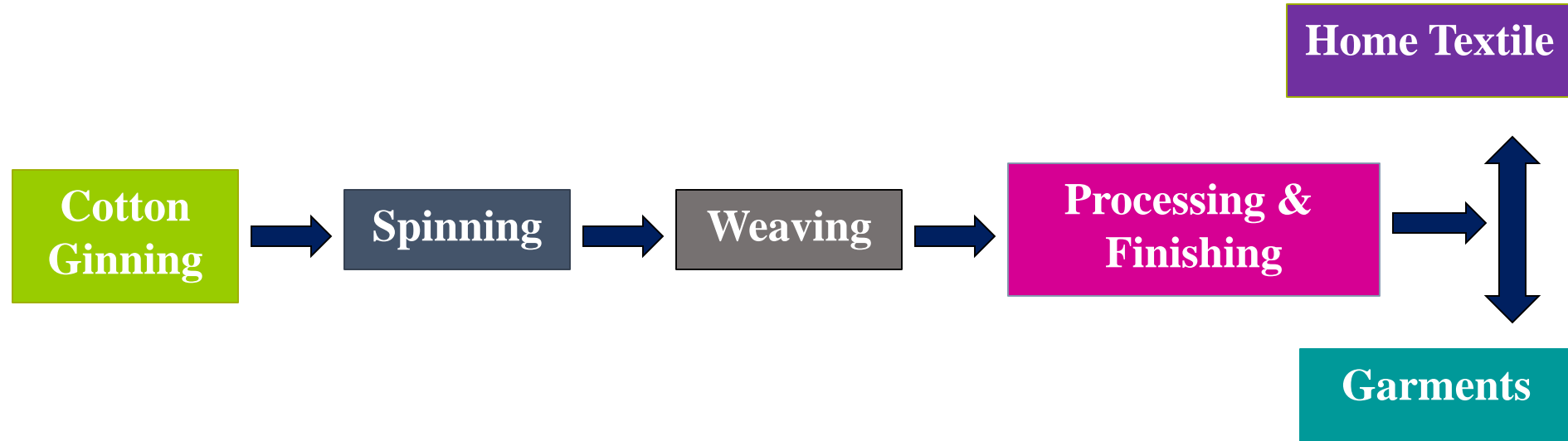


# TEXTILE SECTOR - OVERVIEW

- Value Chain
- World Cotton Dynamics
  - Industry
- Pakistan Cotton Arrivals
  - Duty Structure
  - Key Challenges
  - Bibliography



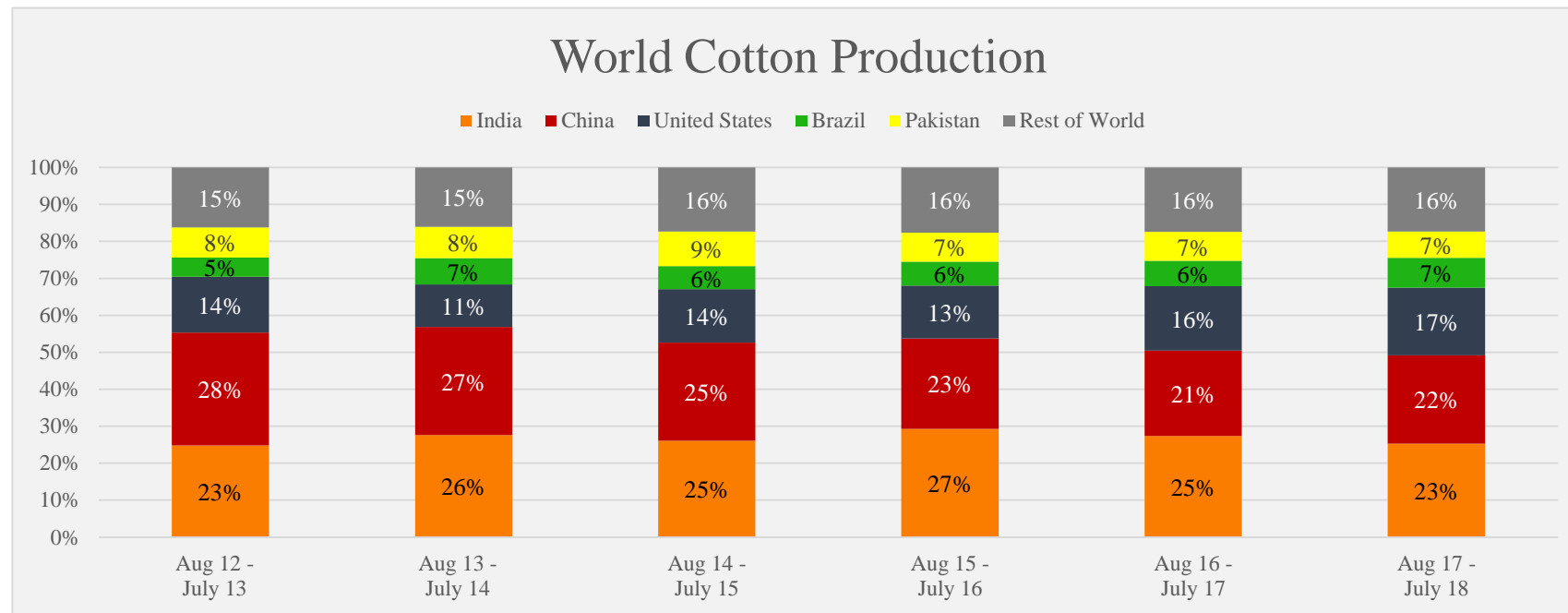
# Textile | Value Chain





# Cotton Dynamics | World Production

- **China & India** still the world's biggest cotton players: contribution: ~46%
- **India** protects the title of world largest producer of cotton.
- **Pakistan** down to world's 5<sup>th</sup> largest cotton producer. **Brazil** takes the lead.



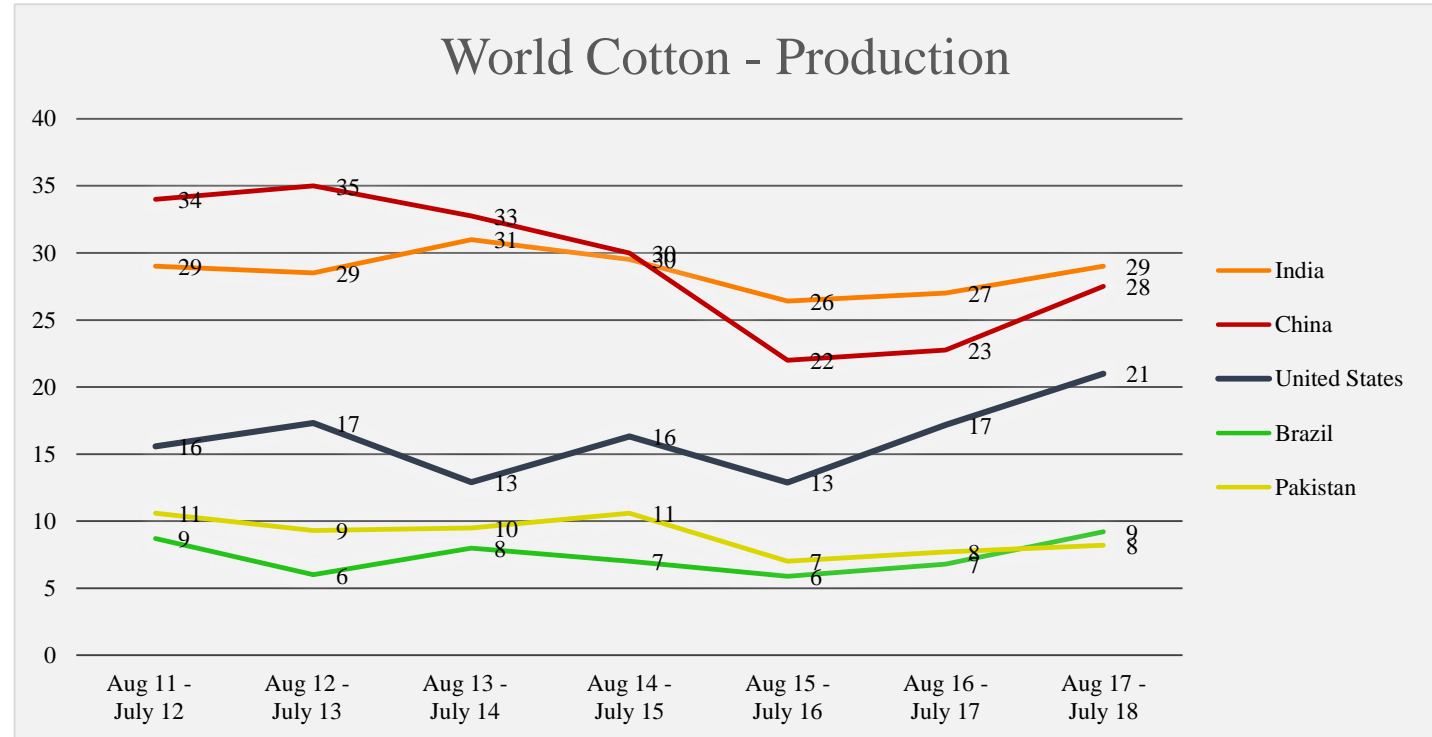
World Cotton Production						
Millions of 480 lb. Bales	Aug 12 - July 13	Aug 13 - July 14	Aug 14 - July 15	Aug 15 - July 16	Aug 16 - July 17	Aug 17 - July 18
<b>India</b>	28.5	31.0	29.5	26.4	27.0	29.0
<b>China</b>	35.0	32.8	30.0	22.0	22.8	27.5
<b>United States</b>	17.3	12.9	16.3	12.9	17.2	21.0
<b>Brazil</b>	6.0	8.0	7.0	5.9	6.8	9.2
<b>Pakistan</b>	9.3	9.5	10.6	7.0	7.7	8.2
<b>Australia</b>	4.6	4.1	2.3	2.9	4.2	4.7
<b>Uzbekistan</b>	4.5	4.1	3.9	3.8	3.7	4.0
<b>Rest of World</b>	18.6	18.0	19.6	15.9	17.2	19.9
<b>World Total</b>	<b>124</b>	<b>120</b>	<b>119</b>	<b>97</b>	<b>106</b>	<b>123</b>

Source: USDA



# Cotton Dynamics | World Production

- **India** maintains the lead
- China's production pacing up
- Cotton production paces up in China
- Pakistan Cotton production increases by 6%

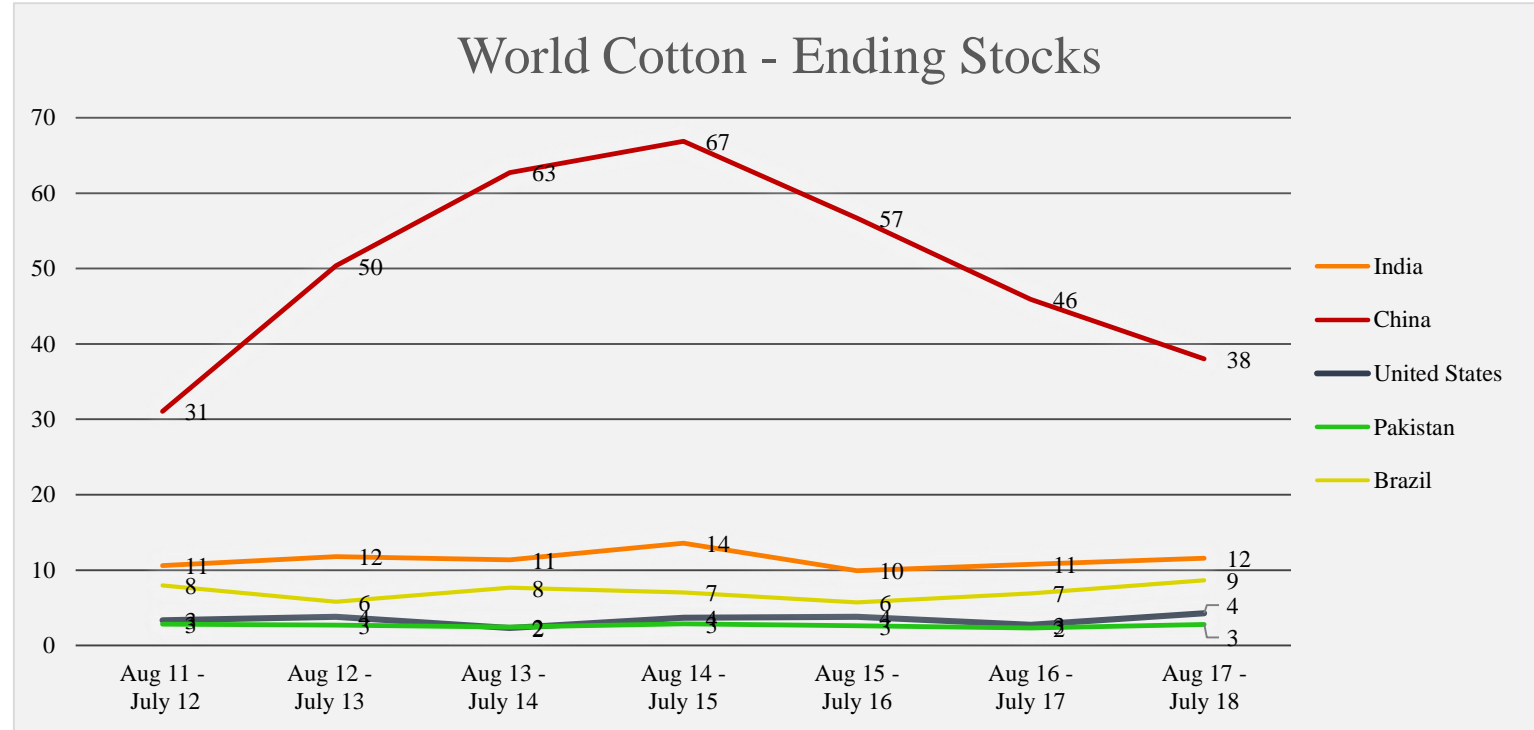


World Cotton Production							
Millions of 480 lb. Bales	Aug 11 - July 12	Aug 12 - July 13	Aug 13 - July 14	Aug 14 - July 15	Aug 15 - July 16	Aug 16 - July 17	Aug 17 - July 18
India	29.0	28.5	31.0	29.5	26.4	27.0	29.0
China	34.0	35.0	32.8	30.0	22.0	22.8	27.5
United States	15.6	17.3	12.9	16.3	12.9	17.2	21.0
Brazil	8.7	6.0	8.0	7.0	5.9	6.8	9.2
Pakistan	10.6	9.3	9.5	10.6	7.0	7.7	8.2
Australia	5.5	4.6	4.1	2.3	2.9	4.2	4.7
Uzbekistan	4.2	4.5	4.1	3.9	3.8	3.7	4.0
Rest of World	19.8	18.6	18.0	19.6	15.9	17.2	19.9
<b>World Total</b>	<b>127</b>	<b>124</b>	<b>120</b>	<b>119</b>	<b>97</b>	<b>106</b>	<b>123</b>

Source: USDA



# Cotton Dynamics | World Inventories



- China still the largest stockholder of cotton. However the size of inventory has been reduced by 21%.

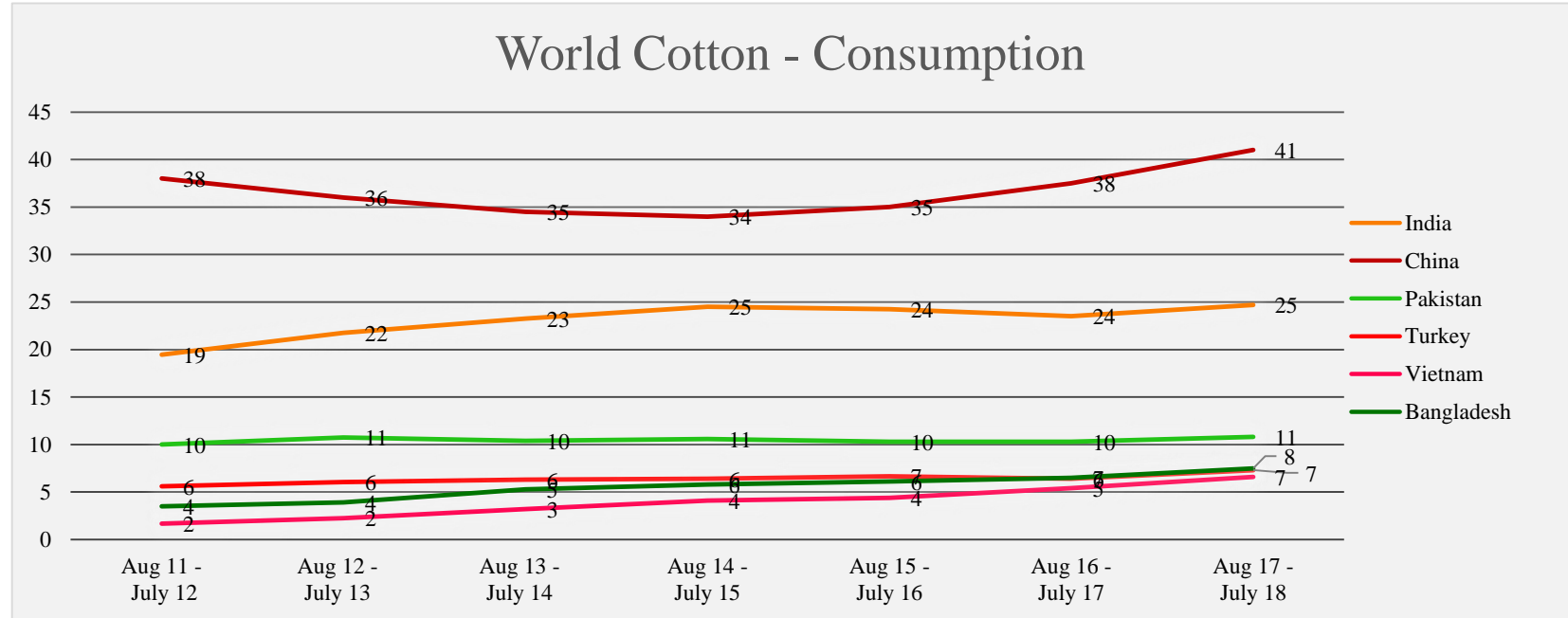
Millions of 480 lb. Bales	Aug 11 - July 12	Aug 12 - July 13	Aug 13 - July 14	Aug 14 - July 15	Aug 15 - July 16	Aug 16 - July 17	Aug 17 - July 18
<b>China</b>	31	50	63	67	57	46	38
<b>India</b>	11	12	11	14	10	11	12
<b>Brazil</b>	8	6	8	7	6	7	9
<b>United States</b>	3	4	2	4	4	3	4
<b>Pakistan</b>	3	3	2	3	3	2	3
<b>Rest of World</b>	17	16	15	15	13	14	16
<b>World Total</b>	<b>74</b>	<b>92</b>	<b>103</b>	<b>111</b>	<b>93</b>	<b>84</b>	<b>84</b>

Source: USDA



# Cotton Dynamics | World Consumption

- China continues to gain consumption levels.
- Bangladesh, Vietnam and Turkey rising competitors.



World Cotton Consumption							
Millions of 480 lb. Bales	Aug 11 - July 12	Aug 12 - July 13	Aug 13 - July 14	Aug 14 - July 15	Aug 15 - July 16	Aug 16 - July 17	Aug 17 - July 18
China	38	36	35	34	35	38	41
India	19	22	23	25	24	24	25
Pakistan	10	11	10	11	10	10	11
Bangladesh	4	4	5	6	6	7	8
Turkey	6	6	6	6	7	6	7
Vietnam	2	2	3	4	4	5	7
Rest of World	65	60	58	56	56	58	63
<b>World Total</b>	<b>108</b>	<b>108</b>	<b>110</b>	<b>111</b>	<b>111</b>	<b>114</b>	<b>123</b>

Source: USDA



# Cotton Dynamics | World Trade

- Vietnam's cotton import has more than doubled since 2013 | growth in spinning sector.
- USA holds the position of largest cotton exporter in world.

World Cotton Exports							
Millions of 480 lb. Bales	Aug 11 - July 12	Aug 12 - July 13	Aug 13 - July 14	Aug 14 - July 15	Aug 15 - July 16	Aug 16 - July 17	Aug 17 - July 18
<b>United States</b>	12	13	11	11	9	15	16
<b>India</b>	11	8	9	4	6	5	5
<b>Australia</b>	5	6	5	3	3	4	4
<b>Brazil</b>	5	4	2	4	4	3	4
<b>Uzbekistan</b>	3	3	3	2	3	2	1
<b>Rest of World</b>	10	10	9	9	8	8	8
<b>World Total</b>	<b>46</b>	<b>46</b>	<b>41</b>	<b>35</b>	<b>35</b>	<b>37</b>	<b>41</b>

*Source: USDA*

World Cotton Imports							
Millions of 480 lb. Bales	Aug 11 - July 12	Aug 12 - July 13	Aug 13 - July 14	Aug 14 - July 15	Aug 15 - July 16	Aug 16 - July 17	Aug 17 - July 18
<b>Bangladesh</b>	3	5	5	6	6	6	8
<b>Vietnam</b>	2	2	3	4	5	6	7
<b>China</b>	25	20	14	8	4	5	6
<b>Turkey</b>	2	4	4	4	4	4	4
<b>Indonesia</b>	3	3	3	3	3	3	3
<b>Pakistan</b>	1	2	1	1	3	2	3
<b>Rest of World</b>	9	10	9	8	8	10	9
<b>World Total</b>	<b>45</b>	<b>48</b>	<b>42</b>	<b>36</b>	<b>35</b>	<b>37</b>	<b>41</b>

# Textile | Pakistan Cotton Arrivals

Cotton Arrivals for the Season (Oct-April)								
Region	Arrivals (mln Cotton Bales)				Percentage Change			
	2014-15	2015-16	2016-17	2017-18	2014-15	2015-16	2016-17	2017-18
Punjab	10.9	6.0	6.9	7.3	13%	-45%	16%	6%
Sindh	4.0	3.8	3.8	4.3	6%	-5%	1%	12%
<b>Total of Pakistan</b>	<b>14.9</b>	<b>9.8</b>	<b>10.7</b>	<b>11.6</b>	<b>11%</b>	<b>-34%</b>	<b>10%</b>	<b>8%</b>

*Source: PCGA*

## ■ Poor crop in FY18:

- Water shortage
- Leaf curl
- Climate change
- Sowing targets missed. Shortfall of 4-5 million bales.

Cotton Bales (mln)	2014-15	2015-16	2016-17	2017-18
Opening Stock	0.7	0.6	-	2.3
Production	14.0	9.9	10.7	8.2
Imports	0.9	2.5	2.7	3.3
<b>Total</b>	<b>15.6</b>	<b>12.9</b>	<b>13.4</b>	<b>13.8</b>
Consumption	14.5	12.6	13.1	10.8
Exports	0.6	0.3	0.1	0.1
Ending Stock	0.6	-	2.3	2.8
<b>Total</b>	<b>15.6</b>	<b>12.9</b>	<b>15.5</b>	<b>13.7</b>

*Source: PCCC*





## Textile | Pakistan

Pakistan & Textile Industry Exports							
	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Pak Textile Exports (USD bln)	12.3	13.1	13.7	13.5	12.4	12.5	13.5
Pak Exports (USD bln)*	29.6	31.5	30.4	30.0	27.4	27.2	30.0
Textile as % of Exports	42%	42%	45%	45%	45%	46%	45%
* Exports of Goods and Services							
<i>Source: PBS and SBP</i>							

- Pakistan - exports revenue heavily reliant on textile (**46%**)
- Government's introduction of **180 billion Rs** textile package boded well with textile's exports.
- **~9%** growth in textile exports of Pakistan.



# Textile | Pakistan Exports | Trend

Textile Sector Exports										
Commodity	FY16		FY17				FY18			
	Qty	Value (mln USD)	Qty	Value (mln USD)	YoY Qty Change	YoY Value Change	Qty	Value (mln USD)	YoY Qty Change	YoY Value Change
Raw Cotton	49	77	25	43	-49.1%	-43.9%	35	58	38.9%	34.6%
Cotton Yarn	424	1,265	455	1,244	7.5%	-1.7%	502	1,405	10.2%	13.0%
Cotton Cloth	2,152	2,214	1,962	2,120	-8.8%	-4.2%	1,803	2,204	-8.1%	3.9%
<b>Home Textile</b>										
Bed Wear	328	2,020	353	2,134	7.7%	5.6%	353	2,260	0.0%	5.9%
Towels	185	803	183	787	-0.9%	-2.0%	183	788	0.0%	0.2%
Other Made-Up Articles		628		645		2.6%		811		25.8%
Garments	145	4,559	148	4,679	1.9%	2.6%	148	5,315	0.0%	13.6%
Others		882		801				706		
<b>Total</b>		<b>12,447</b>		<b>12,453</b>				<b>13,547</b>		
<b>YoY Change in %</b>		<b>-7.5%</b>		<b>0.0%</b>				<b>8.8%</b>		

Source : PBS

Textile Sector exports			
Commodity	FY16	FY17	FY18
Raw Cotton	1%	0%	0%
Cotton Yarn	10%	10%	10%
Cotton Cloth	18%	17%	16%
Home Textile	28%	29%	28%
Garments	37%	38%	39%
Others	7%	6%	5%



# Textile Industry | Package

## Export Package (PKR 195bln):

- The previous PM Textile package of 180 bln expired in June-18
- New package for next three fiscal years (Jun18-Jun21)
- **Features:**
  - Abolishment of **duty drawback** on yarn and greige fabric.
  - **Duty Drawbacks** cut down to half on value added products.

	REBATE	
	Previous Package	Current Package
<b>Yarn</b>	4%	0%
<b>Greige Fabric</b>	4%	0%
<b>Processed Fabric</b>	5%	2.50%
<b>Made-ups</b>	6%	3%
<b>Garments</b>	7%	3.50%

- **Issues:**
  - This package was announced by provisional government before elections.
  - New government has plans to reinstate previous duty drawback structures.



# 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

- Sowing targets of FY'19 has been missed by a significant amount so achieving cotton production target of **14.37 million bales** is in doubt
- Cotton procurement from international markets gets difficult because:
  - International cotton prices rose by **~18%** since November 2017
  - Re-imposition of duties and sales tax of a cumulative of **11%** on imported cotton
  - Rupee depreciation against US\$
- **Liquidity constraints:** Incentives by the government have resulted in higher payables owed by the government.
- **Higher energy costs** as compared to regional competitors like Vietnam, Bangladesh & India.
- Rapidly increasing **interest rates**

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