Textile Industry in Pakistan: Empirical Analysis

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Abstract

Pakistan textile industry contributes more than 60 percent to the country's total exports during 1990's. However, currently this industry is facing great decline in its growth rate. The major reasons for this decline may be global recession, internal security concerns and the high cost of production due to energy crisis etc. Depreciation of Pakistani rupee that significantly raised the cost of imported inputs, high inflation rate and high cost of financing has serious impact on growth in the textile industry. In-depth study suggests that the Pakistan's textile industry can be on winning track if government takes serious actions. Furthermore, the government should provide subsidies to the textile industry for purchasing new machinery or enhancing the quality of the existing machinery. It is suggested that with new machinery, the expenditures on (R&D) would be increased for enhancing the productivity of existing machinery.

1. Introduction

Pakistan is the 8th largest exporter of textile products in Asia. This sector contributes 9.5% to the GDP and provides employment to about 15 million people i.e. 30% of the 49 million work force of the country (Economic Survey of Pakistan, 2015). Pakistan's share is less than one percent in the volume of total world textile trade of about US$18 trillion per annum. Pakistan is the 4th largest producer of cotton (12mln bales/yr). With the third largest spinning capacity in Asia after China and India and contributes 5% to the global spinning capacity (Economic Survey of Pakistan, 2015). Since independence the development of the Manufacturing Sector has been given the highest priority with major stress on Agro-Based Industries in Pakistan. Pakistan is one of the leading producers of cotton in the world and the development of a Textile Industry making full use of its abundant resources of is the basic step towards industrialization. At present, there are 1,221 ginning units, 442 spinning units, 124 large spinning units and 425 small units are working for textile products (Zaidi, 2015). Since independence Pakistan's textile sector has gradually moved towards the production of fairly high quality of counts, hosiery, garments and other value-added items. Today Pakistan has an integrated textile industry comprising of cotton spinning (yarn), cotton weaving (cloth), cotton fabric, fabric processing, home textiles, towels, hosiery, knitwear and Apparels. These products are manufactured on large scale as well as on small and medium cottage sales. The textile industry is primarily concerned with the production of yarn, cloth and the subsequent design or manufacture of clothing and their distribution. The textile sector of Pakistan is playing a central role in the economy (Economic Survey of Pakistan, 2015). Increase in the cotton production and expansion of textile industry in Pakistan is guise impressive since 1947. Cotton – bales increase from 1.1 million bales in 1947 to 10 million bales by 2000. Number of mills increased from 3 to 600 and spindles from about 177,000 to 805 million similarly looms and finishing units increased. The textile industry in Pakistan can be broadly categorized in two sector: a large scale organized sector and a fairly disjointed cottage / small-scale sector. The different sectors that form part of the textile value chain are:

  i.**Spinning**
  Most of the spinning industry operates in an organized manner within house weaving, dyeing and finishing facilities.

  ii.**Weaving**
  It comprises of small and medium sized entities and ranges from ill-organize household set ups to moderately organized larger units.

  iii.**Processing**
  The processing sector is comprised of dyeing, printing and finishing. Only a little part of this sector is operating under organized structure and is able to produce large quantities while the rest of the units are working inefficiently.

  iv.**Printing**
  The printing segment dominates the overall processing industry followed by textile dyeing and fabric bleaching.

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v.Garment Manufacturing

The garments manufacturing segment generates the highest employment within the textile value chain. Over 75% of the units comprise small sized units.

vi.Knitwear

The knitwear industry mostly consists of factories operating as integrated units (knitting, processing, and making up facilities).

The Textile and Clothing Industry has been the main driver of the economy of the last 50 years in terms of foreign earnings and domestic jobs creation and this industry will continue to be of vital importance for future growth of the economy. This study has identified the main determinants of decline in textile industry of Pakistan. This study will contribute towards respective literature and helpful for policy makers in Pakistan for promoting textile sector.

2. Literature Review

There are numerous studies which examine the role of different sector (Ali and Naeem, 2017; Ali, 2011; Ali, 2015; Ali, 2018; Ali and Bibi, 2017; Ali and Ahmad, 2014; Ali and Audi, 2016; Ali and Audi, 2018; Ali and Rehman, 2015; Ali and Senturk, 2019; Ali and Zulfiqar, 2018; Ali et al., 2016; Ali et al., 2015; Arshad and Ali, 2016; Ashraf and Ali, 2018; Audi and Ali, 2017; Audi and Ali, 2017; Audi and Ali, 2016; Haider and Ali, 2015; Kaseem et al., 2019; Sajid and Ali, 2018). Abida (2008) stated that Pakistan textile industry were facing massive challenges in the form of outdated technology being used, lack of effective research, development to compete internationally, high input prices, non-guaranteed energy supplies, high interest rates and unsupportive government policies. Lack of research and development in the cotton sector has reduced the production and quality of cotton make Pakistani textiles less valuable as compared to its competitors India and China. The crisis of energy has severely affected the larger mills in general and the small and medium textile mills in particular. Zameer (2009) stated that Pakistan textile industry were facing biggest threats in the form of sustaining position against its rival position. Lacks of technology, energy problem and inefficient production are also the main issues faced by textile industry. Proper policy planning should be adopted to increase production, government and banks should enhance financing for textile sector. Khan and Khan (2010) state energy crisis, lack of (Rand D) in cotton sector, lack of modern equipment, high input cost, removal of subsidy, high inflation rate, rupee depreciation which causes low export, and unemployment are the main problems being faced by textile sector of Pakistan. They suggest that tariff reduction, technology up-gradation; low interest rate, focus on value addition and the subsidy should be given for the growth of this sector. Alam (2011) states that the financial crisis in 2008 badly affects the exports of Pakistan textile sector. A huge trade deficit, volatility in transfer payments, net services, transfers and decline in workers' remittances is witnessed during this period. Financial crisis, inflation rate, energy crisis, rising unemployment and transportation are used for determining the profit of a firm. It is concluded that Pakistan has no comprehensive fiscal and monetary policies to cover the loss of financial crisis.

Sheikh et al., (2011) investigated the impact of global financial crisis on textile industry. This study had intended to explore the negative effects of financial crisis for low exports. It was also revealed that textile industry is facing massive challenges like unemployment, energy crisis and high taxes. A cross-sectional data was collected from 25 firms and data was analyzed by using E-view technique. Yasir (2011) had regarded the lack of human resource management one of an important cause of the declining textile industry of Pakistan. It proved the importance of the HRM practices which affect the workers' performance and hence the overall performance of the sector. For this, three research models of HRM (i.e. recruitment and selection, training and appraisal) were used. All these variables prove to be related with the performance of the workers. It was concluded that the lack of practices of human resource management were affecting the proper functioning of textile industry. Shah et al., (2012) studied reasons behind downfall of the textile industry. Energy crisis, deteriorating law and order situation, lack of new investment and increased cost of production are selected indicator for this purpose. Personal observations and informal interviews are used for overviewing the reasons. Government should focus on textile sector via giving relief on tax and on import and export duty and should take corrective actions to solve electricity crisis. If these problems are not solved then millions of textile workers would be jobless which leads to the decline of textile sector competitiveness. Afzal (2012) studied the impact of electricity crisis and interest rate on the production of textile sector in Pakistan. Due to the electricity crisis and high interest rate produces cut their production down, this further decreased export. This situation reduces the capability of competitiveness of this industry in international market. For the survival of this industry government should provide subsidy as well as decreases electricity tariff, improvement in textile production and reducing the cost of doing business in Pakistan.

Ahmad et al., (2012) had analyzed the HRM (Human Resource Management) issue in textile sector of Pakistan. The study is based on the relationship between job satisfaction, job stress and turnover. This study stressed that employee should be helped in the bad circumstances of textile industry due to energy crisis in Pakistan. Human resource

department had facing hurdle in retaining the employees in order to make textile industry successful. Adopted scale was used for data collection. Further findings would help Human Resource Managers to reduce organizational cost by reducing the turnover rate. Shah et al., (2013) examined the impact of energy crisis on textile industry of Pakistan. The return on assets (ROA), return of equity (ROE) had decreased whereas inventory turnover ratio and assets turnover ratio had increased in the period of energy crisis comparative to pre-energy crisis. Energy crisis severely affected the liquidity, debt management and profitability of textile sector. Horizontal analysis had been used for methodology. This study had provided insight for improving this sector. Tahir et al., (2014) focused on improvement in textile sector and impact of taxation on textile sector. This study revealed that the direct tax, excise duty and sales duty had negative impact on textile sector of Pakistan. Custom duty had also negative impact but coefficient not statistically significant. Taxation revenues were necessary for the progress of any country but due to the wrong policies and mismanagement in taxation system of Pakistan. It has become the burden. Taxes should be imposed through proper consultation method. Government of Pakistan should give special incentive to textile sector.

Table 1

Author Name	Year	Variables	Methodology	Results
Zameer	2009	Growth of textile sector and investment facilities	OLS based analysis	Positive
Khan, Khan	2010	Energy crisis and exports	Observational	Negative
Alam	2011	Financial crisis and exports	Observational	Negative
Sheikh et al.,	2011	Global financial crisis and exports	A cross-sectional data analysis	Negative
Yasir	2011	HRM practices and performance of employee	Questionnaire based analysis	Positive
Shah et al.,	2012	Energy crisis and production	Primary data analysis	Negative
Ahmad et al.,	2012	HRM and turnover	Adopted scale	Negative
Afzal	2012	Electricity crisis and interest rate and production of textile sector	OLS based analysis	Negative
Tahir et al.,	2014	Taxes and productivity	OLS based analysis	Negative
Shah et al.,	2013	Energy crisis and profitability of textile	Time series OLS	Negative

a)   Global Financial Crisis of Textile

United States of America (USA) is the major exporter of Pakistan. Almost all manufacturing industries export their products to United States. Europe is the second biggest exporter of Pakistan. Hence the financial crisis of 2008 in United States and Europe affects those countries which were dependent on the markets of developed countries. Pakistan textile exports share in total export of Pakistan has declined from 67% in 1997 to 55% in 2008 and it is decreasing with the passage of time. Global financial crisis also caused unemployment in Pakistan textile industry.

b)   Energy Crisis

Energy is an essential for production. Without energy, the production process is not possible. However, Pakistan is facing great problem of energy. Shortfall in energy badly affects textile production. Pakistan textil industry is facing 10 to 8 hours of electricity load shedding per day and 2 to 4 hours of gas load shedding per week. According to Economic Survey of Pakistan 2011, out of 2000 factories in Punjab, 800 factories have now been closed due to the shortage of electricity. People are jobless and moreover, exports are also affecting.

c)   Taxes

Taxes are important for any economy but in Pakistan high taxes are not possible for a firm to pay due to less profits. Hence, due to this reason many textile industries production level is affecting. The textile industry over all contribution of taxes in 2012-2013 is expected to reach Rs. 20.5 billion. There is great mismanagement in tax policies and due to this heavy tax burden cost of goods are going high and purchasing power of consumer is getting low. Government should take action to get desire effects of taxation and give incentive to textile sector.

d)   HRM Practice

Pakistan textile industry is one of the major textile industries of the world. It is facing highly competitive environment with other export oriented countries. But unfortunately much of our labor shifts from Pakistan textile industry to other countries because of the low salaries and ineffective training. Many textile industries do not bother about HRM practices. Hence, many employees do not have effective skills, satisfaction level and it affects the organization profit. All HRM practice should be used so that employees can perform better.

e)   Productivity

Pakistan textile industry is facing massive challenges like energy crisis, low modernized equipment; lack of investment, high taxes, global recession and lack of research. Due to these factors productivity of textile industry is greatly affecting. Moreover, labors of Pakistan textile industry are not efficient which directly affect productivity and

results in rising unemployment, low exports, shutdown of many firms. Government should give subsidy to textile sector and enhance financing.

3. The Model
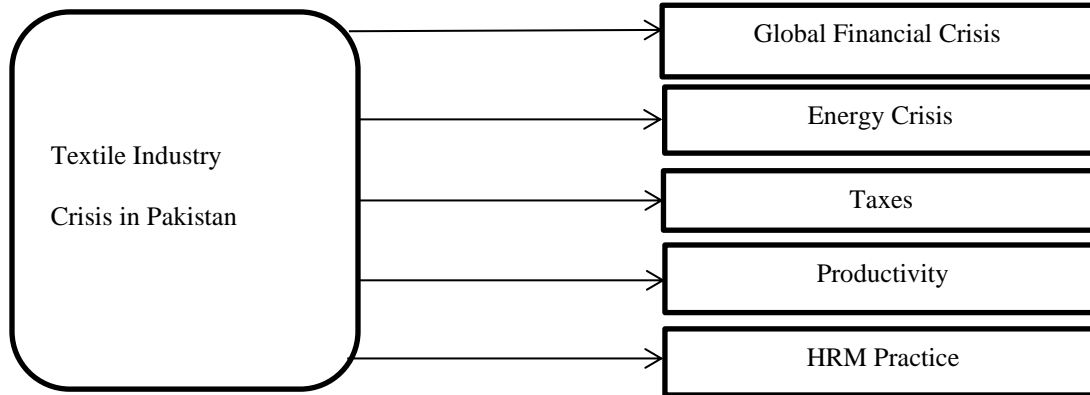
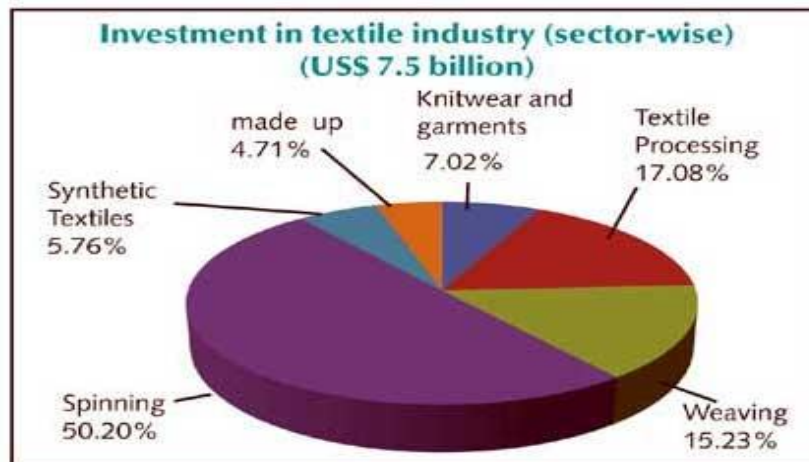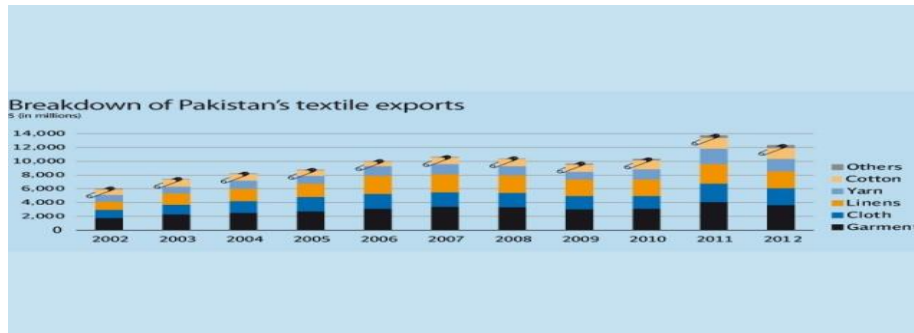**I. Dependent Variable**

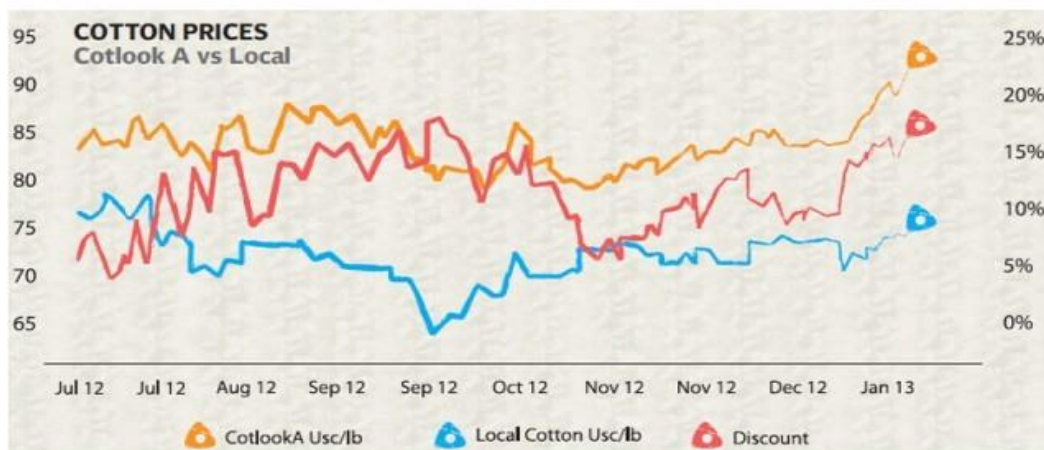Growth rate of Textile (Y)

II. Independent Variable (X)

X1=Energy crisis
X2=Labor
X3=Global financial crisis
X4=Export
X5=Taxes

III. Equation

$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + \ldots E$

Analysis

COTTON PRICES
Cotlook A vs Local

[Figure: Line chart showing Cotton Prices — Cotlook A vs Local, with left axis 65–95, right axis 0%–25%, and horizontal axis from Jul 12 to Jan 13. Legend: CotlookA Usc/lb, Local Cotton Usc/lb, Discount]

4. Conclusions and Recommendations

The detailed review of literature and personal observation it is revealed that there are many factors affecting the productivity of textile industry in Pakistan. High inflation rate and increased input cost have raised the cost of production which industries are unable to bear due to low profit and sometimes loss. The outdated machinery and technology being used makes our textile exports less competitive in international market. Government has imposed heavy import duties on machinery which has further raised the cost of production. This sector is also facing financial problems. High interest rates discourage new investments in this sector. Pakistan's textile industry is lacking in research and development (R&D). Not much research work is done in this sector. Energy crisis is the most important factor that adversely affects the textile production in Pakistan. Due to inadequate energy supply, producers are forced to cut their production and raise their output cost. Unemployment level has risen due to downfall of textile industry resulting from the energy crisis. Furthermore, political unrest, poor law order situations, lack of infrastructure and transportation facilities are also some of the causes behind downfall of Pakistan's textile industry. All factor increases the cost of production which decreases the exports consequently increasing unemployment level. There is positive relation between HRM and performance of employee, growth rate and investment facilities. Moreover, there is negative relation among energy crisis, productivity, financial crisis, exports, taxes and productivity. The remedies include use of advanced machinery and latest technology, increased research in this sector, proper human resource management, overcoming the energy crisis, lowering down of interest rates, new investment projects in the sector and proper management of tax policies. Moreover, government should take corrective actions and actively participate in the problems of textile sector and also enhance their financing.

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