

# Project Report

## **Consultative Dialogue on Textile and Garment Industry outlook amid COVID-19**

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## **Consultative Dialogue on Textile & Garment Industry outlook amid COVID-19**

**Date:** 8th July 2020  
**Venue:** SDPI, Islamabad

### **Participants:**

- Mr Gonzalo J. Varela, Senior Economist in Macroeconomics, Trade and Investment Global Practice, World Bank; Head of Trade Program, World Bank, Islamabad.
- Mr Kamal Monnoo, Chairman, Board of Directors, Kaarvan, Boards Member of Unilever Pakistan Ltd, Samira Fabrics Ltd, Samira Industries Ltd, Institute of Public Policy, & Islamabad Policy Research Institute
- Mr Ghulam Qadir, Ministry of Commerce
- Mr Usama Nizamani, E-commerce Expert
- Ms Tayaba Batool, Advisor, Federal Board of Revenue
- Mr Rahim Nasir from All Pakistan Textile Mills Association, Chief Executive Officer, Ayesha Spinning Mills & Socks Division
- Mr Hamid Khan, Member BoG, National Productivity Organization
- Mr Babar Khan, Entrepreneur and Textile Exporter

## **Introduction**

Economic activities all over the world have succumbed to unprecedented shocks. With an already crippling economy, export restrictions and bans have made matters worse for Pakistan with many mechanisms at the brink of collapse. Among these economic fatalities, there also exists the textile and garment industry. The Pakistani textile sector, which is reliant on exports, has been badly bruised. 'The situation was aggravated by the lockdown across the world including Pakistan in March and April this year.

Owing to the accelerated slowdown of domestic and international markets and delay in receipt of payment in addition to the cancellation of export orders of the organizations and large-scale buying houses, the export-oriented textile industry is facing worst ever liquidity crisis. Textile exports stood at \$751 million in May 2020, or a 37% decline when compared to the exports worth \$1.19 billion in May last year.

International orders have been cancelled and a suspension of shipments has thus deprived smaller companies of their existence. This is especially dangerous in times of economic recession, and there is a dire need for rational changes, which may help the textile industry to come out of turmoil. A devastating situation thus needs drastic measures to be taken to save our export-oriented textile industry from the negative economic impact of Coronavirus (COVID-19), as it is showing an adverse impact on exports.

## **Methodology**

This study is the outcome of a focal group discussion under SEDI programme which was participated by national and international experts. The main objective of the SEDI programme is to support the government to understand what SMEs and exporting firms need to cope with the COVID-19 pandemic.

## **Discussion**

Productivity of Pakistani enterprises is low owing to low investment and less incentives to exports. There is a significance of exports by enterprises especially those operating at small-scale. Trade as a force of productivity has a direct correlation between two variables. More knowledge, competition as well as diversity is needed to increase industrial growth at national level. What would it take to make Pakistan go global is the question to ponder over. More competition is the key to incentivizing exports and bringing about tariff reforms, consequently leading to productivity. Private investment can play an important role in Pakistan's economic growth. Smart branding, promotion, and upgradation of firms' capability should be given top priority.

1. The government needs to uphold crippling Small and Medium Enterprises (SMEs). Bringing long-term sustainability into perspective, the government must take action to secure stakeholders' liquidity for the coming 4-5 crucial months. It is a widely known fact that when demand stutters, so do exports. The export market is contingent upon orders from America and Europe, which have directly impacted the textile industry's revenue. Practical action and steps should be advocated so that institutions which are based on exporting remain liquid, while the government formulates schemes for the retention of institutes apart from loans, which would prove insufficient in present times. A dialogue between the government and private sector needs to be proposed which may discuss the competitive costs of basic necessities of peer economies.
2. Shortage of liquidity to exporters, and the risks to survival of such institutions pose a threat to the economy of Pakistan. There is a 30 per cent decrease in demand of textiles

globally due to the pandemic which led to demand-supply gap in the textile industry. High-street retailers have struggled to retain orders, and discounted goods at retailers similar to Amazon have not suffered, with the retention of more than 90% of its revenue and demand. All Pakistan Textile Mills Association (APTMA) has forwarded a request to the Ministry of Finance to scrap a minimum turnover tax during the pandemic, which requires urgent attention because export refunds have still not been paid by the Federal Board of Revenue owing to the cumbersome processing methodology; this consequently translates into a vacuum of liquidity. A reduction in import and export duties is deemed a necessity as there has been a shortage and import of cotton into Pakistan this year, accentuating the move towards the polyester market.

**4.** With its current infrastructure, Pakistan lacks export culture. Moreover, there appears to be limited planning to improve exports and no diversity in the exporting range. This leads to a limited reach in a vast horizon of trade. Regarding the current problems with the textile industry such as: ‘Where are we lacking? What are the problems? How can we improve? How to incentivize the labour pool?’, one can say that there is gap in economy where SMEs cannot enter a competitive export market due to the high cost of infrastructure, which is highly unsustainable for a small or medium sized enterprise.

**5.** Export promotion schemes and refund claim processing & verification are cumbersome processes thus occupy a vast period of time. The government needs to prioritize these processes to boost the industry, but more efforts are required to make it a success. The government has been working on electronic mechanisms to identify legitimate refund claims, as their verification had for long been a lengthy process. Policy implementation and consultations should adopt a similar approach at all stages of policy making for a smooth transaction between Federal Board of Revenue (FBR) and the Ministry of Commerce. What needs to be brought into perspective is the difficulty in carrying out interventions with enterprises that are primarily headed by women.

**6.** Keeping in view the SME’s inability to comply with regulations pertaining to export, including but not limited to quality control measures, pre-shipment and border clearance requirements, anti-competitive measures and other conditions by buyers of Pakistani goods, there is a dire need for the textile industry to comply with certain standards that should be set as benchmarks. These would undoubtedly put the industry in a better position to compete in the international market. Awareness for these benchmarks should be widespread for effective impact.

**7.** In the wake of diversification of exports and compliance between the public and private sectors the government ought to take rapid action in times of crisis. While the export of Personal Protective Equipment (PPE) was on the rise, the government has also implemented the National Tariff Policy and Textile Policy, which would allow Pakistan to enter the polyester chain. To encourage this, fashion brands had reached out to Pakistan Textile Industry with several sportswear demands. While the government has been proactive, the private sector should be more accommodating and sophisticated in their approach too.

**8.** Introducing the role of Special Economic Zones (SEZs) in addressing infrastructural gaps that SMEs might come across, Pakistan should look towards new markets like Africa and diversify exports to suit that particular market to maximize export potential to the fullest. The importance of the electronic world has opened a new market to the retailers wishing to sell online, however only in cases where there are no fraudulent payments or buyers. The Digital Pakistan Initiative was a source of hope in establishing

such trustworthy mechanisms. In remote areas where there is a lack of accessibility, there should be a helpline provided to answer their concerns in a familiar language in order to increase knowledge and awareness.

## **Policy Recommendations**

1. Increasing productivity, while also incentivizing export through following measures:
  - a. More capital needs to be diverted towards enhancing trade capabilities of private sector.
  - b. Attracting Foreign Direct Investment (FDI) can help export enterprises.
  - c. With the help of Trade Development Authority there should be low tariffs on imports, improving logistics and promotion of smart branding
2. To ensure sufficient liquidity and survival of smaller institutes, the State Bank of Pakistan needs to do more towards improving schemes which may help in retention of labor. It should look to other economies which have offered more generous measures for the private sector amid the pandemic.
3. There is a need to abolish minimum turnover tax.
4. Import duties should be reduced to encourage imports of materials, which are not produced locally.
5. Pakistan should move to the poly-chain (polyester) market.
6. The government needs an urgent assessment on the missing trade-related infrastructure.
7. Reformation of the processing of refund claims should be done electronically to ease verification.
8. Textile enterprises should learn to comply with benchmark standards.
9. Formation of sectoral working groups consisting of leading entrepreneurs in the specific sector acting as advisors to the Ministry of Commerce.
10. Viewing Africa as a market and coming up with products to supply a large population.
11. Role of trade attaches and commercial councilors needs to be revised for the promotion of Pakistani products overseas.
12. Smaller firms need to comply with labour laws set by international buyers.
13. There is a further need to:
  - Evaluate Central Bank's export-financing schemes in their failure to boost productivity of export industries
  - Rationalize energy pricing (gas & electricity) on permanent basis
  - Connect buyer/consumer with the industry
  - Facilitate developing product profile digital data base/platform with product features and details of manufacturer for digital marketing, trading, and payments Facilitate M&A of sick/non-performing textile units with foreign investors/China-Pakistan Economic Corridor
  - Seek Least Developing Country benefits for improved access
  - Revive tech upgradation scheme and budget allocations for the industry