# Critical Evaluation of Textile Sector Pakistan and Way Forward

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## *Abstract:*

*The textile industry plays a crucial role in the global economy, with a contribution of approximately US$ 2.6 trillion to global GDP and employing 60 million people worldwide. In Pakistan, the textile sector is the backbone of the economy, accounting for 60% of exports and employing 40% of the industrial workforce. Despite this, the sector's performance remains suboptimal due to challenges such as high production costs, energy inefficiencies, and limited access to finance. Pakistan's textile exports have fluctuated, and though they reached US$ 19.33 billion in FY 2022, the potential for growth remains untapped. This paper aims to analyze the sector's capacity, legal framework, global competitiveness, and identify gaps through SWOT analysis. Recommendations focus on sustainable practices, technological advancements, skills development, diversification, and improvements in the regulatory and financial landscape. Strategic reforms are crucial for realizing the full potential of Pakistan's textile sector and driving sustainable economic growth.*

***Key words:***
*Textile Industry, Pakistan, Export Growth, Sustainability, Economic Development.*

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## *Introduction*

The contribution of the textile industry to the global economy remains vital. The estimated value of its contribution to global Gross Domestic Product (GDP) is around US$ 2.6 trillion, with employment of 60 million people in various textile-related jobs worldwide. Today, textiles constitute 4.62% of total world trade (Sattar, 2023). The World Trade Organization (WTO), in its latest report titled "Textiles World 2021" for the year 2020, ranked Pakistan as the 6th largest textile exporter, alongside China, India, Bangladesh, Vietnam, Turkey, Indonesia, Germany, Italy, and the United States. These countries accounted for 77.5% of the world's textile exports in 2020 (Textile World, 2021).

The textile sector in Pakistan is considered the backbone of the country's economy, with the most intensive backward and forward linkages compared to any other sector. It is the largest manufacturing industry, contributing to around 60% of the country's exports. The sector also employs around 40% of the industrial labor force and provides employment opportunities for millions of people, including skilled and unskilled workers (Sattar, 2023). The sector holds immense growth potential as the country is abundantly endowed with raw materials, including the world's best-quality cotton.

Despite the existence of an elaborate legal, institutional, and administrative framework and active private sector participation, textile exports have never exceeded US$ 19.33 billion per annum. Furthermore, an ambitious target of promoting textile exports to US$ 40 billion/year was set under the Government of Pakistan's current Textile Policy (Textile and Apparel Policy 2020-25). This target is likely unattainable due to several challenges, including power outages, expensive energy, poor infrastructure, limited access to finance for SMEs and exporters, high production costs, and high dependence on cotton and its price fluctuations. Additionally, the textile sector faces challenges such as a lack of focus on research and development, innovation, and human resource development to compete globally. The graph below shows the trends of textile exports from 2006 to 2021, which fluctuated between US$ 10 billion and US$ 16 billion during this period, with the exception of the lowest exports of US$ 9 billion in FY-2009.

Textile exports witnessed a remarkable increase of 25.5% during FY-2022, amounting to US$ 19.33 billion, compared to US$ 15.40 billion during FY-2021 (Annual Analytical Report on External Trade FY 2021-22, Pakistan Bureau of Statistics). However, this is still far below the sector's actual potential. According to the latest data from PBS, Pakistan's overall exports declined by 7% to US$ 16.5 billion in the first seven months of FY 2022-23, compared to US$ 17.7 billion in the same period of the previous year, despite massive currency depreciation and a relief package for export-oriented sectors.

To ensure sustainable growth of the textile sector, necessary reforms need to be undertaken, along with the adoption of an implementation strategy for the expeditious execution of previous initiatives and measures to promote textile exports. Moreover, diversification of textile exports (in terms of commodities and destinations), with a focus on value addition, attracting foreign direct investment, and reducing the cost of doing business, could play an important role in this regard.


Pakistan Textile Exports FY 2006-2021. Source: APTMA

## *Statement of the Problem*

The textile industry has significantly contributed to the economic growth and development of various countries. However, the performance of Pakistan's textile sector has remained suboptimal over the years, despite the government's enhanced focus and priority. Therefore, the situation warrants an in-depth analysis to identify the gaps and bottlenecks hampering its progress and to provide concrete recommendations for achieving sustainable growth in Pakistan's textile sector.

The paper will:

a) Carry out a situational analysis of the capacity, preparedness, and output of the textile industry in Pakistan, and its contribution to national economic development.

b) Analyze the legal and institutional framework of the textile industry in Pakistan.
c) Conduct a comparative analysis of the role of Pakistan's textile industry with best practices around the globe.

c) Perform a SWOT–EETH analysis of the textile industry in order to promote a high-tech industry in Pakistan for each related policy, legal, and institutional framework separately.

d) Carry out a gap analysis in the areas described in a), b), c), and d) above.

e) After making a plausible conclusion, provide pertinent and pragmatic recommendations to tackle the issues and challenges identified during a) to e).

f) Develop a plan using the Log Frame Matrix to find practical and viable solutions to the issues and problems identified in a) to f).

## *Significance and Scope*

This research aims to analyze the development of the textile sector in Pakistan over the years, particularly from 2018 to 2022. The study examines the factors that have hampered the growth of the textile sector in Pakistan, as well as the efforts and initiatives by the government to promote the sector. The study also provides recommendations for the sustainable growth of the textile sector in Pakistan.

## *Literature Review*

The textile sector is the most important manufacturing industry in Pakistan. It has the longest production chain, with inherent potential for value addition at each stage of processing, from cotton to ginning, spinning, fabric, dyeing and finishing, made-ups, and garments. The sector contributes nearly one-fourth of industrial value-added and provides employment to about 40% of the industrial labor force. Barring seasonal and cyclical fluctuations, textile products have maintained an average share of about 61.24% in national exports (Pakistan Economic Survey 2021-22). This policy research paper for the simulation exercise of the 36th MCMC at NIM Peshawar has been undertaken as a narrative review with qualitative and quantitative analyses of primary and secondary data, including data from the Ministry of Commerce, research articles, journals, and newspaper articles. Some of the research articles, papers, and reports consulted included *Textile World 2021*, *Textile Policy of Pakistan 2020-25*, *The Falling Textile Exports* (Abdul Sattar, 2023), *Encyclopedia Britannica*, *Global Value Chain (GVC) Development Report 2021*, *Beyond Production* by the Asian Development Bank, and *The Annual Analytical Report on the External Trade of Pakistan for the Financial Year 2021-22* by the Pakistan Bureau of Statistics. Websites of the Ministry of Commerce, TDAP, BOI, PBS, and WTO were also visited to collect data.

## *Methodology*

This research employs a qualitative approach, utilizing both primary and secondary data. Primary data has been collected through interviews and discussions with officials at the Textile Division, Ministry of Commerce & Textile, Islamabad. Secondary data has been gathered from a variety of sources, including research papers, news articles, journals, business reports, and online platforms. Key secondary data sources include publications from the Ministry of Commerce, Pakistan Bureau of Statistics, TDAP, BOI, WTO, and various academic and industry reports. The data collection process has been designed to provide a comprehensive understanding of the textile sector's current state, its challenges, and the efforts made to promote its growth. The methodology incorporates both qualitative analysis of expert opinions and quantitative data to ensure a thorough examination of the issues facing Pakistan's textile industry.

## *Situational Analysis*

### *Overview of the Development of the Textile Sector in Pakistan*

The World Trade Organization (WTO) in its 2020 report titled "Textile World 2021" ranked Pakistan among the top ten textile exporters in the world. The top textile exporters globally are China, India, Bangladesh, Vietnam, Turkey, Pakistan, Indonesia, Germany, Italy, and the United States. They accounted for 77.5% of the world's textile exports in 2020 (Textile World, 2021).

The history of the textile industry in Pakistan dates back to the early 1950s, with the establishment of the first textile mill in Faisalabad (formerly Lyallpur). Over the years, the industry has grown significantly, and it is now the largest manufacturing sector in Pakistan, contributing around 60% to the country's total exports.

During the 1950s and 1960s, several textile mills were established in the country, mainly in the Punjab and Sindh provinces, as a result of government policies and incentives aimed at promoting the textile sector. The industry's growth received a boost in the 1970s with the nationalization of the textile sector, which led to the establishment of several state-owned textile mills. In the 1980s, the government encouraged the private sector's participation in the industry, and several private textile mills were established.

In the 1990s, the textile sector witnessed rapid growth due to liberalization policies and trade agreements with other countries. The industry became one of the largest employers in the country, with a significant contribution to Pakistan's exports.

However, the industry faced challenges in the 2000s due to the global economic slowdown, increased competition, and energy shortages. Despite these challenges, the sector continued to grow, with the introduction of modern technologies and the development of value-added products such as garments and home textiles.

Today, Pakistan's textile industry is one of the largest in the world, contributing significantly to the country's exports and employment. The textile sector contributes 8.5% to GDP and employs 15 million people out of the 49 million-strong workforce, which is almost 30% of the total workforce.

The industry has diversified into various sub-sectors, including spinning, ginning, weaving, knitting, dyeing, printing, and finishing.

Pakistan’s textile sector is fragmented into sub-divisions, with 80% being small industries, 15% moderate production, and only 5% large-scale processing installations. The government continues to support the industry through various policies and incentives to ensure its continued growth and competitiveness in the global market.

Prior to the outbreak of the COVID-19 pandemic, the textile industry was flourishing, and the sector was expected to grow. However, with the onset of the pandemic in early 2020, the industry was hit hard as the demand for textiles decreased due to global lockdowns and disruptions in supply chains. The industry faced a shortage of raw materials, such as cotton, and a decrease in orders from international buyers. The pandemic had a significant impact on the textile sector in Pakistan, and the industry suffered losses. However, the Government of Pakistan took several measures to support the industry, including providing financial assistance and facilitating the export of essential goods.

In the post-pandemic period, the textile sector is slowly regaining its footing while complying with the requirements of the new normal by implementing safety measures and focusing on online marketing and e-commerce. Textile exports witnessed a remarkable increase of 25.5% during FY2022, amounting to US$ 19.33 billion compared to US$ 15.40 billion during FY2021. The future of the textile sector in Pakistan remains promising, as the country has significant potential for growth and innovation in this field.

### *Significance of the Textile Sector to Pakistan’s Economy*

The sector is considered the backbone of the country’s economy as it employs around 40% of the industrial labor, particularly in rural areas where textile mills are located. Moreover, the textile industry is a major source of foreign exchange earnings for Pakistan. The industry exports a wide range of products, including cotton yarn, fabric, and garments, to various countries across the world. The sector is particularly important for Pakistan's trade with countries in the European Union and the United States.

The textiles and apparel sector of Pakistan is the most energetic, dynamic, and export-oriented, encompassing a unique distinction of having intensive backward and forward linkages. This translates into an extended value chain, starting from cotton ginning to finished products marked by a great reflection of modern fashion. It provides a platform for large, medium, and small-scale manufacturing and employment, which are hallmarks of modern, progressive industrialization. More emphatically, the paramount importance of the sector can be gauged by the fact that its total exports have crossed the threshold of US$ 19.3 billion during the fiscal year 2021-22, despite numerous challenges.

Overall, the textile sector is a vital pillar of Pakistan's economy, providing employment opportunities, contributing to GDP, and earning foreign exchange. The growth and development of the industry are crucial for the country's economic progress and development.

Comparison of Textile Sector Contribution to GDP

| **Country** | **%age Contribution** |
|---|---:|
| Bangladesh | 13.0% |
| Pakistan | 8.5% |
| China | 4.0% |
| India | 2.0% |
| Vietnam | 6.2% |

### *Ancillary Textile Industries*

The performance of various ancillary textile industries, as per the Economic Survey of Pakistan, 2021-22, is as follows:

**a) Cotton Spinning Sector**

The spinning sector is the backbone of textile production. At present, there are 517 textile units (40 composite units and 477 spinning units) with 13 million spindles and 198,801 rotors installed. Of these, 11 million spindles and 126,583 rotors are in operation, with a capacity utilization of 85% and 64%, respectively.

**b) Cloth Sector**

This sector produces comparatively low value-added grey cloth, mostly of inferior quality. Problems in the power loom sector primarily arise from poor technology and a scarcity of quality yarn. The production of cotton cloth by the mill sector has slightly increased by 0.29%, while non-mill performance remained subdued, recording a negative growth of 0.01% during July-March FY-2022.

**c) Textile Made-Up Sector**

As a value-added segment of the textile industry, the made-up sector comprises different subgroups, including towels, tents & canvas, cotton bags, bedwear, hosiery, knitwear, and ready-made garments, including fashion apparel. The total export of the sector in the financial year 2021-22 was USD 61 million, which is about 12% higher than the preceding year.

**d) Synthetic Textile Fabrics**

Artificial silk, such as synthetic fibers like Nylon, Polyester, Acrylic, and Polyolefin, dominate the market. Currently, there are five major producers of synthetic fibers in Pakistan, with a total capacity of 636,000 tons per annum. Synthetic textile fabrics worth US$ 344 million were exported in FY 2021-22, compared to US$ 269.20 million the previous year, showing an increase of 28%. In quantitative terms, the exports of synthetic textiles decreased by 34%.

**e) Woolen Industry**

The main products manufactured by the woolen industry are carpets and rugs. The exports of carpets during the period July-March FY-2022 totaled USD 7 million.

***Major Export Destinations for Pakistani Textiles***

From 2019 to 2023, the following are the top export destinations for Pakistani textiles:

| **Values in US$ Million** | | | | |
|---|---|---|---|---|
| **Destination** | **2019-20** | **2020-21** | **2021-22** | **2022-23** |
| United States | 3,103.91 | 4,383.23 | 5,846.71 | 3,026.73 |
| United Kingdom | 1,218.10 | 1,637.71 | 1,785.23 | 1,063.22 |
| Germany | 963.33 | 1,135.19 | 1,371.19 | 866.70 |
| Netherlands | 816.99 | 1,000.15 | 1,354.59 | 835.85 |
| Spain | 696.88 | 743.68 | 1,080.77 | 771.57 |
| Italy | 501.65 | 563.28 | 788.28 | 522.53 |
| Bangladesh | 507.07 | 514.87 | 813.06 | 418.69 |
| Belgium | 426.43 | 479.85 | 642.78 | 377.44 |
| China | 821.06 | 827.29 | 763.43 | 323.73 |
| France | 279.95 | 308.22 | 391.16 | 262.02 |

Source: FBR, 2021

***Textile Sector*** Export ***of Pakistan in Different Years (in US$ million)***

| **Product** | **2018-19** | **2019-20** | **2020-21** | **2021-22** |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Cotton & cotton Textile | 13031.000 | 12211.703 | 15028.852 | 13890.824 |
| Synthetic Textile | 297.809 | 314.768 | 370.421 | 373.591 |
| Sub-total Textile | 13328.807 | 15526.471 | 15400.071 | 14234.415 |
| Wool and Woollen Textile | 67.265 | 54.211 | 74.201 | 60.993 |
| Total Textile | 13396.140 | 12580.682 | 15474.278 | 19339.408 |
| Total Export | 22979.325 | 21393.860 | 25304.441 | 23354.901 |
| Textile as %age of export | 58.30% | 58.81% | 61.15% | 61.24% |

Source: Economic Survey of Pakistan 2021-22

***Private Sector Contribution in Development of Textile Sector***

The private sector has played a significant role in the development and growth of the textile sector in Pakistan. Major contributions include:

i) Heavy investments in the development of textile mills and manufacturing facilities, which helped to increase production capacity and improve the quality of textile products. This investment has also created employment opportunities for millions of people in the country.

ii) Private companies have invested in the latest machinery and equipment, which has helped to improve efficiency and productivity in the industry. This has also enabled the industry to produce high-quality textile products that are competitive in the global market.

iii) Private companies have played a major role in promoting and marketing Pakistan's textile products in international markets, which has helped to increase exports and generate foreign exchange for the country.

iv) The private sector has played a role in research and development, training and education, and environmental sustainability in the textile industry.

v) Private companies have taken steps to ensure that their operations are environmentally sustainable, by adopting eco-friendly production methods and implementing waste management practices.

Overall, the private sector has been a driving force in the development of the textile sector in Pakistan and has contributed significantly to the growth and success of the industry.

| Years | Series | Total Numbers |
|---|---|---|

| | | |
|---|---|---|
| 2015-16 | CMI Listed Textiles Large Scale Manufacturing | 7503 |
| 2021-22 | No of Textile Exporters | 8051 |
| 2021-22 | PSX* Listed Textiles Exporters | 90 |
| **Sr. No** | **Name of Exporter** | **Export Value (Billion Rs.)** |
| 1 | M/S Style Textile (Pvt) Ltd. | 112.80 |
| 2 | Nishat Mills Limited | 75.38 |
| 3 | Artistic Milliners (Private) Limited | 73.58 |
| 4 | Interloop Limited | 69.86 |
| 5 | Soorty Enterprises (Private) Limited | 63.31 |
| 6 | Yunus Textile Mills Limited | 63.18 |
| 7 | Gul Ahmed Textile Mills Limited | 54.66 |
| 8 | Feroze1888 Mills Limited | 47.24 |
| 9 | Masood Textile Mills Limited | 46.72 |
| 10 | Liberty Mills Limited | 46.17 |

Pakistan Stock Exchange

**Top Exporters and Export Values (Billion Rs.)**

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9. Masood Textile Mills Limited – 46.72
10. Liberty Mills Limited – 46.17

***Product-Specific Associations of the Textile Sector***

There are over twenty product-specific associations in the textile sector, including:

1. All Pakistan Textiles Mills Associations (APTMA)
2. Pakistan Cloth Merchants' Association
3. Pak Readymade Garments Manufacturers & Exporters Association
4. Pakistan Cotton Fashion Apparel Manufacturers & Exporters Assn

5. Pakistan Bedwear Exporters Association
6. Pakistan Gloves Manufacturers & Exporters Association
7. Pakistan Silk & Rayon Mills Association
8. Towel Manufacturers' Association of Pak
9. Pakistan Yarn Merchants' Association
10. Pakistan Sports Goods Manufacturers & Exporters Association
11. Pakistan Canvas and Tents Manufacturers And Exporters Association
12. Pakistan Footwear Manufacturers Assn
13. Pakistan Hosiery Manufacturers Assn
14. Pakistan Knitwear & Sweaters Exporters Association
15. Pakistan Commercial Exporters of Towels Association
16. Pakistan Textile Exporters Association
17. All Pakistan Cotton Power Looms Assn
18. All Pakistan Textile Processing Mills Association
19. All Pakistan Bedsheets & Upholstery Manufacturers Association
20. All Pakistan Handloom & Traditional Textiles Manufacturers & Exporters Association
21. Pakistan Leather Garments Manufacturers & Exporters Association and Pakistan Denim Manufacturers & Exporters Association

### *Regulatory/Legal and Institutional Framework Analysis of Pakistan's Textile Sector*

The regulatory framework for the textile sector in Pakistan is primarily governed by the following laws and regulations:

1. **The Ministry of Commerce & Textile** is responsible for the development and regulation of the textile sector in Pakistan. Under Rule 3(3) of the Rules of Business 1973, the Ministry of Commerce has been assigned textile-sector-related functions of formulating policies, implementing programmes, and ensuring compliance with relevant laws and regulations.
2. **Textile Policy 2020-25:** The Textile Policy 2020-25 provides a comprehensive framework for the development of the textile sector in

Pakistan. The policy aims to promote investment, increase exports, and enhance productivity in the sector.

3. **Trade Policy:** Pakistan's trade policy regulates imports and exports of textile products. The policy sets out rules and regulations for the import and export of textile goods and provides incentives for exports.
4. **Quality Control:** The Pakistan Standards and Quality Control Authority (PSQCA) is responsible for ensuring that all textile products meet the required quality standards. The PSQCA has established testing facilities and certification processes for textile products.
5. **Labor Laws:** The labor laws in Pakistan regulate employment practices in the textile sector. These laws cover issues such as minimum wage, working conditions, and safety standards.
6. **Environmental Regulations:** The environmental regulations in Pakistan aim to reduce the environmental impact of the textile sector. The regulations cover issues such as wastewater treatment, air pollution, and waste management.
7. **Intellectual Property Rights:** The Intellectual Property Organization of Pakistan (IPO-Pakistan) is responsible for the protection of intellectual property rights in the textile sector. The IPO-Pakistan registers trademarks, patents, and designs related to textile products.
8. The Ministry of Commerce is also administratively responsible for:

   i. Federal Textile Board, Lahore

   ii. Textile Commissioner's Organization, Karachi

   iii. Textile City Projects in Karachi/Faisalabad

   iv. National Textile University, Faisalabad

   v. All textiles-related TDAP/EDF funded institutes concerned with skill development in various sub-sectors of the textile industry

   vi. Garment City Projects at Lahore, Faisalabad, and Karachi

   vii. Pakistan Cotton Standards Institute, Karachi

   viii. Pakistan Textile Testing Laboratory, Faisalabad

### *Hierarchy of the Textile Division*

The Minister for Commerce and Textile is the political head, while the Secretary of Commerce & Textile Division is the administrative head of the organization. The Textile Division comprises four wings, namely:

i. Administrative Wing, headed by Senior Joint Secretary
ii. Training Wing, headed by Joint Secretary
iii. Development & Innovation Wing, headed by Joint Secretary
iv. Textile Research Wing, headed by Director General/Director

The Wings are assisted by an Advisory Cell with textile professionals.

In addition to the Ministry of Commerce and Textile, several other ministries and departments are part of this regulatory framework. They include: Ministries of Finance, National Food Security & Research (MNFS&R), Energy (Power Division), Foreign Affairs, Federal Education & Technical Education, Industries & Production, NAVTEC/TEVTA, Board of Investment, State Bank of Pakistan, Federal Board of Revenue.

***Textile Policies***

The first-ever Textile Policy 2009-14 was launched in 2009. The second Textile Policy 2014-19 was approved in 2015. These policies not only laid down a plan for five years (each) but also brought coherence among various support measures and development initiatives of the government aimed at promoting and uplifting the country's largest industrial sector in the post-quota scenario. During this period, several budgetary support schemes were introduced to provide a level playing field to the textile industry of Pakistan.

Previous textile policies were formulated to enhance textiles and apparel exports to US$ 25 billion and US$ 26 billion, respectively, and set ambitious targets required to be met through support of fiscal measures. However, these targets were not fully achieved due to delayed/non-payments under the respective facilitation schemes and non-allocation of funds for infrastructure development, vocational training, productivity, and compliance-related programs.

The latest Textile & Apparel Policy 2020-25 was launched in 2022. It is a comprehensive policy framework that outlines the government's strategy for promoting the growth and development of the country's textile and apparel industry. The policy aims to promote the growth and competitiveness of the country's textile and apparel industry. Some of the salient features of the policy are:

- **Promotion of exports:** The policy aims to increase the country's textile and apparel exports to US$ 40 billion by 2025. To achieve this, the policy focuses on enhancing the competitiveness of the industry by improving productivity, reducing costs, and promoting innovation.

- **Investment in technology:** The policy encourages the adoption of advanced technologies such as digital printing, artificial intelligence, and automation to increase efficiency and reduce production costs.
- **Development of human resources:** The policy emphasizes the need to improve the skills of the workforce in the textile and apparel industry. This includes training programs for workers and managers, as well as initiatives to attract and retain talent.
- **Support for SMEs:** The policy recognizes the important role that small and medium-sized enterprises (SMEs) play in the industry and aims to provide them with support through incentives and access to finance.
- **Sustainability:** The policy includes measures to promote sustainable practices in the industry, such as reducing water consumption, increasing the use of renewable energy, and promoting recycling and reuse of materials.
- **Cluster development:** The policy promotes the development of textile and apparel clusters in different regions of the country to promote collaboration and cooperation among industry stakeholders.
- **Market diversification:** The policy aims to diversify Pakistan's textile and apparel exports by targeting new markets, including Africa, Latin America, and Southeast Asia.

In short, the following are the salient features:

- Competitive energy tariffs for export-oriented units/sectors during all the policy years
- Amid unusual fluctuations in regional energy prices, tariffs may be revised according to the average energy prices of regional competitors like Vietnam and Bangladesh.
- Revision of Duty Drawback Tax rates (DDT) – these will only be available for value-adding exports such as apparel, technical textiles, made-ups, and carpets.
- Automation of the duty drawback mechanism; payments will be made directly into the accounts of exporters through the State Bank of Pakistan.
- Long-Term Financing Facility and Export Financing Scheme rates are to be continued at 5% and 3%, respectively, while the SBP can review the markup rates in view of the monetary policy.

- Competitive pricing of raw materials for value-adding exporters
- E-commerce policy to be implemented
- Revitalization of Karachi Garments City Company (KGCC)
- Launch of a mass-level training program for industrial stitching

Overall, the **Textiles and Apparel Policy 2020-25** aims to transform Pakistan's textile and apparel industry into a modern, efficient, and sustainable industry that can compete in the global market.

### *Comparative Analysis and International Best Practices*

The textile sector is a crucial industry for many countries, including China, India, Bangladesh, and Turkey. Here are some best practices adopted by these countries to boost their textile industry:

**China:**

1. China has adopted mass production techniques to lower costs and increase efficiency in the textile sector.
2. China has invested in advanced technology, such as automation and artificial intelligence, to enhance productivity and reduce labour costs.
3. China has a large pool of skilled workers who are trained to operate advanced machinery and specialize in different textile production processes.
4. China's government provides various incentives and subsidies to textile manufacturers, such as tax exemptions and loans.
5. China has established vertically integrated supply chains, where different stages of the production process are carried out in-house, allowing for better quality control and cost savings.
6. China has implemented export-oriented policies to promote its textile exports, such as offering tax refunds for exports and establishing export processing zones.
7. China has invested heavily in infrastructure development, such as ports, highways, and railways, to facilitate the movement of goods.
8. Chinese textile manufacturers have established strong brands and marketed their products globally to increase their market share.

9. China has diversified its textile production by producing a wide range of products, such as clothing, accessories, and home textiles, to cater to different markets.

10. China has emphasized innovation in textile production by investing in research and development, such as developing eco-friendly textiles.

**India:**

1. India's government provides various incentives and subsidies to textile manufacturers, such as tax exemptions, investment subsidies, and credit guarantees.

2. India has a large pool of skilled workers who are trained in traditional textile production techniques.

3. India has a thriving handloom sector, where textiles are produced using traditional techniques, providing employment opportunities for rural communities and promoting India's cultural heritage.

4. India is a major producer of cotton, which is a key raw material for the textile industry.

5. India has established textile clusters, where manufacturers are located in close proximity to each other, allowing for the sharing of resources and expertise.

6. India has invested in advanced technology, such as digital printing and 3D printing, to enhance productivity and improve product quality.

7. India has implemented various export-oriented policies, such as the Merchandise Exports from India Scheme (MEIS) and the Export Promotion Capital Goods (EPCG) scheme, to promote its textile exports.

8. India has emphasized sustainability in textile production by promoting the use of eco-friendly materials and production techniques.

9. Indian textile manufacturers have established strong brands and marketed their products globally to increase their market share.

10. India has diversified its textile production by producing a wide range of products, such as clothing, home textiles, and technical textiles, to cater to different markets.

**Bangladesh:**

1. Bangladesh has a cost advantage over other countries due to its low labour costs and energy costs.
2. Bangladesh's government provides various incentives and subsidies to textile manufacturers, such as tax exemptions and low-interest loans.
3. Bangladesh has a large pool of skilled workers who are trained in textile production processes.
4. Bangladesh has established vertically integrated supply chains, where different stages of the production process are carried out in-house, allowing for better quality control and cost savings.
5. Bangladesh has implemented various export-oriented policies, such as offering tax incentives for exports and establishing export processing zones.
6. Bangladesh has invested in infrastructure development, such as ports, highways, and railways, to facilitate the movement of goods.
7. Bangladesh has emphasized sustainability in textile production by promoting the use of eco-friendly materials and production techniques.
8. Bangladesh has diversified its textile production by producing a wide range of products, such as clothing, home textiles, and technical textiles, to cater to different markets.
9. Bangladeshi textile manufacturers have established strong brands and marketed their products globally to increase their market share.
10. Bangladesh has emphasized innovation in textile production by investing in research and development, such as developing new production techniques and improving product quality.

***Export Incentives and Institutions in Different Countries***

A comparison of exports and institutions prevailing in major competitor countries and Pakistan is provided below:

| Sr. No. | Export Incentives | India | Pakistan | Bangladesh | China | Vietnam |
|---|---|---|---|---|---|---|
| 1 | Duty Drawbacks | Yes | Yes | Yes | Yes | Yes |
| 2 | Concessionary Export Finance | Yes | No | Yes | Yes | Yes |

| | | | | | | |
|---|---|---|---|---|---|---|
| 3 | Exports Insurance & Guarantees | Yes | No | Yes | Yes | Yes |
| 4 | Export Quality Management | Yes | No | No | Yes | Yes |
| 5 | Export Processing Zones | Yes | Yes | Yes | Yes | Yes |
| 6 | Export Performance Requirement | Yes | No | Yes | Yes | Yes |
| 7 | Lower Income Tax | Yes | Yes | Yes | Yes | Yes |
| 8 | Export Promotion Agency | Yes | Yes | Yes | Yes | Yes |
| 9 | Export Cash Subsidy | Yes | No | Yes | Yes | Yes |

### *Comparative Analysis and International Best Practices*

The textile sector is a crucial industry for many countries, including China, India, Bangladesh, and Turkey. Here are some best practices adopted by these countries to boost their textile industry:

**China:**

1. China has adopted mass production techniques to lower costs and increase efficiency in the textile sector.
2. China has invested in advanced technology, such as automation and artificial intelligence, to enhance productivity and reduce labor costs.
3. China has a large pool of skilled workers who are trained to operate advanced machinery and specialize in different textile production processes.
4. China's government provides various incentives and subsidies to textile manufacturers, such as tax exemptions and loans.
5. China has established vertically integrated supply chains, where different stages of the production process are carried out in-house, allowing for better quality control and cost savings.
6. China has implemented export-oriented policies to promote its textile exports, such as offering tax refunds for exports and

establishing export processing zones.

7. China has invested heavily in infrastructure development, such as ports, highways, and railways, to facilitate the movement of goods.
8. Chinese textile manufacturers have established strong brands and marketed their products globally to increase their market share.
9. China has diversified its textile production by producing a wide range of products, such as clothing, accessories, and home textiles, to cater to different markets.
10. China has emphasized innovation in textile production by investing in research and development, such as developing eco-friendly textiles.

**India:**

1. India's government provides various incentives and subsidies to textile manufacturers, such as tax exemptions, investment subsidies, and credit guarantees.
2. India has a large pool of skilled workers who are trained in traditional textile production techniques.
3. India has a thriving handloom sector, where textiles are produced using traditional techniques, providing employment opportunities for rural communities and promoting India's cultural heritage.
4. India is a major producer of cotton, which is a key raw material for the textile industry.
5. India has established textile clusters, where manufacturers are located in close proximity to each other, allowing for the sharing of resources and expertise.
6. India has invested in advanced technology, such as digital printing and 3D printing, to enhance productivity and improve product quality.
7. India has implemented various export-oriented policies, such as the Merchandise Exports from India Scheme (MEIS) and the Export Promotion Capital Goods (EPCG) scheme, to promote its textile exports.
8. India has emphasized sustainability in textile production by promoting the use of eco-friendly materials and production techniques.
9. Indian textile manufacturers have established strong brands and marketed their products globally to increase their market share.
10. India has diversified its textile production by producing a wide range of products, such as clothing, home textiles, and technical textiles, to cater to different markets.

**Bangladesh:**

1. Bangladesh has a cost advantage over other countries due to its low labor and energy costs.
2. Bangladesh's government provides various incentives and subsidies to textile manufacturers, such as tax exemptions and low-interest loans.

3. Bangladesh has a large pool of skilled workers who are trained in textile production processes.
4. Bangladesh has established vertically integrated supply chains, where different stages of the production process are carried out in-house, allowing for better quality control and cost savings.
5. Bangladesh has implemented various export-oriented policies, such as offering tax incentives for exports and establishing export processing zones.
6. Bangladesh has invested in infrastructure development, such as ports, highways, and railways, to facilitate the movement of goods.
7. Bangladesh has emphasized sustainability in textile production by promoting the use of eco-friendly materials and production techniques.
8. Bangladesh has diversified its textile production by producing a wide range of products, such as clothing, home textiles, and technical textiles, to cater to different markets.
9. Bangladeshi textile manufacturers have established strong brands and marketed their products globally to increase their market share.
10. Bangladesh has emphasized innovation in textile production by investing in research and development, such as developing new production techniques and improving product quality.

***Export Incentives and Institutions in Different Countries***

A comparison of exports and institutions prevailing in major competitors and Pakistan is given below:

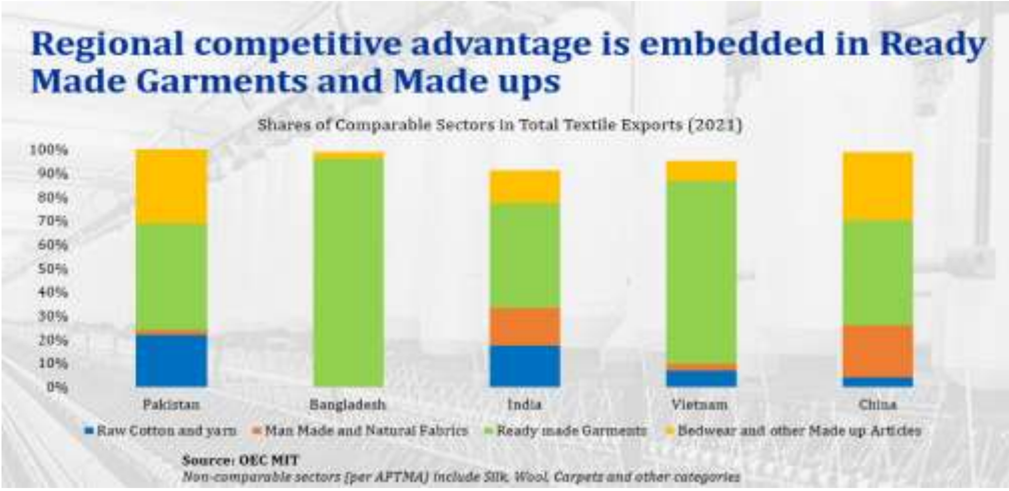
| **Sr. No.** | **Export Incentives** | **India** | **Pakistan** | **Bangladesh** | **China** | **Vietnam** |
|---|---|---|---|---|---|---|
| 1 | Duty Drawbacks | Yes | Yes | Yes | Yes | Yes |
| 2 | Concessionary Export Finance | Yes | No | Yes | Yes | Yes |
| 3 | Exports Insurance & Guarantees | Yes | No | Yes | Yes | Yes |
| 4 | Export Quality Management | Yes | No | No | Yes | Yes |
| 5 | Export Processing Zones | Yes | Yes | Yes | Yes | Yes |
| 6 | Export Performance Requirement | Yes | No | Yes | Yes | Yes |
| 7 | Lower Income Tax | Yes | Yes | Yes | Yes | Yes |
| 8 | Export Promotion Agency | Yes | Yes | Yes | Yes | Yes |

| | | | | | | |
|---|---|---|---|---|---|---|
| 9 | Export Cash Subsidy | Yes | No | Yes | Yes | Yes |

### *Regional Competitiveness*

Ready-made garments and made-ups industries are among the largest and most competitive in the world. Each country has its own unique regional competitive advantage in this industry based on factors such as labor cost, quality of raw materials, availability of skilled workers, infrastructure, government policies, and access to markets.

- **Pakistan's** regional competitive advantage in the ready-made garments and made-ups industry lies in its low labor costs and availability of skilled workers. The country has a large pool of skilled and semi-skilled workers who can produce high-quality garments at a low cost. Additionally, Pakistan's government has introduced policies to promote the textile industry, such as offering tax incentives and subsidies to exporters.
- **Bangladesh's** regional competitive advantage lies in its low labor costs and its position as one of the largest garment exporters in the world. The country has a large and efficient garment manufacturing sector that can produce high-quality garments at a low cost. Additionally, Bangladesh has preferential access to many markets due to its status as a Least Developed Country (LDC).
- **India's** regional competitive advantage lies in its diverse range of fabrics, designs, and embroidery work. India has a long history of textile production and has developed a reputation for producing high-quality fabrics and intricate embroidery work. Additionally, the country has a large and growing domestic market for ready-made garments and made-ups.
- **China's** regional competitive advantage lies in its large-scale manufacturing capabilities, extensive infrastructure, and advanced technology. China has a highly developed textile industry with advanced machinery and a large pool of skilled workers. The country also has extensive transportation and logistics networks that enable it to export its products to markets around the world.
- **Vietnam's** regional competitive advantage lies in its low labor costs and its position as a rapidly growing textile exporter. The country has a large and efficient garment manufacturing sector that can produce high-quality garments at a low cost. Additionally, Vietnam has signed numerous free trade agreements that provide preferential access to many markets around the world.




*Electricity and Gas Consumption Across Sectors in Pakistan and Region*

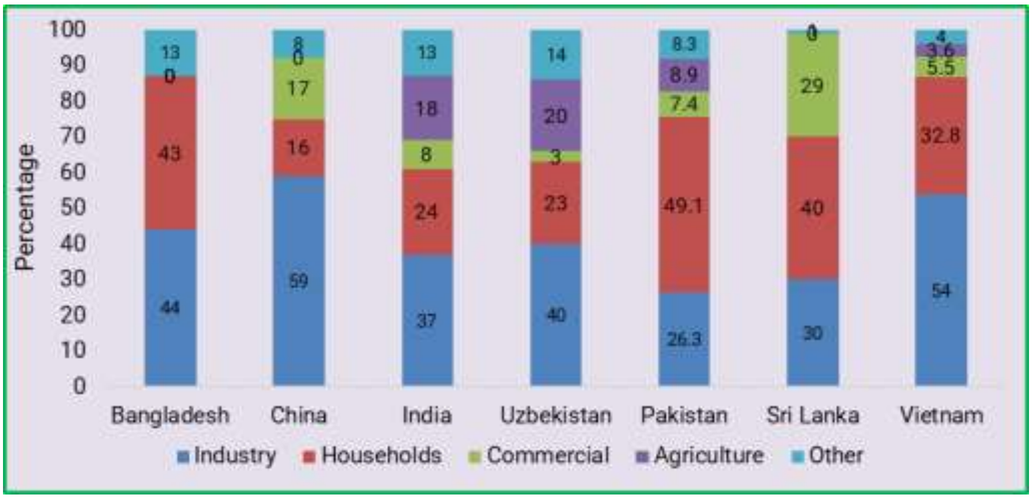
Pakistan’s industry share in electricity consumption is the lowest in the region at only 26%, compared with 60% in China and even 53% in Vietnam. The low industry share in electricity consumption in Pakistan, compared to China and Vietnam, can be attributed to various factors, such as a relatively smaller industrial base, lower electricity demand from industries, and a higher share of other sectors, particularly households, in overall electricity consumption.

Pakistan's industrial sector is smaller compared to China and Vietnam, which have larger manufacturing bases and more diversified industrial activities. This difference in the size of the industrial sector explains the lower share of electricity consumption by the industry in Pakistan.

Moreover, Pakistan's industry is relatively less energy-intensive compared to China and Vietnam. The country's industrial activities are mostly concentrated in low-energy-consuming sectors such as textiles, leather, and food processing, which require less electricity compared to heavy industries such as steel, cement, and chemicals.

On the other hand, the higher share of household electricity consumption in Pakistan, compared to China and India, can be attributed to various factors, such as lower household income levels, lower energy efficiency of buildings and appliances, and inadequate electricity supply to meet the growing demand from households.

In conclusion, the lower industry share in electricity consumption in Pakistan, compared to China and Vietnam, reflects the size and composition of the industrial sector, while the higher share of household electricity consumption in Pakistan, compared to China and India, reflects the need to improve energy efficiency and expand access to electricity in households.



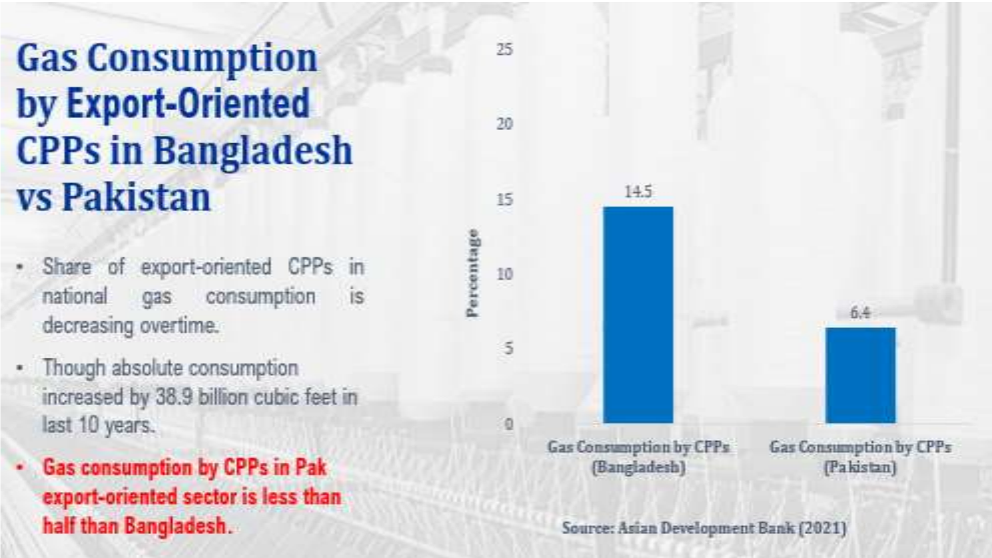
Sources: IEA, ADB, MoF Pakistan, Forbes, and Light Castle Bangladesh

*Gas Tariff for Industry Across the Region (2021)*

The gas tariff for industry varies across the region and depends on various factors such as the availability of gas reserves, transportation infrastructure, government policies, and competition among gas suppliers.

In **Pakistan**, the gas tariff for industry varies based on the size of the industrial connection and the type of gas used. The tariff ranges from PKR 115 per MMBtu for small industrial connections to PKR 600 per MMBtu for large industrial connections using natural gas. For industries using RLNG (Re-gasified Liquefied Natural Gas), the tariff ranges from PKR 1145 to PKR 1435 per MMBtu, depending on the price of RLNG in the international market.

In **Bangladesh**, the gas tariff for industry is regulated by the Bangladesh Energy Regulatory Commission (BERC) and is based on a slab system. The tariff ranges from BDT 7.03 per MMBtu for small industries to BDT 18.35 per MMBtu for large industries.



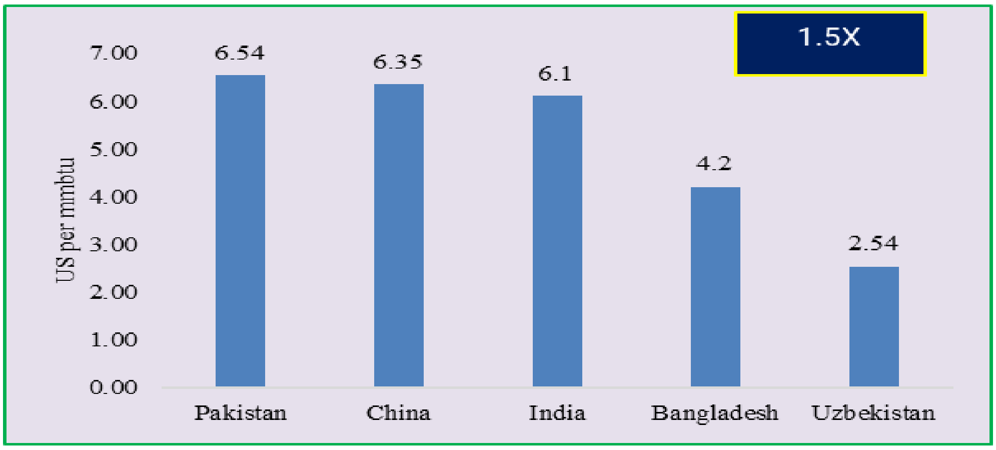

In **China**, the gas tariff for industry is also regulated by the government and varies based on the type of industry and location. The tariff ranges from CNY 1.3 per MMBtu to CNY 3.5 per MMBtu for industrial users in the eastern and central regions, and from CNY 2.7 per MMBtu to CNY 4.9 per MMBtu for industrial users in the western regions.

In **India**, the gas tariff for industry varies based on the location and the type of industry. The tariff ranges from INR 2.45 per MMBtu for small industries to INR 7.95 per MMBtu for large industries.

In **Vietnam**, the gas tariff for industry is regulated by the government and is based on a formula that takes into account the price of imported gas, transportation costs, and taxes. The tariff ranges from VND 4,500 per MMBtu to VND 10,200 per MMBtu depending on the location and type of industry.

In summary, the gas tariff for industry varies across the region and is influenced by several factors such as government policies, competition, and availability of gas reserves.

*Pakistan textile industry faces highest gas/LNG tariff in the region—denting its Competitiveness*




*Sources: S&P, Statistica, Review UZ, PIDE, M/o Planning India*

*Electricity Tariff for Industry across the Region* (2021)

**The electricity tariff for industry varies across the region and is influenced by several factors, such as the availability of energy resources, government policies, infrastructure, and demand-supply dynamics.**

**In Pakistan, the electricity tariff for industry varies based on the size of the industrial connection and the time of day. The tariff ranges from PKR 14.65 per unit for small industrial connections to PKR 11.09 per unit for large industrial connections during off-peak hours.**

**In Bangladesh, the electricity tariff for industry is based on a slab system and ranges from BDT 8.96 per unit for small industries to BDT 15.63 per unit for large industries.**

**In China, the electricity tariff for industry is regulated by the government and varies based on the region and the time of day. The tariff ranges from CNY 0.38 per unit to CNY 0.95 per unit for industrial users in different regions.**

**In India, the electricity tariff for industry varies based on the state and the time of day. The tariff ranges from INR 4.40 per unit to INR 8.30 per unit for different categories of industrial users.**

**In Vietnam, the electricity tariff for industry is regulated by the government and varies based on the voltage level and the time of day. The tariff ranges from VND 1,212 per unit to VND 2,701 per unit for different**

**voltage levels and time periods.**

**Pakistan's electricity tariff remains the highest in the region, leaving firms highly uncompetitive. Karachi receives electricity at a non-RCET tariff (i.e., USD 0.10 per kWh) as it enjoys cheaper indigenous gas. However, the supply of electricity is not sustainable.**

**Sources: IEA, ADB, MoF Pakistan, Forbes, and Lightcastle Bangladesh (data for 2020 and 2021)**

*Textile Policies*

**After the abolition of the Multi-Fiber Agreement (MFA) in 2004 and the enforcement of the Agreement on Textiles and Clothing (ATC), three textile sector policies in Pakistan have been approved.**

**The Textile Policies of 2009-2014 and 2014-2019 were formulated with the aim of enhancing textile and apparel exports to US$ 25 billion and US$ 26 billion, respectively. The objectives of both policies were to fully utilize the comparative advantage of cotton and the presence of a nearly self-sufficient, complete value-chain, starting from fiber to finished products.**

**Both policies proposed several financial and facilitation measures, including but not limited to the availability of energy at regionally competitive rates, reduced mark-ups for technology upgradation and working capital, tariff rationalization, simplification of temporary importation schemes, improvement of ease of doing business parameters, and infrastructure and human resource development.**

**Ambitious targets and financial commitments of Rs. 188 billion and Rs. 65 billion, respectively, were set in the first and second Textile Policies. However, these targets could not be fully achieved due to delayed or non-payment under respective facilitation schemes and non-allocation of funds for infrastructure development, vocational training, productivity, and compliance-related programs.**

**During the first policy period, energy was not fully available, and the textile and apparel value-chain was not allotted the top priority in energy distribution. High and volatile international commodity prices and high mark-up rates limited exports during the first policy period.**

**In the second policy period, energy was available, but not at regionally competitive prices. Although commodity prices were lower, the industry was not competitive enough to increase exports due to high utility rates. Moreover, the zero-rating regime was withdrawn in 2013 without providing an expeditious refund system that was committed, thereby creating a liquidity crunch for exporters. The zero-rating regime was restored in 2016 but withdrawn again in 2019. Similarly, other than sales tax refunds, customs duty drawbacks and withholding tax refunds were also not paid on time. The Technology Upgradation Fund (TUF) scheme was included in previous policies with special provisions to support SMEs.**

**To reduce the cost of doing business, the DLTL scheme was launched in the first Textile Policy for only two years, but payments were not made on time. In the second Textile Policy, the scope of the scheme was linked to incremental increases in exports compared to the previous year.**

**Furthermore, no new infrastructure and human resource development programs were initiated in both Textile Policies. On the other hand, Pakistan Textile City Limited (PTCL), a project of 1,250 acres, was placed under liquidation. Importantly, cotton production has fluctuated due to various reasons, and further import duties on cotton were imposed, thereby increasing the cost of production for the downstream value-chain.**

**A robust implementation mechanism was not devised, and financial commitments by the government were considered the only tool for implementing the policies.**

**The Textiles and Apparel Policy 2020-25 aims to address the shortcomings of previous policies through a multipronged strategy as follows:**

1. **Government's strong resolve and commitment for the disbursement of pending liabilities of Rs. 121 billion from previous governments in the last three years.**
2. **A market-driven exchange rate is a significant boost to increase exports and reduce imports.**
3. **Rationalization of the tariff structure of the textiles and apparel value-chain under the National Tariff Policy.**
4. **Revision of customs duty drawback rates.**
5. **Provision of consistent and long-term financing facility (LTFF) and export financing scheme (EFS) rates at 5% and 3%, respectively, during FY 2021-22.**
6. **A mass-level training program will be launched, especially for industrial stitching, with a major focus on women.**
7. **The first-ever e-commerce policy is under implementation, which will provide open access to the textiles and apparel industry to tap available business opportunities across the globe. Amazon has already started registering Pakistani manufacturers and exporters, including those in textiles and apparel.**

## *SWOT Analysis of the Textile Sector of Pakistan*

**Strengths:**

1. **Abundant Raw Material: Pakistan is blessed with the availability of high-quality cotton, which is the primary raw material for the textile industry. This makes it easier for Pakistan to produce high-quality textile products at a lower cost.**
2. **Competitive Labour Costs: The cost of labour in Pakistan is**

**comparatively lower than in many other countries, making the country an attractive destination for textile manufacturers. This provides the industry with a competitive edge in the international market.**

3. **Skilled Labour: The textile sector in Pakistan has a highly skilled workforce with technical expertise in various areas of the textile value chain. This has helped Pakistan produce high-quality textile products and gain a competitive edge in the global market.**
4. **Diversified Product Range: Pakistan's textile industry produces a wide range of products, including cotton yarn, fabric, home textiles, and garments. This diversification allows Pakistani textile companies to cater to a broad range of customers across the world.**
5. **Favourable Government Policies: The Government of Pakistan has introduced several policies and incentives to promote the textile industry, including duty-free access to textile products in the European Union under the GSP+ Scheme and in other countries. This has helped increase Pakistan's exports of textile products.**

**Weaknesses:**

1. **Energy Crisis: The textile sector is highly energy-intensive, and Pakistan has been facing an energy crisis in recent years, which has resulted in frequent power outages and increased production costs.**
2. **Outdated Technology: Many textile factories in Pakistan use outdated machinery and technology, which results in lower efficiency and higher production costs.**
3. **Limited Value Addition: Despite being one of the largest producers of cotton, Pakistan has limited value addition in the textile sector. This means the country exports raw cotton and imports finished textile products, resulting in a loss of potential revenue.**
4. **Lack of Innovation: There is a lack of innovation in the textile sector in Pakistan, with a focus on producing traditional products rather than developing new and innovative products that could increase the sector's competitiveness.**
5. **Compliance Issues: Pakistan's textile industry has faced challenges with compliance regarding labour rights and environmental regulations, which has resulted in a negative image for the industry.**
6. **Limited Export Destinations: Pakistan's textile industry heavily depends on a few markets, such as the United States and the European Union, which makes the industry vulnerable to external factors that may impact these markets.**

**Opportunities:**

1. **Diversification of Products: The industry could explore new and innovative product lines, such as technical textiles, medical textiles, and eco-friendly textiles. These products have growing demand in the global market and could provide new growth opportunities for Pakistani textile manufacturers.**
2. **Value Addition: The industry could focus on increasing the value addition of its products. This could be achieved by developing new finishing techniques, improving the design and quality of products, and adopting sustainable manufacturing practices. This would not only increase the competitiveness of the industry but also increase the revenue earned per unit of output.**
3. **Export Market Diversification: Pakistan could explore new export markets beyond its traditional markets, such as the United States and European Union. Emerging markets in Africa and Asia offer significant potential for Pakistani textile manufacturers.**
4. **Public-Private Partnerships: Collaboration between the government and the private sector could help address some of the challenges faced by the textile sector in Pakistan. This could include investing in research and development, providing access to modern technology, and developing sustainable manufacturing practices.**
5. **E-Commerce: The growth of e-commerce platforms presents an opportunity for Pakistani textile manufacturers to access new markets and customers. By leveraging these platforms, manufacturers can expand their customer base and increase their exports.**

Threats:

1. **Global Competition: Pakistan faces intense competition from other textile-producing countries such as China, India, and Bangladesh, which have lower labour costs, energy prices, and advanced manufacturing technology. This competition could affect the export competitiveness of Pakistan's textile industry.**
2. **Changes in Global Trade Policies: Changes in global trade policies, such as trade barriers and import tariffs, could affect Pakistan's textile exports. The recent US-China trade war and Brexit are examples of such policies that have impacted the global textile market.**
3. **Raw Material Prices: The price of raw materials, especially cotton, is highly volatile, which can impact the cost of production for textile manufacturers in Pakistan.**
4. **Environmental Regulations: Stringent environmental regulations in developed countries could impact Pakistan's textile exports. If Pakistani textile manufacturers fail to comply with environmental**

**regulations, they could lose access to these markets.**

5. **Labour Rights Issues: Pakistan has been criticized for its poor labour rights record, including child labour and poor working conditions. This could affect the industry's reputation and access to export markets that prioritize ethical manufacturing practices.**
6. **Currency Fluctuations: Currency fluctuations can impact the cost of production and export competitiveness of Pakistani textile manufacturers. For example, a stronger Pakistani Rupee would make the country's exports more expensive for foreign buyers.**
7. **Worldwide Recession: In recent years, the global economy has grown at a very slow pace, showing signs of recession. Continuation of such a situation could threaten Pakistan's export sector, including textiles.**
8. **Geopolitical Tensions: Geopolitical events such as the Russia-Ukraine war have negatively impacted overall global trade.**

*Gap Analysis of Pakistan's Textile Sector*

| **Current State** | **Action Plan** | **Desired State** |
|---|---|---|
| **Suboptimal Performance** | | |
| **Availability of Raw Material (Shifting to other cash crops than cotton)** | **Policy incentives for enhanced domestic cotton production using the best quality seeds (M/o NFS & R, Finance, Commerce)** | **Availability of sufficient raw material to ensure a vertically integrated supply chain** |
| **Highest energy cost in the region** | **Ensure continuous supply of energy at regionally competitive rates (M/o Commerce, Energy and Petroleum Divisions, FBR, NEPRA, Finance, OGRA)** | **Globally and regionally competitive textile products to enhance foreign exchange** |
| **Low financial support to SMEs and exporters** | **Devise schemes for soft loans to potential exporters, especially in value-added products (Finance Div., SBP, M/o Commerce)** | **SME sector will contribute in a befitting manner, and export of value-added products will be enhanced.** |
| **Delay in opening** | **Include imports for** | **Textile sector will meet** |

| | | |
|---|---|---|
| **of L/Cs for the import of raw materials** | **textile inputs in the priority list. (M/o Finance, SBP)** | **its export orders timely.** |
| **Low focus on value-addition** | **Financial incentives for export of value-added products. (M/o Finance, Commerce, SBP)** | **Export of value-added products will bring more foreign exchange as well as diversification of textile mix.** |
| **Technological Gaps** | **Acquisition of modern and efficient technology for upgradation of textile processes and products. (MOFA, Commerce, BOI, etc.)** | **Textile sector will become technologically competitive in the export of technical textiles.** |

***Institutional Gaps***

i. An independent Ministry of Textile Industry was established in 2004 to address sectoral issues; however, it was not fully empowered, and some functions of the ministry even remained under the ambit of other ministries, such as trade negotiations on textiles and apparel under the domain of the Ministry of Commerce.

ii. Due to a shortage of human resources, the Textile Division could not pursue projects to achieve set goals.

iii. Lack of effective coordination between the Ministry of Textile and other relevant ministries/divisions/departments led to the failure to resolve issues.

After merging into the Ministry of Commerce, the issues faced by the Textile Division have been significantly addressed, which are reflected in the better performance of the textile sector.

*Regional Competitiveness*

The gap analysis of Pakistan's textile sector, compared to its regional competitors such as China, India, and Bangladesh, is as follows:

i. Energy Supply: Compared to Pakistan, which faces a prolonged energy crisis, there is a continuous supply of energy to the textile sector of regional competitors, especially Bangladesh, where there is no shortfall and subsequent outages.

ii. Energy Competitiveness: Pakistan’s energy tariffs remain the highest in the region, leaving firms highly uncompetitive.

iii. Regulatory Framework: Pakistan’s ranking in Ease of Doing Business is still not in double digits (108/190), mainly due to a complicated regulatory framework. In contrast, the regulatory frameworks of regional competitors are digitized, facilitative, and fast.

iv. Technological Differences: Pakistan's textile sector has not significantly upgraded its technological infrastructure, whereas regional competitors are using state-of-the-art technologies for textile production.

v. Export Incentives: Compared to India, Bangladesh, and many other countries, Pakistan does not offer any of the following to exporters:

- Concessionary export finance, which was withdrawn recently.
- Full export insurance, guarantees, and quality management.
- Export performance requirements for access to incentives.
- Export cash subsidy.

The classic case of an export cash subsidy is that of Bangladesh, where an export cash incentive of 2% to 20% is offered on 24 export products. The rate is higher for more value-added exports, emerging exports, and exports to new markets. India operates a duty scrip scheme.

## *Issues and Challenges*

Based on various analyses of the textile sector, the following are the major issues and challenges faced by Pakistan's textile industry:

**Issues:**

i. Obstacles for SMEs include access to concessionary finance, international marketing, skilled labour, and compliance with international standards.

ii. High cost of doing business, as Pakistan ranks low (at 108/190) in the Ease of Doing Business and Competitiveness Index.

iii. The demand from the textile sector for the restoration of the zero-rating status.

iv. Non-availability of cotton and other raw materials.

v. Delay in the release of tax refund claims by FBR.

vi. Inconsistent policies.

vii. Ambitious and unrealistic export targets.

viii. Security and law & order situation (major exporters relocated to Bangladesh from 2009 onwards due to security concerns and the energy crisis).

ix. Less focus on fibre and product diversification.

x. High tariffs, especially on raw materials.

xi. High dependence on conventional textile products.

xii. The highest energy costs in the region, along with power outages.

xiii. Lack of centers for innovation and improvement of products and processes.

**Challenges:**

i. Pakistan, despite being the 5th largest cotton producer, faces the biggest challenge of restoring the profitability of cotton farmers by increasing per-acre cotton yield through the introduction of the latest seed technology.

ii. The second major challenge is product diversification via improvements in fibre mix, focusing on Man-Made Fibres (MMF), artificial or synthetic, to enhance competitiveness and produce goods more in line with global demand.

iii. Tariff escalation in the value chain, intended to encourage domestic value addition, has only made the sector more uncompetitive. Due to high tariffs on value-added products, domestic manufacturers end up importing more MMF rather than fabric, while countries such as Vietnam and Cambodia import MMF fabric and sell more value-added products in the international market. Rationalization of tariffs is imperative to ensure a more equal distribution of profits and encourage the industry to invest in improving productivity.

iv. Pakistan is a major supplier of raw materials and semi-processed raw materials. Hence, there is a need to shift to value-added products, such as garments and made-ups, along with performance-based technical textile products. Due to the lack of state-of-the-art infrastructure, such as textile/garment parks, the industry must invest in infrastructure components, particularly in captive power generation and effluent treatment plants.

v. Foreign Direct Investment (FDI) has not been attracted to textiles due to inconsistent policies, including exchange rate issues, lack of infrastructure facilities, and the unavailability of energy at competitive prices. The challenge will be to restore the confidence of international investors through the implementation of textile policies in letter and spirit.

vi. Improving the productivity and sustainability of the textile sector, especially increasing garment exports, is also a major challenge. This requires the initiation of mass-level training programs, particularly in industrial stitching, with a focus on SMEs.

## *Conclusion*

The textiles and apparel sector occupies a pivotal position in Pakistan's economy, with the most intensive backward and forward linkages compared to any other sector. It is considered the backbone of the country's economy and employs around 40% of the industrial labour. Pakistan's total textile exports crossed the threshold of US$ 19.3 billion during the fiscal year 2021-22, despite numerous challenges. There are several issues and challenges to the growth of the sector, including the unavailability of seed, minimal to no export incentives, high energy costs, low ease of doing business, currency fluctuations, lack of access to credit financing for SMEs, security and law & order issues, among others. The sector holds immense potential to contribute to the country's economy, and exports could reach as high as US$ 80 billion with necessary reforms and support in areas such as financing, regulatory framework, market access, export diversification, and improving the business climate. Overall, the textile sector is a vital pillar of Pakistan's economy, providing employment opportunities, contributing to GDP, and earning foreign exchange. The growth and development of the industry are crucial for the country's economic progress.

## *Recommendations And Way forward*

Following recommendations are made:

To ensure sustainable growth of Pakistan's textile sector, the following measures should be taken:

General:

1. Focus on sustainable practices: The textile sector should adopt sustainable practices such as reducing water and energy consumption, minimizing waste, and promoting the use of eco-friendly materials.
2. Investment in technology: The sector should invest in advanced technologies such as automation, robotics, and digitalization to enhance productivity and product quality while reducing environmental impact.
3. Skills development: The government should invest in the development of the workforce by establishing training institutes and providing financial support to textile workers for their education and skill development.
4. Diversification: The sector should diversify its product range to cater to different markets and customer needs, including technical textiles and high-value products.
5. Branding and marketing: The sector should focus on branding and marketing its products globally by participating in textile fairs and exhibitions and using digital platforms for promotion.
6. Collaboration: The sector should foster collaboration between the

government, academia, and the private sector to develop innovative solutions, promote sustainable practices, and enhance competitiveness.

7. Infrastructure development: The government should invest in the development of infrastructure such as ports, highways, and railways to improve logistics and reduce transportation costs.
8. Access to finance: The government should provide financial support to textile manufacturers, particularly small and medium-sized enterprises, to access credit and investment.
9. Regulatory environment: The government should simplify regulatory procedures and introduce online services to reduce bureaucratic hurdles for textile manufacturers.
10. Compliance and governance: The sector should comply with national and international standards for environmental sustainability, labor practices, and corporate governance. This will enhance the sector's reputation, reduce risks, and improve market access.

Specific:

Short Term:

1. Reduce Cost of Doing Business i. Concessional energy rates for export-oriented sectors, i.e., Electricity at US cents 9/kWh and RLNG at US$ 6.5/MMBtu all-inclusive during FY 2021-22, with continuation of the concessionary regime at regionally competitive rates after deliberation with stakeholders. ii. Drawback of Local Taxes and Levies (DLTL) only for value-added products – Garments, Technical Textiles, and Made-ups. iii. Continuation of duty-free import of textiles and apparel machinery with the addition of spare parts (not manufactured locally). iv. Restoration of Tax Credit for Investment. v. Tariff rationalization of the entire Textiles and Apparel chain. vi. Continuous review of customs duty drawback rates for textiles and apparel products, including additional customs and regulatory duties. vii. Simplify temporary importation schemes from the perspective of SMEs. viii. Pursue FBR to devise a new temporary importation scheme to cater to fast fashion trends. Action by: (Ministry of Commerce, FBR, Ministry of Finance, State Bank of Pakistan)

Medium Term:

2. Financial Support i. LTFF Mark-up to continue at 5%. ii. Enhance LTFF disbursements by PKR 100 billion per annum. iii. Inclusion of indirect exporters and construction for the Apparel and Made-ups sectors under LTFF. iv. Export Finance Scheme (EFS) mark-up to continue at 3%. v. Revival of sick textile units. vi. Initiation of Back-

to-Back L/C. vii. Credit line for Brand Development and Acquisition.

3. Sector-Specific Initiatives i. Introduce the latest seed technology. ii. Cotton hedge trading. iii. Introduce a quality/grading-based marketing mechanism for cotton. iv. Initiate Clean Cotton Program. v. Launch a Special Technology Upgradation Scheme for ginning. vi. MMF not manufactured locally should be duty-free.

Market Access:

i. Facilitate international buying houses to open offices in Pakistan. ii. GSP+ status for upcoming years to avail preferential tariffs in the EU. iii. Negotiations with developed/developing economies for market access. Action by: (Ministry of Foreign Affairs, Ministry of Commerce)

Regulatory Regime and International Compliances:

i. Stock-taking of the entire regulatory regime to highlight changes and adapt international best practices. ii. Digitization of the regulatory framework. iii. Expedite the implementation of the National Single Window. iv. Initiate compliance programs for SMEs, including compliance with environmental and human rights laws and conventions. Action by: (Ministry of Commerce, Ministry of Industries & Production)

Long Term:

6. Infrastructure Development:

i. Establish new garment cities. ii. Revitalize Karachi Garment City Company (KGCC). iii. Add new buildings in Lahore Garment City Company (LGCC) and Faisalabad Garment City Company (FGCC). iv. Establish new expo centers. v. Grant SEZ status to existing and new garment cities. Action by: (Ministry of Commerce, Board of Investment)

7. Research and Product Development:

Establish an R&D fund to introduce new products and improve the quality of existing products. Action by: (Ministry of Commerce, Higher Education Commission)

8. Human Resource Development:

i. Review labor laws, especially to allow women to work in three shifts, aiming for increased female participation.

ii. Mass-level, female-exclusive textiles and apparel training programs, especially in apparel stitching.

iii. Scheme for women, disabled, and handicapped individuals on incremental increases in employment. Action by: (Ministry of OP & HRD, Ministry of Finance)

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