



Pakistan Textile Spinning Industry adversely affected by slowdown in China's imports of yarn

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Pakistan has the inherent advantage of being the 4th largest producer of cotton in the world with large spinning capacity in Asia. The domestic availability of basic raw material is considered to be an added advantage for the success of any export led industry. In this context, Pakistan ranks as 3rd in the world in the field of yarn production. In fact, Pakistan contributes 5% to the global spinning capacity after China and India.

Since spinning is beginning of value chain, all value added processes of weaving, knitting, processing, garments and made-ups are dependent upon this process. The effect of a sub-standard yarn by spinning segment can go right across the entire value chain. Pakistan's spinning sector caters not only to the requirements of the domestic industry but also about one-third of the total production of yarn is exported to different destinations.

Production of yarn: According to the Textile Commissioners Organization there are 442 textile units in operation (43

composite units and 399 spinning units) with 13.27 million spindles and 190,000 rotors installed and 11.08 million spindles and 160 thousands rotors in operation with capacity utilization of 83% and 84% respectively during the year 2015-16.

The production of yarn increased significantly from 2.95 billion kg in 2011-12 to 3.41 billion kg in 2015-16, thus showing an average growth of 3% per annum. The production of yarn share in coarse counts is 47.1%, medium counts

23.7%, whereas fine and super counts 5.4% and mixed polyester 23.8% respectively. Installed capacity, working capacity and production of yarns are given in Table 1.

Exports: Export of cotton yarn decreased from US\$ 2.25 billion in 2012-13 to US\$ 1.26 billion in 2015-16, showing a decline of 44%. Average unit price realization of Pakistani cotton yarn in the international markets is also very low compared to that of its competitors.

Table 1: Installed Working Capacity and Production of Yarn

(000 Spindles)

Year	Installed Capacity	Working Capacity	Production of yarn (million Kg)
2009-10	11,392	10,631	2,956
2010-11	11,762	10,757	2,939
2011-12	11,946	10,872	2,955
2012-13	11,946	10,872	3,060
2013-14	12,310	11,000	3,324
2014-15	13,269	10,231	3,360
2015-16	13,768	10,508	3,406

Source: (i) All Pakistan Textile Mills Association.

(ii) Source: State Bank of Pakistan Annual Reports.

The average unit price of cotton yarn decreased from US\$ 4.10/kg in 2010-11 to \$ 2.82/kg in 2015-16. Pakistan has been reliant on the single country China for its yarn exports in the lower counts. The slowdown in China's imports of yarn has therefore adversely affected the competitive position of Pakistani yarn. Since 2013-14 Pakistan's yarn exports have been declining primarily due to reduced demand from China.

China and India are producing both cotton and MMF yarns and fabrics at a comparatively lower energy cost. On the other hand, the textile industry in Pakistan is facing the highest energy cost in the region. The exports of cotton yarn from Pakistan are given in Table 2.

Pakistan's leading buyers of cotton yarn are China, Hong Kong, Bangladesh, Korea Republic, Turkey, Japan and

Table 2: Export of Cotton Yarn

Year	Quantity (000 Kgs)	Value (US \$ 000)	Unit Value (\$/ Kg)
2009-10	625,418	1,433,094	2.29
2010-11	536,126	2,201,405	4.10
2011-12	572,047	1,809,798	3.16
2012-13	737,586	2,252,952	3.05
2013-14	663,895	1,997,338	3.01
2014-15	671,293	1,849,389	2.74
2015-16	447,903	1,264,922	2.82

Source: Trade Development Authority of Pakistan.

Portugal. Country-wise exports of cotton yarn from Pakistan are given in Table 3.

Raw material: The country is expected to get 10.6 million bales of the cotton crop during this season (2016-17). Traders and market experts said the country's cotton crop is likely to improve during this season compared to the previous season (2015-16) mainly due to favorable weather conditions. They said that there was no doubt that the country's cotton crop would remain lower side during 2016-17, however likely to be better than last season.

Pakistan's Cotton Crop Assessment Committee (CCAC) has already revised cotton production target downward side and estimating a cotton crop of 10.54 million bales (1 bale = 155 kg) in this season against an actual target of 14.1 million. CCAC has revised cotton crop estimates for the third time during this season.

Traders said cotton prices were also expected to rebound in the coming month due to higher demand of quality cotton and ginnerers were also likely to offload improved quality cotton in the market from January 2017.

They said that United State Department of Agriculture (USDA) had also predicted that Pakistan's cotton crop would rebound 18% during that season. USDA recent

Table 3: Country wise Export of Cotton Yarn
Value: US \$ 000

Country	2015-16	2014-15	2013-14
China	836,105	1,279,411	1,333,374
Bangladesh	100,827	109,390	120,160
Hong Kong	52,564	109,314	139,901
Turkey	42,778	45,135	50,333
Portugal	37,094	34,520	52,400
Korea	30,633	45,377	52,585
Japan	28,359	29,843	35,189
U.S.A	16,568	17,069	16,162
Italy	16,372	15,071	23,886
Vietnam	11,485	19,288	19,434
Bahrain	8,428	9,733	18,194
All other countries	83,709	135,238	135,720
Total	1,264,922	1,849,389	1,997,338

Source: Trade Development Authority of Pakistan.

report on "Cotton and Wool Outlook" said that Pakistan's crop is projected at nearly 8.3 million bales (1 bale = 480 pounds) in 2016-17, and 18% rebound from a 2015-16 crop that was the countries lowest since 1998-99. Although 2016-17 area was forecast at a three-decade low, crop conditions appeared to have been favorable that season as the yield was projected at 748 kg per hectare, one of the top yields on record for Pakistan.





Traders said that shortfall in cotton crop would result in higher import of raw cotton to meet the domestic demand. Although, Pakistan is among the leading cotton producing countries, however from the last few years its cotton production is on downward side and declined drastically to 9.7 million bales in 2015-16. There is a need to take some serious measures for the higher cotton crop yield to reduce import bill.

Pakistan was widely expected to see higher imports of raw cotton despite slightly higher import duty, especially as duties on yarn imports were raised substantially.

Imports of spinning machinery: Pakistan has been a major Asian market

for major textile machinery manufacturing nations. Import of spinning machinery decreased from Rs.5.40 billion in 2014-15 to Rs.5.03 billion in 2015-16, thus showing a decline of 7%. China, Italy, Germany and Switzerland have been among top exporter of textile machinery to Pakistan. Import of textile spinning parts is given in **Table 4**.

Recently the government has announced the country's biggest export package worth Rs 180 billion (\$1.72 billion) to enhance foreign trade. The package envisages abolition of customs duty and sales tax on import of cotton. Similarly, customs duty on man-made fibre rather than polyester and sales tax

on import of textile machinery has also been abolished. Under the package, duty draw back rates for textile garments would be 7%; textile made ups 6%; processed fabric 5%; Yarn and grey fabric 4% respectively.

This package will continue for the period of 18 months from 1st January 2017 to 30th June 2018.

On the other hand, government has also agreed to remove customs duty and sales tax on raw cotton and man-made fibres not available in Pakistan as well as removal of import duty and sales tax on industrial machinery. The government also agreed to a 3% compensatory rebate for yarn/grey fabric, 4% for processed fabrics, 6% for home textile/knitwear and 8% for garments sector. The proposed rebate for raw and semi-raw exports would be around 4% and value-added sectors (garment) 8%, respectively.

References

1. All Pakistan Textile Mills Association
2. Pakistan Bureau of Statistics.
3. Pakistan Economic Survey-2015-16.
4. State Bank's Annual Report-2015-16.
5. Trade Development Authority of Pakistan. ♦

Table 4: Import of Textile Spinning Machines and Parts

Value: Rs. in Million

Machines / Parts	Unit	2015-16		2014-15	
		Quantity	Value	Quantity	Value
Textile spinning machines	No	1,316	3,961	850	4,023
Spindle flyer ring travellers	000 kg	107	548	122	616
Spindle textile machines	000 kg	136	312	154	406
Spinning rings	000 kg	68	206	142	355
Total	--	--	5,027	--	5,400

Source: Pakistan Federal Bureau of Statistics.