

Signs of recovery for the spinning sector while challenges remain

Pakistan's spinning sector has been facing a crisis situation for the last three years. The export of cotton yarn decreased from US\$ 2.25 billion in 2012-13 to only US\$ 1.24 billion in 2016-17 showing a decline of 44%. In 2017-18 due to the improved power situation and stability in the country, yarn exports showed an increase of 10.5% to US\$1.37 billion.

Pakistan remains reliant on the single country China for its yarn exports in the lower counts. More than 80% of the lower count yarn from Pakistan was exported to China. Since 2013-14, the decline in Pakistan's yarn exports has been primarily due to reduced demand from China which is still 64% of total yarn exports in 2017-18.

While several spinning mills in Pakistan closed down in the last few years attributed to the increase in the cost of production and loss of export markets, many of these mills have restarted their production. However, the capacity utilisation of the smaller spinning mills is far from optimum. Mills with less than 40000 spindles are finding it very difficult to meet their cost of production as they are lacking economies of scale.

Aggravating the situation further is an acute shortage of basic raw material, cotton. Cotton crop has underperformed for the last two years. The higher cost of cotton coupled with the high energy cost and the shortage has created a critical situation particularly in the province of Punjab. Smaller mills with inefficient and outdated machinery were able to survive in the past due to a ready market of cheap local power loom sector. As the power loom sector has been hit by the cheap imports from China as well as the acute power shortage, many power looms have shut down subsequently shutting down the spinning units that depended upon these local customers. Many of these power looms also produced cheap fabrics for exports.

To meet the demand, imports of cotton have been on the rise. In 2017-18, cotton exports were 460,000 MT* worth US\$740 million. The USA has emerged as the largest supplier of cotton to our spinning sector. According to the Pakistan Bureau of Statistics, cotton imports of 188,400 MT from the USA amounted to US\$ 340 million accounting for 43% of the total cotton imports. The second largest supplier of cotton to Pakistan is India, with a 32% share of total imports in 2017-18, mainly long staple cotton to produce higher count high-quality fabrics for the domestic retail fashion market.

A few years ago, the industry faced a crisis when China momentarily stopped its cotton yarn imports. Although the situation has improved, our dependence on China continues. Furthermore, the second largest buyer of our cotton yarn, Bangladesh is also establishing a strong production base to locally produce yarn for their domestic knitting and weaving sectors. There is political pressure in Bangladesh to support and subsidise the domestic yarn manufacturers who are in a difficult situation since Bangladesh does not produce any cotton. With the deteriorating cotton supply, our traditionally strong market position as a competitive supplier of yarn is at stake and it is already getting difficult to compete in this low margin sector.

With the improved power situation, the spinning sector is on its path of slow recovery. However, the fundamentals of the textile industry have now changed. The focus should be to use our yarn to produce the highest quality value-added textiles to ensure higher margins. The spinning industry should focus on diversification and move towards high-value addition to ensure a viable future for the entire textile supply chain. ♦

*MT = Metric Tonnes



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