Country Report: Pakistan

H1-14

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Pakistan textile industry profitability and challenges

Pakistan is the 1st largest exporter and 4th largest producer of the cotton yarn around the world. Textile sector is coming back to its original form and start helping the Pakistan's economy.

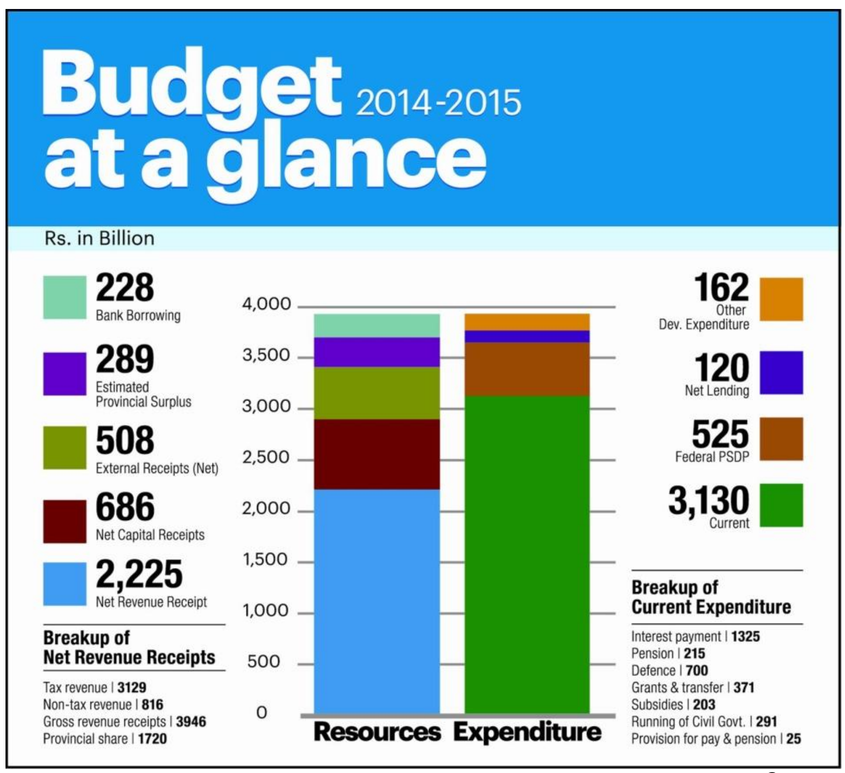
Last month a team of economist studied textile industry profitability and challenges. They took the sample of five textile companies operating in Pakistan including Azgard-9, Al-Karam textile, Gul Ahmed, Saif Textile Mills, Faisalabad City Garment. They did the profitability analysis of these sampled companies which tell the detailed of the profitability ratios of the industry. These kinds of ratio's information are very important for the investors and shareholders who wanted to invest in the industry in the future. The profit of the industry is increasing very quickly with the passage of time. According to their profitability analysis from year 2010 to 2013, it is seen that the net profit, gross margin ratio on profit, return on asset and return of equity for the industry was high in year 2011 as compared to year 2010 and 2012. But in 2013-14, the industry profit is again increasing as per high regional demand. There are several challenges that the industry is facing because of those the profitability ratios of the industry are low. Electricity crisis listed on the top in these challenges. Also the production cost of textile industry is increasing with the increment in the interest rates, inflation. Moreover, from the analysis it seen that the *relative of the age of assets is decreasing with the passage of time and industry do not using its asset more efficiently because of low maintenance and low quality assets*.

Source: The Nation, 15th June 2014

Post budget analysis

Textiles accounts for about 8.5% of GDP and employ 38% of the total manufacturing labour force. Govt. accounted for a majority of the country's exports during last fiscal year 2012-13: US $13.1 billion (Rs. 1.28 trillion) out of a total US $24.6 billion (Rs. 2.4 trillion) in exports came from Pakistan's textile sector.

The government is determined to facilitate the textile industry to enhance trade volume for economic stability and growth. Regional trade will be the focus that will help to enlarge the garment-producing capacity of Karachi, Lahore and Faisalabad.



Revisions in the government's 2014-2015 textile policy will focus on investments in infrastructure, training and research to enhance product development centers in the country.

For textile sector, tax credits are allowed on garments (4%), Made ups (2%) and Processed fabrics (1%). Plus, an extension of duty free import of machinery for another two years. A training program with a cost of Rs 4.4 billion is also announced to enhance the quality of final products. Mark-up on long-term financing facility is also reduced from ***11.4% to 9%***.

Source: Rukhsana Shah, Secretary
Textile Industry Ministry
Tel: +92 51 9203346

Textile statistic:

I have had correspondence with APTMA to learn impact of GSP+ in textile industry and summarized export statistics.

Mr. Yasin, Chairman APTMA and his team acknowledge of high-level EU officials been visited for the same we pursue. A detailed presentation was made my APTMA regarding benefits as well challenges out of the GSP Plus facility since January 2014. Pakistan's textile exports grow 6.5% in July-April'14. The exports of textiles, including apparel, grew by 6.5 percent year-on-year to US$ 11.437 billion in the first ten months of fiscal year 2013-14.

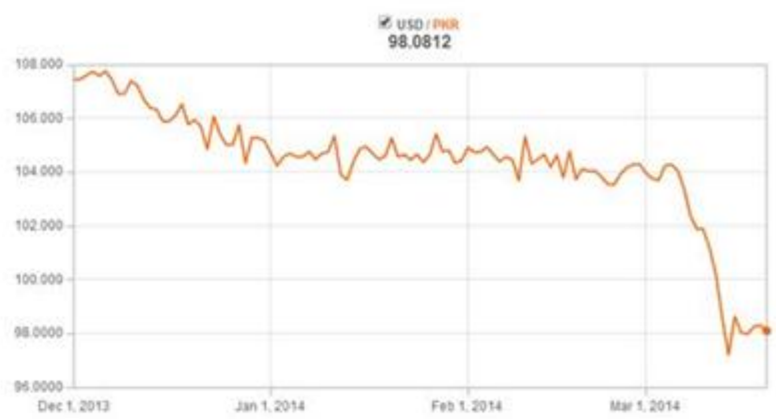
During July-April 2013-14, the exports of cotton cloth fetched $2.346 billion, showing a growth of 5.52 percent over exports worth $2.224 billion made during the corresponding period of the previous fiscal.

Sector vise analysis for EU export of textile garments grew significantly by 30.68% against last year's shipments in January and February. Total sales of textile garments to the EU in the two months last year stood at $342 million, which grew to $446.91 million this year, recording an increase of $105 million or 30.7%.

Home textiles to the EU in January-February 2013 amounted to $214.18 million, which rose to $274.47 million in the same period this year, showing an increase of *28.15%*.

Knitwear exports jumped 10.73 percent year-on-year to $1.842 billion during the ten-month period, while *woven garment exports shot up by 7.48 percent to $1.58 billion*.

Although the textile exporters are capitalizing on the GSP Plus facility, the sudden appreciation of the *Pakistani currency against the US dollar* has decreased the pace of growth that was observed during the previous three months.



Pakistan apparel sourcing project seeks partners

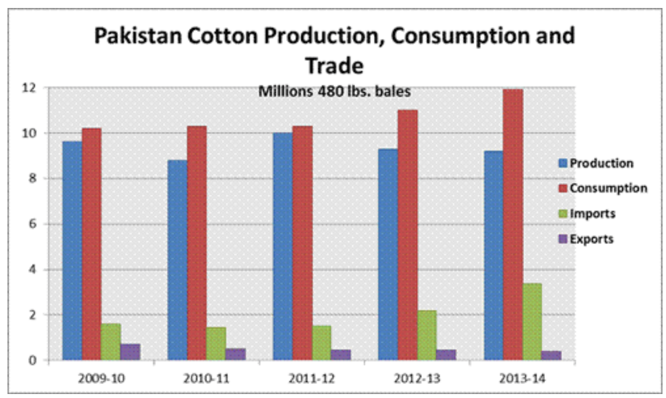
Pakistan's textile and garment sector is seen as one of the biggest beneficiaries of the country's accession to the EU's GSP+ trade scheme. Help is at hand for buyers looking for a new source of potentially low-cost apparel.

MIS get this image as royalty free.

Local observers believe GSP+ is likely to be a game-changer for the country's textile and clothing sector, with Pakistan industry estimates suggesting that exports to EU of textiles and clothing will increase by US$650m in the first year alone. But one of the biggest challenges facing European fashion buyers is how to make the most of this new opportunity in a country that is difficult to visit due to visa and on-going security issues.

One solution might be to take advantage of a programme in place to help local garment producers in Pakistan to build business with importers, retailers and clothing brands in the EU – but which also allows buyers to eliminate some of the risks of forging ahead on their own.

"Cheaper and faster"



I believe that a combination of GSP+, the recent 70% increase in the minimum wage in Bangladesh, and local fibre availability (which helps reduce transit costs) should give Pakistan level playing field on the basic goods with Bangladesh and Cambodia.

There is also potential for a faster delivery of 2-3 weeks since raw materials don't have to be move to the country there. This also gives buyers more control of their orders from yarn onwards.

While Pakistan is the world's fourth largest cotton producer, and a major producer of related yarn and fabric, other raw materials are in short supply and expensive, with synthetic fibers attracting an import duty of 6%.

MFN pact with Modi's government Pakistan would be able to use Indian fabric and still qualify.

Meanwhile, the value of textile machinery imports made by Pakistan during the period under review surged up by 59.72 percent year-on-year to $489.865 million, which shows that enterprises have started investing in new machinery, especially after the country attained European Union's Generalised System of Preferences Plus (GSP Plus) status. In fact, textile machinery imports in *April 2014 skyrocketed by 130.07 percent to $66.374 million*.

Foreign Direct Investment (FDI) in textile sector

Chinese company China Gezhouba Group Corporation (CGGC) showed keen interest in investment in Pakistan Textile City Karachi. They interested in financial assistance, joint venture and infrastructure development at Pakistan Textile City.

The CGGC is a transnational corporation. The recent investments of the company include Neelum-Jhelum hydroelectric project and Gaddani Power Park. The representatives apprised that CGGC had allocated *$15 billion* for overseas investment and Pakistan remains the main focus because of its recent economic performance.

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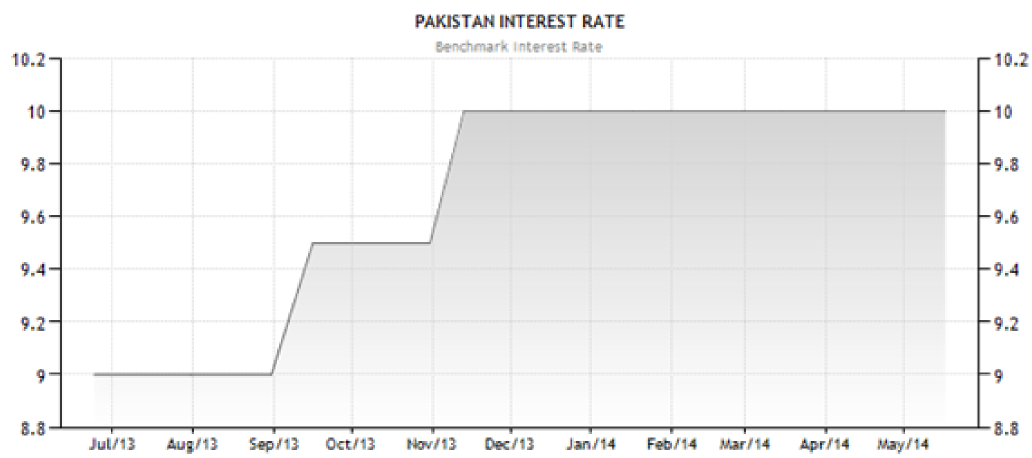
Punjab government initiatives for Textile Sector

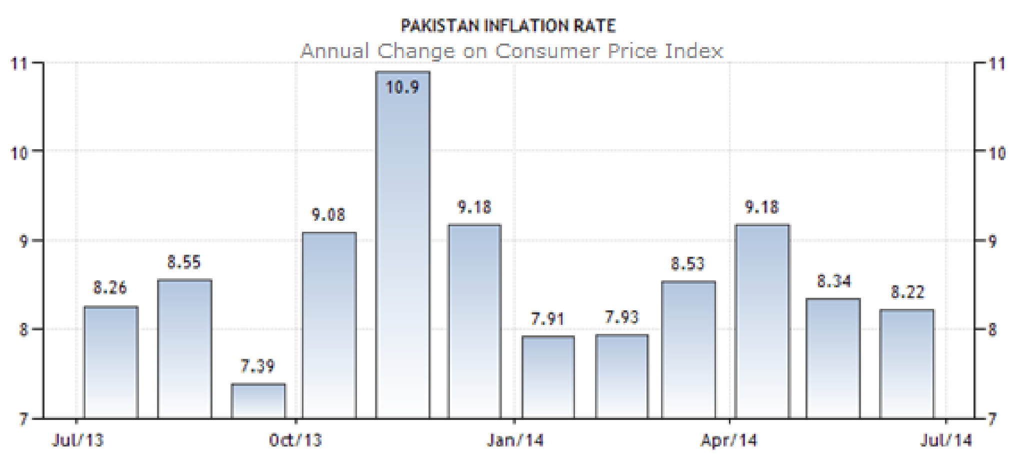
Chief Minister Shahbaz Sharif said that Punjab government is taking solid steps for the uplift of garments and textile sectors after getting GSP Plus status. He said that work is in progress speedily on Quaid-e-Azam Apparel Park where special incentives will be offered to investors for setting up industries. He said that latest facilities will become available to the garments and textile industry under one roof in Quaid-e-Azam Apparel Park which will promote textile exports. The Chief Minister also issued instructions for setting up a business council for the solution of problems of both sectors. The business council will formulate its recommendations after consultation with industrialists.

Source: Daily News

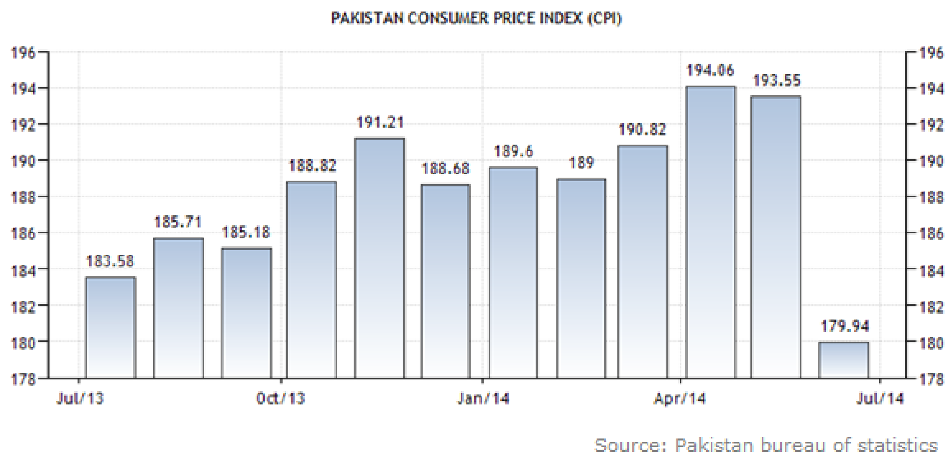
Analysis and review of country's economic indicators:

Source: The World Bank






PAKISTAN REMITTANCES
In USD (Mio)
4000
3800
3600
3400
3200
3000
3185
3297
3028
3411
3450
3599
3518
3237
3568
3927
3863
3793
Jul/11
Jan/12
Jul/12
Jan/13
Jul/13
Jan/14
Source: State Bank of Pakistan


PAKISTAN CONSUMER PRICE INDEX (CPI)
196
194
192
190
188
186
184
182
180
178
183.58
185.71
185.18
188.82
191.21
188.68
189.6
189
190.82
194.06
193.55
179.94
Jul/13
Oct/13
Jan/14
Apr/14
Jul/14
Source: Pakistan bureau of statistics

Comparative Study: Pakistan vs. Bangladesh

From a western perspective, it makes eminent economic sense to outsource garment manufacturing to countries with 1/20th of its minimum wage rates. The cost reduces dramatically and profits go through the roof. Last year, the West spent $200 billion on sourcing cheap garments from the developing world. The same were retailed for $1.0 trillion back home. This forms the very basis for global apparel trade.

Bangladesh earned $21 billion of revenues last year by exporting garments to the West. We earned $2.6 billion. This brought 90% of Bangladesh's foreign exchange earnings. The industry currently employs 13 million people. That's almost 10% of its population and 20% of its labour force. What's even more impressive is Bangladesh's continuous growth. *In 2002, Pakistan and Bangladesh had identical export earnings from garments at $2.5 billion each*. A 2011 Deloitte-Touche study predicts that Bangladesh's garment industry shall rise to $40 billion by 2018. Few doubt this number. Even industrial disasters – such as Rana Plaza's collapse last year that killed more than 1,200 workers or the fire at Tazreen shirt factory a year before that killed 112 – appear but small bumps on its road to growth.

The Bangladeshi garment workers drive hard wage bargains too. Often they ransack factories and go on strikes. They have a strong case. A trouser exported at $7.50 is retailed for $50. It contains $0.3 of labour component. Doubling the wages would hardly dent the profits of the western retailers; so goes their argument. The owners can pass these extra cents to the western buyers. Historically, this argument has always won. Since 2005, when their minimum wages stood at $18 per month, they have fought long and hard and won raises every two years. After last year's successful standoff, their wages stand at $65 per month. Surprisingly, even these hikes have not stymied growth; the export numbers have kept increasing. This only tells how abysmally low and inconsequential the wages had been to begin with.

The breakdown

Out of the $200 billion West spent on sourcing cheap garments, China holds $80 billion share while the next two contenders Turkey and Bangladesh hold $30 and $21 billion apiece while India, Vietnam, Indonesia, Philippines, Sri Lanka and Pakistan jointly account for another $50 billion. China's wage rates have crossed $1/hour and are climbing. Consequently, manufacturing garments at this wage rate is untenable. Its $80-billion slice is up for grabs.

The only countries that can pitch a matching labour capacity are India, Bangladesh and **Pakistan**. They have millions of uneducated, unskilled and out of work labour force. Surprisingly, this industry thrives on them. With mundane tasks like pressing, folding or packing taking days to master and more skilled task like operating sewing machines a few weeks; the uneducated and unskilled workforce becomes productive quickly.

Not so for the Indians, their labour laws have always had a socialist bent and have favoured unionised labour. To circumvent labour unions Indian garment factories keep their sizes small; making them less attractive for garment manufacturing. This leaves *Bangladesh and Pakistan* the only places that can absorb the giant capacity China is shedding.

Reasons for our downfall

This $80 billion export boom would not touch us. Our *security situation* has kept most western visitors out of our country. Without their prolonged stay and intense interactions with our factories to develop fashion products each season, there is very little hope that we would touch anything beyond a couple of billion dollars. Security remains the single most important factor for stalling our apparel industry. *Tragically, on all other factors of production we hold a clear competitive advantage over Bangladesh.*

Research on global denim trends

This research report is compiled on the basis of information reviewed at International Apparel Federation (IAF) and Messe Frankfurt. In addition to this thanks to paid subscription Just-in-Style.


Image: Just-in-Style

Flashback 2013: Europe Denim import stage recovery in 2013

Import of denim jeans into EU recovered in 2013, increasing 4.4% in value and 8.6% in volume, but average prices declined 3.9%.

According to the report compiled by Texworld event organizer Messe Frankfurt, EU nations imported 494m pairs of denim jeans in 2013, worth a total of EUR3.69bn.

Between 2007 and 2013, imports of jeans have recorded an annual growth rate of 5.3%, compared to the growth figure of 2.2% for overall EU clothing imports.

Jeans imports declined in 2012 thanks to the fragile European economy before returning to growth last year, the report added.

Turkey, Bangladesh and China together account for 62% of jeans imports by value and 69% by volume, followed by Pakistan, Tunisia, Morocco and Cambodia.

In 2013, China was overtaken by Turkey and Bangladesh in value terms, but remained the top volume supplier at 142m pairs.

Average pricing declined 3.9% from EUR7.78 to 7.48, but average prices had moved up by an accumulated figure of 12.4% in 2011 and 2012, thanks to rising cotton prices.

Research: Brands look to capitalize on constant denim trend

Denim jeans are a wardrobe staple for most consumers due to their ability to offer comfort and a long lifespan compared to other items of clothing. With many purchasing, on average, one pair per year, it has become essential for brands to capitalize on this constant trend. This new report takes a closer look.

Denim can be made in varying degrees of thickness and quality to meet the different needs of each customer. They can also be produced relatively cheaply in emerging market such as Asia. As such, producer are keen to capitalize on consumers' fascination with denim through constant innovation in fabric, finish and shape.

Growth

According to just-style's latest 'Global market review of denim and jeanswear – forecasts to 2020' report, the world jeans market at retail prices for 2014 is worth US$56.2bn, and is composed of 2.1bn pairs of consumer purchased jeans.

Growth, however, is happening in lower priced market, with Europe declining and North America flat. It is Asia that is predicted to be the fastest growing world region from now to 2020.

For businesses that are based in Europe or North America, if they are not truly international, they will face difficulties, notified. Both are expected to remain tough markets for the next few years.

Capacity

Overall, the annual consumption of denim is believed to be of the order of 3.35bn liner meter. Capacity, is in the order of 4.3bn liner meters as surveyed.

One third of this capacity is in China. Well over half of this now in Asia, proving that the old hegemony of US is completely broken, and Europe's share is fading.

Globally, there are around 500 substantial denim mills, with 300 of those believed to be in China. Around 100 are thought to be in the rest of Asia, primarily Pakistan and India.

Supply chain questions

The main questions, however which the denim jeans supply chain should ponder with concern, are whether there any serious alternatives to cotton, where in the world new weaving capacity will be installed, whether low cost countries will lose their competitive advantage, and whether there is anything new that hasn't yet been developed?

The supply chain model is changing. At present, the jeans supply chain operated primarily on two models: Retailer buys brand, which then outsources the manufacturing of the garments. Brand buys fabric; and second, retailer designs its own-label garment. Retailer buys garments directly from a manufacturer. Retailer choose the fabric and instructs the manufacturer from where to get it.

Indeed, the supply chain is transforming into a model where parts of it "jump over" other and bypass them. Manufacturers still work for brands, but, more and more, they are by-passing the brand to make directly for own label fashion retailers.

Retail itself is doing the same thing, and so the question for international retailers is whether the developing world will follow the same path. For them it could be a case of never setting up and expanding large chains of shops, but of using ships as a physical space for collecting and returning merchandise, which was bought on the net in the first place.

A safe bet

One thing is for sure, consumers are unlikely to fall out of love with denim, leaving the industry pretty secure for the long term.

Whatever happens to the various elements of the supply chain, in whatever part of the world, manufacturers are retailers will be confident consumers will continue purchasing this iconic garment. Jeans are certainly a safe bet for fiber producers, fabric weavers, garment manufacturers, brands and retailers.

EU: New Ecolabel criteria set for clothing

The EU Ecolabel is a voluntary label promoting environmental excellence

The European Commission (EC) has set out the criteria for awarding the EU Ecolable to textile and clothing products, which covers hazardous chemicals, recycled content, energy efficiency and water management.

The EU Ecolable is intended to identify items that have a reduced environmental impact along their entire lifecycle, from raw material through to production, use and disposal.

As well as fibres, yarn and fabric, the rules also include zips, button, membrane, coatings and laminates.

To be awarded the Ecolabel, manufacturers must ensure that products do not contain hazardous substance found in restricted substance list (RSL).

Only where a substance is required to meet consumer performance expectations or mandated requirements for the product (such as flame retardancy), and where there are no applied and tested available alternatives, will the Ecolabel be granted.

Strict conditions are also imposed on the manufacturing processes for textiles to control pollution of water and air, and to minimize exposure of the workforce.

In addition, where required, laboratory testing based on random sampling must be carried out for each product line.

The EU Ecolabel is a voluntary label promoting environmental excellence, that was established in 1992. The EC says it has set out the criteria for textile products as they have the most potential to reduce environmental impacts.

Social Compliance/ Quality developers can read full text of Commission decision on following link copy paste to internet browser:

http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.174.01.0045.01.ENG