



2002



Executive Forum on National Export Strategies Managing Competitive Advantage: The Values of National Strategy

ADDING VALUE: BUILDING VALUE-ADDITION ALLIANCES

Backward Linkages In The Textile And Clothing Sector of Pakistan

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I. INTRODUCTION

The textile industry is the most important sector in Pakistan's economy. Based on the availability of raw cotton, the industry provides the largest employment (38% of the total employment) and is also its largest foreign exchange earner. It contributes 68% of total exports, 46% of total manufacturing, 8.5% of total GDP, 31% of total investment and 12% of total market capitalization. Over the years, Pakistan has emerged as a major supplier of cotton textiles in world markets with a 31% market share in world yarn trade and 8% share in cloth. In the apparel sector, however, it has a low share of about 1% in world trade.

Structurally, the industry has a large scale organized sector and a highly fragmented cottage/small scale sector. The organized sector consisting essentially of integrated textile mills — a large number of spinning units and a small number of shuttleless loom units. At the end of 2001-02, there were 444 textile mills with a working capacity of 7189 spindles and 65 rotors, and 5000 looms. The growth rate of the industry, during the last 3 years, is shown in Table 1.

**Table 1: Growth of the textile industry in Pakistan
(Working Capacity)**

	Spindles	Growth %	Rotors	Growth %	Looms	Growth %
1989-90	4489	7	64		8	-11
1999-00	6825	4	66	0	4	-7
2000-01	6913	1	70	6	4	0
2001-02	7189	4	65	-7	5	25

Production of cotton yarn in Pakistan has increased to 1.73 million tons in 2000-01. A major part of this production comprises coarse counts up to 20s (0.8 million tons). Medium count production has also been increasing and is now about 0.4 million tons. Fine and super fine counts (36s to 80s) is less at about 60,000 tons. Polyester/cotton blended yarns production is close to 400,000 tons. Production of cotton fabrics in the mill sector is 490 million sq. m. Additionally, over 5 billion sq. m are available from the non-mill sector, comprising power looms and air jet looms. Both, cotton yarns and fabrics, locally produced are available in pure cotton and all blends, including polyester, nylon, acetate rayon, with both low and high count yarns. There is a large variety in fabrics, of wide width and with zero defects, in all weights and

constructions. The dyeing and printing sector was also strengthened by importing state-of-the-art technologies to provide a complete range of pre-shrunk fabrics for making garments with modern equipment for cutting, and automated plants for finishing, washing and packaging.

In the manmade fiber sector (MMF), the domestic production of polyester staple fiber increased to 620,000 tons with a small quantity of 10,000 tons that is still imported. Production of acrylic fiber was 20,000 tons in 2000. The MMF fiber production capacity is still on the increase. The highest production comes from the large plant of ICI (Pakistan) which has also gone into production of Pure Terrephthalic Acid (PTA), the main ingredient for PSF. ICI (Pakistan) is also planning to set up a production facility for mono ethylene glycol (MEG), the second PSF ingredient.

Downstream industries, such as weaving, finishing, garment, knitting, bedlinen, towels, which have a great export potential, are all operating in a non-integrated way. The major concentration of industry is in Karachi, Hyderabad, Multan, Lahore and Faisalabad. Unlike the spinning sector, the weaving sector comprises of large number of small units with 200,000 power looms alone clustered in Faisalabad, Hafizabad, Kasur and Multan. A recent trend is to set up Air-Jet loom units, either as independent units or as integrated units with spinning or processing.

Pakistan has a strong presence in international textile markets with a share of \$ 4.53 billion export in textile trade and \$ 2,144 billion export in the clothing trade in 2000. While Pakistan ranks at 12th position in total textile exports, it is hardly recognized as a clothing exporter, contributing just about 1% to world trade in this sector. Thus, there is lot of scope for increased investments and export activities in the high value added segment of the international garment market.

Although, Pakistan is blessed with abundant raw cotton and inexpensive labour, the industry has not been able to exploit the potentials in real terms and has failed to make progress in the international markets. Exports stagnated during the last three years as detailed in Table 2.

Table 2: Export of textiles all sorts

(US\$ '000)

	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
						July-May
Cotton Textiles	4943	4986	4506	5201.229	5398	4845
Synthetic Textiles	496	607	396	457.645	545	367
Woollen Textiles	207	200	193	265.460	290	208
Total Textiles	5648	5793	5095	5924.334	6232	5420
All Exports	8261	8538	7718	8568.599	9202	8176
Textiles as % of Total	68%	68%	66%	69%	68%	66%

Textiles and clothing exports in 2001-02 decline by 1.6%. Despite this negative trend, some sub-sectors developed remarkably well. For example, exports of bed linen included from \$ 745 to \$ 914, an increase of 23%. Total exports increased by 12%, and textile made-ups

(excluding bed linen and towels) posted a high increase of 18% to \$ 1.3 billion. Woven garments and knitwears exports both were close to the \$ 1 billion mark each. At the losing end, exports of cotton yarn declined by 12% and that of synthetic fabrics by 25%.

The decline in textile and clothing exports in 2001-02 is partly attributable to the downturn in the world economy and the difficult business climate after the terrorist attacks of September 11th 2001, which led to cancellations and deferments of export orders. The global market recession depressed prices in the range of 30-40%. However, the reduced price were almost fully compensated by higher export volumes.

II. INTEGRATION LEVEL OF T&C SECTOR

- a) Cotton growing and cotton ginning are completely independent sub-sectors with no linkages at the ownership level. Vertical integration comprises the processes of spinning, weaving, processing, finishing, garment-making, including towel-making, bed sheet production. There are over a dozen large-scale organized units, which are vertically integrated, in some cases without a spinning process.
- b) The major part of the textile and clothing industry is not vertically integrated. The clothing sector operates quite independently of the weaving sector. Only the knitwear industry does its own knitting, utilizing circular knitting and flat knitting machines. These units source their yarn from local mills. The woven garment sector is dependent on the national weaving and processing industry. There is no formal horizontal integration. The various sub-sectors do complement one another but there is no national or regional scheme that provides dependable linkages between the sub-sectors and the supply of goods and related services is not guaranteed.

The textile and closing sector in Pakistan is characterised by the fact that a horizontal integration of the industry is missing. Only, lately first attempts of a horizontal integration in the textile sector are up-coming. Currently, the availability of contamination-free cotton is a crucial issue for the industry. Some spinning mills have sub-contracted ginning activities to receive contamination-free cotton. To the same end, the Government decided to develop regulations for the ginning industry. It is expected that collective or co-operative ginning providers will emerge, replacing a multitude of small ginneries, which produce indifferent quality. This tendency towards a horizontal linkage would help considerably to increase the quality cotton needed for the industry. Additionally, a price premium per maund for contamination-free cotton or for cotton with low contamination can be achieved. The Government is also considering introducing a "Cotton Standardisation Ordinance" to ensure production of contamination-free lint cotton.

Similarly, in the clothing sector, a large number of clothing manufacturers do their own manufacturing, but at the same time, sub-contract sizable quantities to smaller units. The same applies to the knitwear sector.

- c) There is no formal regional integration, but there are industrial clusters within the industry in different regions of the country. Spinning, weaving and processing sectors are clustered in Karachi, Faisalabad, Lahore and Multan. The power loom sector is clustered in Faisalabad, Multan, Kasur and Hafizabad, in the Punjab province. There are no formal structures for the integration of the industry. All in all, the system has worked quite satisfactorily. In fact, independent operations from ginning to spinning to weaving and finally producing value-added garments, help the sub-industries to specialise their operations so as to increase value-addition at each production stage.

- d) There is no pursuance of sub-regional clustering with neighbouring countries like India, Bangladesh, Sri Lanka. A number of Pakistani entrepreneurs operate their clothing manufacturing units in the Gulf countries, Morocco, Jordan and South America, relying on supplies of materials and labour from Pakistan and other countries of the region. This could be seen as of cross-border co-operation in the manufacture of textiles and clothing. Pakistan has concluded a Free Trade Agreement with Sri Lanka and will soon conclude a similar agreement with Bangladesh, apart from efforts to accelerate negotiations under the SAARC umbrella.

Pakistani manufacturers of clothing depend almost entirely on imports for their accessories, like lining and interlining materials, accessories like zippers, buttons, hooks and also labels that are often supplied free of cost by the foreign buyers. Although, most of the fabrics are produced domestically, some fabrics are imported, according to the choice and specifications of the foreign buyers. These fabrics can be freely imported for export production, without payment of duties and taxes. Also, there are significant imports of cotton, notwithstanding the fact that Pakistan has a net surplus of cotton after meeting domestic demand. According to USDA figures, Pakistan is the second largest importer of PIMA cotton with around 59,400 bales (480 lbs) imported in 2001-02. This import caters for long staple and extra long staple cotton that is not produced in Pakistan. It also includes substantial quantities of medium and short staple contamination-free cottons.

III. IMPORTANCE OF ALLIANCES

There are virtually no alliances in terms of business to business partnerships but there are important linkages between the textile mills and the value-added textiles through the organization of the Council of Textile Associations. In the large scale sector, big units prefer to manage all their manufacturing and marketing operations within their business groups, including subsidiaries. They have a strong tendency against co-operating or co-coalescing with small competitors. There are some sub-contracting arrangements in the clothing sector, but vendor units have failed to emerge in the textile and clothing sector. Garment accessories could be one sector suited for vendor units, but there is hardly any production of accessories within the country as most accessories are imported from countries like Hong Kong and Singapore. Manufacture of accessories in Pakistan is not economically feasible due to insufficient market demand and prohibitively high investment costs.

IV. CREATION OF BACKWARD LINKAGES

Backward linkages have been successful in the large scale textile mill sector. For example, a large number of weaving units have acquired and are operating capacity to make themselves self-sufficient in cotton yarn, the major input for the weaving sector. There are no further backward linkages because ginning is a completely different type of activity. However, further backward linkage into ginning can be visualized in the not too distant future. The driving force for such linkage would be the present low quality of ginning. The Chinese government has recently offered to help with modern technology in ginning by setting up new ginning units with latest technology and equipment. In case that would happen, the large-scale textile sector would hardly ignore the possibility and opportunity.

While the textile mills have opted for forward linkages by going into production of garments, knit-wears, bed-sheets and towels, the traditional clothing sector has not been able to go for backward linkages into weaving or spinning. Some companies have made the effort, with varying degrees of success, but most do not have the required finance for the very huge investments that are involved in spinning or weaving.

V. LEADING PLAYERS OF ALLIANCES

The most successful alliances were developed in the field of marketing in collaboration with foreign buying houses. Such alliances usually take the form of using well known foreign brand names for goods produced in Pakistan and are marketed under the foreign brand names. A recent success story is Crescent Greenwood, who set up a very large plant for producing denim fabrics, manufacturing denim jeans. The project is a few years old but has taken off recently through an alliance with **LEVIS** who has contracted the purchase of the entire production of Crescent Greenwood. There are some 15 other large size companies, who were successful in entering into similar alliances with their foreign principals.

VI. VALUE CHAIN APPROACH TO NATIONAL EXPORT STRATEGY DEVELOPMENT

The entire progress in the production and export of textile and clothing is anchored on the value addition chain projected in Table 3.

Table 3: Cotton textile - Value Addition Chain

PRODUCTS	Export Price US \$/kg	% Value Addition Over	
		Cotton	Previous Stage
Cotton	0.87	0	0
Yarn	2.09	140	140
Cloth (grey)	4.62	431	121
Cloth (finished)	5.31	510	15
Garments	13.62	1466	156

VII. TEXTILE VISION — 2005

In light of the above, the industry is trying to develop a sector strategy until 2005, based on a vision towards an open market, driven by an innovative & dynamic textile sector which is:

- Internationally Integrated.
- Globally Competitive
- Fully equipped to exploit the opportunities of a liberalized market to enable Pakistan to become one of the top five textile exporting countries in Asia

The industry has developed its vision based on the following possible three scenarios.

- a) **Low Road Scenario** represented a situation where only the historic export growth rates in textile sub-sectors were maintained. The overall average export growth for the textile sector after analysis was finalized at 6% per annum.

- b) **Do-Able Scenario** envisaged increase in unit price realization of yarn, fabric, textile made-ups and garments with an attempt to maintain the market share in each individual market. It also suggested penetration in the non-quota markets along with increased share of synthetic and blended yarns, fabrics and garments. The overall export growth in this scenario was estimated at 12% per annum.
- c) **High Road Scenario** the most ambitious of the scenarios that not only adopted the apparel sector as the engine of textile export growth but also recommended diversification in products that hold greatest potential but unfortunately have been neglected e.g. woven garments, sports wear, specialized industrial garments, and women wear. Besides broadening the export product portfolio with an extra push in synthetic and man-made fibers, fabrics and garments, it was based on achieving higher market share of unexplored, non-traditional textile markets. The export growth in this case was estimated at 16% per annum with the assumption of 20% and 21% growth in garments and made-ups segments respectively in value terms.

The vision statement highlights the key drivers of the textile sector growth and also sets a target for the textile industry.