

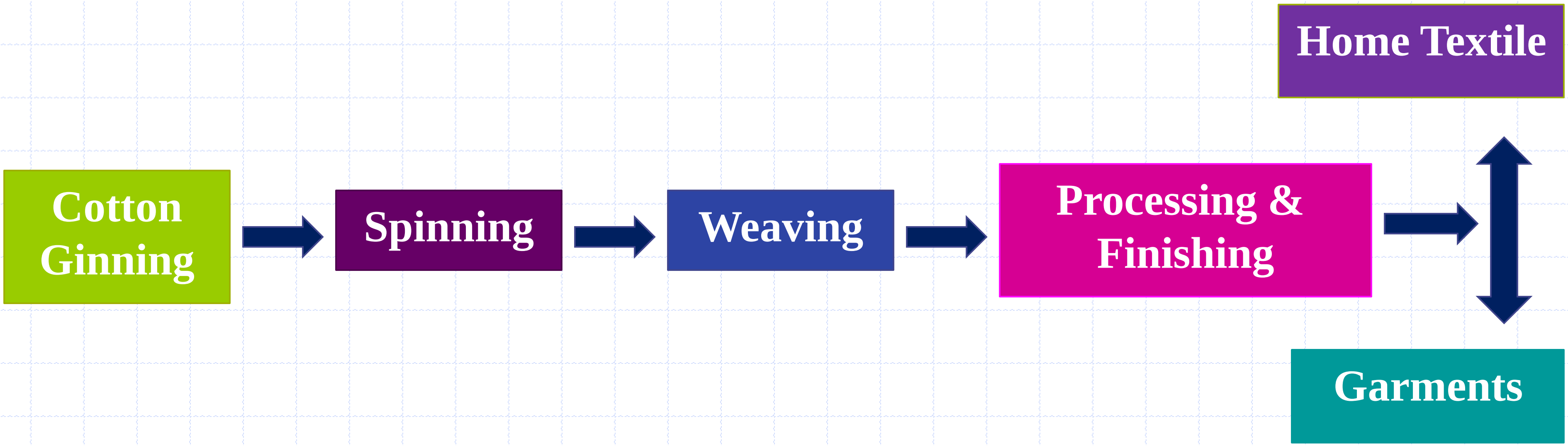


# TEXTILE SECTOR –

# AN OVERVIEW

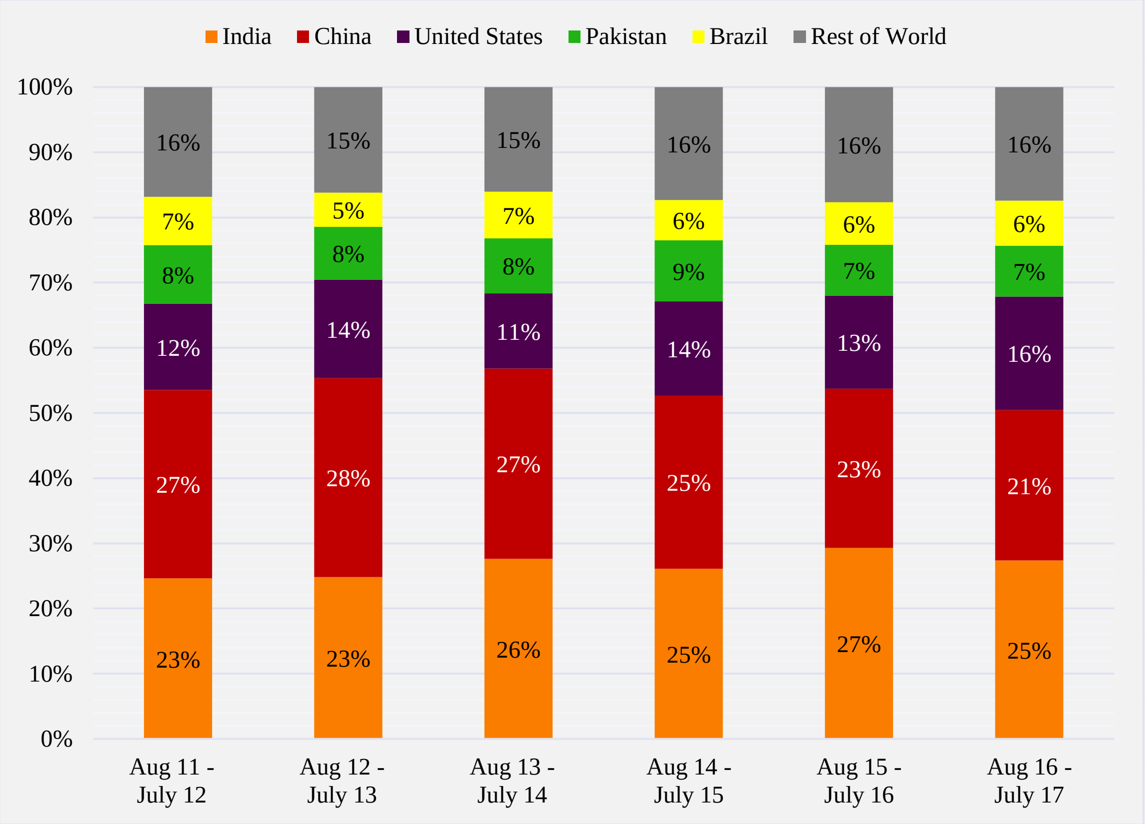
**October 2017**

# Textile | Value Chain



# Cotton Dynamics | World Production

- **China & India** - World's biggest cotton players; contribution: ~46%
- **2016** – India becomes the largest producer
- **Pakistan** – World's 4th largest cotton producer

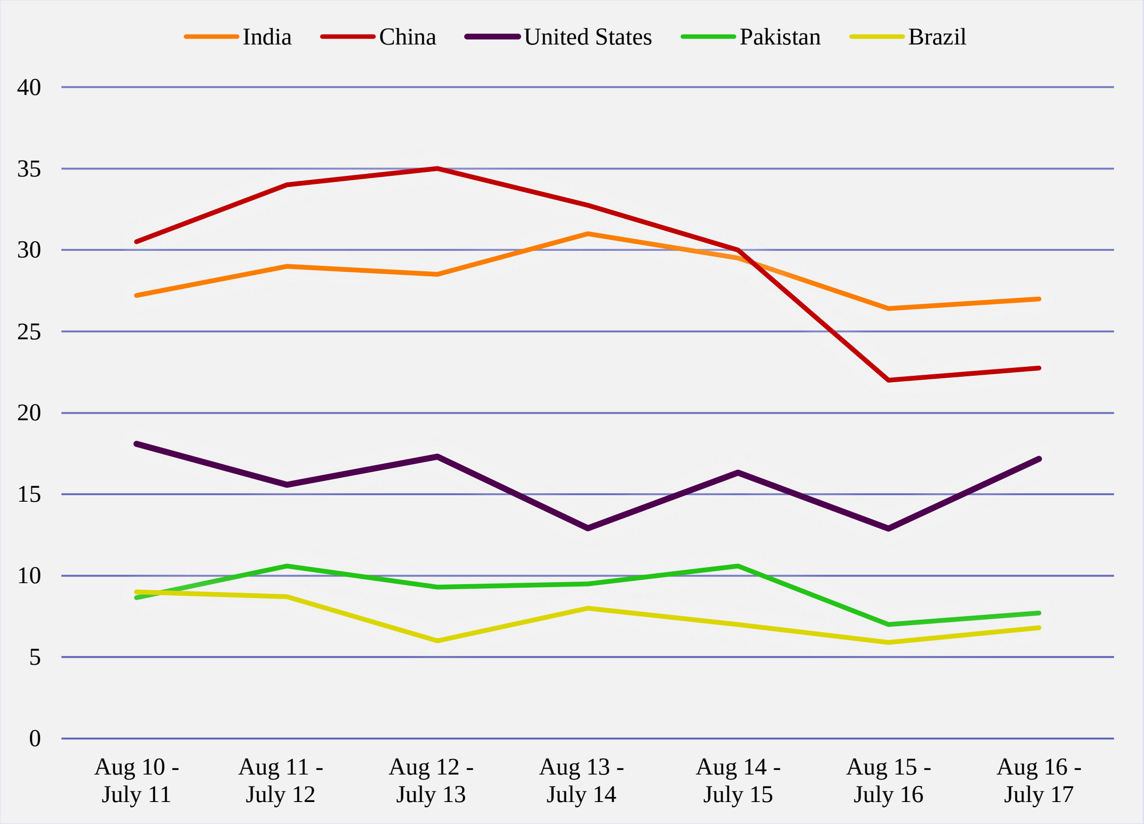



| Millions of 480 lb. Bales | Aug 10 - July 11 | Aug 11 - July 12 | Aug 12 - July 13 | Aug 13 - July 14 | Aug 14 - July 15 | Aug 15 - July 16 | Aug 16 - July 17 |
|---|---|---|---|---|---|---|---|
| India | 27 | 29 | 29 | 31 | 30 | 26 | 27 |
| China | 31 | 34 | 35 | 33 | 30 | 22 | 23 |
| United States | 18 | 16 | 17 | 13 | 16 | 13 | 17 |
| Pakistan | 9 | 11 | 9 | 10 | 11 | 7 | 8 |
| Brazil | 9 | 9 | 6 | 8 | 7 | 6 | 7 |
| Rest of World | 15 | 20 | 19 | 18 | 20 | 16 | 17 |
| **World Total** | **117** | **127** | **124** | **120** | **119** | **97** | **106** |

*Source: USDA*

# Cotton Dynamics | World Production

- **2012:** Cotton farmer support program starts
- Slowdown in Chinese production
- **2014:** Cotton farmer support program ends; replaced with subsidies + other incentives
- **2016:** India overtakes China

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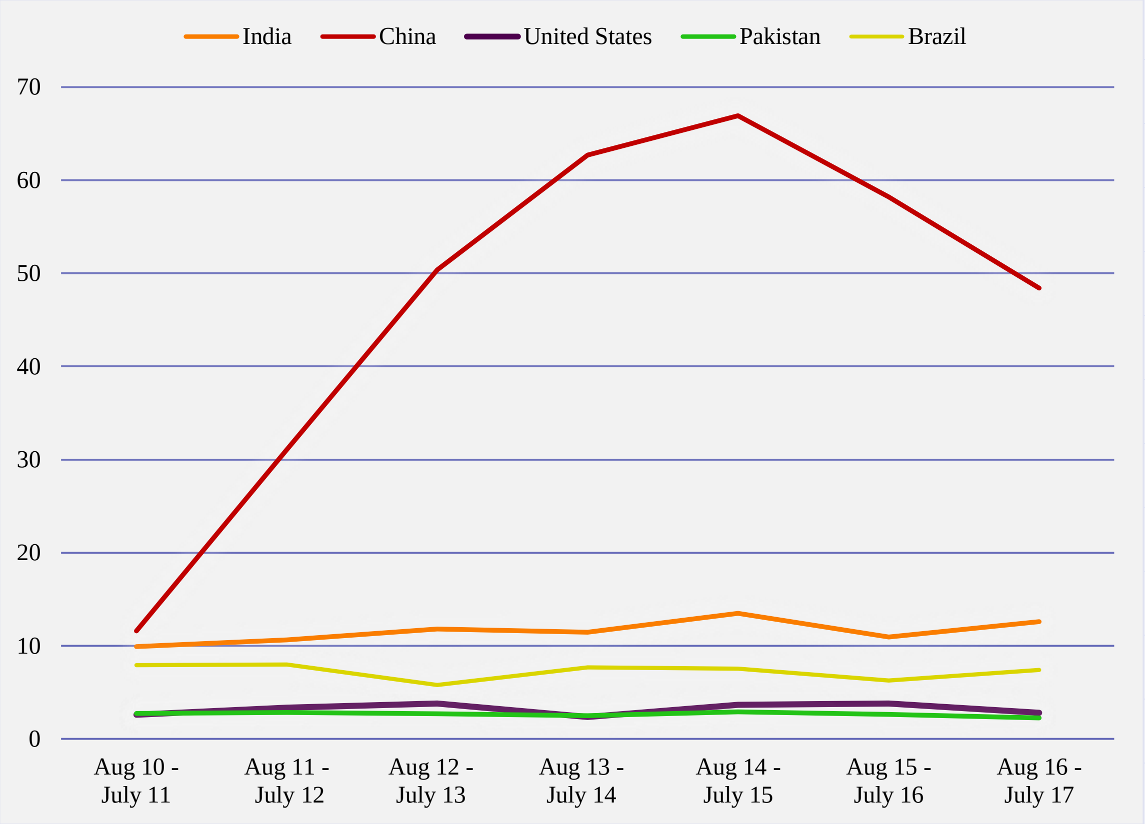
*Source: USDA*

# Cotton Dynamics | World Inventories

- Since 2011, world's stock has grew sizably | **China – the largest stock holder**
  - More than 50% of ending stock held by China post 2013
- **2014:** Chinese auctions led the show; inventories were sold
- **2015:** Chinese import quotas

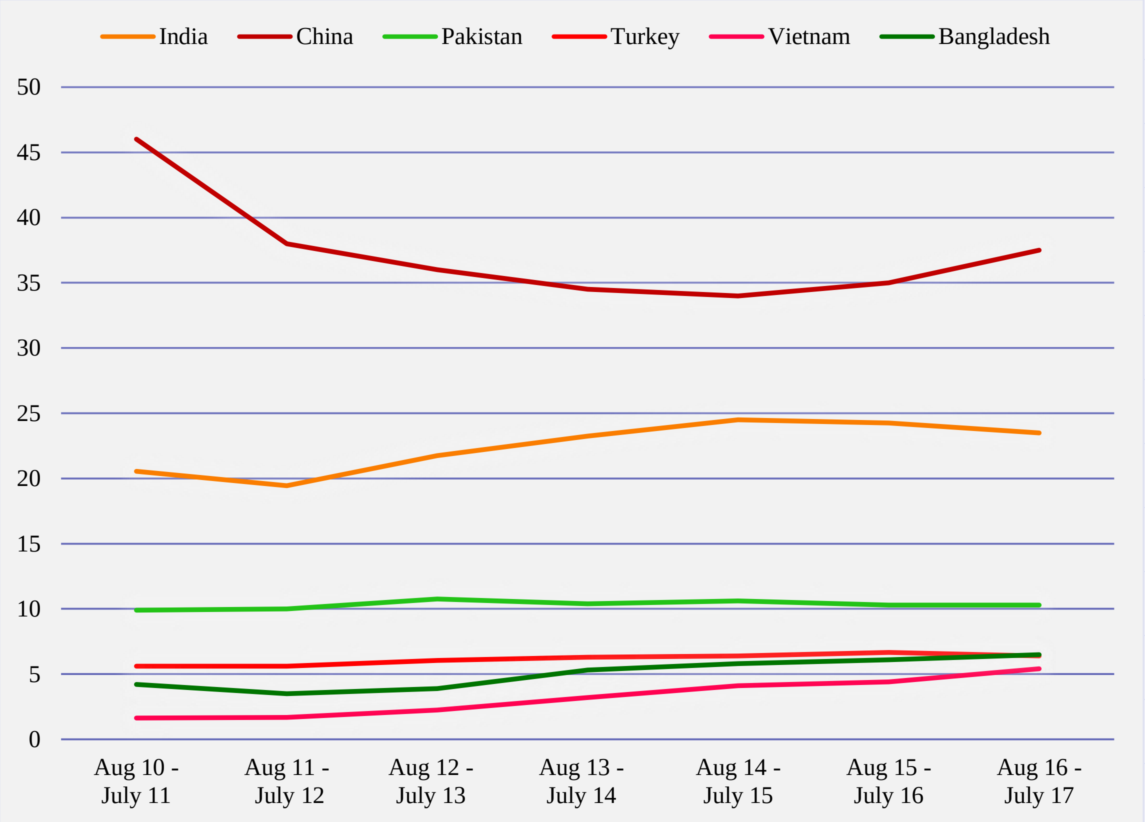



| Millions of 480 lb. Bales | Aug 10 - July 11 | Aug 11 - July 12 | Aug 12 - July 13 | Aug 13 - July 14 | Aug 14 - July 15 | Aug 15 - July 16 | Aug 16 - July 17 |
|---|---|---|---|---|---|---|---|
| China | 12 | 31 | 50 | 63 | 67 | 58 | 48 |
| India | 10 | 11 | 12 | 11 | 13 | 11 | 13 |
| Brazil | 8 | 8 | 6 | 8 | 8 | 6 | 7 |
| United States | 3 | 3 | 4 | 2 | 4 | 4 | 3 |
| Pakistan | 3 | 3 | 3 | 2 | 3 | 3 | 2 |
| Rest of World | 13 | 15 | 15 | 15 | 15 | 13 | 14 |
| World Total | 50 | 74 | 92 | 103 | 112 | 97 | 90 |

*Source: USDA*

# Cotton Dynamics | World Consumption

- **China:** Regaining consumption levels
- **Bangladesh and Vietnam:** Rising regional competitors




| Millions of 480 lb. Bales | Aug 10 - July 11 | Aug 11 - July 12 | Aug 12 - July 13 | Aug 13 - July 14 | Aug 14 - July 15 | Aug 15 - July 16 | Aug 16 - July 17 |
|---|---|---|---|---|---|---|---|
| China | 46 | 38 | 36 | 35 | 34 | 35 | 38 |
| India | 21 | 19 | 22 | 23 | 25 | 24 | 24 |
| Pakistan | 10 | 10 | 11 | 10 | 11 | 10 | 10 |
| Bangladesh | 4 | 4 | 4 | 5 | 6 | 6 | 7 |
| Turkey | 6 | 6 | 6 | 6 | 6 | 7 | 6 |
| Vietnam | 2 | 2 | 2 | 3 | 4 | 4 | 5 |
| Rest of World | 69 | 60 | 60 | 58 | 56 | 56 | 58 |
| **World Total** | **115** | **104** | **108** | **110** | **111** | **111** | **114** |

*Source: USDA*

# Cotton Dynamics | World Trade

- **Vietnam's** cotton import has more than doubled since 2013 | growth in spinning sector

**World Cotton Imports**

| Millions of 480 lb. Bales | Aug 10 - July 11 | Aug 11 - July 12 | Aug 12 - July 13 | Aug 13 - July 14 | Aug 14 - July 15 | Aug 15 - July 16 | Aug 16 - July 17 |
|---|---|---|---|---|---|---|---|
| Bangladesh | 4 | 3 | 5 | 5 | 6 | 6 | 6 |
| Vietnam | 2 | 2 | 2 | 3 | 4 | 5 | 6 |
| China | 12 | 25 | 20 | 14 | 8 | 4 | 5 |
| Turkey | 3 | 2 | 4 | 4 | 4 | 4 | 4 |
| Indonesia | 2 | 3 | 3 | 3 | 3 | 3 | 3 |
| Pakistan | 1 | 1 | 2 | 1 | 1 | 3 | 2 |
| Rest of World | 11 | 9 | 10 | 9 | 8 | 8 | 10 |
| World Total | 37 | 45 | 48 | 41 | 36 | 35 | 37 |

*Source: USDA*

**World Cotton Exports**

| Millions of 480 lb. Bales | Aug 10 - July 11 | Aug 11 - July 12 | Aug 12 - July 13 | Aug 13 - July 14 | Aug 14 - July 15 | Aug 15 - July 16 | Aug 16 - July 17 |
|---|---|---|---|---|---|---|---|
| United States | 14 | 12 | 13 | 11 | 11 | 9 | 15 |
| India | 5 | 11 | 8 | 9 | 4 | 6 | 5 |
| Australia | 3 | 5 | 6 | 5 | 3 | 3 | 4 |
| Brazil | 2 | 5 | 4 | 2 | 4 | 4 | 3 |
| Uzbekistan | 3 | 3 | 3 | 3 | 2 | 3 | 2 |
| Rest of World | 8 | 10 | 10 | 9 | 9 | 8 | 8 |
| World Total | 35 | 46 | 46 | 41 | 35 | 35 | 37 |

*Source: USDA*

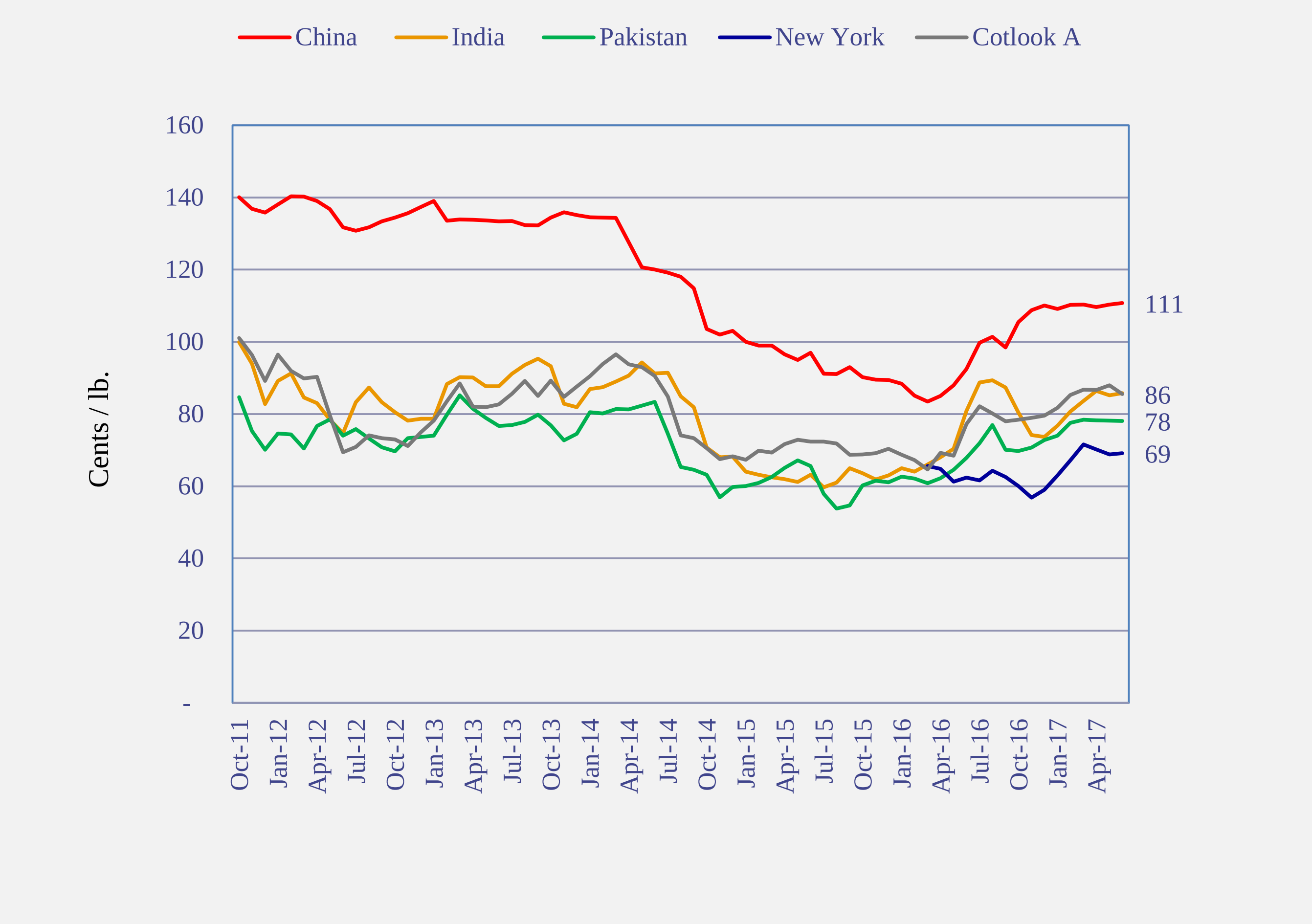
# Textile Exports | Top 5 Players vs Pakistan

- **China** - leading textile exporter contributing 40% of world textile exports
- **Pakistan** - exports revenue heavily reliant on textile

| | | *USD mln* |
|---|---|---|
| | **FY15** | **FY16** |
| **China (incl. Hong Kong)** | 311,000 | 290,686 |
| % of world textile exports | 40% | 40% |
| % of country's export | 10% | 10% |
| **European Union** | 176,000 | 182,326 |
| % of world textile exports | 23% | 25% |
| % of country's export | 2% | 3% |
| **India** | 35,000 | 34,109 |
| % of world textile exports | 5% | 5% |
| % of country's export | 8% | 8% |
| **Germany** | 30,060 | 31,530 |
| % of world textile exports | 4% | 4% |
| % of country's export | 2% | 2% |
| **Bangladesh** | 29,130 | 31,373 |
| % of world textile exports | 4% | 4% |
| % of country's export | 86% | 85% |
| **Pakistan** | 13,454 | 12,447 |
| % of world textile exports | 2% | 2% |
| % of country's export | 45% | 45% |

# Cotton | International Prices

- **Cotton price benchmarking –** against US cotton (leading supplier of cotton)



# Textile | Pakistan Cotton Arrivals

| Cotton Arrivals for the Season (Oct-April) | | | | | | |
|---|---|---|---|---|---|---|
| Region | Arrivals (mln Cotton Bales) | | | Percentage Change | | |
| | 2014-15 | 2015-16 | 2016-17 | 2014-15 | 2015-16 | 2016-17 |
| Punjab | 10.9 | 6.0 | 6.9 | 13% | -45% | 16% |
| Sindh | 4.0 | 3.8 | 3.8 | 6% | -5% | 1% |
| **Total of Pakistan** | **14.9** | **9.8** | **10.7** | **11%** | **-34%** | **10%** |

*Source: PCGA*

- **Poor crop in FY16 –** Heavy rainfall, high temperatures and major pest outbreaks; ~28% drop in arrivals

- **Crop substitution in FY17**
  - Lack of government support
  - BT cotton ineffectiveness

| Cotton Bales (mln) | 2014/15 | 2015-16 | 2016-17 |
|---|---|---|---|
| Opening Stock | 0.7 | 0.6 | - |
| Production | 14.0 | 9.9 | 10.7 |
| Imports | 0.9 | 2.5 | 2.7 |
| **Total** | **15.6** | **12.9** | **13.4** |
| Consumption | 14.5 | 12.6 | 13.1 |
| Exports | 0.6 | 0.3 | 0.1 |
| Ending Stock | 0.6 | - | 0.2 |
| **Total** | **15.6** | **12.9** | **13.4** |

*Source: PCCC*

# Textile | Pakistan Exports | Contribution to Forex

| Pakistan & Textile Industry Exports | | | | | |
|---|---|---|---|---|---|
| | FY13 | FY14 | FY15 | FY16 | FY17 |
| Pak Textile Exports (USD bln) | 13.1 | 13.7 | 13.5 | 12.4 | 12.5 |
| Pak Exports (USD bln) | 31.5 | 30.4 | 30.0 | 27.4 | 27.2 |
| Textile as % of Exports | 42% | 45% | 45% | 45% | 46% |
| *Source: PBS and SBP* | | | | | |

- **Pakistan** - exports revenue heavily reliant on textile (46%)

# Textile | Pakistan Exports | Trend

| Textile Sector Exports | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Commodity | Units | FY15 | | FY16 | | FY17 | | | |
| | | Qty | Value (mln USD) | Qty | Value (mln USD) | Qty | Value (mln USD) | YoY Qty Change | YoY Value Change |
| Raw Cotton | mln KGs | 94 | 147 | 49 | 77 | 25 | 43 | -49.1% | -43.9% |
| Cotton Yarn | mln KGs | 648 | 1,856 | 424 | 1,265 | 455 | 1,244 | 7.5% | -1.7% |
| Cotton Cloth | mln Sq. Mtrs | 2,074 | 2,453 | 2,152 | 2,214 | 1,962 | 2,120 | -8.8% | -4.2% |
| **Home Textile** | | | | | | | | | |
| Bed Wear | mln KGs | 325 | 2,103 | 328 | 2,020 | 353 | 2,134 | 7.7% | 5.6% |
| Towels | mln KGs | 172 | 797 | 185 | 803 | 183 | 787 | -0.9% | -2.0% |
| Other Made-Up Articles | - | | 655 | | 628 | | 645 | | 2.6% |
| Garments | mln Doz | 135 | 4,502 | 145 | 4,559 | 148 | 4,679 | 1.9% | 2.6% |
| Others | | | 942 | | 882 | | 801 | | |
| **Total** | | | **13,454** | | **12,447** | | **12,453** | | |
| **YoY Change in %** | | | | | -7.5% | | 0.0% | | |

*Source : PBS*

| Textile Sector Exports | | | | | |
|---|---|---|---|---|---|
| Commodity | FY13 | FY14 | FY15 | FY16 | FY17 |
| **Raw Cotton** | 1% | 1% | 1% | 1% | 0% |
| **Cotton Yarn** | 17% | 15% | 14% | 10% | 10% |
| **Cotton Cloth** | 21% | 20% | 18% | 18% | 17% |
| **Home Textile** | 24% | 26% | 26% | 28% | 29% |
| **Garments** | 29% | 31% | 34% | 37% | 38% |
| **Others** | 7% | 7% | 7% | 7% | 6% |

# Textile Industry | Package

## PM's Textile Package (PKR 180bln):

- Bailout package for the local textile industry to support declining exports

- **Features:**
  - Abolishment of **customs duty and GST** on import of raw cotton and machinery
  - **Duty Drawback** for the textile value chain

| | Rebate |
|---|---|
| **Yarn** | 4% |
| **Greige Fabric** | 4% |
| **Processed Fabric** | 5% |
| **Made-ups** | 6% |
| **Garments** | 7% |

- **Issues:**
  - **Raw cotton benefits withdrawn** (May'17); restoration of 4% customs duty and 5% GST
  - **Slow materialization** of announced benefits

# Textile Industry | Duty Structure

- **Cotton Ginning |** 9% import duty on raw cotton imports:
  - Customs Duty: 4%, Sales Tax: 5%

- **Spinning** | 15% import duty on cotton yarn:
  - Including Customs Duty: 5%, Regulatory Duty: 10%

- **Weaving & Processing** | 15% import duty on greige and processed fabric:
  - Including Customs Duty: 5%, Regulatory Duty: 10%

# Textile Industry | Key Challenges

- ***Volatility in cotton crop production*** leading to higher reliance on imported cotton and yarn
- ***High cost of doing business*** on the back of high energy cost (especially for small domestic players), obsolete technology, and low productivity
- ***Declining Exports*** due to relatively stronger PKR relative to regional currencies; reduced competitiveness in export markets
- ***Stuck-up tax refunds from the government*** leading to liquidity problems

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