

# Islamabad Outlook

## Textile exports show decline despite Rs. 30 billion subsidy

The textile sector has shown a decline of 3.3% in the first seven months of the current fiscal year. Textile sector exports during July 2007 to January 2008 amounts to about \$6.1 billion as against \$6.3 billion in the same period of last year.

This negative export growth in Pakistan's textiles has come when Indian rupee has appreciated by about 12% and Chinese yuan by about 6%. While Indian textile industry is facing drastic job cuts and shrinking profits and the Chinese textile industry also facing the higher cost of production Pakistan has been unable to capitalise on this opportunity. Pakistan's textile exports may trail behind the export target of \$12.21 billion.

The government started offering 6% Research and Development (R&D) subsidy to the readymade garment exporters since May 2005. In the following year, the cash subsidy incentive was extended to other value added sectors at the rate of three per cent and five percent.

Rs. 25 billion cash subsidy has been availed by exporters and according to a report of an international consultant the real beneficiaries were commercial exporters. There was a recommendation to shift payment of cash subsidy to the manufacturers from commercial exporters with close monitoring to ensure that the available cash subsidy should be invested in upgrading manufacturing quality and development of brand names for textile products.

"Nothing of that sort happened and commercial exporters are rolling in money while industry, particularly the ginning, dyeing, garments and knitwear remains in state of disrepair and obsolete.

In addition to Rs25 billion cash subsidy, the government provided financial relief by way of swapping high interest bearing loans of textile mills to long-term concession rated loans and offered export refinance at 7.5% rate. Later, a 3% concession on bank loans was also given to certain category of spinners.

As if all this was not enough, the ginners are now engaged in a head-on clash with the spinners. About one thousand ginners in Punjab and 200 in Sindh plan to go on strike as they complain the spinners are on a go slow on buying resulting in piling up of inventory of ginned cotton and phutti with them. "Spinners want us to sell them cotton at Rs 3,000 for a bale as against a cost purchase price of Rs. 3,400 to Rs3,500" Sohail Mahmud, the chairman of the ginners association said.

Ginners say that they are stuck up with huge bank loans for purchase of cotton from the growers at Rs 600 for maund. But due to suspension of purchase of ginned cotton by the spinners, their cash liquidity is badly impaired. The ginners too are also under attack from the growers, who are not ready to accept that they are providing cotton that contains too much moisture and is contaminated.

Spinners say that most of the ginning machines are obsolete and the cotton they get from the ginning units is of bad quality, which creates problems in yarn spinning. Quite a good number of spinners have not been able to get credit margins from their bankers as most of them have defaulted on servicing of the previous loans. "All industries need a close and analytical look," said a market analyst, who pointed out that services sector in Pakistan has expanded to about 53% of the national economy by shrinking real sectors agriculture and industry. Time has come to bring about a realistic parity ratio of all these sectors of the economy.

Courtesy: Daily Dawn. ◆