

Textile Industry of Pakistan

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Overview of the textile Industry:

The textile sector enjoys a pivotal position in the exports of Pakistan. In Asia, Pakistan is the 8th largest exporter of textile products. The contribution of this industry to the total GDP is 8.5%. It provides employment to about 15 million people, 30% of the country work force of about 49 million. The annual volume of total world textile trade is US\$18 trillion which is growing at 2.5 percent. Out of it, Pakistan's share is less than one percent. The development of the Manufacturing Sector has been given the highest priority since Pakistan's founding with major stress on Agro-Based Industries. For Pakistan which was one of the leading producers of cotton in the world, the development of a Textile Industry making full use of its abundant resources of cotton has been a priority area towards industrialization. At present, there are 1,221 ginning units, 442 spinning units, 124 large spinning units and 425 small units which produce textile products.

The industry consists of large-scale organized sector and a highly fragmented cottage / small-scale sector. The various sectors that are a part of the textile value chain are: Spinning, most of the spinning industry operates in an organized manner with in-house weaving, dyeing and finishing facilities. Weaving comprises of small and medium sized entities. The processing sector, comprising dyeing, printing and finishing sub-sectors, only a part of this sector is operating in an organized state, able to process large quantities while the rest of the units operate as small and medium sized units. The printing segment dominates the overall processing industry followed by textile dyeing and fabric bleaching. The garments manufacturing segment generates the highest employment within the textile value chain. Over 75% of the units comprise small sized units. The knitwear industry mostly consists of factories operating as integrated units (knitting + processing+ making up facilities). The clothing sectors both woven and knits are mainly clustering in Karachi– Lahore and Faisalabad where sufficient ladies labor is available.

Pakistan is the world's 4th largest producer and 3rd largest consumer of cotton. The Textile and Clothing Industry has been the main driver of the economy for the last 50 years in terms of foreign currency earnings and jobs creation. The Textile and Clothing Industry will continue to be an important engine for future growth of the economy; there is no alternative industry or service sector that has the potential to benefit the economy with foreign currency earnings and new job creation, especially if synergy is developed amongst different sub sectors and efforts are made to aggressively grow the Ready made Clothing Sector. Pakistan's Textile Industry had proved its strength in global market during the last four decades. It has proved its strength even in post quota era by not only sustaining its position but, also showing growth during 2005 to 2007, but declined to \$11.1 billion in 2008 due to financial and economic melt down globally. The Garment Sector & especially the Knit Garment Sector need special focus in future policies.

Table 1.1: Export of Textile and Clothing (Us \$ millions)

	1990	2000	2004	2005	2006	2007	2008
World Textile	104,354	157,295	195,541	202,657	220,367	240,364	250,198
World Clothing	108,129	197,722	260,569	276,802	309,142	345,830	361,888
Total	212,483	355,017	456,110	479,479	529,509	586,194	613,086
Pakistan Textile	2,663	4,532	6,125	7,087	7,469	7,371	7,186
Pakistan Clothing	1,014	2,144	3,026	3,604	3,907	3,806	3,906
Total	3,677	6,676	9,151	10,691	11,376	11,177	11,092
% Age of World Trade	1.73%	1.88%	2.01%	2.23%	2.15%	1.91%	1.81%

Source: Ministry of Textile

Global developments:

The Textile & Clothing trade has increased; from US\$ 212 Billion in 1990 to US\$ 612.1 Billion in 2008. The clothing trade is growing at a faster rate. Pakistan exported textiles worth \$7.19 Billion and clothing worth \$3.9 Billion in 2008. The year 2009 was a dismal period. The industry was confronted with problems of multiple natures. The global economic crisis in Oct. 2007 had impacted the trade badly. Weaker demand in the developed economies limited the expansion of global trade. The 12% drop in the volume of world trade in 2009 was larger than most economists had predicted. World trade and output are currently in a recovery phase. The WTO Secretariat estimates that in year 2010 world exports in volume terms will grow by 9.5%, developed economies' exports will expand 7.5% and the rest of the world (developing economies plus the Commonwealth of Independent States) will advance 11%. The decline in exports of all manufactured goods including Textile & Clothing is visible in the quarterly data.

Table 1.2: Quarterly growth in world trade in manufactures by product, 2008 Q1 - 2009 Q3 (Y-o-Y percentage change in current US dollars)

	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3
Manufactures (All)	15.7	18.6	13.2	-10.4	-27.6	-29.8	-21.5
Textiles	10.3	8.9	3.4	-12.8	-26.9	-26.8	-17.3
Clothing	10.3	11.4	7.9	-2.5	-10.4	-15.5	-12.1

Source: World Trade Organization

The period of heavy investment boom in most Textile Industry segments between 2003 and 2007 came to an abrupt end in 2008. This investment boom until 2007 was due to the phase out of traditional quota regime under WTO – Agreement on Textile and clothing and China's integration into WTO structures. Global yarn and fabric productions were continuously falling since the second quarter of 2008. While one was expecting stabilization in production and hoping for a slight increase, the strong rebound in yarn and fabric production in almost all the regions came as a real surprise. The reasons for this strong rebound are higher production in Asia and South America, driven by a large demand from Europe and China and Brazil. Today the big question is whether the recent recovery in Textile Industry will continue? One can be pragmatic to identify the positive moves in Textile Trade. Firstly the production of yarn and fabric are constantly on rise in Asia (China, Pakistan and India) as well as in South America. This positive trend is supported by global exports of clothing. After having fallen from more than \$30 billion per month to only around \$20 billion in May 2009, an upswing of global clothing export of approximately 20 percent to almost \$25 billion was recorded in June 2009. Despite

challenges, there are fundamental aspects that promise a bright future for the textile industry in general.

Domestic Overview:

Internally the increase in cost of utilities, (Power, Gas, Transport, and Petrol) has impacted viability. The power & gas outages have further deteriorated capacity utilization. The shortage of cotton crop in China increased the prices of cotton. The increased demand of yarn export created problem of yarn availability in the local market. The increase of cotton yarn and cotton yarn prices for exporters of Garments, Knitwear, Home Textile and made-up sectors to unviable level aggravated the production and export of yarn products. To stay in the market industry is making distress efforts. Closure, low capacity utilization, losses are heated topics of the day. Resultantly the production and export performance of Textile sector had shown a mixed trend. Because of a global shortage in availability of cotton, largely due to a shortfall in Chinese crop, which is the biggest producer and consumer of cotton in the world, the foreign demand for Pakistan's cotton yarn has risen exceptionally. Chinese, in particular, have procured huge quantities of yarn from Pakistan, even though they are the fiercest competitor of Pakistan in the world market. In the first six months of the current fiscal year Jul-Dec. 2009, the export of cotton yarn recorded an increase of 50%. Spinning industry makes the basic raw material for the downstream industry. The existing capacity in the spinning sector is more than local demand, and hence moderate quantities of yarn are exported each year. With excessive exports during the year, the downstream industry started facing severe shortages of yarn. Consequently, the downstream industry began to close down. In January, 2010 Government imposed a quota of 50 million kg per month for export of yarn. During January 2010, 56 million kg was exported as appropriate measures to give effect to quota were not put in place in time. The availability of yarn in the local market remained scant and prices kept rising. The anxiety and pain suffered by the local industry intensified, as exports of value added textiles were declining at alarming rates (Decrease in: Cloth 16%, knitwear 8% and garments 8%). Accordingly, the quota was reduced to 35 million kg per month with effect from 1st March, 2010. Since the reduction in quota, local availability has improved. Textiles are exported in the form of Yarn, Fabric, Readymade Garments, and Bed Wear & Made Ups. Export performance for the period 2008-09 (Jul-Mar) to 2009-10 (Jul-Mar) is compared in table

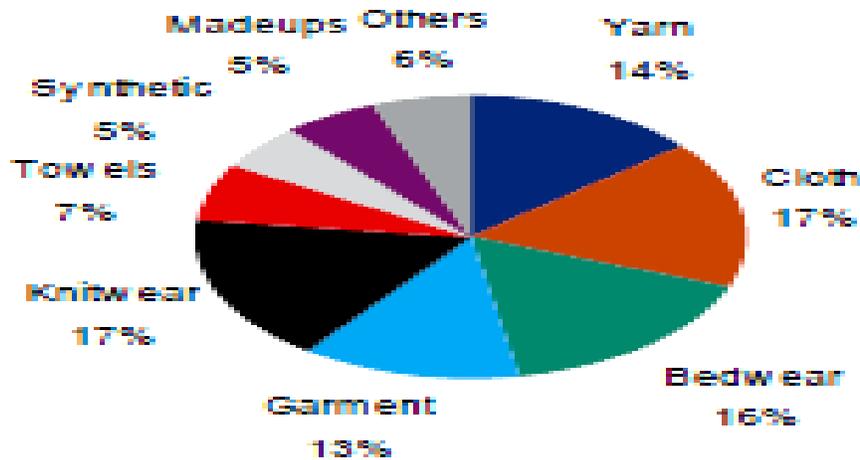
Export Performance of Textile Industry:

With global growth outlook relatively better in FY10, Pakistan's export focused textile industry (textile contributed 53% to total exports) recovered from the lows of FY09. While export growth was sluggish in 1QFY10 (-11% Y-o-Y), sequential improvement in the same has been strong with 2QFY10 exports up 12% Y-o-Y, 3QFY10 up 22% Y-o-Y and 4QFY10-to-date exports up 13% Y-o-Y. YTD, overall textile exports are up 7% Y-o-Y with ~5% growth in broad volumes. Headline export numbers for most products in the textile chain have been positive with only fabric and bed wear standing out as weak links. The biggest contributors to growth meanwhile have been yarn (+26%), made-ups (+16%) & synthetics (+106%).

Table 1.3: Export Performance of Textile Industry

Textile Group	Unit	JULY- MAY, 2009 - 2010		JULY- MAY, 2008- 2009		% CHANGE IN JULY- MAY,2009 -2010	
		Quantity	Value Dollars	Quantity	Value Dollars	Quantity	Value Dollars
Textile Group	-						
1.Raw Cotton	M.T	159,312	194,435	74,652	82,878	113.41	134.60
2.Cotton Yarn	M.T	588,243	1,292,753	470,102	1,008,251	25.13	28.22
3.Cotton Cloth	TH.SQM	1,605,367	1,660,679	1,778,395	1,823,501	-9.73	-8.93
4.Cotton Carded Or Combed	M.T	11,547	12,454	17,351	18,740	-33.45	-33.54
5.Yarn Other Than Cotton Yarn	M.T	16,160	43,613	8,445	22,152	91.36	96.88
6.Knitwear	TH.DOZ	94,622	1,587,179	100,026	1,572,443	-5.40	0.94
7.Bed Wear	M.T	299,546	1,573,070	297,571	1,583,369	0.66	-0.65
8.Towels	M.T	190,744	623,119	156,797	585,175	21.65	6.48
9.Tents,Canvas&Tarpulin	M.T	19,903	57,414	18,849	53,533	5.59	7.25
10.Readymade Garments	TH.DOZ	24,793	1,158,036	26,473	1,117,178	-6.35	3.66
11.Art,Silk&SyntheticTextile	TH.SQM	389,223	393,847	275,668	238,515	41.19	65.12
12. Made up Articles (Excl. Towels Bed wears.)	-		489,399		435,533	-	12.37
13.Other Textile Materials	-		238,835		192,062	-	24.35
Total			9,324,833		8,733,330		6.77%

Pakistan Textile Export Split in 11MFY10:



As depicted in table 1.4, the import of textile machinery has been showing decreasing trend in a row since 2004-05. During the period under review, the import of textile machinery witnessed a growth rate of 14.2 percent against the same period of last year.

Table 1.4: Import of Textile Machinery (Us \$ millions)

Year	2004-05	2005-06	2006-07	2007-08	2008-09	July-March		% Change
						2008-09	2009-10	
	928.6	817.24	502.89	438.27	212.0	171.2	195.4	14.2

Source: Federal Bureau of Statistics

Ancillary Textile Industry:

This topic includes cotton spinning, cotton cloth, cotton yarn, cotton fabric, fabric processing, home textiles, towels, hosiery and knitwear and readymade garments. These components are being produced both in the large scale organized sector as well as in unorganized cottage / small & medium units. The performance of these various ancillary textile industries is evaluated below.

i) Cotton Spinning Sector

The Spinning Sector is the most important segment in the hierarchy of textile production. At present, it is comprised of 521 textile units (50 composite units and 471 spinning units) with 10.1 Million spindles and 114 thousand rotors in operation with capacity utilization of 89 percent and 60 percent respectively, during July – March, 2008-09.

ii) Cloth Sector

The pattern of Cloth Production is different than spinning sector. There are three different sub sectors in weaving via, Integrated, Independent Weaving Units, and Power Loom Units. There is investment in the shuttle-less looms both in integrated and independent weaving sector. This trend is likely to intensify in the country. The Power Loom Sector have modernized and registered a phenomenal growth over the last two decades. The growth of power loom sector is due to favorable Government Policies as well as Market forces. This sector is producing comparatively low value added Grey Cloth of mostly inferior quality. Problems of the power loom sector revolve mainly around the poor technology, scarcity of quality yarn and lack of institutional financing for its development from unorganized sector to an organized one. The production of cloth sector has shown in following table.

Table 1.5: Sector-wise Production

Production (M.Sq.Mtrs.)	(July-Mar) 2008-2009	(July-Mar) 2009-2010	% Age Change
Mill Sector	763.383	762.420	-0.13
Non Mill Sector	5895.454	5886.393	-0.15
Total	6658.837	6648.813	-0.15

Source: Ministry of Textile

iii) Textile Made-Up Sector

This is the most dynamic segment of Textile Industry. The major product groups are Towels, Tents & Canvas, Cotton Bags, Bedwear, and Hosiery & Knitwear & Readymade Garments including Fashion Apparels. Table 3.4 compares export performance of made-up sector during the period July-march 2008-2009 and 2009-2010.

a) Hosiery Industry

There are about 12,000 Knitting Machines spread all over the country. The Capacity utilization is approx 70%. There is greater reliance on the development of this industry as there is substantial value addition in the form of knitwear. Besides locally manufactured machinery, liberal import of machinery under different modes is also being made and the capacity based on exports is being developed.

b) Readymade Garment Industry

The Garment Industry provides highest value addition in Textile Sector. The Industry is distributed in small, medium and large scale units most of them having 50 machines and below, large units are now coming up in the organized sector of the industry. The industry enjoys the facilities of duty free import of machinery and Income Tax exemption. This sector has tremendous potential. Exports remained under pressure.

c) Towel Industry

There are about 7500 Towel Looms in the country in both organized and unorganized sector. This Industry is dominantly export based and its growth has all the time depended on export outlets. The existing towels manufacturing factories are required to be geared up to produce higher value towels.

d) Canvas

This is the highest raw cotton consuming sector. The production capacity is more than 100 million Sq. Meters. This value-added sector has also great potential for export. The 60% of its production is exported while 40% is consumed locally by Armed Forces, Food Department. Pakistan is the cheapest source of supply of Tents and Canvas.

iv) Synthetic Fiber Manufacturing Sector

This sector has made progress in line with demand of the Textile Industry. Presently there are Five (5) Polyester Fiber Units with production Capacity of 640000 Tons per annum; one acrylic fiber unit (M/s. Dewan Salman) has started its commercial production in December 1999, with rated capacity of 25,000 Tons per annum. Besides import of M.M.yarn, Fibers is permissible to supplement the local production.

v) Filament Yarn Manufacturing Industry

The Synthetic filament yarn manufacturing industry picked up momentum during 5th Five Year Plan when demand raised and hence imports increased and private sector was permitted to make feasible investment in the rising market conditions. Today following three kinds of filament yarn are manufactured locally:

Table 1.6: Capacity of Synthetic Filament Yarn

S. #	Type of Yarn	No of Units	Production Capacity
1.	Acetate Rayon Yarn	1	3000 (M.Tonnes)
2.	Polyester Filament Yarn	21	105376 (M.Tonnes)
3	Nylon Filament Yarn	3	2000 (M Tonnes)
		Total	10,000 (M.Tonnes)

Source: Ministry of Textile

The polyester filament yarn manufacturing activity has slowed down and currently a large scale imports from China has compelled local industry to close down and only 6 units with operational capacity of 55851 M. Tons supply polyester filament yarn. The local production filament fabrics is not picking up as their exports sales are not feasible and local market is heavily flooded with smuggled goods. The Production of Polyester Filament Yarn is approx. 60,337 Tons per annum and imports during the period July – March 2010 is 116,964 M. Tons as against 89,362 M. Tons during July – March 2009. Government in the last year reduced in duty on filament yarn. While it was helpful to the Synthetic Weaving Units, its impact on the Filament industry is evident in the form of closure of 15 units. Recently Hosiery sector has started consuming synthetic yarns for export of Knitted Garments which are both value added as well as diversification in product.

vi) Art Silk and Synthetic Weaving Industry

Art Silk and Synthetic Weaving Industry has developed over the time on cottage based Power Looms Units comprising of 08□10 looms spread all over the country. There are approximately 90,000 looms in operation of which 30,000 looms are working on blended yarn and 60,000 looms on filament – yarn. Besides, there are some mobile looms which become operational on market demand. The major concentration is in Karachi-Faisalabad, Gujranwala, and Jalalpur Jattan as well as in the un-settled area (Bare – Swat – Khyber Agency and Wazirstan).

vii) Woolen Industry

The main products manufactured by the Woolen Industry are Woolen Yarn of 6.864 M. kgs, Acrylic yarn 6.960 M. kgs, Fabrics 3,445 (M.sq.meter), Shawls 13.353 Million, Blanket 657,235, and Carpet 3.5 (M. Sq. meter).

Cotton Textile Statistics:

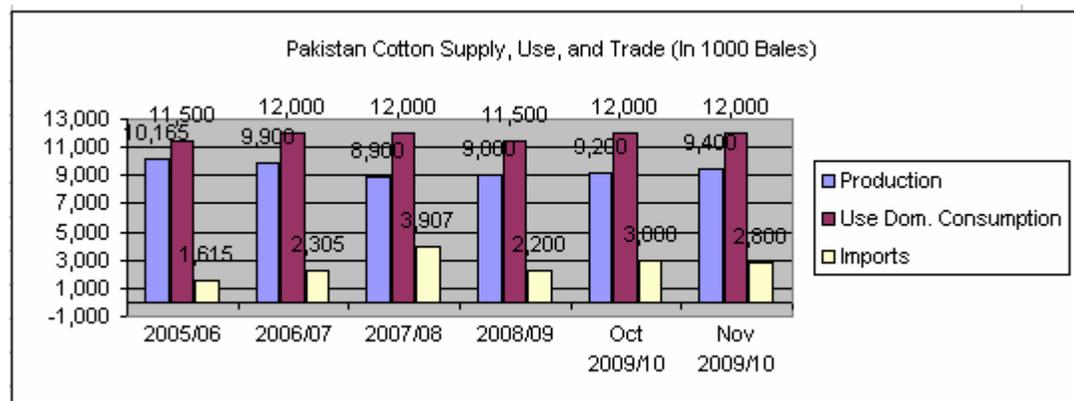
Year	Installed Capacity		Working at the end of the period		Spindle Hours Worked (Million)	Loom Hours Worked (Million)	Consumption of Cotton (mln.kg)	Total Yarn Produced (mln.kg)	Surplus Yarn (mln. kg)	Total Production of Cloth (mln. sq mtr.)	
	No. of Mills	No. of Spindles (000)	No. of Looms (000)	No. of Spindles (000)							No. of Looms (000)
	1990-91	247	5,493	15							4,754
1991-92	271	6,141	15	5,260	8	43,606	58.8	1,342.8	1,170.7	1,134.7	307.9
1992-93	284	6,768	14	5,433	6	46,364	55.5	1,427.0	1,219.0	1,148.6	325.4
1993-94	320	8,182	14	5,886	6	47,221	44.0	1,483.4	1,309.6	1,272.8	314.9
1994-95	334	8,307	14	5,991	5	49,734	41.8	1,558.9	1,369.7	1,340.6	321.8
1995-96	349	8,493	13	6,356	5	52,239	37.1	1,661.9	1,495.1	1,434.7	327.0
1996-97	357	8,137	10	6,465	5	53,625	36.4	1,670.1	1,520.8	1,473.9	333.5
1997-98	353	8,274	10	6,556	4	55,005	37.7	1,751.0	1,532.3	1,478.9	340.3
1998-99	348	8,298	10	6,594	5	55,802	35.2	1,839.6	1,540.3	1,482.4	384.6
1999-00	351	8,383	10	6,750	4	57,205	34.3	1,961.6	1,669.9	1,604.4	437.2
2000-01	353	8,594	10	7,105	4	59,219	34.1	2,070.1	1,721.0	1,652.7	490.2
2001-02	354	8,967	10	7,078	5	61,267	36.3	2,155.2	1,808.6	1,731.2	568.4
2002-03	363	9,216	10	7,623	5	64,274	38.7	2,371.3	1,934.9	1,855.4	576.6
2003-04	357	9,499	10	7,934	4	66,652	32.7	2,397.8	1,929.1	1,835.9	683.4
2004-05	423	10,941	9	8,852	5	72,255	31.2	2,622.8	2,270.3	2,104.9	924.7
2005-06	437	11,168	9	9,831	4	74,884	24.8	2,932.6	2,556.3	2,457.6	915.3
2006-07	427	11,266	8	10,057	4	76,892	21.7	3,143.5	2,727.6	2,623.2	1,012.9
2007-08	427	11,834	8	9,960	4	76,400	21.5	3,159.2	2,809.4	2,700.3	1,016.4
2008-09	389	10,514	9	9,375	4	75,405	24.0	2,648.2	2,274.4	2,328.2	1,019.2

Economic and Social Indicators:

Indicator	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Cotton Yarn Mln. Kg.	2290	2256.3	2727.6	2809.4	2862.4	2159.2
% age Increase/(Decrease)	18.10%	-1.47%	20.89%	3.00%	1.89%	-24.57%
Cotton Cloth Mln.Sq.Mtr.	925	903.8	1012.9	1016.4	1019.7	762
% age Increase/(Decrease)	35.43%	-2.29%	12.07%	0.35%	0.32%	-25.27%

Source: Economic Survey of Pakistan

In Balance of payment (%growth) the Cotton Yarn shows a 24.57% decline in 2009-10 and similarly the Cotton Cloth shows decline of 25.27% in 2009-10.



Decline in Textile industry growth:

i) Increase in EFS (Export Finance Scheme)

The textile sector faced a decline in its growth due to severe energy crises specifically, value added sector in the country felt the burden of 100 basis point increase in EFS rate from 8.5% to 9.5%, besides a rise in energy tariffs.

ii) Electricity and Gas Crisis

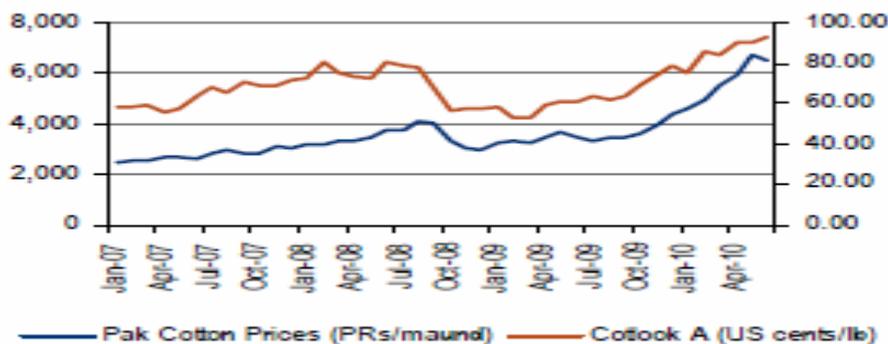
The lower availability of electricity was also a key constraint for the value-added textile sector. According to State Bank’s quarterly report, unfortunately, due to circular debt local refineries could not provide required Furnace Oil quantity to power generation companies. As a result, import burden has increased significantly for Furnace Oil provision. The growth seen in Jul-Dec FY10 period will be challenging to sustain in the remaining months of FY10 given the inadequate energy balances in the country. For instance, the increase of 0.5 percent in gas exploration during Jul-Nov FY10 period does not seem sufficient to fuel a quick recovery. It must be noticed here that gas constitutes more than 50 percent of total energy consumption by industries. Similarly, scanty power investments in recent years allowed only a small increase in electricity generation

capacity; which too often remains under-utilized due to water shortages or insufficient provision of gas and/or furnace oil. For instance, as winter rains remained low in FY10,

the Hydrel generation capability declined sharply in January 2010. Similarly, gas sales to power sector also declined during H1-FY10. Consequently, the use of furnace oil (FO) for thermal generation increased. The gas load shedding to textile industries for 1 day in a week decreases the production of textile finished products due to dyeing process.

iii) Increase in Yarn Prices

The cotton prices increase from 2000 to 6600 per 40 kg due to the export of yarn, the yarn export will amount to 614 million kg (which represents 14% of textile exports in 10MFY10 vs 11% in 10 MFY09) which increase the both export volume and local profit/margins. As a result of high exports, domestic supply has also been short in FY10 leading to considerable run-up in domestic yarn prices. Positive fall through of this has reflected in YTD margins for yarn producers (which have remained steady despite 35% higher Y-o-Y cotton costs). The spillover of the same has however been negative for the value added sector that purchases local yarn. The federal government imposed 15% percent duty on all types of yarn export for the next 60 days to protect the value added sector. The duty has reflected 47% M-o-M decline in May-10 yarn exports which suggests the 12-mth heyday for yarn exporters may be nearing an end.



iv) Increase in Minimum Wage

Government increase minimum wage from Rs.6000 to Rs.7000 which increases the fixed cost of the textile finished product. Because of this the prices of the textile product increases and in this way the Pakistan textile products not compete with the neighboring countries prices. In result ultimately many textile owners shut down their textile mills.

v) Double freight for Punjab & Khyber Pakhtunkhwa textile mills

The Punjab and Khyber Pakhtunkhwa textile owners cannot compete with Sindh textile owners because the dyes and other finishing material first transport to Punjab from Karachi port and the finished textile product again transport to Karachi port for export purposes. Ultimately double transport cost on the Punjab textile product which increase the price competition between Sindh and Punjab exporters because of this Punjab & Khyber Pakhtunkhwa textile mills.

vi) Lack of transportation facilities

The railway system in Pakistan is in poor condition because of less availability of locomotive engines, single track and corruption in railway due to this railway is not a good option to transport the textile product container to Karachi. Last option to transport the container to Karachi port is through trailer which required lot of time to transport from Punjab to Karachi and is expensive than railway charges which increase the prices and shrink the profit margin of textile mills owners.

vii) Tariffs & trade agreements

While FY10 started with significant positive noise on potential reduction/removal of tariff and trade barriers for Pak textile exporters, the same has not played out too excitingly YTD. Mar-09 removal of 5.8% anti dumping duty on Pak bed wear exports to the EU has not yet reflected in bed wear exports (-4% YTD FY10) while talks of the EU extending GSP-plus to Pakistan (which could result in reduction in tariff to 4-4.7% from 11.3-11.7%) also appear to have reached a stalemate. With the entrance of Pakistan in the list of Generalized System of Preferences (GSP-plus) eligible nations, Pakistan textile exports have the potential to reach 20 billion US dollars.

Conclusion:

The textile industry of Pakistan plays an important role in earning foreign exchange, providing employment to the country. But with the ending of quota system in world, Pakistan textile loses share in world trade of textile products. Pakistan textile products will have a big potential to capture big share of world trade but there are lots of reasons which forces to step back from using the full capacity of textile machinery to earn more and more foreign exchange for the country. In upcoming year, Pakistan textile exports are 10-11 billion US dollars approximately. Government of Pakistan is not serious in resolving problems like shortage of electricity and gas which forces the textile exporters not to take orders because not fulfill the orders on time. With these reasons import of textile machinery declined year on year basis. With all these reasons Pakistan textile owners use old machinery which is less efficient and not up to the mark with the competing countries. If Government of Pakistan does not take immediate steps to counter all these problems then Pakistan trade deficit will raise more as compared to FY09-10 due to this Pakistan rupee will depreciate more.

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