

BMR is the way forward for the spinning industry of Pakistan

It is a moment of rejoicing for the spinning sector of Pakistan. Finally, after last three years, a ray of hope in the form of the incentive package for the textile industry by the government was announced for a total of Rs. 180 billion (US\$1.7 billion). The spinning sector finally received incentives in terms of duty-free import of cotton as well as a 4% export rebate, as against 7% duty drawback for the value added sectors.

On the surface, it is a great relief for the spinning sector, that has seen a decline in exports due to poor demand from China, shortage of the raw cotton, poor crop yields in the country, high labor costs and severe energy crisis. So can this package be the salvation for the faltering spinning sector of Pakistan? The answer to the question is positive to a certain extent only. Let us examine in detail.

The duty-free import of cotton shall indeed bring in the much needed raw material cotton for our spinning sector at a competitive price. The cotton crop has seen a shortfall of more than 25% this year. The target of 14.4 million bales was woefully short with the actual cotton crop being only 10.5 million bales. With the duty-free import of cotton, the spinning industry shall now be able to offset this shortage to an extent.

The second incentive for the spinning industry with a high impact is a duty drawback of 4% for yarn exports. This is expected to make Pakistani yarn more competitive in the international market. However, according to experts, it will not be sufficient to regain our lost market share to Indian yarn exports to China and to other traditional markets. Indian yarn is highly competitive and is being exported to China which has been its major market just like for Pakistan in the past.

It is certain that the export rebate to the spinning sector will be beneficial in the short run. However, the downstream sectors claim that this benefit comes at the cost of the value added textiles, that consume the bulk of the yarn produced in the country. The value added sectors are of the opinion that the rebates and incentives to the spinning sector are to the detriment of high value added textiles and benefit our competitors in the international market.

The real and sustainable growth and progress shall come to the spinning industry not through government subsidies, but with the balancing and modernisation of their installed capacity which in some cases is more than decades old. This high energy consumption can also be attributed to the use of old technology. Therefore, combined with the high cost of labor, as well as the production of low count variety of basic yarn makes it more uncompetitive as the margins have eroded in the low count yarn category. The textile mills who are producing basic yarns are finding it increasingly difficult to sustain themselves. When we asked the representatives of a leading composite mill in Pakistan if they are also facing these problems their answer was unsurprisingly in negative. The mills who are producing yarn for their own consumption for weaving or knitting are able to add much higher value to their final products keeping them competitive in international markets and also in the domestic market of more than 200 million inhabitants.

It is evident that the value addition in spinning is the need of the hour. Companies like Din Textiles who have only produced high-value yarns such as mélange, fancy and compact yarns since their inception, are not facing the issues faced by the basic cotton yarn producers.

Dr. Bhattacharya, a World Bank consultant and an expert on Pakistan's textile industry, told the Editor, Pakistan Textile Journal in 2001 that while Pakistan has the best spinning technology in the world, it is kept grossly underutilized. The same holds true in 2017. Instead of relying on export subsidies our industry needs to invest in automation and energy efficient technology to produce high-quality value-added yarns for their international customers as well our own downstream sectors such as home textiles, high-quality woven fabrics/knitwear, and fashion apparel sectors. ♦

