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Enhancing Competitiveness of Pakistan's Denim Sector



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ENHANCING COMPETITIVENESS OF PAKISTAN'S DENIM SECTOR

PAKISTAN BUSINESS COUNCIL (PBC)

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THE PAKISTAN BUSINESS COUNCIL: AN OVERVIEW

The Pakistan Business Council (PBC) is a business policy advocacy platform, established in 2005 by 14 (now 79) of Pakistan's largest private-sector businesses and conglomerates, including multinationals. PBC businesses cover nearly all sectors of the formal economy. It is a professionally-run organization headed by a full-time chief executive officer.

The PBC is a not-for-profit entity, registered under Section 42 of the Companies Ordinance 1984. Though it is not required under the law to do so, the PBC follows to the greatest extent possible, the Code of Corporate Governance as applicable to listed companies.

The PBC is a pan-industry advocacy group. It is not a trade body nor does it advocate for any specific business sector. Rather, its key advocacy thrust is on easing barriers to allow Pakistani businesses to compete in regional and global arenas. The PBC conducts research and holds conferences and seminars to facilitate the flow of relevant information to all stakeholders in order to help create an informed view on the major issues faced by Pakistan.

The PBC works closely with relevant government departments, ministries, regulators and institutions, as well as other stakeholders including professional bodies, to develop consensus on major issues which impact the conduct of business in and from Pakistan. The PBC has submitted key position papers and recommendations to the government on legislation and other government policies affecting businesses. It also serves on various taskforces and committees of the Government of Pakistan as well as those of the State Bank, SECP and other regulators with the objective to provide policy assistance on new initiatives and reforms.

THE PBC'S FOUNDING OBJECTIVES

The major objectives of the PBC as stated in its founding documents are:

- To provide for the formation and exchange of views on any question connected with the conduct of business in and from Pakistan.
- To conduct, organize, set up, administer and manage campaigns, surveys, focus groups, workshops, seminars and field works for carrying out research and raising awareness in regard to matters affecting businesses in Pakistan.
- To acquire, collect, compile, analyze, publish and provide statistics, data analysis and other information relating to businesses of any kind, nature or description and on opportunities for such businesses within and outside Pakistan.
- To promote and facilitate the integration of businesses in Pakistan into the World economy and to encourage in the development and growth of Pakistani multinationals.
- To interact with governments in the economic development of Pakistan and to facilitate, foster and further the economic, social and human resource development of Pakistan.

More information on the PBC, its members, and its workings, can be found on its website: www.pbc.org.pk

PBC MEMBER LOGOS





JS BANK



Jubilee
INSURANCE



KE
Energy That Moves Life



K&N



KSB



LOTTE



LUCKY
CEMENT



Martin Dow



MAHMOOD GROUP



MEGA
MEGA CONGLOMERATE



PILMAT TRACTORS LIMITED



National
FOODS
SINCE 1958



NAVEENA
GROUP



Nestlé



NISHAT MILLS LTD



ORIX



PACKAGES Limited



pakarab
FERTILIZERS LIMITED



PEPSICO



PSL
PAKISTAN SERVICES LTD.



optcl



PAKISTAN TOBACCO
COMPANY



PHILIP MORRIS
INTERNATIONAL



Qarshi



rb



SAIF GROUP



Sapphire



Shan



SICPA



SIEMENS



Soneri Bank



SOORTY



HUTCHISON PORTS
PAKISTAN



Standard
Chartered



SPEL



TAPAL



TCS



telenor



PROTECTS
Tetra Pak
WHAT'S GOOD



TPLHoldings
Tomorrow Delivered Today



Tufail
Chemical Industries Ltd.



UBL
where YOU come first



Unilever

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ACRONYMS

BOI	Board of Investment
BoT	Balance of Trade
CSR	Corporate Social Responsibility
CD	Custom Duty
DLTL	Drawback of Local Taxes and Levies
DTRE	Duty and Tax Remission for Export
EDF	Export Development Fund
EOBI	Employees Old Age Benefit Institution
EPZ	Export Processing Zone
ESSI	Employees Social Security Institution
EU	European Union
FBR	Federal Board of Revenue
FDI	Foreign Direct Investment
FOB	Freight on Board/ Free on Board
FTA	Free Trade Agreement
FY	Financial Year
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GIDC	Gas Infrastructure Development Cess
GSP	Generalised Scheme of Preferences
HS	Harmonized System of tariff nomenclature
IC	International Competitiveness
IFC	International Finance Corporation
IMD	Institute of Management Development

I/O	Input / Output
ITC	International Trade Centre
JVs	Joint Ventures
kW	Kilo Watt
LC	Letter of Credit
LPI	Logistics Performance Index
LTP	Long Term Plan
LTFE	Long Term Finance Facility
MFN	Most Favoured Nation
MMF	Man Made Fibers
PPP	Public Private Partnership
QC	Quality Control
RD	Regulatory Duty
R&D	Research and Development
RLNG	Re Liquefied Natural Gas
SBP	State Bank of Pakistan
SEZ	Special Economic Zone
SME	Small and Medium Enterprise
TUF	Technology Upgradation Fund
UK	United Kingdom
USA	United States of America
USD	United States Dollar
UAE	United Arab Emirates
VAT	Value Added Tax
WPPF	Worker Profit Participation Fund
WWF	Workers Welfare Fund

EXECUTIVE SUMMARY

Introduction

Pakistan is suffering from premature deindustrialization. The role of manufacturing in the economy has declined and the country lags behind its regional peers such as Bangladesh, India and Sri Lanka. Ideally, the share of manufacturing in GDP for a developing country like Pakistan should reach between 28.0% & 30.0% before its contribution begins to decline. However, in Pakistan's case manufacturing (as a % of GDP) peaked in 2005 at 17.5% and thereafter it started to decline falling in 2018 to 12.1%.

Premature deindustrialization in Pakistan has resulted among other things in the loss of competitiveness of the country's export sectors. Pakistan's regional competitors, Bangladesh and Vietnam have been able to increase their market share of global exports by more than two-folds and seven-folds respectively, between 2003 & 17. The failure to increase exports has led to a serious current account crisis as Pakistan struggles to service its import bill. In addition, Pakistan due to its failure to increase exports of manufactured goods, has seen an increase in unemployment and under-employment in recent years.

To help create awareness and to address the issues of Premature Deindustrialization, the Pakistan Business Council (PBC), which is a business policy advocacy forum setup in 2005 by 14 (now 79) of Pakistan's largest private sector businesses has initiated a Make-in-Pakistan (MiP) initiative. The MiP initiative aims to put in place a policy framework that will help re-industrialize Pakistan, a process which will lead to the creation of jobs, an increase in value added exports, provide support to local industry to competitively replace imports and finally lead to increased government revenues as the economy enters a phase of sustained growth.

To achieve the above, the PBC has initiated a series of sector studies aimed at increasing global competitiveness of those sectors in which Pakistan has a significant global presence. The textile sector is the first sector which is being studied from the competitiveness perspective primarily because textiles make up nearly 60% of Pakistan's exports. This report titled, **"Enhancing Competitiveness of Pakistan's Denim Sector"** is the second in the textile sector series.

The findings and recommendations in this study are based on one-on-one interviews with owners / senior managers of firms

in the Denim industry, the primary data is supplemented with secondary data including literature on best global practices in the denim / apparel industry. The study has been authored by the research team at the Pakistan Business Council (PBC) consisting of **Samir S Amir** and **Ahsan Hamid** in close partnership with **Dr Huma Amir** at the Institute of Business Administration (IBA) Karachi.

Pakistan's Economy, its dependence on Textiles and the Global Textile Trade

Accounting for nearly 60% of total exports, the textile sector is the largest contributor to Pakistan's exports. In 2017, Pakistan exported USD 13 billion worth of textile products against imports of USD 3.54 billion. The sector's contribution to GDP stood at 8.5% and it employed nearly 40% of the country's labour force. The total global textile trade in 2017 was worth USD 789.63 billion with China having the largest market share (32.6%). Pakistan ranked 10th in the global textile trade with a share of only 1.65%. The biggest market for textiles in 2017 was the EU with a share of 36.5% followed by the USA and Japan.

Textiles, is a broad term and comprises of a variety of products such as yarn, apparel, carpets, silk, and synthetic textiles. Among these sub-sectors, apparel dominates the textile sector with a share of 57.43%. Apparel exports can be categorized as Knitwear and Woven Garments. In 2017, Pakistan exported USD 2.52 billion worth of Knit apparel and USD 2.47 billion worth of woven apparel. Pakistan's share in the global market was 1.11% for Knit apparel and 1.08% for Woven apparel. In Pakistan's textile exports of USD 13.0 billion in 2017, the share of Knit apparel was 19.35%, while that of Woven apparel was 18.96%.

The Global Denim Fabric and Denim Apparel Markets

In the five-year period ending December 2017, global exports of Denim Fabric (HS-520942) showed an overall declining trend, from USD 3.43 billion in 2013 global exports fell to USD 2.76 billion in 2017. China in 2017 continued to maintain its position as the lead supplier of denim fabric with a 18.72% (USD 517.29 million) market share. Pakistan ranked second with a share of 17.46% (USD 482.49 million). Bangladesh in 2017 was the biggest importer of denim fabric, importing USD 592.43 million worth of fabric, the other major importers were Turkey and Hong Kong. In recent years, Bangladesh has seen a reduction in denim fabric imports as its denim apparel industry has invested in backward integration reducing the need for imported fabric.

Euromonitor International, the leading global market research firm estimated the value of the global jeans market at USD 95.4 billion in 2017.

While studying Pakistan's denim apparel sector, the authors had to make certain assumptions regarding the contribution of denim apparel to total woven apparel exports. This was primarily due to the fact that denim apparel in Pakistan is clubbed under the head of cotton apparel. The assumptions made and the rationale for these assumptions are discussed in the main body of this report.

A Review of Government Support for the Textile Sector

This report briefly touches upon the various textile policies, schemes and incentives offered by the Government of Pakistan to boost textile exports from Pakistan. It also includes a comparison of the incentives offered in competitor countries to their exporters by their respective governments.

Industry View on Enhancing Export Competitiveness of Pakistan' Denim Apparel Sector

Since the purpose of this report is to provide a policy framework for enhancing competitiveness of Pakistan's denim industry, a total of 11 one-on-one interviews were conducted with leading exporters of denim apparel from Pakistan. The sample size is indicative of the small number of very large players in the denim sector. A few large firms which are vertically integrated – spinning to apparel, dominate denim and denim apparel exports from Pakistan.

Major Interview Findings

- **Pakistan appears to be heading for a glut in denim fabric production**

Most firms interviewed appear to have started off as fabric exporters who diversified into the apparel sector. However, with decreasing global demand for denim fabric, most firms have still not been able to divert in-house fabric production to apparel. There is a serious threat in the near future of a “denim glut” in Pakistan.

- **Delayed government release of rebates and refunds is impacting firm level sustainability**

Respondents reported that when the government fails to deliver on its promises, it impacts business profitability. Announced rebates and incentives mean that firms have to pass on a part of the announced rebate or incentive to their buyers. When the government fails to clear on a timely basis the rebate or incentive, cash flows are severely impacted at the firm level

- **Frequent and large depreciations in the value of the Pak rupee impacts the sector negatively**

Currency devaluations should be done on a gradual basis. Sudden and large devaluations lead to buyers demanding discounts whereas input costs other than cotton and labour are all dollar-indexed. Hence, the benefits of currency depreciations are much lower than expected.

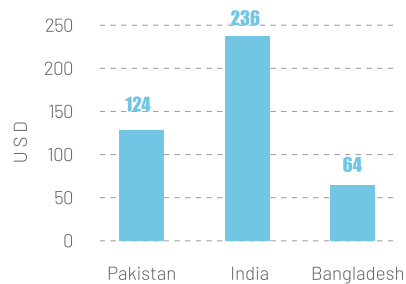
- **Absence of domestic chemicals and dyes industry impacts competitiveness**

Most chemicals and dyes are not manufactured locally; exporters therefore have to resort to imports under various schemes available to them. This not only increases the lead times but also increases working capital requirements since manufacturers have to import large quantities in advance.

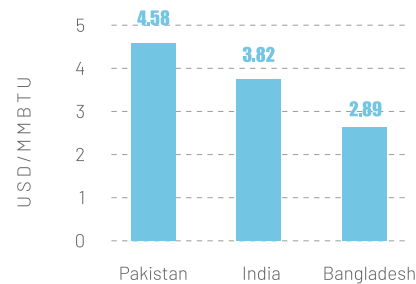
- **Cost of utilities (water, gas electricity) is high as compared to competitor countries**

Exporters complained that they have to pay higher costs for gas, grid electricity and labour as compared to exporters in competitor countries. The figures below show a comparison between, labour rates, gas and, grid electricity rates payable by Pakistani manufacturers and those applicable to manufacturers in competitor countries.

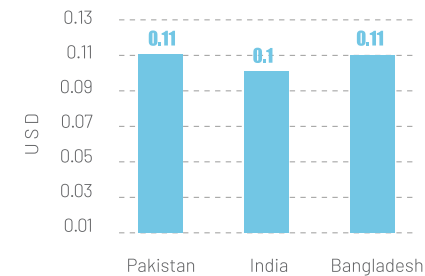
Minimum Wage Rate Comparison-2018 (USD)



Gas Rate Comparison-2018



Electricity Rate Comparison



- **Absence of domestic industry for manufacturing of garment accessories and other ancillary materials is impacting both delivery and lead times**

A pair of jeans in addition to the fabric requires thread, zippers, rivets, buttons, brand labels, tracking, inventory, price labels, leather patches, poly bags, packing tapes, cartons etc. before it can be exported. Pakistan however, does not have an industry for producing these materials due to which exporters have to rely on imports. This in-turn ties up working capital and increases lead times.

- **Government taxes & levies impact profitability**

Producers are subject to a long-list of taxes & levies such as turnover tax, Export Development Surcharge (EDS), Workers Welfare Fund (WWF), Workers Profit Participation Fund (WPPF), Social Security Contribution, and an EOBI contribution. Exporters felt that some of these levies are unjustified and costly, rendering them (producers) uncompetitive in the international market.

- **Dealing with government functionaries is time-consuming, expensive and frustrating**

The larger exporters who supply to global brands are frequently audited by their suppliers to ensure compliance with local laws among others. The compliance standards of global brands are at times higher than those which are prescribed in a country's laws. Despite being compliant with global laws, they are frequently visited by inspectors from various government departments insisting on physical audits, this is time consuming and requires the hiring of additional manpower to deal with these frequent inspections.

- **Government's priority is cotton as opposed to apparel**

Pakistan's textile policies and incentives have historically been in favor of the cotton growing sector as opposed to the value-added manufacturing sector; this needs to change. The government needs to provide a policy framework which prioritizes the apparel industry.

- **Skilled manpower is in short-supply**

The vocational training programs currently being run in the country are not yielding desired results forcing exporters to provide on job training to new workers. This is a time-consuming exercise and also fails to ensure a consistent supply to labour.

- **The absence of female workers in apparel manufacturing is a major impediment**

According to exporters, female workers are more "loyal" and willing to learn new skills as well as ideally suited to garment manufacturing on account of their nimble fingers. However, their participation rate in Pakistan is much lower than in Pakistan's competitor countries. The provision of "day-care" centres and quality schools along with paid maternity leaves were identified as some incentives which could be offered to increase the retention rate of female workers.

- **Rising production costs in China is an opportunity for Pakistan**

Chinese apparel manufacturers are looking for alternate manufacturing hubs on account of rising labour costs in China. Inviting these manufacturers to Pakistan will not only bring FDI but also speed up knowledge and technology-transfer leading to increased exports. However, to make this happen the government will need to provide an enabling environment.

- **Lack of new industrial estates with infrastructure impedes growth**

For apparel, new industrial estates need to be near population centres since apparel is labour intensive. Expansion or setting up of new industries in existing industrial estates is difficult due to the prohibitive cost of land.

- **Denim industry needs to organize beyond political lines**

The bigger players would like to have a joint industry – government body, professionally run, which can take a holistic and futuristic view of the denim industry. At the moment, lobbying is mostly not backed with research or it focuses on the interests of individual companies / personalities.

Recommendations for Promoting Competitiveness of Pakistan's Denim & Denim Apparel Sector

- **Pakistan needs to promote the production of premium quality denim**

Since major denim importing countries are opting for vertical integration, export markets are shrinking and margins are under pressure. Manufacturers can either improve their production practices to enhance productivity and hence reduce costs or increase value addition at the fabric stage by producing premium quality denim.

- **All rebates / refunds / incentives should be automatically credited into accounts of exporters**

To help better manage cash-flow at the firm level, the government in collaboration with the State Bank of Pakistan needs to setup an automatic system linked to receipt of export proceeds. Exporters dues should be transferred directly to their accounts by the SBP on receipt of remittances.

- **Currency adjustments if required should be frequent and incremental in nature**

Currency depreciation should be frequent. This will allow manufacturers to better plan their production and orders.

- **Government policies need to ensure availability, quality and stability in prices of cotton**

Not only does the government need to introduce policies to incentivize cotton production but also ensure that better agricultural practices are followed in the country. The use of better quality seeds, mechanization of agriculture and better farm management techniques can ensure a supply of good quality cotton.

- **Policies to support the establishment of a competitive domestic chemicals and dyes industry**

To reduce the reliance of denim manufacturers on imported chemicals and dyes, fiscal incentives need to be provided to establish a chemicals and dyes industry in the country.

- **Exporters need to have gas and electricity available at competitor country rates**

Utility rates and tariffs, need to be at par with those of competitor countries to ensure a level playing field for Pakistani manufacturers.

- **Policies need to promote the setting up of industries for the manufacture of garment accessories and other ancillary materials**

If the government is able to provide fiscal and tariff incentives to promote relocation of global suppliers to Pakistan for the production of garment accessories and other ancillary materials, this would be beneficial in two ways. Firstly, the domestic industry would be better off with local sourcing. Secondly, this import substitution would help reduce the BoT deficit.

- **Government taxes & levies need to be rationalized**

Government collections from businesses need to be streamlined to ensure that the number of procedures and the amount collected are both reduced. Industry competitiveness suffers not only because of the high cost but also because of the time associated with handling the lengthy procedures mandated by the government.

- **Interactions with Government functionaries need to be reduced**

Companies which are audited by accredited global suppliers should be exempt from frequent inspections by government departments.

- **Apparel should be government's priority, not cotton**

Bearing in mind the policies implemented by the major apparel hubs such as India, Bangladesh, China, Vietnam etc., the government should implement policy measures aimed at supporting the apparel industry. The policy should support the introduction of man-made fibre and the import of yarn which is competitively priced.

- **Government needs to support upgrading of technology and processes**

Technology and processes are for the most part outdated – though there are centres of excellence at the firm level. The low level of technology impacts productivity and quality of both the denim fabric and the apparel produced. A policy to support technology and process upgradation needs to be put in place.

- **Female workers in apparel manufacturing need to be supported to continue for longer periods of time**

Labour laws should be amended and strictly followed to ensure that employers have to provide facilities such as day-care and paid maternity leaves for their female workers. This would increase the female labour retention rate.

- **The hiring of expatriates as consultants needs to be promoted**

The larger units reported that they mostly hire expatriate consultants from Turkey and Italy for resolving specific problems. Payments to expatriates should be tax-free to promote the hiring of more foreign consultants and workers.

- **Firms need to be helped to comply with global EHS (Environment, Health & Safety) standards**

Firms reported that compliance with global EHS standards was partly responsible for Pakistani firms being able to maintain their global market shares. The government should provide common effluent treatment plants in denim clusters and help medium-sized companies meet global EHS standards.

- **Increasing Chinese production costs is an opportunity to promote JVs with Chinese companies**

Currently, the government policies do not promote joint-ventures, the Board of Investment (BOI) should be mandated to develop policies which promote JVs.

- **Provision of new industrial estates with infrastructure**

There is an immediate need to establish Apparel Parks and Garment Cities, with adequate facilities and utilities.

- **Government needs to collaborate with the denim industry to promote brand Pakistan**

The bigger players would like to have a joint industry-government body, professionally run, which will take a holistic and futuristic view of Pakistan's denim industry. A more in-depth analysis is required of the policies followed by Vietnam, Cambodia and Bangladesh to better understand the policies followed by them to promote their apparel industry.

CHAPTER 1

**PAKISTAN'S
ECONOMY, ITS
DEPENDENCE ON
TEXTILES AND THE
GLOBAL TEXTILE
TRADE**





PAKISTAN'S TRADE BALANCE IN TEXTILES

The following figure shows Pakistan's trade balance with the world in textiles between 2003–2017. Pakistan's exports of textiles have always been higher than its imports. However, it can be seen that over the past 15 years imports of textiles have grown by 378.38% against an increase in exports of 56.63%. In 2017, Pakistan's textile exports stood at USD 13.00 billion while imports amounted to USD 3.54 billion.



Figure 1 Pakistan's Trade Balance in Textiles, Source: ITC Trade Map

SHARE IN TOTAL EXPORTS

A significant portion of Pakistan's exports comprises of textiles, indicating the sector's significance for Pakistan.

Share in Total Exports, 2017

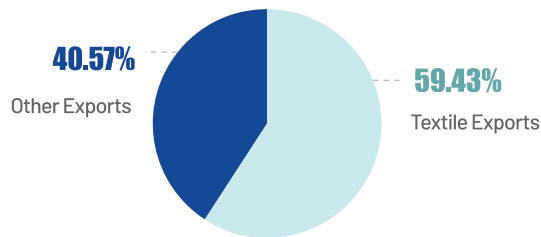


Figure 2: Composition of Exports

Pakistan's Overall Exports & Textile Exports (2003-2017)



Figure 3: Value of Pakistan's Total and Textile Exports (Time-Series Data)

CONTRIBUTION OF TEXTILES TO THE NATIONAL ECONOMY

Other than generating exports, the textile industry is a major contributor to the national economy. It provides employment to 40.00% of the labor force and has a share of 8.50% in the GDP¹. Share in industrial value addition is 23.00%. However, FDI contribution is low at 0.57%².

Contribution to National Economy	Percentage(%)
Share in GDP	8.50
Share in industrial value added	23.00
Share in industrial employment	40.00
Share in large scale manufacturing	21.00
Share in FDI	0.57

Table 1: Textiles' Contribution to the national economy

¹ <https://www.thenews.com.pk/print/326564-pakistan-loses-textile-export-share-from-2-2pc-to-1-7pc>

² State Bank of Pakistan

FOREIGN DIRECT INVESTMENT (FDI) IN TEXTILES

A fifteen-year review shows that Foreign Direct Investment (FDI) in textiles has always been low in Pakistan, never crossing the 5.00% mark. In 2017, net FDI inflows in textiles were a mere USD 15.53 million and represented 0.57% of total FDI.

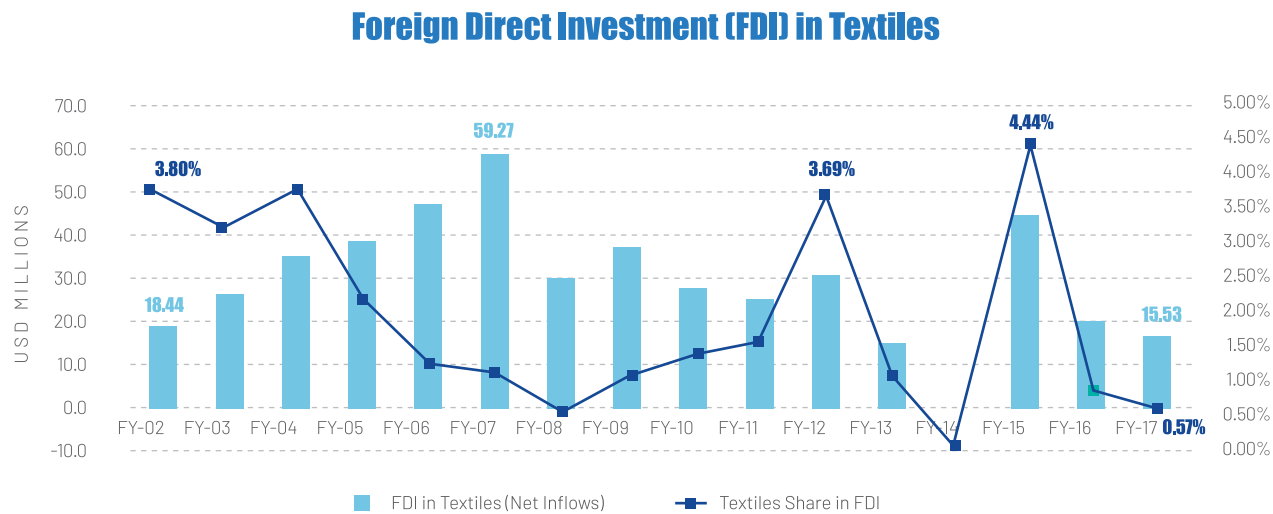


Figure 4: Foreign Direct Investment (FDI) in Textiles Source: State Bank of Pakistan

OVERVIEW OF GLOBAL TRADE IN TEXTILES

The following figure shows global supply of textiles over the past fifteen-years. Between 2003-08, world exports of textiles followed an upward trend reaching USD 650.20 billion in 2008, up from USD 429.55 billion in 2003. Exports in 2009 fell to USD 559.49 billion primarily due to the global economic crisis of 2008. In subsequent years, exports increased to USD 644.25 billion in 2010 and peaked at USD 833.47 billion in 2014. Global supply of textiles was USD 789.63 billion in 2017.

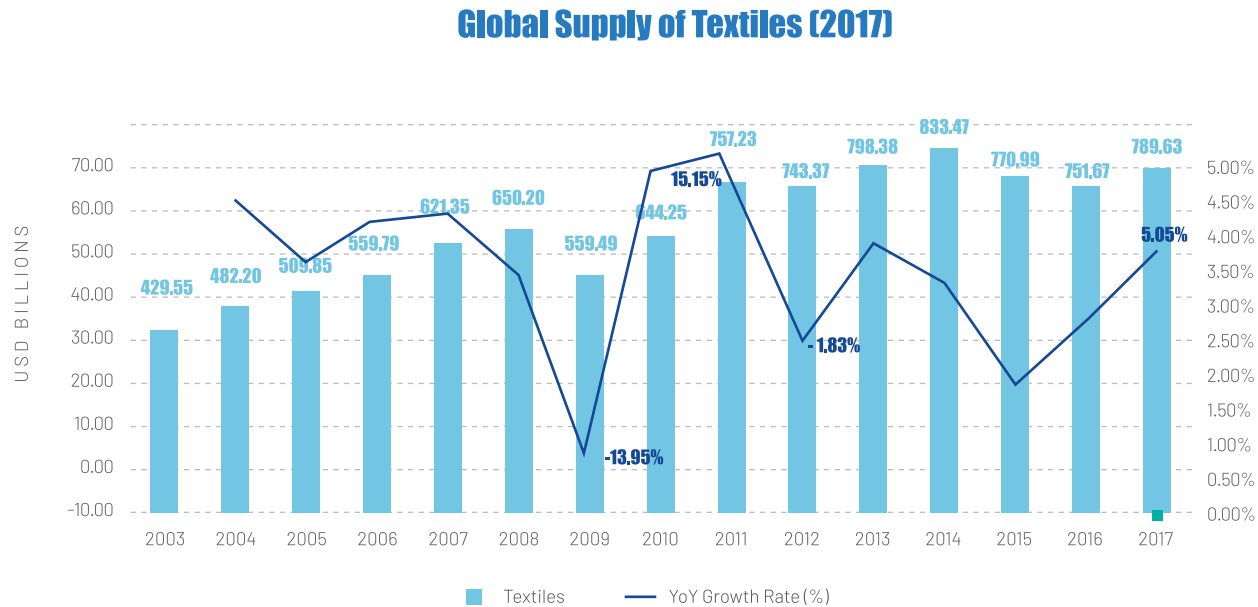


Figure 5: Global Supply of Textile, Source: ITC Trade Map

TOP TEXTILE EXPORTERS IN THE WORLD

The following table lists the top 15 exporters of textiles in 2017. China was the top global textile exporter with a market share of 32.59% followed by the EU³ at 24.69%. Other top exporters included India, Bangladesh and Vietnam, who each contributed 4.71%, 4.62% and 4.33% respectively to global textile exports. Pakistan ranked tenth in the list with exports of USD 13.00 billion and a market share of 1.65%, this incidentally was less than half that of its immediate competitors, India, Bangladesh and Vietnam.

Top 15 Textile Exporters in the world 2017

	Exporters	USD Bn	Share
	World	789.63	
1	China	257.32	32.59%
2	European Union	194.98	24.69%
3	India	37.19	4.71%
4	Bangladesh	36.49	4.62%
5	Vietnam	34.16	4.33%
6	Turkey	26.83	3.40%
7	United States of America	25.89	3.28%
8	Hong Kong(China)	21.31	2.70%
9	Republic of Korea	13.27	1.68%
10	Pakistan	13.00	1.65%
11	Indonesia	12.54	1.59%
12	Cambodia	11.39	1.44%
13	Taipei, Chinese	10.09	1.28%
14	Japan	7.56	0.96%
15	Thailand	6.80	0.86%

Table 2: Top 15 Textile Exporters in the world 2017 Source ITC Trade Map

³ The contributors to EU exports included: Germany (4.53%) Italy (4.29%) Spain (2.35%) France (2.00%) Belgium (1.90%) Netherlands (1.69%) UK (1.54%) Poland (1.00%) Portugal (0.75%) Austria (0.71%)

TOP TEXTILE IMPORTERS IN THE WORLD

In 2017, EU was the largest importer of textiles in the world with total imports of USD 258.84 billion, and a market share of 36.54%. USA and Japan were the second and third largest importers, accounting for 16.10% and 4.95% of global textile imports respectively. In addition to being top exporters, China and Vietnam were also among the top 15 importers of textiles. In 2017, China and Vietnam's imports of textiles were USD 31.10 billion and USD 24.34 billion, respectively.

Top 15 Textile Importers in the world 2017

	Importers	USD Bn	Share
	World	708.44⁴	
1	European Union	258.84	36.54%
2	United States of America	114.08	16.10%
3	Japan	35.06	4.95%
4	China	31.10	4.39%
5	Vietnam	24.34	3.44%
6	Hong Kong (China)	18.81	2.65%
7	Korea, Republic of	14.47	2.04%
8	Canada	13.86	1.96%
9	Turkey	11.83	1.67%
10	Bangladesh	11.40	1.61%
11	Mexico	10.22	1.44%
12	Russian Federation	10.18	1.44%
13	Australia	9.02	1.27%
14	Indonesia	8.22	1.16%
15	Switzerland	8.20	1.16%

Table 3: Top 15 Textile Importers in the world 2017 Source: ITC Trade Map

⁴ Figure for exports and imports of textiles does not match due to discrepancy in reported data by the countries.

COMPOSITION OF WORLD TEXTILE EXPORTS

Textiles is not limited to just cotton and fabrics but comprises of a variety of products such as yarn, apparel, carpets, silk, and synthetic textiles. The figure below shows different types of textile products that the world exported in 2017 and their respective shares in total textile exports. As evident from the figure below, apparel was the leading exported textile category, with a share of 57.43%. Other important items were cotton, art silk & synthetic textile, fabrics and yarn.

Composition of World Textile Exports (2017)

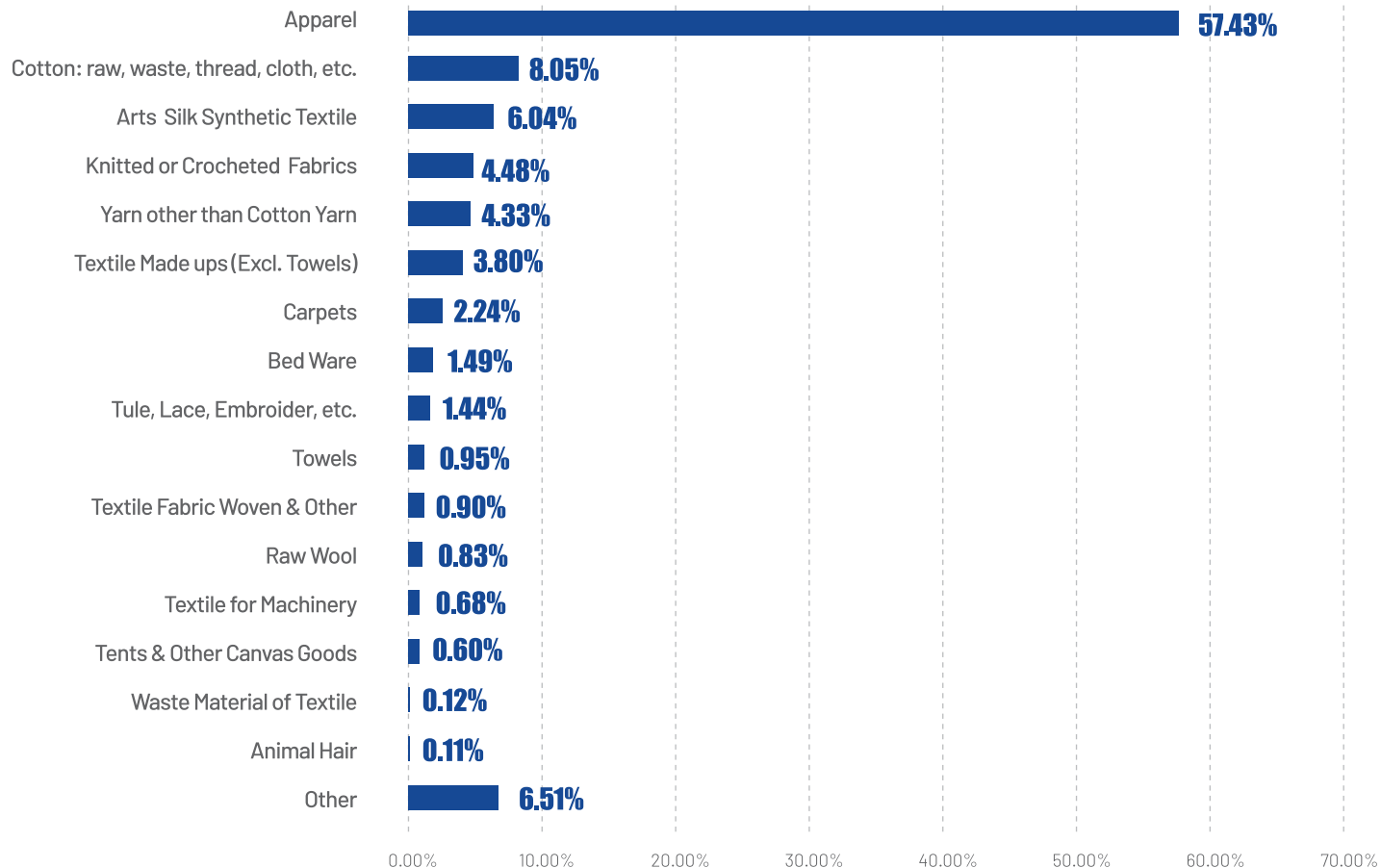


Figure 6: Composition of World Textile Exports (2017) Source: ITC Trade Map for export Figures & TDAP for HS code classification of textile goods

THE GLOBAL APPAREL MARKET

Apparel exports comprise of two types of products: woven and knitted. The figures below show that exports in both categories have increased, signifying the growing importance of the apparel trade. Over the last fifteen years, exports of knitted and woven apparel have almost doubled. Pakistan's exports have also followed a similar trend. Woven apparel exports from Pakistan grew from USD 1.05 billion in 2003 to USD 2.47 billion in 2017, while in the same period, the exports of knitted apparel grew from USD 1.30 billion to USD 2.52 billion. However, in spite of this growth, Pakistan's market share in global exports is a meagre 1.08% in woven apparel and 1.11% in knitted apparel.

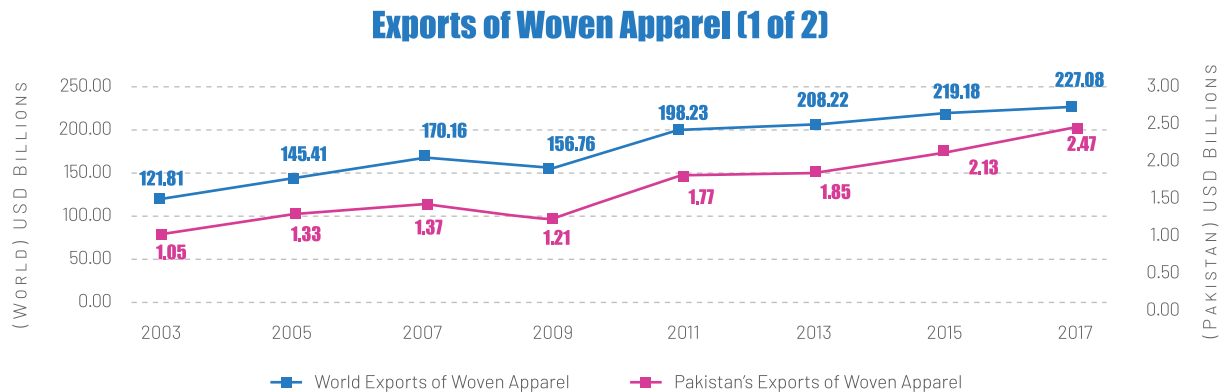


Figure 7: Exports of Woven Apparel, Source ITC Trade Map



Figure 8: Exports of Knitted Apparel, Source ITC Trade Map

Apparel is an important product category in Pakistan's exports. The table below shows composition of Pakistan's textile exports in 2017. The table shows that knitted apparel is the most important item in the value-added segment with a contribution of 19.35% followed by woven apparel at 18.96%.

Composition of Pakistan's Textile Exports (2017)

Cotton: raw, waste, yarn, thread & cloth, etc.	27.71%
Knitted Apparel	19.35%
Woven apparel	18.96%
Bed ware	17.34%
Towels	6.34%
Textile made ups (excl. Towels)	5.16%
Arts silk synthetic textile	1.99%
Tents & other canvas goods	0.89%
Carpets	0.59%
YARN (excl. Cotton yarn)	0.21%
Knitted or crocheted fabrics	0.18%
Waste material of textile	0.13%
Tule, lace, embroidery, etc.	0.12%
Textile fabrics woven & other	0.03%
Animal hair	0.03%
Textile for machinery	0.01%
Raw wool	0.01%
Others	0.95%

Table 4: 6 Composition of Pakistan's Textile Exports (2017) Source: ITC Trade Map for export Figures and TDAP for HS code product classification



CHAPTER 2

THE GLOBAL DENIM FABRIC AND DENIM APPAREL MARKET





THE DENIM VALUE CHAIN

Fabric Manufacturing

The term Denim is derived from the name of the French city of Nimes. The modern-day Denim Jeans – the most popular denim apparel, was conceived when a US-based tailor, Jacob W. Davis approached a dry- goods seller named Levi Strauss. Davis wanted to produce sturdy clothes for workers, who often complained of ripped pockets and seams because of their tools and so was conceived the idea of riveted pockets. Almost 150 years later, those “workmen” clothes are being worn by people from all walks of life.

The following section provides a brief overview of how raw cotton is converted into denim fabric and then into a pair of jeans.

Denim manufacturers procure cotton from various suppliers, both domestic and foreign. The objective being to create a differentiated product by blending cotton and other fibers. Once received, raw cotton bales are opened and sent for carding; during this process seeds and other impurities are removed. The carding process also results in separation of longer fibers and shorter fibers. The blended fibers are then arranged parallel and fed through another machine to produce slivers. The sliver is then re-mixed several times to obtain the required blend, after which it is slightly twisted to be sent for spinning.

Spinning can be broadly categorized into two techniques; ring spinning and the open-end spinning. Ring spinning is a relatively older technique compared to open-end spinning. During 1970s, yarn manufacturers moved from ring spinning to open-end spinning, however this change was reversed to a great extent by the '90s. Though the process of open-end spinning was shorter resulting in time savings and increased productivity, the yarn produced was uneven and weak. Hence, yarn producers moved back to the ring spinning technique however using newer machines and technology. This has resulted in the production of denim with a much better look than that which was produced by the open-end technique.

The strands of cotton yarn are then wound onto an enormous beam, which can hold up to 4,500 yarns next to one another. Once the beam is full, it is known as the warp. Now that the warp has been prepared, it is moved to the dyeing section. The



Figure 9: Cotton Slivers

dyeing process is what differentiates cotton from denim. Manufacturers use two types of dyes for giving denim its color; indigo dyeing and Sulphur dyeing. Indigo is used to produce the traditional blue coloured denim whereas Sulphur dyeing is used for producing colored denim. There was a time when indigo was naturally extracted, however since the advent of mass production, it has been nearly impossible to obtain the required quantities of natural indigo, hence manufacturers have switched to synthesized indigo.

Originally manufacturers used the rope dyeing technique for denim, however, over the years, other methods have developed; including slasher dyeing and loop dyeing. The dyed warp is now ready for the next step; weaving. Various methods of weaving are used by manufacturers depending on their requirements and expertise. The looms (weaving machines) can be categorized into shuttle looms and shuttle-less looms. Over the years, several developments have been made in the shuttle-less loom category such as; projectile loom, water-jet, and air-jet loom to name a few.

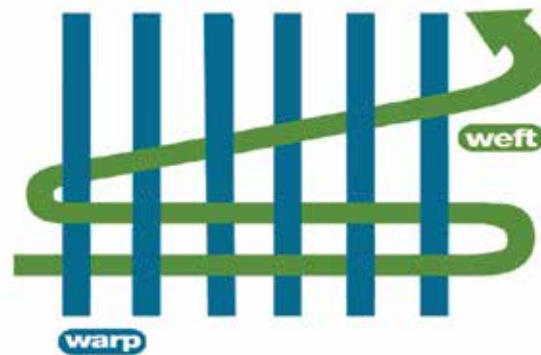


Figure 10: Weaving diagram of a Shuttle loom

Originally when denim gained popularity during the late 19th century, the Right Hand Twill (RHT) method was used, meaning that the twill line ran from left to right. Levi Strauss®, the pioneer of denim jeans used the RHT method for weaving, later entrants in the market such as Lee® and Wrangler® used the Left Hand Twill (LHT) and Broken Twill (BT) respectively to differentiate themselves from the Levi's tradition.

The denim produced from the weaving process is however still in a raw state. Previously jeans were made directly from denim from the loom state, however these jeans were prone to shrinkage and skewing. These days, the denim fabric goes through the process of singeing, during which the surface hairs of the fabric are burnt to give it a smoother look, this is followed by a rinsing process to get rid of unwanted residue on the fabric. The fabric then undergoes two more processes, skewing and sanforizing to prevent the fabric from twisting and shrinking respectively. The denim fabric is now ready to be made into a garment.



Figure 11: Singeing Process

Jeans Manufacturing

Denim is a versatile fabric, and it is unisex in use, it can be used for bottom wear as well as for tops. Though shirts and jackets are also popular, the major chunk of denim produced is used for bottom-wear; trousers including jeans and skirts. This following section focuses on how jeans are manufactured.

Jeans making starts with the selection of a design, slim-fit, straight-fit, regular fit etc. Once the design is selected, patterns from the design are cut using cardboard or heavy paper. The motifs are then placed on layers of fabric, and the cloth is cut using industrial cutters. Multiple pieces are cut in the same way. Apart from rivets, buttons and zippers a typical pair of jeans consists of ten different pieces. Once all the pieces are obtained, these are forwarded for sewing. Jeans are stitched in an assembly line by human-operated machines.

Manufacturing is done in a step-wise manner starting with the production of belts and loops, this is followed by attaching pockets to the leg seams. Once the pockets are attached, the leg seams are stitched together after which the waistband is attached. Once the waistband is secure, another stitcher attaches the belt loops and buttons. The inclusion of a zipper depends on the design of the jeans. Finally, rivets are attached, and the brand's logo and size label are sewn on.

The process till stitching is quite generic across the board; manufacturers however differentiate their product through their washing techniques. Jeans are pre-washed to change their appearance. Washing techniques include stone-wash, enzyme-wash, caustic-wash, and bleach-wash to name a few. Other than washing, manufacturers also use distressing techniques to give a pair of jeans a worn-out look. The pair of jeans is finally steamed, ironed, boxed and shipped to the required destination.

GLOBAL TRADE OF DENIM FABRIC (HS-520942)

Over the years Pakistan has emerged and held its position as a key player in the global denim market, in 2017 Pakistan ranked a close second to China with regard to export of denim fabric. The short staple cotton grown in Pakistan is suitable for producing coarse count yarn. Pakistan thus has the entire value chain, from cotton to spinning to weaving to dyeing and stitching.

Table 5 shows the major exporting countries for HS-520942 (Denim Fabric). The overall export of denim fabric has been showing a decline for the past 5 years. The worldwide export of USD 3.43 billion in 2013 has shown a decrease of more than 19% and was recorded at USD 2.76 billion in 2017. There could be a number of reasons for this decline including the growing popularity of synthetic fibers such as nylon, thermoplastics, polyester and aramid, or it could be a result of vertical integration in the denim apparel exporting countries. The vertical integration trend can be confirmed by analyzing the import patterns for the same period. Bangladesh which had been the largest importer of denim fabric for the past 3 years, has seen its import of denim fabric decline by almost 18%, from USD 721.85 million in 2015 to USD 592.43 million in 2017.

China, which continues to maintain its number one position as an exporter of denim fabric has seen its exports fall from USD 666.85 million in 2013 to USD 517.29 in 2017, a fall of almost 29%. Other competitors in the denim market such as Turkey and India have seen their exports decline by 14% and 16% respectively. Though Pakistan's exports of denim fabric have also declined over the years, when compared to competitor countries this decline has been nominal at 2.9%.

Top-10 Global Exporters of HS-520942 (Denim)

All Values in USD Millions

	2017	2016	2015	2014	2013
World	2,763.12	2,724.88	2,807.17	3,095.63	3,426.97
China	517.29	499.37	516.88	577.65	666.85
Pakistan	482.49	461.85	447.17	445.68	495.94
Turkey	282.86	275.88	258.95	308.83	322.82
India	241.59	222.64	235.96	275.07	280.71
Hong Kong, China	219.95	243.73	274.48	334.37	457.69
United States of America	151.44	153.94	165.90	224.22	198.42
Italy	145.44	140.20	149.39	209.05	228.34
Egypt	131.14	109.17	85.75	82.08	51.14
Japan	87.91	80.94	93.44	110.72	96.73
Mexico	61.53	68.93	84.26	73.53	86.50

Table 5: Top-10 Exporters of Denim Fabric

The following table shows the World import figures for denim fabric. Though world export and import figures should match, however due to factors such as different custom laws, timing issues, likely under-invoicing and over-invoicing, the numbers never add up.

For the five-year period ending in 2017, the highest annual figure was recorded in 2013 of USD 3.04 billion. From then onwards, imports were on a declining trend till 2016, before picking up slightly in 2017. The period 2016 to 17, showed a growth of 4.3% with imports valued at USD 2.71 billion in 2017. Bangladesh as a hub for made-up garments has topped the list for this period as an importer and accounted for 22% of world imports in 2017 though in value terms its imports declined to USD 592.4 million in 2017 from a high of USD 721.9 million in 2015.

Top 10 Global Importers of HS-520942 (Denim)

All Values in USD Millions

	2017	2016	2015	2014	2013
World	2,706.79	2,594.99	2,806.93	2,860.04	3,043.59
Bangladesh	592.43	622.53	721.85	N/A	529.24
Turkey	312.08	231.88	214.56	224.05	237.92
Hong Kong, China	196.31	209.98	233.52	298.21	392.73
China	156.88	140.47	144.25	169.28	234.58
Mexico	141.61	136.52	152.89	194.14	177.23
Tunisia	129.44	194.13	183.67	225.09	202.26
Egypt	124.98	106.05	138.72	79.76	111.73
Viet Nam	112.2	65.18	76.86	58.76	63.23
Cambodia	91.98	21.1	59.64	86.16	44.56
Italy	81.58	94.27	105.30	140.52	124.14

Table 6: Top 10 Importers of Denim Fabric

PAKISTAN'S DENIM FABRIC EXPORTS

Table 7 shows the top 10 export markets for Pakistani denim. The most significant decline in exports was recorded in 2014, with exports falling to USD 445.68 million from USD 495.94 million in 2013, a fall of 10%. Post-2014 however, exports of denim have shown consistent growth and were recorded at USD 482.49 million in 2017.

Accounting for an average of 48% of Pakistan's denim fabric exports, Bangladesh has been the leading market for Pakistani sellers. However, Bangladesh's share in the Pakistani export basket declined to 48% from 54% in 2017 despite Pakistan's overall exports registering growth during the same period. On the other hand, Turkey has increased its imports from Pakistan. From 2013 to 2016, exports to Turkey were somewhat stagnant between USD 67.42 million & USD 64.56 million. However, 2017 saw a sharp increase in exports to Turkey with exports totaling USD 107.38 million a growth of more than 66% over 2016.

Top 10 Export Destinations for Pakistan's Denim (HS-520942)

All Values in USD Millions					
	2017	2016	2015	2014	2013
World	482.49	461.85	447.17	445.68	495.94
Bangladesh	237.13	251.14	224.36	200.16	209.79
Turkey	107.38	64.56	51.09	61.12	67.42
Egypt	31.52	35.18	35.27	36.98	43.83
Sri Lanka	10.64	9.18	15.36	13.64	23.46
Italy	10.64	11.69	12.79	13.73	12.38
Viet Nam	8.22	9.50	12.68	9.43	12.65
Cambodia	7.98	9.72	11.71	11.42	15.99
Peru	7.72	5.90	8.26	8.58	9.41
India	5.11	10.15	14.14	10.84	7.51
United Arab Emirates	4.87	8.11	4.11	2.45	3.17

Table 7: Top 10 Export Destination for Pakistani Denim Fabric

THE GLOBAL MARKET FOR DENIM JEANS

Euromonitor⁵ values the global jeans market at USD 95.4 billion in 2017. There are four distinct segments in the jeans market based on price, product quality, brand image and the country of origin:

- **Economy Jeans:** Are priced at the lower end and primarily include jeans sold under private labels or as unbranded items. Economy jeans are usually sold through departmental stores and mixed retailers.
- **Standard Jeans:** Standard jeans include branded products targeted for the mass market. Brands falling in this category can differ from market to market, for instance, Levi's, Gap and Wrangler may be considered standard in the USA but Premium in a low-income country.
- **Premium Jeans:** Higher prices and better product quality enable brands to be classified as Premium, however similar to Standard Jeans, the classification is variable. Brands such as G-Star Raw and Diesel are generally considered Premium Brands.
- **Super Premium Jeans:** These are considered as fashion and status symbols. These are mostly sold under designer labels at high-end boutiques. Notable brands in the category include 7 For All Mankind, J Brand, Re/Done and Acne Studios.

⁵ Euromonitor Passport: Spotlight on Jeans Denim Bounces Back

Segment-wise Market Share of Jeans

All Values in USD Billions	
Economy Jeans	30.4
Standard Jeans	33.2
Premium Jeans	21.2
Super Premium Jeans	10.6

Table 8: Jeans Global Sales Value (Segment-wise)
(SOURCE: Euromonitor Passport: Spotlight on
Jeans Denim Bounces Back)

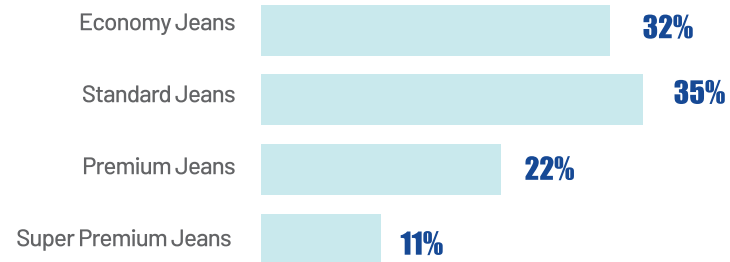


Figure 12: Segment-wise Share of Jeans (SOURCE: Euromonitor Passport:
Spotlight on Jeans Denim Bounces Back)

Table 8 and figure 12 show the market-value and market share for each category of jeans in 2017. Standard jeans with a share of 35% was the top category with sales of USD 33.2 billion in 2017 followed by Economy Jeans with sales of USD 30.4 billion. Combined sales of Standard Jeans and Economy Jeans represent around 67% of total jeans sales, clearly indicating that price is a crucial factor affecting demand.

The overall sales of jeans recorded a CAGR of 0.2%, in constant terms, between 2012 & 2017 and this trend is expected to continue in the coming years. Standard Jeans was the highest growth sector between 2012 & 17 with a CAGR of 4.3% followed by Economy Jeans with a CAGR of 3.7%. Though Athleisure and Sportswear is a growing category, Euromonitor predicts that it is near maturity, whereas the sales of jeans are expected to increase as they are now becoming acceptable as office wear.

PAKISTAN'S EXPORT OF DENIM GARMENTS

Pakistan's denim garment export industry mostly acts as Original Equipment Manufacturers (OEM) for global brands. Major global names such as Levi's, Wrangler, Gap, H&M, and Zara to name a few, get their manufacturing done in Pakistan according to their own specifications.

In the textile value chain, made-up garments represent the highest step of value-addition. The garment industry is one of the few industries where maximum number of people can be employed by investing a relatively lower amount in machinery. Working capital requirements are however higher in garment manufacturing as compared to other parts of the textile value chain.

As mentioned earlier, Pakistan is a composite textile exporter, this means that Pakistan's exports comprise made-ups, fabric, yarn as well as cotton in its natural form. To analyze exports of denim apparel from Pakistan, the authors have had to use best estimates which are based on interviews with major exporters. This is because the officially reported data does not report denim apparel separately, it clubs it under woven cotton garments. A majority of our interviewees quoted the share of denim apparel in selected⁶ woven garment exports at around 50%, hence this ratio has been used in this Report.

HS-62, Articles of apparel and clothing accessories, not knitted or crocheted, are classified as Woven Garments. Table 9 shows the exports of woven garments from Pakistan at the four-digit level. Exports of denim apparel from Pakistan are not reported separately, but are clubbed together with cotton apparel. The four highlighted rows in table 9, show the exports of woven apparel, both, tops and bottoms for both the genders.

⁶ HS-6203, HS-6204, HS-6205 and HS-6206

Pakistan's Exports of Articles of apparel and clothing accessories, not knitted or crocheted (HS-62)

All Values in USD Millions

Product code	Product Description	2017	2016	2015	2014	2013
62	Articles of apparel and clothing accessories, not knitted or crocheted	2,465.34	2,253.02	2,127.46	1,984.66	1,854.93
6201	Men's or boys' overcoats, car coats, capes, cloaks, anoraks, incl. ski jackets, windcheaters, wind-jackets and similar articles (excluding knitted or crocheted, suits, ensembles, jackets, blazers and trousers)	11.79	10.01	8.98	9.40	6.58
6202	Women's or girls' overcoats, car coats, capes, cloaks, anoraks, incl. ski jackets, windcheaters, wind-jackets and similar articles (excluding knitted or crocheted, suits, ensembles, jackets, blazers and trousers)	6.19	2.21	3.79	4.77	3.28
6203	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (excluding knitted or crocheted, wind-jackets and similar articles, separate waistcoats, tracksuits, ski suits and swimwear)	1,980.55	1,478.73	1,173.40	1,084.52	969.62
6204	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (excluding knitted or crocheted, wind-jackets and similar articles, slips, petticoats and panties, tracksuits, ski suits and swimwear)	307.71	593.11	781.25	698.80	691.25
6205	Men's or boys' shirts (excluding knitted or crocheted, nightshirts, singlets and other vests)	9.70	13.29	11.66	17.03	13.65
6206	Women's or girls' blouses, shirts and shirt-blouses (excluding knitted or crocheted and vests)	8.18	9.29	8.44	9.02	8.30
6207	Men's or boys' singlets and other vests, underpants, briefs, nightshirts, pyjamas, bathrobes, dressing gowns and similar articles (excluding knitted or crocheted)	64.85	55.99	54.61	71.24	64.80
6208	Women's or girls' singlets and other vests, slips, petticoats, briefs, panties, nightdresses, pyjamas, négligés, bathrobes, dressing gowns, housecoats and similar articles (excluding knitted or crocheted, brassières, girdles, corsets and similar articles)	17.16	15.82	14.46	16.43	16.93

Pakistan's Exports of Articles of apparel and clothing accessories, not knitted or crocheted (HS-62)

All Values in USD Millions

Product code	Product Description	2017	2016	2015	2014	2013
6209	Babies' garments and clothing accessories of textile materials (excluding knitted or crocheted and hats)	4.82	11.18	8.89	10.39	4.77
6210	Garments made up of felt or nonwovens, whether or not impregnated, coated, covered or laminated; garments of textile fabrics, rubberised or impregnated, coated, covered or laminated with plastics or other substances (excluding knitted or crocheted, and babies' garments and clothing accessories)	1.52	1.56	1.75	1.62	2.01
6211	Tracksuits, ski suits, swimwear and other garments, n.e.s. (excluding knitted or crocheted)	22.81	37.34	38.82	37.00	40.50
6212	Brassieres, girdles, corsets, braces, suspenders, garters and similar articles and parts thereof, of all types of textile materials, whether or not elasticated, incl. knitted or crocheted (excluding belts and corselets made entirely of rubber)	4.17	4.40	1.69	2.50	2.78
6213	Handkerchiefs, of which no side exceeds 60 cm (excluding knitted or crocheted)	0.16	0.17	0.62	0.46	0.15
6214	Shawls, scarves, mufflers, mantillas, veils and similar articles (excluding knitted or crocheted)	1.37	1.67	1.15	2.34	4.77
6215	Ties, bow ties and cravats of textile materials (excluding knitted or crocheted)	0.18	0.06	0.21	0.08	0.06
6216	Gloves, mittens and mitts, of all types of textile materials (excluding knitted or crocheted and for babies)	20.72	15.70	14.49	13.14	20.38
6217	Made-up clothing accessories and parts of garments or clothing accessories, of all types of textile materials, n.e.s. (excluding knitted or crocheted)	3.49	2.49	3.26	5.93	5.10

Table 9: Pakistan's Exports of Woven Garments

The four product codes mentioned in table 10 accounted for on an average 92.2% of the total exports of HS-62 for the last five years. The leading product category in the table above, i.e., HS-6203 [**Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (excluding knitted or crocheted, wind-jackets and similar articles, separate waistcoats, tracksuits, ski suits and swimwear)**] is also the single largest category in HS-62, in 2017 it accounted for nearly 89% of the exports of the top four categories.

As mentioned above, in the absence of separate data for denim apparel exports, and assuming 50% of woven cotton apparel exports being made from denim, we can estimate that in 2017, Pakistan exported nearly USD 1.15 billion worth of denim apparel.

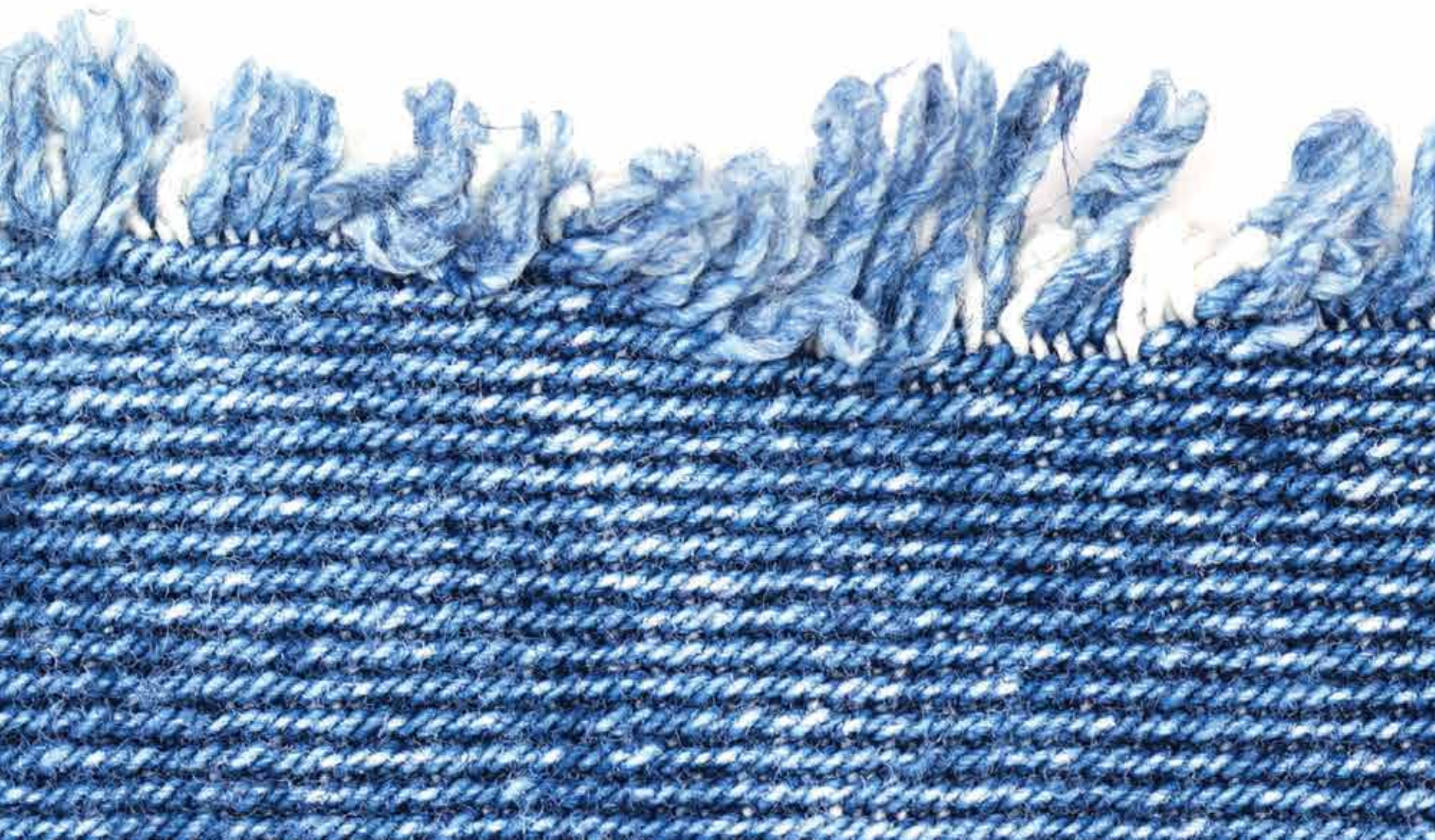
Selected Exports of Woven Apparel

All Values in USD Millions						
Product code	Product Description	2017	2016	2015	2014	2013
6203	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (excluding knitted or crocheted, wind-jackets and similar articles, separate waistcoats, tracksuits, ski suits and swimwear)	1,980.55	1,478.73	1,173.40	1,084.52	969.62
6204	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (excluding knitted or crocheted, wind-jackets and similar articles, slips, petticoats and panties, tracksuits, ski suits and swimwear)	307.71	593.11	781.25	698.80	691.25
6205	Men's or boys' shirts (excluding knitted or crocheted, nightshirts, singlets and other vests)	9.70	13.29	11.66	17.03	13.65
6206	Women's or girls' blouses, shirts and shirt-blouses (excluding knitted or crocheted and vests)	8.18	9.29	8.44	9.02	8.30
Total		2,306.13	2,094.42	1,974.74	1,809.37	1,682.83
If Denim Apparel is 50% of Woven⁷ Apparel		1,153.07	1,047.21	987.37	904.69	841.41

Table 10: Selected Exports of Woven Garments from Pakistan

⁷ HS-6203, HS-6204, HS-6205 and HS-6206

The growth achieved in the past may not be sustainable in future for a number of reasons including the emergence of Bangladesh as a major supplier of denim apparel. All denim and apparel exporters from Pakistan have expressed their anxiety over the emergence of Bangladesh as a denim apparel supplier, however, very few of them thought this could be addressed at the firm level, preferring to look towards the Government of Pakistan for solutions.





CHAPTER 3

GOVERNMENT SUPPORT FOR THE TEXTILE SECTOR





Review of Pakistan's Textile Policies

This section provides an overview of the different textile policies and plans announced at different times by different governments to support the textile industry in general.

Textile Vision 2005 (1999-2000)

Textile Vision 2005 (1999-2000) acknowledged the economic significance of the textile sector including its contribution to employment, GDP and foreign exchange earnings. Additionally, it also highlighted the major issues of the industry including poor cotton quality, little use of Man-Made Fiber (MMF) in the production of garments, and technological backwardness. Textile vision 2005 among others recommended reducing financing rates, and the introduction of awards for outstanding exporters. It also stressed on the need to allow the import of man-made fibers not produced in Pakistan. Moreover, it also encouraged setting up of a Technological Upgradation Fund (TUF) to provide exporters with long-term funds and subsidized credit for capital investment.

Textile Policy (2009-2014)

Textile Policy (2009 – 2014) emphasized the need to increase investment in the sector and to shift to the production of high-end textile products. It supported the textile industry through duty-free import of textile related machinery, Drawback of Local Taxes & Levies (DLTL) at 3.00% for garments, and the Technological Upgradation Fund (TUF). The most important feature of this policy was textile becoming a part of the zero-rated regime for sales tax purposes. All inputs including purchase of raw materials, intermediate goods and energy for the textile industry were charged zero sales tax preventing the build-up of refunds when textiles were exported.

The main problem with the Policy was lack of implementation. During the first three financial years of the Policy's implementation, the government released only 25.00% of the amount that it had promised. Lack of funds affected implementation of other projects as well that were part of the Policy such as Technological Upgradation Fund (TUF). Moreover, the industry also faced gas and electricity shortages that affected timely execution of export orders. As a result, textile exporters suffered USD 5.00 billion in losses due to non-implementation of the textile policy⁸.

⁸ <https://fp.brecorder.com/2012/05/201205091187077/>

Textile Policy (2014-19)

The second textile policy planned to increase textile exports to USD 26.00 billion over the five-year period and create 3.0 million additional jobs. DLTL scheme under the first textile policy was continued, however, the rate for garment exports was increased from 3.00% to 4.00%. Other incentives that were part of the previous textile policy such as duty free import of textile machinery and Technological Upgradation Fund (TUF) were also part of the new policy.

The second textile policy also failed to achieve the ambitious goals that it had set. This was mainly blamed on a shortage of funds. According to an estimate by the Mr. Abbas Khan Afridi, the federal minister for Textiles, the second textile policy required Rs. 65.00 billion for implementation, however, only Rs. 10.00 billion were actually released by the government⁹. Moreover, rising energy shortages and increasing costs during the period 2014-19, hindered an increase in exports¹⁰.

Federal Budgets (FY16, FY17, FY18 and FY19)

Most of the incentives in these budgets were action points for the broad goals identified in the Textile Policy (2014-19). Financial package of Rs. 65.00 billion was announced in the Budget for FY16 for the implementation of the second textile policy. A training program worth Rs. 4.40 billion for skilled and unskilled workers was also announced in the same budget. All budgets between FY '16 & FY '19 allowed for the continuation of the DLTL scheme, duty-free import of textile machinery, and zero-rated tax regime for the textile sector.

The last budget that was announced for FY19 was met with resentment by the industry. Exporters complained that the budget concentrated on general industry and trade instead of defining a clear export strategy^{11,12}. Moreover, it did not provide a plan to resolve industry grievances related to pending refunds, high energy tariffs, and Export Development Surcharge (EDS)¹³.

⁹ <https://fp.brecorder.com/2015/02/201502101149902/>

¹⁰ <https://fp.brecorder.com/2019/01/20190114439435/>

¹¹ <http://textalks.com/budget-2017-18-textile-sector/>

¹² <https://www.thenews.com.pk/print/309884-textile-sector-concerned-over-concession-less-budget>

¹³ <https://fp.brecorder.com/2018/05/20180506368874/>

PM Incentive Package for Exporters FY18 (2017-18)

In January 2017, the government announced the PM Incentive Package for FY18 in order to increase Pakistan's exports by USD 3.00 billion by the end of June 2018. The most important feature of the scheme was the introduction of a financial package of Rs. 180 billion for the export industry. Textile sector was supported by removing customs duty on the import of cotton and man-made fibers (except polyester). Duty-drawback rate for garments was increased from 4.00% to 7.00%. Sales tax on textile machinery imports was also removed^{14 15}.

Even this scheme suffered from lack of implementation and failed to achieve the targets it had outlined. The industry received only Rs. 18.00 billion out of the Rs. 50.00 billion funds that the government had released¹⁶. Moreover, there was also a delay in the payment of tax refunds. As a result, exporters were unable to fulfil their orders due to shortage of funds.

The PM Incentive Package has been extended till FY21. Its features include continuation of the DLT scheme, duty-free import of machinery, reduced electricity and gas tariffs and the removal of sales tax on packaging.

¹⁴ <https://www.dawn.com/news/1307569>

¹⁵ <https://www.thenews.com.pk/print/178392-Incentive-package-for-exporting-sectors-widely-welcomed>

¹⁶ <https://tribune.com.pk/story/1721170/2-textile-industry-awaits-release-funds-pms-package/>

COMPARISON OF PAKISTAN'S TEXTILE POLICIES

Policy Component	Textile Vision	Textile Policy 2009-14	Textile Policy 2014-19	Budgets	PM Incentive Package (FY18)
1.Goals	<p>Better agronomic practices to boost production by 20%</p> <p>Take cotton production beyond 15 million bales.</p> <p>Increase the use of Man-Made Fiber</p>	<p>Double the value addition in textile from USD 1 billion to USD 2 billion per million bales in five years.</p> <p>Increase employment by 100%</p> <p>Private sector along with the government to bring USD 8 billion investment through Textile Investment Support Fund (TISF)</p> <p>Transformation of the sector to produce high-end textile products</p>	<p>Double value-addition from \$ 1 billion per million bales to \$ 2 billion per million bales in five years.</p> <p>Double textile exports from \$ 13 billion to \$ 26 billion in next five years.</p> <p>Facilitate additional investment of \$ 5 billion in machinery and technology.</p> <p>Improve fiber mix in favor of non-cotton from 14 % to 30 %.</p> <p>Improve product mix in the garment sector from 28 % to 45 %.</p>		
2. Infrastructure	<p>Textile cities should be established in Karachi and Lahore.</p> <p>Initiate a study for establishment of textile cities.</p>	<p>Development of clusters through Public-Private Partnership.</p> <p>Government support for the provision of effluent treatment plants.</p> <p>Schemes for common warehousing, storage and marketing facilities through public-private partnership would ensure timely and cost-effective availability of inputs.</p>	<p>Effluent Treatment Plants to be established through Public-Private Partnership.</p> <p>Special Purpose Vehicle (SPV) will be incorporated to establish Model Combined Effluent Treatment Plant (CETP) in Khurrianwala, Faisalabad.</p> <p>Apparel Houses and World Textile Centre.</p>	Establishment of 1000 stitching units (Budget FY18)	

Policy Component	Textile Vision	Textile Policy 2009-14	Textile Policy 2014-19	Budgets	PM Incentive Package (FY18)
		Government to develop product development centers, research centers and common sheds			
3. Financing / access to credit	<p>Reduction of export refinance rates.</p> <p>Awards should be given to the deserving exporters.</p> <p>Initiate a scheme (Export Growth Project Finance (EGPF)) for provision of long term credit at lower rates to textile industry. Amount of credit to be linked with the past year's performance of the exporter.</p>	<p>Refinancing arrangement will be made through the Central Bank.</p> <p>Government shall undertake part of financing while capital support will be extended for small capital investments.</p> <p>Principle exports of textiles would not be taxed. Establishment of zero-rated tax regime.</p> <p>Introduction of insurance schemes for exporters to reduce risk.</p> <p>Establishment of Export Housing Schemes to fetch better prices for the country's exports.</p> <p>Drawback of Local Taxes and Levies (DLTL)</p> <p>Processed Fabric 1% of the FOB value of exports</p> <p>Home textiles 2% of the FOB value of exports</p> <p>Garments 3% of the FOB value of exports.</p>	<p>Mark up rate for Export Refinancing Scheme of SBP is being reduced from 9.4 % to 7.5. %.</p> <p>Drawback of Local Taxes and Levies (DLTL) for Garments: 4% Made ups: 2% Processed fabric: 1%</p> <p>Introduction of an expeditious refund system to facilitate the above scheme.</p>	<p>Export Refinance Facility (ERF) at 4.50% (Budget FY16); at 3.00% (Budget FY17)</p> <p>Long Term Finance Facility at 6.00% (Budget FY16); 5.00% (Budget FY17)</p> <p>Brand Development Fund for textile sector (Budget FY18)</p> <p>Zero-rating for textiles. Zero sales tax on purchase of raw material, intermediate goods and energy. (Budget FY17, FY18 & FY19)</p> <p>DLTL for garments at 4% (Budget FY16)</p> <p>DLTL continued (Budget FY17, FY18 & FY19)</p> <p>Pending Sales Tax to be refunded (Budget FY17)</p>	<p>Financial package of Rs. 180 billion</p> <p>DLTL at 7.00% (valid till FY18)</p>

Policy Component	Textile Vision	Textile Policy 2009-14	Textile Policy 2014-19	Budgets	PM Incentive Package (FY18)
<p>4. Technology upgradation</p>	<p>Import of textile machinery older than ten years should be banned.</p> <p>Technology Upgradation fund (TUF) & EGP schemes for the provision of long-term funds and subsidized credit for technological investment, especially to garment & other made-up textile exporters.</p> <p>Duty-free import for the value-added sector.</p> <p>Sales tax exemption for hand-held ultra-low volume spraying equipment</p>	<p>Technological upgradation to be supported through schemes that reduce cost and improve availability of credit.</p> <p>Textiles Investment Support Fund (TISF) will be extended for existing and greenfield projects.</p> <p>Duty free import of textile machinery.</p>	<p>Provision of Long Term Financing facility (LTFF) to the textile units for technology upgradation at the rate of 9% for 3-10 years' duration.</p> <p>Duty free import of textile machinery under textiles policy (2009-14) has been extended for another 2 years.</p>	<p>Zero custom-duty on the import of machinery (Budget FY16)</p> <p>Duty-free import of machinery (Budgets FY17, FY18 & FY19)</p> <p>Launch of Technological Upgradation Fund (Budget FY16)</p> <p>Technology Upgradation Fund(TUF) Scheme 2016-19 for the textile sector (Budget FY17, FY18 & FY19)</p>	<p>Removal of sales tax on the import of machinery</p>
<p>5. Tariff</p>	<p>Ensure free availability of inputs for exporters. Cotton should be allowed to be traded freely.</p>	<p>The principle of cascading will be implemented while ensuring adequate protection to the local industry and removing anomalies.</p>	<p>Tariff rates for entire supply chain need to be rationalized while providing adequate protection</p>	<p>Withdrawal of Customs Duty on Manmade Fibers (Budget FY17)</p> <p>Tariffs on industrial raw materials to be reduced (Budget FY19)</p>	

Policy Component	Textile Vision	Textile Policy 2009-14	Textile Policy 2014-19	Budgets	PM Incentive Package (FY18)
<p>6. Vocational Training /Labor laws/ Compliance</p>	<p>Establish a separate training wing within proposed Textile Board.</p> <p>Provide Licensing authority to the board for all new VTI (Vocational Training Institutes)</p> <p>Standardize courses, faculty and facilities in each subsection of textile. Introduce training courses of shorter duration.</p> <p>Initiate national textile curriculum development task.</p> <p>Hire foreign consultants for short fixed duration to train the trainers.</p> <p>Utilization of EDF for equipping Vocational Training Institutions.</p>	<p>National Textiles University of Faisalabad to be upgraded and revamped.</p> <p>Establishment of Specialized training institutions (funds from Export Development Fund).</p> <p>Specialized training courses to facilitate large scale manufacturing of higher value added products.</p> <p>Foreign technicians and experts will be hired.</p> <p>Audit facility will be provided to exporters.</p> <p>Mass training programs to be undertaken to counter labor shortage.</p>	<p>Introduction of vocational training program through PSDP to improve skills of labor required in the value addition sector.</p> <p>Business Alliances and Buyers' Forums to assist value added sectors in meeting compliance</p>	<p>Mega project worth Rs. 4.4 billion for training of 120,000 unskilled men and women over a period of 5 year (Budget FY16)</p>	
<p>7. Man-made Fibers</p>	<p>Exempt the duty on import of manmade fibers not produced in Pakistan.</p> <p>Phase out the import duty on manmade fibers produced in Pakistan.</p>	<p>Special focus on MMF garments</p> <p>Development of a strategy to encourage technical textiles.</p> <p>Synthetic Fibre Development and Application Centre (SFDAC) would be strengthened to improve the quality of MMF.</p>	<p>Establishment of testing system to determine the man-made fiber content in the exporting products.</p> <p>Drawback Rates for MMF based export products to be determined by Input-Output Coefficient Organization</p> <p>Introduction of Deemed Imports Basis scheme to protect domestic PSF industry.</p>		<p>Removal of custom duty on the import of man-made fiber (except polyester)</p>

Policy Component	Textile Vision	Textile Policy 2009-14	Textile Policy 2014-19	Budgets	PM Incentive Package (FY18)
8. Utility		Government to remove cross subsidization that burdens the textile sector by lessening utility cost	<p>Joint committee to resolve the issue of energy gap.</p> <p>Energy audits and replacement of old machinery to conserve energy</p>	Uninterrupted supply of electricity and gas is ensured for the textile sector. (Budget FY18)	

Table 11: Comparison of Textile Policy Incentives

COMPARISON OF GOVERNMENT SUPPORT FOR THE APPAREL SECTOR¹⁷

	Bangladesh	India	China	Vietnam	Cambodia	Pakistan
Infrastructure	Zones in Bangladesh have fully constructed and compliant building with proper supply of water, gas and electricity, and centralized common effluent treatment plants (CETP).	Textile parks, cluster schemes, and integrated processing schemes initiated by the government.	Rent-free buildings in SEZs	Economic Zones in Vietnam benefit from improved connectivity, subsidized infrastructure and tax holidays. Improved industrial system Government provides production site for expansion or for investment-intensive projects	NA	Textile Policy 2009-14 Textile Policy 2014-19 Budget 2017-18
Financial/ Access to credit	Duty drawback scheme on the import of raw materials Corporate tax rate of 12% for knitwear exporters Domestic suppliers to RMG exporters receive cash incentives worth 10% of the value of the exported garment.	0% interest rate for garment units in the state of Maharashtra. Introduction of a special package worth Rs 71.48 billion for FY19 for apparel exports Refund of freight charges (between 25%-75% over the period of 5 years)-in Telangana only	Export rebates of 15% Tax exemptions and tax rebates on R&D activities Credit guarantees for SMEs	Refund of value-added tax. Zero-duty on the import of machinery Export credit at 4% lower interest rate	Export tax exemption for up to 3-5 years	All

¹⁷ <https://www.tgnns.com/telangana-new-district-news/telangana-textile-apparel-incentive-scheme-2017/2017/08/18>

<https://www.wirc-icai.org/material/Textiles-Policy-CR1-Int-Sub-1-March-12-Eng.pdf>

https://www.ilo.org/dhaka/Whatwedo/Projects/WCMS_240343/lang--en/index.htm

<https://www.tgnns.com/telangana-new-district-news/telangana-textile-apparel-incentive-scheme-2017/2017/08/18/>

<https://www.uscc.gov/sites/default/files/Research/TLAG%20Report%20-%20China%27s%20Support%20Program%20for%20Textiles%20and%20Apparel.pdf>

<https://www.pbc.org.pk/wp-content/uploads/Pakistan%E2%80%99s-Ready-made-Garments-Sector-Challenges-and-Opportunities.pdf>

	Bangladesh	India	China	Vietnam	Cambodia	Pakistan
	Tax rebates between 25%-100% over a 5-year period for manufacturers located in the EPZs of Chittagong and Dhaka					
Vocational Training/Labor laws/ Compliance	Better Work Bangladesh-scheme to help apparel manufacturers with compliance.	Training subsidies between Rs. 3,000 and Rs 5,000 per employee (in Telangana)	No specific policy	No specific policy	NA	Textile Policy 2009-14 Textile Policy 2014-19 Budget 2015-16
Technology Upgradation	No specific policy	50% cost of installing common effluent treatment plants is supported by the government. Capital subsidy-25% for conventional textiles; 35% for technical textiles	Special funds allocated for technological innovation and brand building	Financial support in R&D for technology transfers, strengthening the capability of scientific and technological bodies (laboratories, laboratory standards, R&D institutions etc.) research to improve productivity and quality, Test-trial production (new products & materials to replace imports).	NA	All

Table 12: Comparison of Government Support for the Apparel Sector

CHAPTER 4

INDUSTRY VIEW ON ENHANCING EXPORT COMPETITIVENESS OF PAKISTAN'S DENIM APPAREL SECTOR





COMPETITIVENESS

Definition

A literature review of "Competitiveness" reveals that there is no single definition of the term competitiveness. Instead different writers have defined the term from their own perspective. Listed below, are some of the definitions of "Competitiveness".

"In regard to a country, competitiveness is defined as the ability of the country to produce goods and services that meet the test of the international markets and simultaneously to maintain and expand the real income and also rise the welfare level of its citizens." -Trade, Technology and International Competitiveness, Haque (1995).

"The only meaningful concept of competitiveness at the national level is productivity. The principal goal of a nation is to produce a high and rising standard of living for its citizens. The ability to do so depends on the productivity with which a nation's labor and capital are employed"-The Competitive Advantage of Nations, Michael E. Porter (1990)

Bert G Hickman (1992) in his book "International Productivity and Competitiveness" defines international competitiveness (IC) as the ability to sustain in a global economy, an acceptable growth in the real standard of living of the population with an acceptably fair distribution, while efficiently providing employment for substantially all who can wish to work and doing so without reducing the growth potential in the standards of living of future generations.

In the book, "Creating an Internationally Competitive Economy" Harry Bloch and Kenyon define competitiveness as "the ability of a country to realize central economic policy goals, especially growth in income and employment, without running into a balance of payments deficit"

As can be summarized from the above, for an economy / industry to be competitive it must be able to survive in the international market by being more productive than its peers, moreover the growth of the industry should be sustainable and lead to a higher standard of living over time.

As important as it is to define competitiveness it is equally important to understand “What Competitiveness is not”. For instance, if a firm or an industry is merely surviving in the export market because of subsidies, it would be misleading to regard it as being competitive. Another perception, that a favorable exchange rate can lead to an economy / industry becoming competitive is also prevalent. However, it should be noted that currency depreciation in order to become competitive in the export market provides benefits in the short-run only¹⁸.

Peter J. Buckley in his article, Measures of international competitiveness: A critical survey, writes that, export market share, percentage of world manufacturing output, Balance of Trade (BoT), profitability, comparative advantage, competitiveness (cost, price and quality), labor productivity and access to resources (raw materials, capital and skilled labor) can be used to gauge competitiveness.

The three well-known competitiveness indices used are:

- Global Competitiveness Report by World Economic Forum (WEF)
- The World Competitiveness Yearbook by the Institute of Management Development (IMD)
- Business Competitiveness- Ease of Doing Business by the International Finance Corporation (IFC)

To gauge the competitiveness of Pakistan’s Denim Apparel industry, an approach similar to that used by WEF was followed and interviews were conducted with individuals involved in Pakistan’s Denim Apparel industry in various capacities. In-depth interviews were conducted to better learn the issues faced by the industry participants as well identify solutions based on the experiences of the interviewees.

¹⁸ www.tci-network.org/media/download/1185

INTERVIEW FINDINGS

A total of 11 interviews were conducted with exporters of Denim apparel in order to get their input on factors affecting Pakistan's competitiveness in the Denim sector. The respondents were further requested to share their views on the policy framework required to make Pakistan a major player in the global Denim apparel market.

Following are some of the views expressed by the Respondents:

Export markets for denim fabric are becoming more competitive

As major denim apparel manufacturing countries integrate backwards, export markets for denim fabric are becoming more competitive. Pakistani denim, though of good quality, does not qualify as a premium product. Pakistani denim though superior to that produced in India and Bangladesh, still ranks lower than that manufactured in Italy, Turkey and South America. As competition increases, especially from denim mills being setup in Bangladesh, there is increasing pressure on margins.

Pakistan appears to be heading for a glut in denim fabric production

Nearly all firms interviewed had either recently expanded, were in the process of expanding or were planning on expanding their denim fabric production in the near future. Even vertically integrated firms reported in-house consumption of denim fabric at between 30 and 50% with the rest being either exported or sold in the domestic market. The inability of vertically integrated units to consume a major portion of their denim fabric in-house, leads the authors to predict a glut of denim fabric in the near to medium term, this is accentuated by reports of the setting-up of denim mills in the major export markets.

Delayed government release of rebates and refunds is impacting firm level sustainability

All respondents complained about delays in getting refunds and rebates from the government. They suggested that the government should not announce any incentives unless it has the funds to pay out these incentives. They complained that once the government announces an incentive buyers start asking for a discount which is mostly given. Since the government does not pay out the incentive on time, firms have to borrow from banks to make up for the shortfall, this increases operating costs.

Frequent and large depreciations in value of Pak rupee impacts the sector negatively

Though the general consensus was that the rupee was over-valued in the recent past and needed to be “adjusted”, the respondents suggested that this could be done on a gradual basis – maybe 1 to 1.5% a month? The impact of a large drop in the value of the currency translates into buyers demanding discounts which the Pakistani manufacturers are unable to meet. Other than cotton and labour, all inputs including energy, dyes and chemicals are imported meaning they are dollar indexed. Additionally, prices of domestic cotton and yarn also adjust upwards to reflect international prices.

Availability, quality and price of cotton is a major impediment

Not only has the domestic availability of cotton gone down in the past few years, its quality due to contamination has also deteriorated. Faulty government policies have seen prime cotton growing land convert into fields of wheat and sugarcane. The frequent flare-ups with India also restrict the availability of Indian cotton.

Competitiveness is impacted in the absence of a domestic chemicals and dyes industry

Most chemicals and dyes used in the industry are imported, this is primarily due to the absence of a robust domestic chemicals and dyes industry. Exporters who avail of the DTRE facility have to import from various sources and in container loads, this increases inventory costs. Most commercial importers are in the unorganized sector and there are frequent shortages of imported chemicals and dyes in the local market. Another major problem faced by importers is verifying that locally available chemicals including imported chemicals and dyes are genuine and of acceptable quality. Export consignments have been rejected where fabric / apparel failed to pass testing requirements for banned chemicals / dyes.

Cost of manufacturing is high as compared to competitor countries

Exporters complained that they have to pay higher costs for gas, grid electricity and labour as compared to exporters in competitor countries. Figures below show a comparison between gas, grid electricity and labour rates payable by Pakistani manufacturers and those applicable to competitors in competitor countries.

Minimum Wage Rate Comparison-2018 (USD)

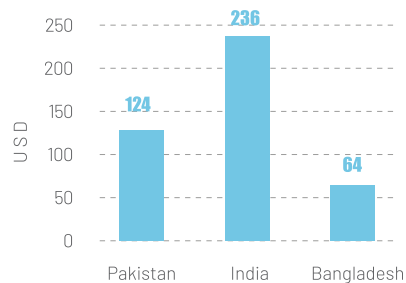


Figure 13: Minimum Wage Comparison-2017

Gas Rate Comparison-2018

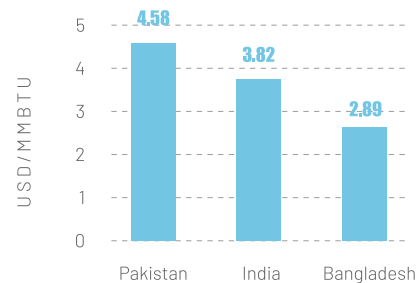


Figure 14: Gas Rate Comparison- 2018

Electricity Rate Comparison

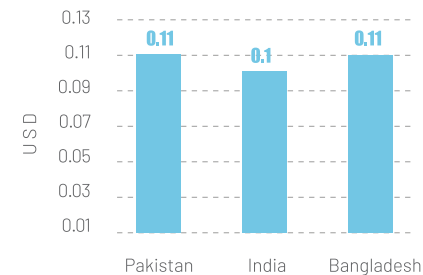


Figure 15: Electricity Rate Comparison

Absence of domestic industry for manufacturing of garment accessories and other ancillary materials is impacting both delivery and lead times

A pair of jeans is more than just fabric, in addition to the fabric it requires thread, zippers, rivets, buttons, brand labels, care, size, tracking, inventory, price labels, leather patches, poly bags, packing tapes, cartons etc. Pakistan for the most part has failed to develop its garment accessories chain. This means that when an order is confirmed, Pakistani suppliers have to place orders with internationally approved suppliers. These suppliers mostly require a cash advance as a confirmation, with the balance being paid either through a Letter of Credit or cash prior to shipment. This increases inventory costs and severely limits the ability of Pakistani suppliers to cut their lead and delivery times.

Exporters margins are impacted by higher marketing costs and the need for deeper discounts

Though there has been some improvement in the security situation in the county recently, it still needs to improve considerably before Western buyers return to Pakistan in large numbers. Travel advisory by Western Embassies for their citizens have also not helped. Pakistani exporters have to travel frequently to Europe and the US or travel to meet buyers at neutral venues, this also applies for their marketing and production teams. To overcome location disadvantage, Pakistani exporters have to give deep discounts to ensure continuation off and development of new business.

High Government taxes & levies impact profitability

Government charges a 1.0% turnover tax on exports – this is deducted at the time remittance is received. In addition, there is another turnover surcharge of 0.25% under the head of Export Development Surcharge (EDS), this is also collected at source. In addition, there is a Workers Welfare Fund (WWF) contribution of 2.0%, a Workers Profit Participation Fund (WPPF) contribution of 5.0%, a Social Security Contribution and an EOBI contribution. Other than the turnover tax of 1.0%, exporters expressed their resentment at the amounts being collected under other heads. They were especially critical about the contribution being collected under the head of labour welfare as they felt that these were grossly misused.

Dealing with government functionaries is time-consuming, expensive and frustrating

The larger exporters who supply to global brands are frequently audited by their suppliers to ensure compliance with local laws among others. The compliance standards of global brands are at times higher than those which are prescribed in a country's laws. Despite being compliant with global laws, they are frequently visited by inspectors from various government departments insisting on physical audits, this is time consuming and requires the hiring of additional manpower to deal with these frequent requests.

Cotton is, but the apparel sector is not, a government priority

Government policies need to change if Pakistan is going to be a global apparel powerhouse. In competitor countries such as India, Bangladesh, China, Vietnam etc., the government has implemented various policy measures aimed at supporting their apparel industry. In Pakistan the policy appears to be to support the cotton growers, some inefficient plants which produce man-made-fibre and the spinners lobby, all at the expense of the apparel sector.

Industry with support from government needs to invest in upgrading technology and processes

Technology and processes are for the most part outdated – though there are centres of excellence at the firm level. This low level of technology impacts productivity and quality of both the denim fabric and apparel manufactured. The government of Pakistan keeps announcing funds for technology upgradation but these funds are rarely released.

Skilled manpower is in short-supply

No proper skill development programs are being implemented to ensure a steady supply of trained manpower. Currently skills are mostly learnt on the job and this at times can prove costly for the firm as untrained workers tend to make costly mistakes. In addition, the 18-year minimum age requirement for factory workers means that skills which were previously passed on through the Ustad- Shagird (Master craftsman – apprentice) model is no longer available to the next generation of workers. The courses taught at vocational training centres were not producing workers with the required skill set.

The absence of female workers in apparel manufacturing is a major impediment

Female workers are ideally suited to garment manufacturing on account of their nimble fingers. Female workers according to exporters are more “loyal” and “willing to learn new skills”. The provision of “day-care” centres and quality schools along with paid maternity leaves were identified as some incentives which could be offered to keep women in the workforce for longer periods of time.

Companies which are investing heavily in R&D are doing better

Companies which are investing heavily in R&D are the ones which have done well in the past 10 – years. R&D is not only at the fabric level but also in fabric processing and denim washes. However, knowledge is at a firm level and not assessable to medium sized companies. There are no common R&D facilities which medium sized companies can approach for help.

Expatriates are hired as consultants for specific problems

The larger units reported that they mostly hire expatriate consultants from Turkey and Italy for resolving specific problems. Though they expressed an interest in hiring more expatriates and that also on a permanent basis, cost was identified as a major impediment.

Compliance with global EHS (Environment, Health & Safety) Standards is a competitive advantage

Firms reported that compliance with global EHS standards were partly responsible for Pakistani firms being able to maintain their global market shares. However, they also reported that firms in Bangladesh with support from their government had also started to comply and this could be a problem for Pakistani exporters in future.

Rising production costs in China is an opportunity for Pakistan

As China's labour rates increase, Chinese apparel manufacturing companies are moving out of China in order to retain their customers. Pakistani exporters are aware of this trend and appreciate the need to attract these Chinese companies to Pakistan preferably in the Joint-Venture mode. They however believe this will only happen if the government provides an enabling environment which will allow Chinese companies to make money using Pakistan as an export base.

Lack of new industrial estates with infrastructure impedes growth

The lack of new industrial estates with the requisite infrastructure impedes growth of industry in general and the garment industry in particular. For apparel, new industrial estates need to be near population centres as apparel is labour intensive. Expansion or setting up of new industries in existing industrial estates is difficult due to the prohibitive cost of land.

Denim industry needs to organize beyond political lines

The bigger players would like to have a joint industry – government body, professionally run, which will take a more holistic and futuristic view of the denim industry. At the moment, lobbying is mostly not backed with research or it focuses on the interests of individual companies / personalities.

RECOMMENDATIONS FOR PROMOTING COMPETITIVENESS OF PAKISTAN'S DENIM & DENIM APPAREL SECTOR

The key recommendations given below are based on input from the interviewees as well as secondary research on best global practices.

Pakistan needs to promote the production of premium quality denim

Export markets for denim fabric are becoming more competitive as major importing / apparel manufacturing countries setup fabric manufacturing facilities. For Pakistani manufacturers there are two options; a) invest in manufacturing, processing and HR to reduce costs, or b) enter the premium denim fabric market where the market is currently dominated by manufacturers from Italy, Turkey and South American suppliers. Cost reduction or value addition at the fabric stage are the only options available to Pakistani fabric suppliers if they want to avoid a glut.

All rebates / refunds / incentives should be automatically credited into accounts of exporters

To help better manage cash-flow at the firm level, the government in collaboration with the State Bank of Pakistan needs to setup an automatic system linked to receipt of export proceeds. Exporters money should be transferred directly to their accounts and by the SBP on receipt of remittances.

Currency adjustments if required should be frequent and incremental in nature

Historically the Rupee has depreciated against the US dollar on an average 8% per annum and this has mostly been done on an incremental basis. A large and sudden depreciation of the Rupee needs to be avoided to ensure stability in the export markets.

Government policies need to ensure availability, quality and stability in prices of cotton

A policy needs to be put in place to reverse the trend of growing sugarcane and wheat in traditional cotton growing regions. In addition to the use of better quality seeds, laser levelling and on farm management techniques need to be introduced to improve yields. The government should consider introducing a support price for cotton.

Policies to support the establishment of competitive domestic chemicals and dyes industry

Most chemicals and dyes used in the industry are imported in the absence of a robust domestic chemicals and dyes industry. Exporters who avail of the DTRE facility have to import from various sources and in container loads, this increases inventory costs. Most commercial importers are in the unorganized sector and there are frequent shortages of imported chemicals and dyes in the local market. Fiscal incentives need to be provided to establish on a firm basis a chemicals and dyes industry in the country.

Exporters need to have gas and electricity available at competitor country rates

Exporters should face same rates as those available to exporters in competitor countries.

Polices to promote the setting up of industries for the manufacture of garment accessories and other ancillary materials

Pakistan for the most part has failed to develop its garment accessories chain. This means that when an order is confirmed, Pakistani suppliers have to place orders with internationally approved suppliers. These suppliers mostly require a cash advance as a confirmation with the balance being paid either through a Letter of Credit or cash prior to shipment. This increases inventory costs and severely limits the ability of Pakistani suppliers to cut their lead and delivery times. Fiscal measures are required to promote shifting to Pakistan of global suppliers and for encouraging them to setup manufacturing facilities for garment accessories and other ancillary materials.

Government taxes & levies need to be rationalized

There are a number of levies and taxes on exports the Government charges a 1.0% turnover tax on exports – this is deducted at the time remittance is received. In addition, there is another turnover surcharge of 0.25% under the head of Export Development Surcharge (EDS), this is also collected at source. In addition, there is a Workers Welfare Fund (WWF) contribution of 2.0%, a Workers Profit Participation Fund (WPPF) contribution of 5.0%, a Social Security Contribution and an EOBI contribution. For exporters the government should charge a flat rate at the time of receipt of export proceeds.

Interactions with Government functionaries needs to be streamlined

Larger exporters who supply to global brands are frequently audited by their suppliers to ensure compliance with local laws among others. The compliance standards of global brands are at times higher than those which are prescribed in a country's laws. Companies which are audited by global suppliers should be exempt from frequent inspections by government departments.

Apparel & not cotton should be government's priority

Government policies need to change if Pakistan is going to be a global apparel powerhouse. In competitor countries such as India, Bangladesh, China, Vietnam etc., the government has implemented various policy measures aimed at supporting their apparel industry. Policy should support introduction of man-made-fibre and the import of yarn which is competitively priced.

Government needs to support upgrading of technology and pro

Technology and processes are for the most part outdated – though there are centres of excellence at the firm level. This low level of technology impacts productivity and quality of both the denim fabric and apparel manufactured. A policy to support technology and process upgradation needs to be put in place.

Skilled manpower is in short-supply

No proper skill development programs are being implemented to ensure a steady supply of trained manpower. Currently skills are mostly learnt on the job and this at times can prove costly for the firm as untrained workers can make costly mistakes. At the trade association level, skill development plans need to be introduced, in addition firms should be allowed a tax rebate for trainee / internship programs.

Female workers in apparel manufacturing need to be supported to continue for longer periods of time

Female workers are ideally suited to garment manufacturing on account of their nimble fingers. Female workers according to exporters are more “loyal” and “willing to learn new skills”. Laws which ensure provision of “day-care” centres and quality schools near factories along with paid maternity leaves are some incentives which could be offered to keep women in the workforce for longer periods of time.

Common R&D facilities need to be promoted in denim clusters

Companies which are investing heavily in R&D are the ones which have done well in the past 10 – years. R&D is not only at the fabric level but also in fabric processing and washes of jeans. However, knowledge is at a firm level and not assessable to medium sized companies. Common R&D facilities need to be setup in denim clusters so that facilities are available to medium sized companies.

The hiring of expatriates as consultants needs to be promoted

The larger units reported that they mostly hire expatriate consultants from Turkey and Italy for resolving specific problems. Payments to expatriates should be tax-free to promote the hiring of more consultants.

Firms need to be helped to comply with global EHS (Environment, Health & Safety)

Firms reported that compliance with global EHS standards were partly responsible for Pakistani firms being able to maintain their global market shares. Government should provide common effluent treatment plants in denim clusters and help medium sized companies meet global EHS standards.

Increasing Chinese production costs is an opportunity to promote JVs with Chinese companies

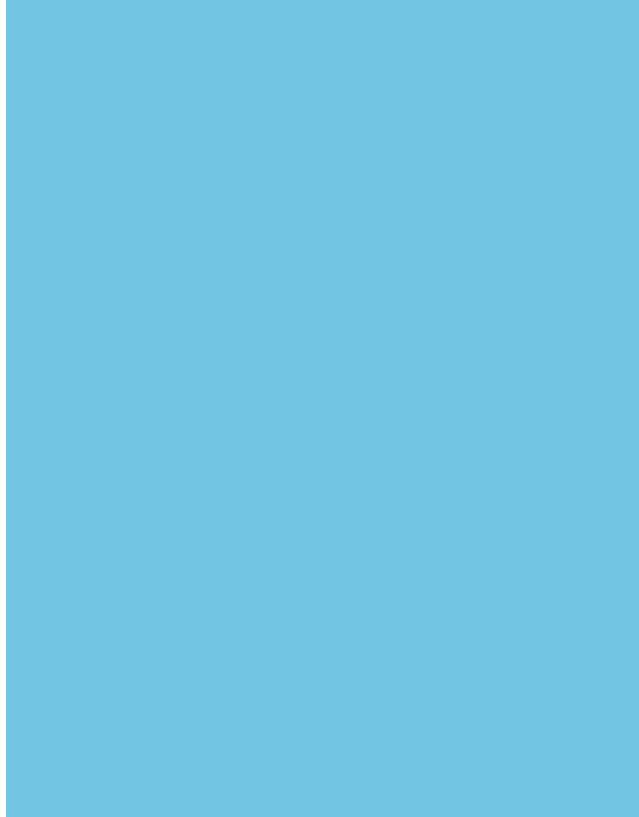
As China's labour rates increase, Chinese apparel manufacturing companies are moving out of China in order to retain their customers. Pakistani exporters are aware of this trend and appreciate the need to attract these Chinese companies to Pakistan preferably in the Joint-Venture mode. Currently government policies do not promote JVs, the BOI should be mandated to develop policies which promote JVs.

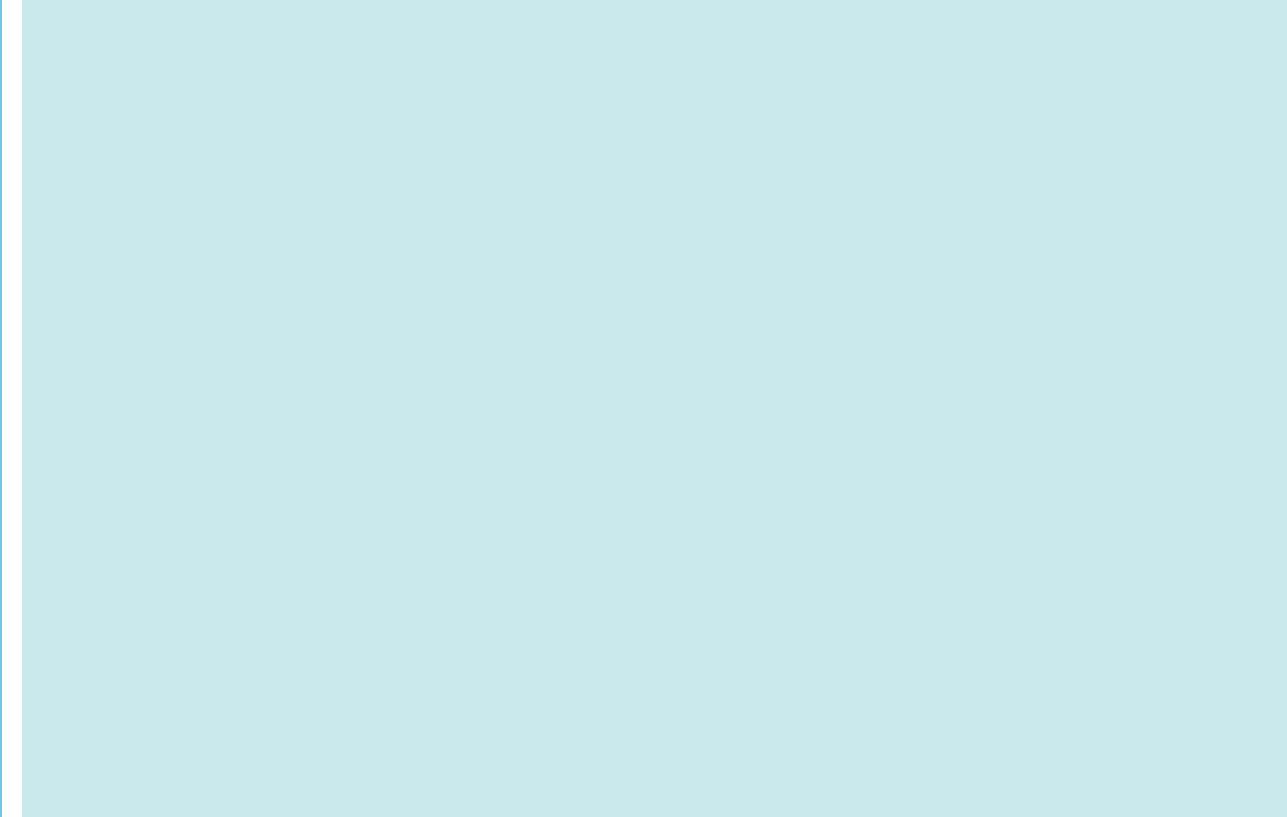
Provision of new industrial estates with infrastructure

The lack of new industrial estates with the requisite infrastructure impedes growth of industry in general and the garment industry in particular. For apparel, new industrial estates need to be near population centres as apparel is labour intensive. Government needs to help setup new industrial estates where land should be on rent and leases cancelled if the entity which hires the space is unable to continue for any reason.

Government needs to collaborate with the denim industry to promote brand Pakistan

The bigger players would like to have a joint industry – government body, professionally run, which will take a more holistic and futuristic view of the denim industry. A more in-depth analysis is required of the policies followed by Vietnam, Cambodia and Bangladesh to better understand the policies followed by them to promote their apparel industry.







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