in various sectors and of all sizes. This is not only shying away local but also foreign investments which could help the revival of these units which are collectively blocking a massive amount of Rs.35 billion. This indeed is a great financial loss to the national economy.

So far no real attempts have been made to sell off these sick units despite interest shown by the foreign investors to buy out the units, which could be the first step towards their revival for the benefit of the economy. Instead of providing an investor friendly package of information about individual units the policy makers have chosen to impart only a much crude form of information to the potential investors. This is just not enough to make information about the available machine and corporate set up available to attract a potential investor.

According to an analyst the latest telecommunications technology such as the internet to provide the specific information and data about the sick units to better attract investors who thus far have remained indifferent to the sell off the

sick units. He also stressed the need to upgrade the detailed information about the sick units nationwide which has not been upgraded during last decade in general and last five years in particular. It is imperative to identify the status of an individual sick unit particularly due to presence of many persons claiming the ownership of a particular sick unit due to corporate laws, which takes years for the dissolution of a company and thus its ownership.

The bureaucratic red tape also deprived the potential investors of the proper guidance while the biggest problem with the sick units in the delayed disbursement of loans to the banks and DFI's, which failed to achieve one of their major aims—of industrial development.

In addition, the creditors that are the banks and the DFI's are demanding highly exaggerated prices to shy away the investors to help revive the sick units. The practice is creating conflicts of interest as banks and DFI's, the creditors, are unwilling to sell the units at an economically viable price being more interested to recover their loans plus the mark up irrespective at a particular selling price.

# CHAPTER 6: RECOMMENDATIONS

# 6.1 RECOMMENDATIONS

## 1. VALUE ADDITION

Value addition is essential but has not been realized since the beginning and this grave negligence has proved to be one of the obstacles in the continued profitable operation of mills. The textile firms must cater this and must go for value addition in the products and the operations of mills.

## 2. COTTON PRICES

Cotton prices are usually higher when compared on the international level. Apart from basic factors like the area under cotton, seed quality, pesticides, water management, rains and winds etc. the “cotton pundits” (growers, ginners, exporters, mill owners, and others) have vested interest in the cotton crop. They kept releasing crop estimates from time to time to safeguard their interest. Immediate corrective action is needed to be taken so that only the “estimate committee” appointed by the government releases the crop production data and estimate. The media should not entertain the release of cotton data by another body. This will ensure stability in cotton prices and will be helpful for the textile mills in buying cotton stocks at reasonable prices.

## 3. MANMADE FIBER

Use of manmade fiber like polyester and viscose should be encouraged and policies should be formulated so that adequate supply of such fiber is ensured at competitive prices.

## 4. EXPORT COMMITMENTS

Export commitments are announced in advance of the final determination of the cotton crop production and mills requirement. This practice should be eliminated

and regulated by the government bodies to ensure that the industry has the required material before making any commitments.

## 5. QUALITY OF OPERATIONS

Quality is the basic in mill operations. In order to increase the quality of products, total quality control should be implemented at every stage and step of cotton growing, ginning, spinning, weaving, finishing and packaging

## 6. COMPETENT TEXTILE OWNERS

It may be true that some of the mills have genuine reasons for getting sick; in most cases sickness is due to inexperienced and financially weak new comers in the industry. In the larger interest of textile industry, the government, APTAMA, banks and financial institutions should prepare a plan to encourage successful and competent textile mill owners to take over such sick units on easy terms, so that the investment made can become fruitful.

## 7. QUALITY OF LABOR

Another major reason of textile units sickness is the quality of labor available to the industry. The labor of the textile industry should be educated and trained to increase the quality of workforce in the industry. To enhance the skills and knowledge of the labor different workshops should be carried out.

## 8. STATE OF ART TECHNOLOGY

Textile industry lacks in state of art technology because of which its cost structures are higher than other countries textile industries. The industry should import new technologies to compete internationally and to meet international standards.

## 9. RAW COTTON EXPORT

The textile industry generally speaks against the free export of raw cotton with the tall claims that the raw cotton is required by the local industry for value addition, but it will be interesting to note that the textile mills themselves carry out the major export business of the raw cotton. This practice should be eliminated and for this government should have a strong check and balance.

## 10. BMR

The existing industry will have to opt for BMR in the interest of its own life instead of spending it on the associate companies. The demand of the textile sector for duty free import of machinery for BMR is however stands valid especially to get it equipped with enough force and technology to meet with the challenges it has to face in the years to come.

## 11. TRAINING COURSES

Standardize courses, faculty and facilities in each subsection of textile. 'Introduce training courses of shorter duration.

## 13. TECHNOLOGY UP-GRADATION FUND

Government should provide subsidized credit to textile manufacturers to upgrade their technology through a 'Technology Upgradation fund'. (TUF).

## 14. PACKAGE FOR GROWTH

Develop special incentive package for promoting growth of processing industry in Pakistan.

## 15. GINNING INDUSTRY

For quality improvement we need to improve the weakest link on the cotton chain that is the ginning industry. The ginning industry is outdated, inefficient and 'kills'

the quality of cotton it processes. We need to concentrate on improving this critical section in the value chain.

## 16. EDUCATION SPECIALIZATION

The key factor in achieving success will have to be professional and well educated people managing operations at every level in our manufacturing facilities, Education specializing in the trade and technology of textiles is thus essential for our success. There are only two institutions imparting education and training in textile specific fields. Both the private sector and the government need to be more proactive in support and assistance for these unique education facilities in the country and the number of these institutes should be increased.

## 17. ROLE OF SICK UNITS REVIVAL COMMITTEE

The Sick Units Revival Committee (SURC) should take over all the units officially identified as sick and re evaluation and update their status to fix a price, which is techno-commercially viable for the quick sell off of thousands of sick units which are blocking billions in unproductive units at a great cost to the national economy.

## 18. ROLE OF INFORMATION

There is need for upgrading the information on numerous other small and medium size units, which are heading towards a similar fate nation wide due to rising cost of electricity and all around increase in utility prices. Most of all, the policy makers should realize that the availability of crude information lacking specific and precise information. Through traditional means particularly the creditors, who have to protect their own interest irrespective of how exaggerated the asking price may be, would keep on dragging the sell off the sick units. The procrastinating would only worsen off an already bad situation at the cost of an already suffering national economy.

## 19. ATTRACT FOREIGN INVESTORS

It is time to use the internet to attract the foreign investors, be they local or foreign, to take over the sick units to help revive them not only so that the banks and DFI's could recover their loans but also to revive the industrial activities.

## 20. SERVICES OF RIGHT PEOPLE

The Textile Industry of Pakistan is passing through a critical phase of its history. Foreign buyers are much more quality conscious today than ever before and only accept products of the quality required by them.
In order to meet the demands of the foreign buyers in respect of credibility, consistency and continuity of product quality the textile manufacturers must secure the services of the right type of textile graduates, diploma holders for managing their operations

## 21. EMPOWERMENT OF EMPLOYEE

Diffusion of decision making, empowering qualified, educated and experienced persons to make decisions within a system

## 22. QUALITY MANAGEMENT SYSTEM

Installation of a quality management system with an in-built procedure for taking preventive and corrective action to eliminate manufacture of non-conforming products thereby reducing manufacturing waste

## 23. TRAINING OF EMPLOYEES

Verification of the qualifications and experience of each and every employee with reference to the duties assigned to him/her. If these are found inadequate for the task he/she must perform arrangements for training of such employees must exist within the plant

## 24. ACHIEVE OPERATIONAL EFFICIENCY

Competitive edge is gained by achieving higher operational efficiency, process productivity and yield as compared to the competitors without sacrificing product quality. Spinning mills should improve their yield by spinning more yarn per kilogram of cotton, weaving mills by weaving more cloth per kilogram of yarn, wet processing mills by dyeing, printing and finishing more meters of fabrics per kilogram of the recipe ingredient.

## 25. FOCUS ON VALUE-ADDED PRODUCTS

Textile industry of Pakistan needs to focus its attention on the following aspects of manufacture of value-added products for improvement of quality:

- Selection of correct machines and machinery sequence for the job in hand
- Selection of raw material of correct quality with reference to the required quality of end products
- Installation of total quality management system and monitoring of product quality at each production stage against standards
- Following a standard procedure of dealing with non-conforming products.
- Operation of a preventive maintenance system to keep the machinery in top most mechanical condition
- Confidence to assure the clients that the products will not only meet their specifications but also their performance criteria
- Availing Universal Internet Access Scheme of the GoP at present available in 92 cities but likely to be extended to 400 cities within a year for marketing of value-added products through e-commerce techniques

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