

Special Section 2: Synthetic Textiles is Key to Sustaining Export Growth Momentum

Pakistan's textiles exports have grown by 10.8 percent in the first 9 months of the ongoing fiscal year. Keeping in view a consistently weak performance by the sector over the past 3 years and its repercussions on the country's overall balance of payments, the revival in exports is indeed comforting. However, this momentum needs to be sustained. In this context, while the extension in GSP plus status is encouraging, the textiles sector must undergo a paradigm shift and diversify the range of products it offer over the medium to long term. Most importantly, Pakistani manufacturers should penetrate aggressively in the global synthetics products market which has long surpassed the cotton market. Though starting late, Pakistan's exporters can still sail through if allowed to access essential raw materials at competitive prices. This section explains in detail the dynamics of global synthetic textiles market and why local manufacturers have had been laggard so far.

Background

The share of cotton in global fiber consumption has fallen from nearly 70 percent back in 1960, to only 27 percent by end 2016.¹ Its place has now been captured by synthetic or man-made fibers (MMF) – especially polyester. Synthetic polymers are popular with respect to travel and sportswear, mostly due to their superior resistance to wrinkling and moisture compared to conventional cotton counterparts. Despite its growing appeal, however, Pakistan's textile industry is advancing into synthetics at a snail's pace, at best: the fiber mix still stands at 80:20 in our garment exports with only 25 percent of Pakistan's spinning machines currently using MMF to produce blended yarn.² Moreover, the country's share in MMF apparel market is almost negligible (only 0.4 percent in the US market).

More than 80 percent of the world's production of polyester staple fiber (PSF) takes place in China, India and Southeast Asian countries. Therefore, it is not surprising that these countries are also the dominant exporters of synthetic textiles.³ The production

¹ Source: International Cotton Advisory Committee

² Kamal and Islam (2010) note "The bulk of Pakistan's garment industry remains cotton based, with roughly 72% of the total textile related investments and 82% of the textile industrial units based in cotton spinning, weaving and processing". Complete source: Munir, Kamal A., Dr., and Faheem Ul Islam, Dr. *Accelerating Economic Transformation Program: Profile of Textile & Clothing Industry of Pakistan*. Rep. no. TA-7137(PAK). N.p.: Asian Development Bank, 2010. Print.

³ For instance, they have a combined share of 68.2 percent in 2016 in the US' import of man-made textile items.

of synthetic polymers (such as polyethylene terephthalate, or PET) is a capital and technology intensive task, and one that requires availability of a fully integrated chemical industry.⁴ However, this does not suggest that only countries with a complete indigenous value-chain can export synthetic textiles; Vietnam, Bangladesh, and Cambodia import man-made fibers, yarns and fabric from other countries to produce and export synthetic garments. In fact, Vietnam is the second biggest exporter of synthetic textile to the US (with China being the biggest), followed by Bangladesh and Cambodia at 7th and 11th positions, respectively.

This implies that with adequate availability of raw materials in the country, Pakistan too could have excelled in global synthetic textiles market.⁵ As described below however, domestic policies and market conditions have hindered the country's foray into this emerging market.

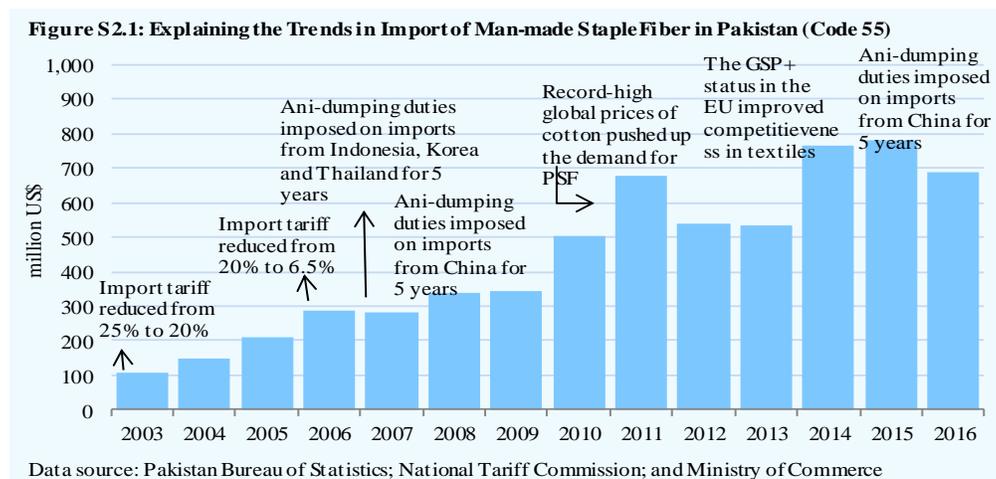
Anti-export bias

Local manufacturers in chemical industry have historically enjoyed high protection rates – especially with respect to products such as purified terephthalic acid (PTA) and PSF. In this regard, the imposition of import tariff of 25 percent back in 1998-99 was the most prominent; this was the year when the share of man-made fibers in domestic fiber consumption peaked in the country (at 22 percent).⁶ More importantly, this was also the year around which the MMF-based textiles began to dominate the global textile industry. Nonetheless, the high tariff rate remained in place for the next 5 years, during which the use of synthetic fiber consumption in Pakistan stagnated. In 2003 however, tariffs were reduced to 20 percent to encourage the use of synthetic fibers and spur competition in the industry. With the implementation of 2005-06 budget, the tariffs were eventually reduced to only 6.5 percent (**Figure S2.1**).

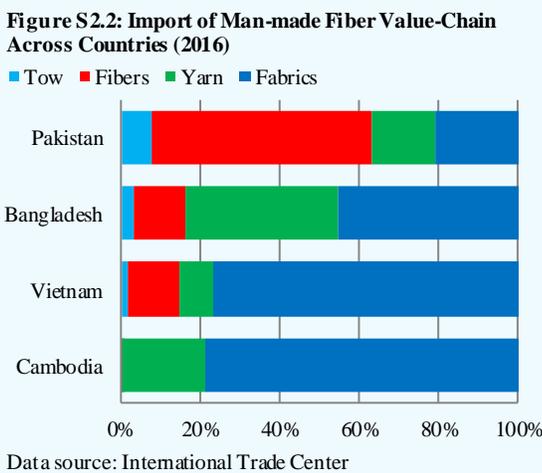
⁴ In particular, hydrocarbons (like naphtha and ethylene) obtained from petroleum refining process are broken down to collect valuable compounds (olefins) which are eventually processed to form various polymers. Although Pakistan has developed a petroleum refining industry in the country, it does not have facilities to break down these hydrocarbons.

⁵ As there are only 3 producers of polyester fiber and filaments in the Pakistan, the country heavily depends upon imported materials to meet its demand.

⁶ Cotton-Textile-Apparel Sectors of Pakistan: Situations and Challenges Faced: By Caesar B. Cororaton, Abdul Salam, Zafar Altaf, David Orden and Reno Dewina, Nicholas Minot, Hina Nazli.



However, the tariff liberalization was implemented in a non-uniform manner. This is evident from the higher level of protection enjoyed by finished products compared to raw materials such as tow and fibers. This escalating tariff structure benefits domestic producers, but at the expense of weakened backward linkages and stymied competition and diversification in the domestic market. Although Pakistan gives some tariff concessions to SAFTA countries, these are not very effective: India is the only country within SAFTA that produces man-made fibers, and trade with India is quite restricted.⁷ Similarly, concessional tariffs under Pakistan-China Free Trade Agreement are also not applicable on most synthetic products (these items are included in the ‘no concession’ list for the agreement). This has skewed Pakistan’s imports



⁷ In fact, polyester fibers and yarns are among 1,209 items included in the negative list for trade with the eastern neighbor.

predominantly towards fibers, whereas regional economies such as Vietnam and Cambodia import the entire value chain of synthetic textiles (**Figure S2.2**). In addition to customs tariffs, the import of synthetic textiles inputs is also disrupted by the imposition of anti-dumping duties on major suppliers.

Just a rough comparison of tariff structure on synthetic raw-material with other countries indicates that while major players in value-added exports are encouraging cheap influx of the raw material, Pakistan is still protecting its domestic value chain (**Table S2.1**). Pakistan is only importing fibers and that too at a very high tariff rates compared to other countries. As noted by Hamid and Nabi (2017), “Global trends demand that Pakistani firms move to a 50:50 mix to stay competitive. High duties on the import of yarn or fabric made from artificial fibers also prevent firms from diversifying their product range or reaching out to new high-end clients”.

Table S2.1: Tariff Structure of Various Products of Man-made Fibers Across Countries

	Preferential Pakistan treatment		Preferential Bangladesh treatment		Vietnam	Preferential treatment	Preferential Cambodia treatment	
Synthetic filament yarn (other than sewing thread), not put up for retail sale, including synthetic monofilament of less than 67 decitex : Textured yarn : Of nylon or other polyamides, measuring per single yarn more than 50 tex (540232)	11%	0% for Malaysia and Sri Lanka; 5% for China and SAFTA	10%	3% for SAFTA	0%	None	0%	None
Synthetic filament yarn (other than sewing thread), not put up for retail sale, including synthetic monofilament of less than 67 decitex : Textured yarn : Of polyesters (540233)	11%	5% for SAFTA	25%	None	3% MFN; 4.5 % non-MFN	0% for Korea, AANZFFTA, ASEAN, China, Eurasian Economic Union; and 1% for Japan	0%	None
Synthetic staple fibers, not carded, combed or otherwise processed for spinning : Of polyesters : Of polyesters not (550320)	7%	5% SAFTA	5%	0% SAFTA	2% MFN; 3% non-MFN	0% for ASEAN, China, AANZFFTA, Korea, Eurasian Economic Union; and 1% for Japan	0%	None
Synthetic staple fibers, not carded, combed or otherwise processed for spinning : Acrylic or modacrylic (550330)	0%	5% SAFTA	5%	0% SAFTA	0%	None	0%	None
Artificial staple fibers, not carded, combed or otherwise processed for spinning : Of viscose rayon (550410)	0%	None	5%	0% SAFTA	0%	None	0%	None

Artificial staple fibers, not carded, combed or otherwise processed for spinning : Other (550490)	0%	0% Sri Lanka	5%	0% SAFTA	0%	None	0%	None
Yarn (other than sewing thread) of synthetic staple fibers, not put up for retail sale : Containing 85 % or more by weight (550921)	11%	5% SAFTA	10%	None	5% MFN; 7.5% non-MFN	0% for ASEAN, China, AANZFTA, Korea, Eurasian Economic Union; 2% for India; and 1% for Japan	0%	None
Woven fabrics of artificial staple fibers : Containing 85 % or more by weight of artificial staple fibers : Dyed (551612)	16%	5% SAFTA; 0% Sri Lanka	25%	None	12% MFN; 18% non-MFN	0% for ASEAN, China, Korea, Eurasian Economic Union; 8% for India and Chile; and 5% for AANZFTA	0% for ASEAN and China; 5% for India and	7% Korea

Source: International Trade Centre

Despite all the protection available to the domestic polyester industry, it becomes pertinent to ask why the domestic industry is not flourishing enough. The escalating tariff structure (and resulting high costs of production) is leading to a rise in informal trade of value-added polyester products from other countries. Major industrial players specifically highlight the role of Afghan Transit Trade route in facilitating cheaper influx of synthetic products in the country.

Recent measures and policy recommendations

In January 2017, the government (upon recommendation from the Ministry of Textiles) exempted customs duty on the import of a number of synthetic fibers (acrylic, viscose and nylon), which are not produced locally. As shown in **Table S2.2**, the import of these items posted a sharp increase during Jul-Mar FY18.

Table S2.2: Import of Synthetic Fibers in Jul-Jan Exempted from Customs Duty via SRO/39(1)/2017
(000 US\$)

	FY17	FY18	% change
55031100 Of aramids	3,153	8,485	169.1
55031900 Other	646	940	45.5
55033000 Acrylic or modacrylic	6,760	15,368	127.4
55039000 Synthetic staple not carded	713	762	6.9
55041000 Of viscose rayon	129,698	160,030	23.4
55049000 Other fiber not carded	27,402	39,955	45.8
55063000 Acrylic fiber carded	835	3,214	284.8

Data source: Pakistan Bureau of Statistics

However, for other (and probably more commonly used) fibers like polyester, the government has kept the customs duty at 7 percent as part of protectionist policy in favor of local manufacturers. To give some relief to garment exporters, the

government allowed duty drawback on the use of imported as well as domestically produced synthetic fiber on deemed import basis. This mechanism has now been fully implemented.

Although this measure will be helpful in increasing the use of these fibers in garment manufacturing, the drawback settlement mechanism needs to be streamlined in order to smoothen firms' cash flows. Importantly, it is not just man-made fibers, but for all other inputs also (where exporters are eligible for refunds), the cost and delays are significant irritants. According to one estimate, these constitute minimum 10 percent of the value of the refund claim.⁸

Therefore, while the duty exemptions granted on the import of various fibers are yielding positive results, there is a room to broaden their scope. The government can reconsider protectionist policies for polyester fiber and filaments, if a meaningful change in the fiber mix is to be achieved in the country.⁹ Finally, local industry would benefit and tariff-based policy measures to enhance the use of man-made fibers in domestic textile industry will become effective, only if the influx of smuggled goods is contained.

⁸ "Implementing Policies for Competitive Garments Manufacturing" Final Report, International Growth Centre, January 2017, F-37211-PAK-1.

⁹ Presently, exporters are paying 11 percent customs duty, as well as 5 percent regulatory duty, on the import of filament yarn.