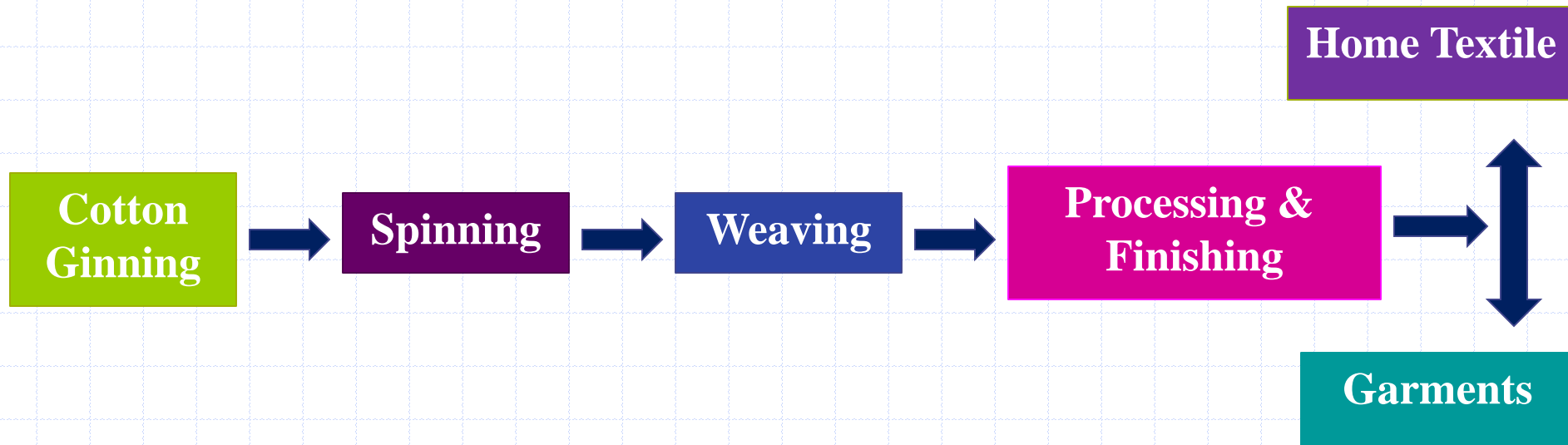


TEXTILE SECTOR – AN OVERVIEW

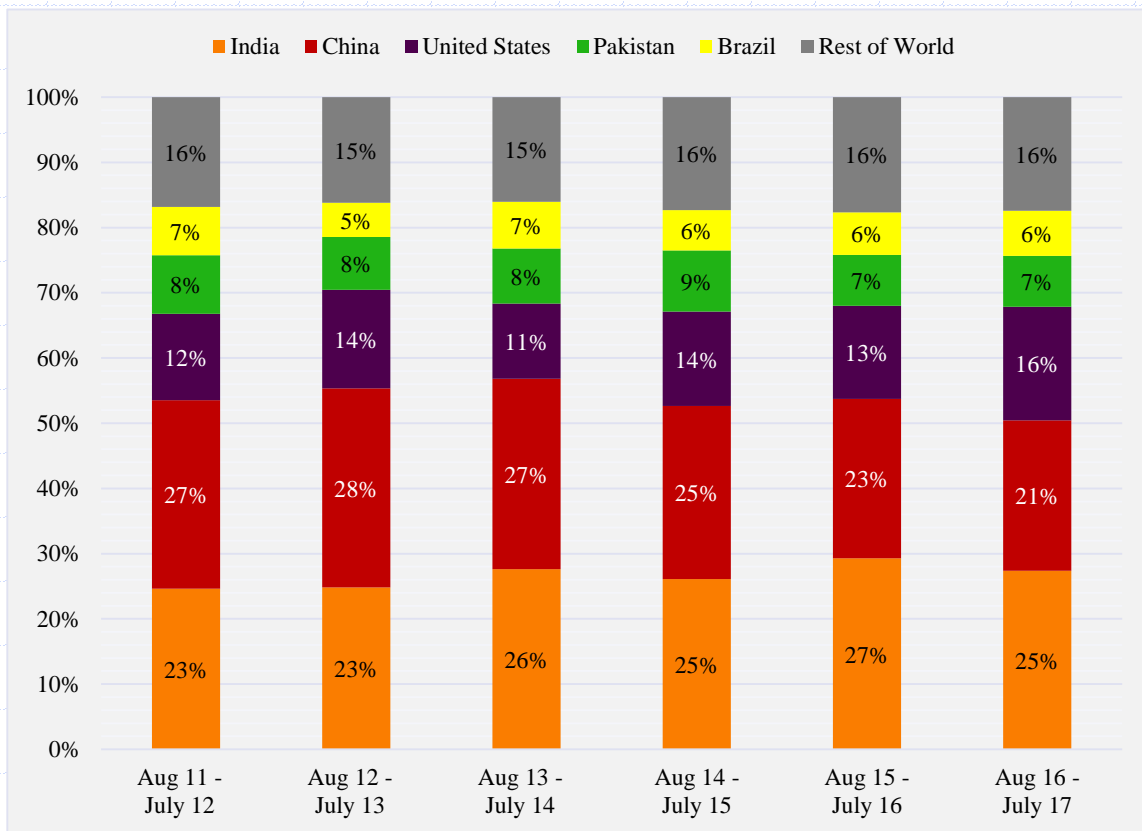
October 2017

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

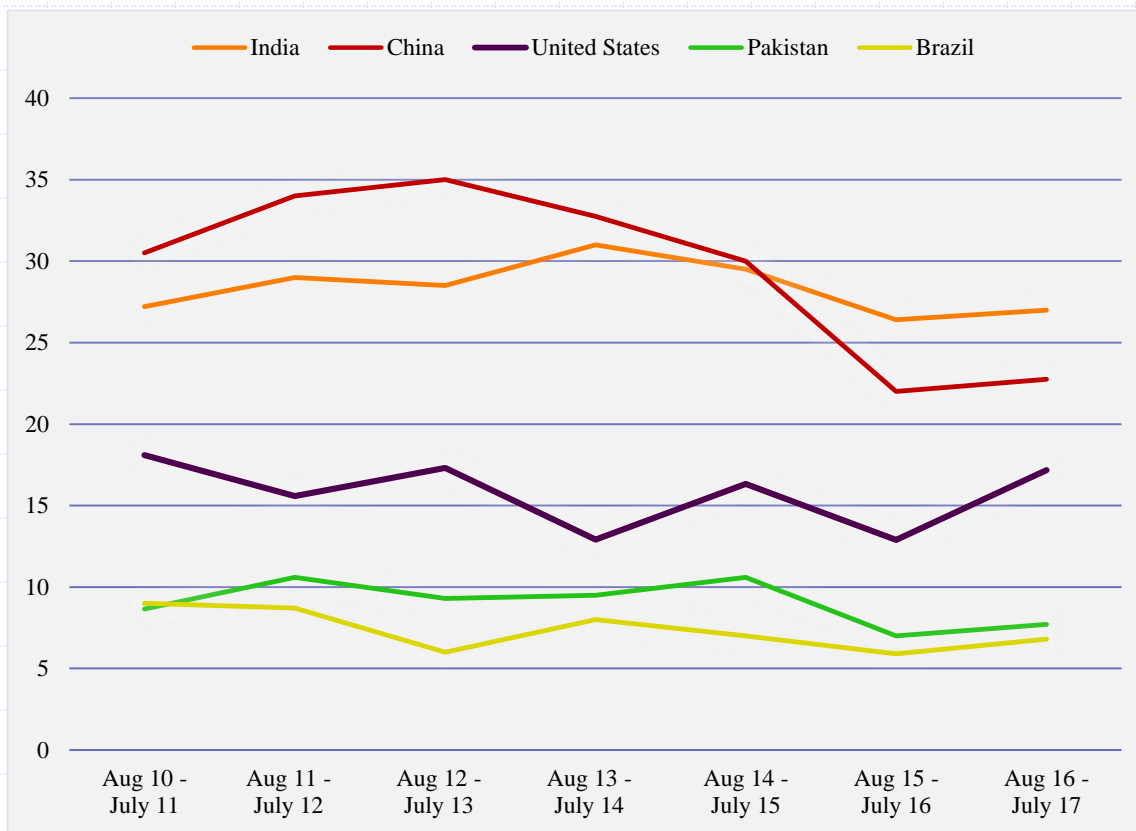


Millions of 480 lb. Bales	Aug 10 - July 11	Aug 11 - July 12	Aug 12 - July 13	Aug 13 - July 14	Aug 14 - July 15	Aug 15 - July 16	Aug 16 - July 17
India	27	29	29	31	30	26	27
China	31	34	35	33	30	22	23
United States	18	16	17	13	16	13	17
Pakistan	9	11	9	10	11	7	8
Brazil	9	9	6	8	7	6	7
Rest of World	15	20	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

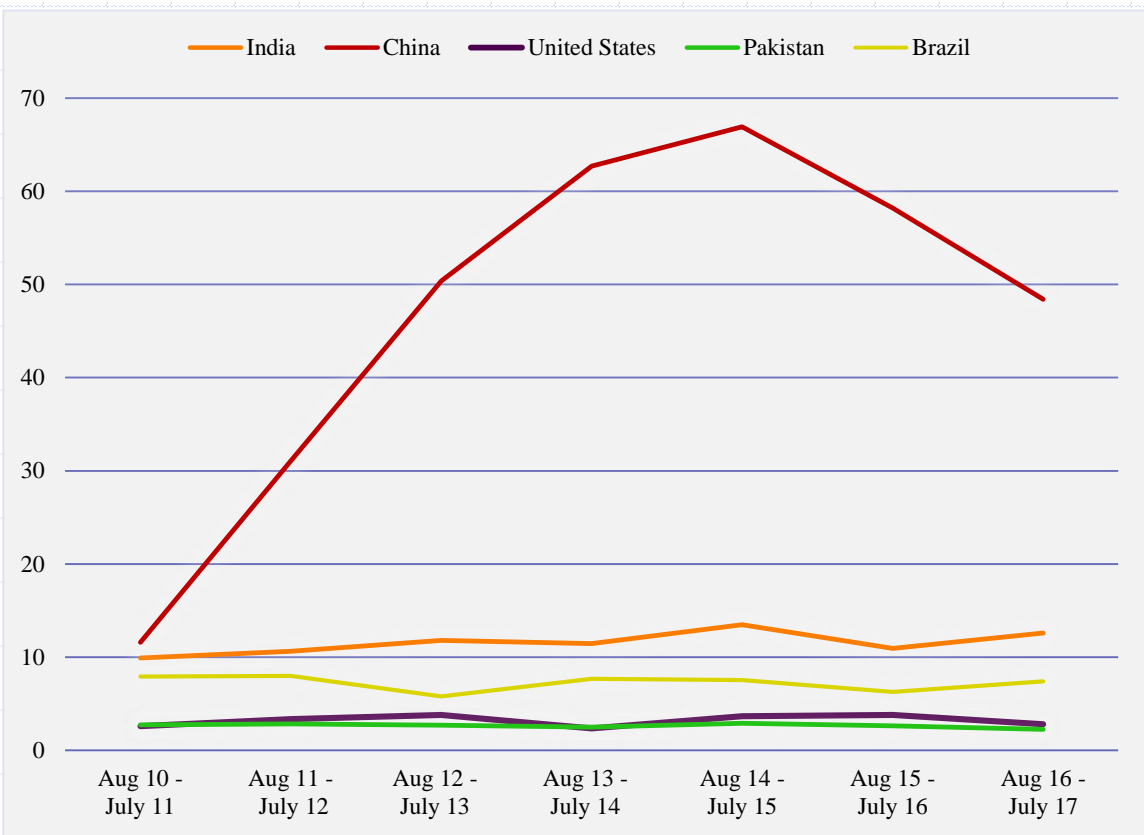


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World Total	117	127	124	120	119	97	106

Source: USDA

Cotton Dynamics | World Inventories

- Since 2011, world's stock has grown 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

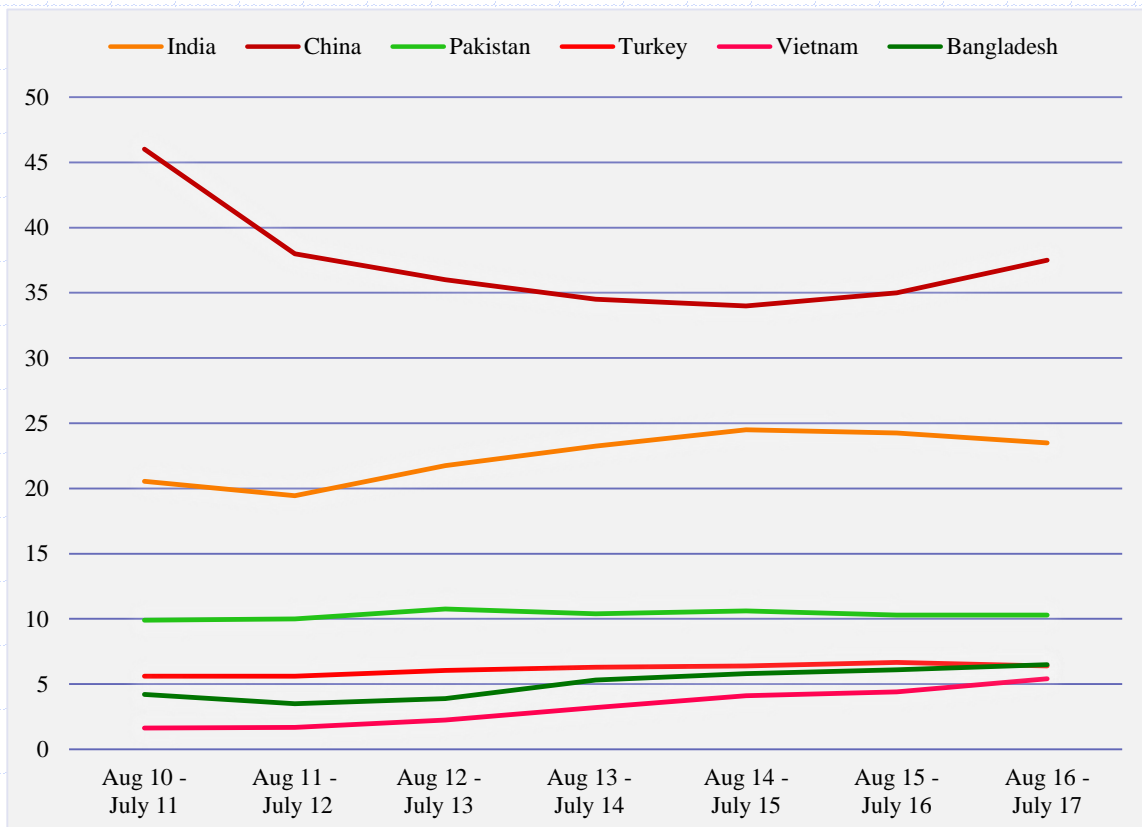


Millions of 480 lb. Bales	Aug 10 - July 11	Aug 11 - July 12	Aug 12 - July 13	Aug 13 - July 14	Aug 14 - July 15	Aug 15 - July 16	Aug 16 - July 17
China	12	31	50	63	67	58	48
India	10	11	12	11	13	11	13
Brazil	8	8	6	8	8	6	7
United States	3	3	4	2	4	4	3
Pakistan	3	3	3	2	3	3	2
Rest of World	13	15	15	15	15	13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

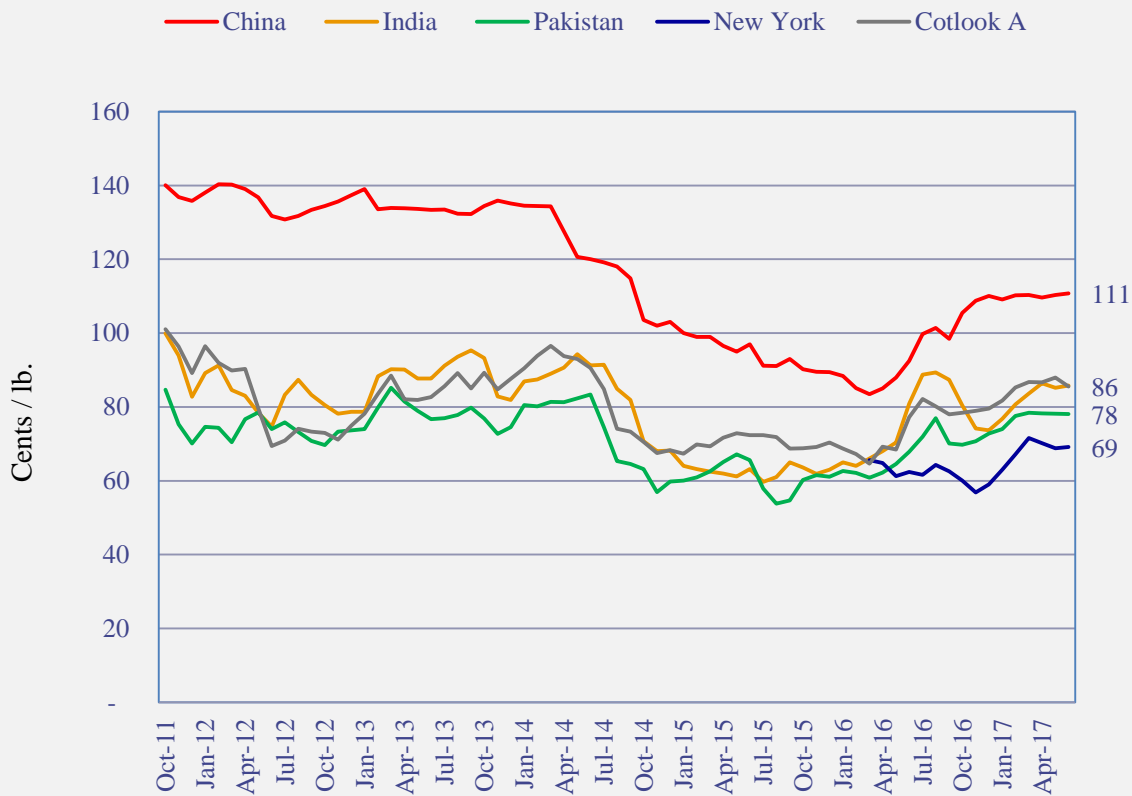
Textile Exports | Top 5 Players vs Pakistan

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

	<i>USD mln</i>	
	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%
<i>Source: PBS and SBP</i>					

- **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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