

VIS RATINGS

PAKISTAN TEXTILE SECTOR REPORT

VIS

Credit Rating Company Limited

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INTRODUCTION

Textile sector is an umbrella term for the design, production, and distribution of various types of yarn, fiber, fabric, and apparel for simple daily clothing to high tech bullet proof jackets, spacesuits to medical textiles employing a host of sub-processes spanning spinning, knitting, weaving, finishing, stitching etc. Retailing and stores are the last links of the value added chain supplemented by strong backward and forward linkages with other industries particularly the logistics sector.



FIBRE



YARN



FABRIC



PRE-TREATMENT



MANUFACTURING



DYEING & PRINTING



FINISHING TREATMENTS



PACKING & SHIPMENT



SALES & RETAIL

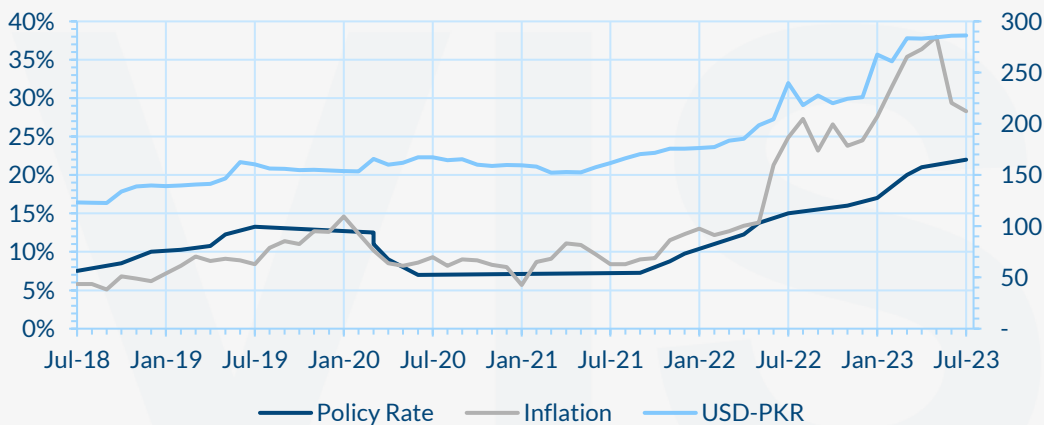
Textile sector is Pakistan largest manufacturing industry, accounting for around 8.5% of GDP, employing about 45% of the total labor force and accounting for 60% of total exports. Globally, the textile industry is undergoing major changes driven by sustainability concerns, technological advancements, innovative fibers and fabrics. Mounting demand for contemporary apparel coupled with the emergence of e-commerce platforms is driving the market growth the world over. Enhancing productivity, efficiency, sustainability and global competitiveness as well as capitalizing on emerging trends like circular economy, smart textiles, digital printing, e-commerce platform etc. are the major challenges for unlocking potential for growth and value addition to the Pakistan Textile Sector.

ECONOMIC OVERVIEW

PAKISTAN ECONOMIC OUTLOOK

The Pakistan economy is undergoing severe stress due to a combination of domestic and external factors. GDP growth has fallen to just 0.29% in FY2023 down from 5.7% in FY2022 while GDP growth target of 3.5% is set for FY2024. Persistently high inflation above 30% continues to erode purchasing power and the tight monetary policy is hindering investment and growth. Import restrictions imposed to preserve foreign exchange reserves have led to shortages and production disruptions across industries. Devastating floods in 2022 damaged agriculture, infrastructure and livelihoods, inflicting losses of over \$30 billion as per World Bank estimates.

The textile industry which dominates exports has been particularly hit by the economic crises. Costs of production have risen significantly due to energy shortages and high fuel, power and interest expenses. Also, export volumes have dropped as key markets like the EU and North America witness slowdowns. Cotton crops suffered last year due to heavy rains and pest attacks, forcing Pakistan to import expensive cotton. Continued policy uncertainty and earlier delays in IMF program have curtailed investor confidence and exports.



Measures like ban on luxury imports, subsidy rollbacks and new taxes to rein in the fiscal deficit have been taken, however, structural issues plaguing the economy remain unaddressed. Economic growth is projected to recover slowly to around 4% by FY2025 if the IMF program is completed. But major risks remain, including the need for major energy reforms, deteriorating social indicators, rising poverty and poor productivity.

GLOBAL ECONOMIC OUTLOOK

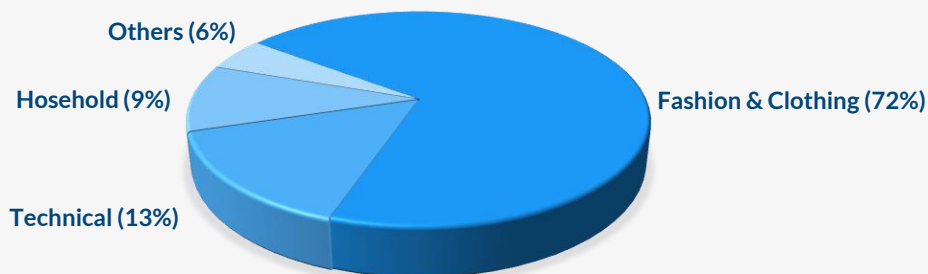
The global economy continues to experience weak growth momentum amidst heightened uncertainty. As per IMF's latest World Economic Outlook (October 2022), global GDP growth is expected to slow from 3.4% in 2022 to 2.7% in 2023, before recovering slightly to 2.9% by 2024. Multiple headwinds persist that are dampening economic activity worldwide. Key central banks have sharply raised interest rates to combat inflation thus tightening financial conditions significantly. Geopolitical tensions including the Russia-Ukraine war have aggravated supply chain disruptions, food and energy crises, and security concerns globally. Lockdowns in China to contain fresh Covid-19 outbreaks have also impacted manufacturing and trade flows. Rising costs of living, stratified labor markets and weaker fiscal support are reducing consumer purchasing power and confidence. With high debt levels, governments also have limited space for stimulus measures.

GLOBAL TEXTILE PERSPECTIVE

Global Textile refers to the manufacturing and distribution of fabrics and textile products on a global scale. This includes a wide range of products, such as clothing, home textiles, technical textiles, and industrial textiles. The global textile market stood at a value of around USD 1094.65 billion in 2022. The market is further expected to grow at a CAGR of 4.5% to attain a value of around USD 1,425.53 billion by 2028. The major drivers of the market include the rising disposable income, growing population, continuous expansion of major textile market players in the emerging economies, and the growing awareness about the advantages of the various textile products, such as natural fibres and polyester.

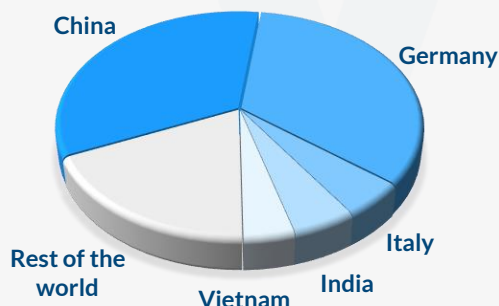
Though global trade is impacted by free trade agreements and tariffs China remains the largest exporter with 33.7% market share, followed by India, Germany, Bangladesh and Vietnam. The USA, Germany, UK, Japan and China are the top importers. Cotton accounts for about 40% global textile market mainly on account of demand from apparel and home furnishing applications.

Global Textile Market 2022 - USD 1,095 B
Segment-wise Share (%)

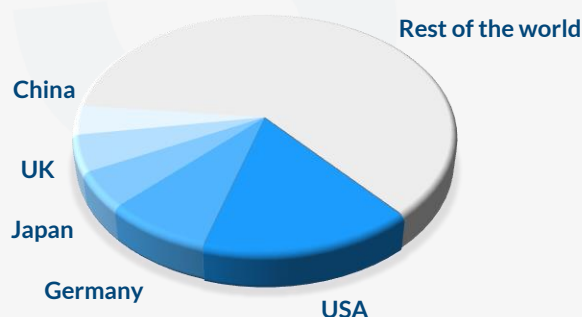


The global textile market is still recovering from production disruption and supply shortages due to lockdowns following the COVID-19 pandemic and labor layoffs post pandemic. However, Russia-Ukraine conflict exacerbated recovery challenges by disrupting energy supplies and imposing sanctions, further intensifying global inflation and economic slowdown. Nonetheless, despite these short-term hurdles, rising consumer awareness, emergence of e-commerce platforms, online fashion brands, and the recent trend of smart textiles (incorporating eco-friendly materials like optical fibers, metals, and conductive polymers to interact with the environment) are expected to drive future sector growth.

Top 5 Textile & Clothing Exporter Countries



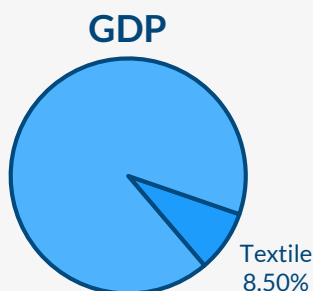
Top 5 Textile & Clothing Importer Countries



PAKISTAN TEXTILE

The textile industry of Pakistan has a total established spinning capacity of 1550 million kgs of yarn, weaving capacity of 4,368 million square meters of fabric, finishing capacity of 4000 million square meters and apparel of over one billion pieces (estimated). Textile Business is concentrated in and around Karachi, Lahore and Faisalabad. Cotton yarn, woven fabric, knitwear, bedding and garments dominate the domestic production. The main export markets for Pakistan are the US, EU, the UK, Turkey, and the UAE, supplying cotton fabrics, knitwear, bed linen, towels, and ready-made garments to global brands such as Zara, H&M, Adidas, John Lewis, Target and Macy's. Competition to Pakistan textile is high from regional players like India, Bangladesh and Vietnam. Top five exporters in FY 2023 include Style Textile, Interloop Limited, Nishat Mills, Artistic Milliners and Gul Ahmed Textile Mills accounting for some 12% of total textile exports. All Pakistan Textile Mills Association (APTMA) is a trade organization representing more than 220 textile spinning, weaving and composite mills in Pakistan. The Association carries much influence in shaping and implementation of government policies in this sector.

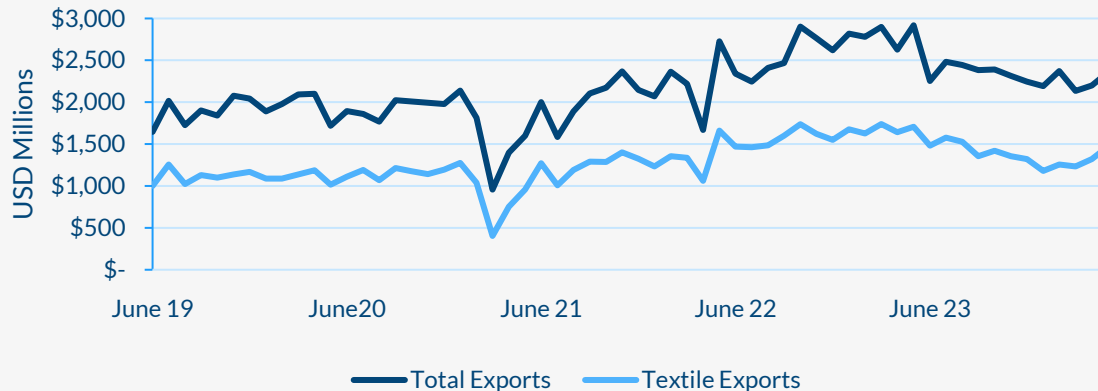
Pakistan textile industry was buoyed at the tail end of the coronavirus pandemic, when it was freed of restrictions earlier than regional rivals India and Bangladesh and benefited from government financial aid, including slashed energy rates. However, failure of cotton crop in 2021, steep rise in cost of capital as the central bank sought to curb record breaking inflation, disruption in supply chain owing to curbs on imports imposed by the government to preserve its forex reserves and other economic challenges eroded this advantage. Resultantly Pakistan's overall market share in the world textile market which was nearly 2.25 percent about two years ago, came down to around 1.7 percent given some 12% decline in textile exports to \$14.2 billion in 2022. Energy crisis, outdated technology, high input costs and sustainability issues pose major challenges to the local textile units. The sector is making efforts to adopt to renewable energy, recycled materials and cleaner production processes to address these challenges.



USD in Million	FY20	FY21	FY22	FY23
Total Exports	22,536	25,639	32,450	27,911
Textile Exports	12,527	15,399	19,330	16,502
PKR/USD Average Rate	158	160	177	244

USD in Million	FY20	FY21	FY22	FY23	YoY- FY23
High Value	9,669	12,427	15,611	13,576	-13%
- Knitwear	2,794	3,815	5,121	4,437	-13%
- Readymade Garments	2,552	3,033	3,905	3,492	-11%
- Bed wear	2,151	2,772	3,293	2,692	-18%
- Towels	711	938	1,111	1,000	-10%
- Made-up Articles	591	756	849	693	-18%
- Art, Silk & Synthetic Textile	315	370	460	412	-10%
- Others	555	743	872	851	-2%
Low to medium Value	2,858	2,972	3,719	2,926	-21%
- Cotton Cloth	1,830	1,921	2,438	2,022	-17%
- Cotton Yarn	984	1,017	1,207	844	-30%
- Others	43	34	74	60	-20%
Total	12,527	15,399	19,330	16,502	-15%

Month-wise Exports



PAKISTAN TEXTILE SECTOR ISSUES

COTTON DOMINANCE

Pakistan has been heavily relying on cotton-based textiles. However, uncertain weather conditions and low per hectare yield makes this sector relatively vulnerable highlighting need for diversification into other fibers likewise other competitor countries.

RAW MATERIAL COST

Rising cost of raw material prices which include yarn fabric and cotton raw materials owing to decline of cotton production and rising cost of capital is impacting Pakistan competitive edge. Policy support to the textile sector and cotton farmers may help the Pakistan competitive position in global textile market.

LOW INVESTMENT IN INNOVATION, TECHNOLOGY AND R&D

Low investment in technology and R&D is affecting the sector competitive position in global market. Innovation in technology and product development are focused more on the acquisition of machinery and less on the training of workers. While larger exporting firms are somewhat moving in this direction due to the requirement for adherence to international regulations and specifications and spillovers of knowledge from foreign clients and suppliers, others also need to gear up investment in this area.

ENERGY CRISIS

The energy issue is the most significant hindrance to the textile industry's growth. Uninterrupted availability and increase in cost of gas and electricity is reducing Pakistan competitive position.

COMPETITION

Pakistan's textile industry faces fierce competition from countries like Bangladesh, Vietnam, India, and Thailand in the foreign markets. With expensive utilities, wage rates, and an inadequate flow of investment, the textile industry is finding it difficult to meet the competition.

DIFFICULT ECONOMIC ENVIRONMENT

Prevailing difficult economic situation leading to restrictions on opening of Letters of Credit (LCs), delays in refunds to exporters, restrictions on the import of raw materials and machinery, massive devaluation of rupee, high inflation, discontinuation of Regionally Competitive Energy Tariff and suspension of Drawback of Local Taxes and Levies (DLTL) under the Textile Policy have made the textile units more uncompetitive as well as causing liquidity issues.

SUSTAINABILITY

Investing in sustainable and ethical practices across the entire value chain is vital for Pakistan's textile industry to compete globally. This involves adopting organic and recycled fibers, conserving water and energy in factories, ensuring fair labor practices, and minimizing waste in the supply chain. Failing to meet evolving consumer demands may result in business loss, while exploiting workers and causing environmental harm can lead to legal and reputational repercussions for the industry. Large textile mills in Pakistan are taking proactive steps to promote eco-friendly practices

by introducing innovative fabric ranges, offering recycled textile products, reducing the carbon footprint employing environmentally friendly dyeing processes and use post-industrial, pre-consumer, and post-consumer waste to reduce water consumption and pollution. However, more need to be done to address concerns in this area.

GSP PLUS STATUS

Pakistan enjoys preferential access to the European market since January 2014, under the GSP+ arrangement (mostly zero duties). More than 76% of Pakistan's exports, including textiles and clothing, enter the EU duty and quota free. This represents almost 20% of Pakistan's exports globally. Effective implementation of the 27 labor and human rights conventions as well as reducing impact on environment are crucial as Pakistan's current GSP plus status will be reviewed in December 2023.

PRODUCT INNOVATION AND MARKETING

Investment in design and marketing is crucial to enhance the visibility and appeal of Pakistani fashion products as well as to address the quality perception associated with products from Pakistan. Effective marketing campaigns and initiatives are necessary to promote Pakistani products successfully and maximize their market reach and impact.

SECTOR DYNAMICS

The garment and fashion industry manufacturers in the sector, their purchase and supply decisions and their product developments for retail sector are the major forces in shaping the sector and the supply chain.

Also, high consumer demand for crease-free fabrics, as well as quality-dyed and printed fabrics across the globe is estimated to drive the segment growth further. Increase in demand for formal & casual wear and other fashionable clothing among all age groups across the globe is another factor driving the growth. Moreover, growing population and rapid urbanization in the emerging economies are likely to boost the demand for clothing and apparel, thereby positively contributing to the segment growth. To succeed amid the shifting trends, companies need to build up competence in consumer target groups, sustainability, marketing channel digitalization and analyzing customer data to understand customer's needs.

RECENT DEVELOPMENTS

Globally Trend has begun to evolve from conventional textiles to technical textiles in order to produce value added products. Another trend that has emerged is the transition from mass production to customer-oriented flexible production. This trend is in the form of more adaptation to customer requests, less stocks, flexible and more efficient production.

SUSTAINABILITY AND BIODEGRADABLE TEXTILES

The focus on sustainability and eco-friendliness continues to grow. Consumers are more interested in purchasing textiles made from recycled materials or produced with minimal environmental impact. Brands are increasingly offering products made from organic cotton, recycled polyester, and Tencel. DuPont Biomaterials launched a new home textile collection including bath towels and bed sheets, made with bio based materials to meet growing demand for sustainable home textile products. Asahi Kasei Corporation announced the launch of Bemliese, its proprietary ultra-sustainable continuous-filament cellulosic nonwoven fabric. Honeywell International Inc. launched Bio Amni, the first partially bio-based polyamide textile yarn globally.

CIRCULAR ECONOMY

The concept of a circular economy is gaining traction in the textile industry. This involves designing textiles for longer lifespans, with the intention of recycling and repurposing them at the end of their life cycle. This approach reduces waste and promotes resource efficiency. The Levi's brand has developed a new concept store in England where the used denim product is repaired and brought to the sector as a new product.

3D AND DIGITAL PRINTING

Use of digital printing technologies for textiles is on the rise, allowing for greater customization, reduced waste, and shorter production times. Digital textile printing enables intricate patterns, photo-realistic images, and a broader range of colors to be printed directly onto fabrics. 3D printing technology is being used on commercial scale to develop tailored fashion designs. Some garment brands enable consumers to select suitable denim products by scanning from anywhere they wish, using a mobile phone scanning model with 3D scanning algorithm indicating rise in customization commercially.

PERFORMANCE FABRICS, SMART TEXTILES AND SMART MANUFACTURING

Demand for high-performance textiles is growing, with consumers seeking fabrics that offer moisture-wicking, antibacterial, UV protection, and thermal regulation properties. These textiles are popular in active wear, outdoor wear, and everyday clothing. Also integration of technology into

textiles continues to evolve, with advancements in wearable technology and **smart fabrics** that can monitor vital signs, control electronic devices, or change color and texture in response to external stimuli. Another global development in the garment industry is in the field of **smart manufacturing**. Companies invest in automation, artificial intelligence, 3D printers and robotics for smarter production and supply chains to improve product design, achieve higher production efficiencies, to address sustainability concerns and more product customization.

INCLUSIVITY AND ADAPTIVE DESIGN

The textile industry is increasingly focusing on creating fabrics and garments that cater to diverse body shapes, sizes, and abilities. Textiles with adaptive features, such as easy closures, adjustable sizing, and sensory-friendly materials, are becoming more prevalent. Reebok Company includes its customers in the production process and production system and develops designs according to their demands.

PRODUCTION ON DEMAND

Another trend in the sector is production on demand, that is, on order, rather than mass production. Small firms are more active in adopting the on demand production model making use of new technologies and faster delivery channels.

SECTOR OUTLOOK – NEUTRAL

The future outlook remains promising though the sector faces medium-term risks due to the current weak macroeconomic environment both globally and locally, high-interest rates, inflationary pressures, rising raw material costs, ongoing energy crisis in the country, and a global slump in demand, primarily from North America and Europe. Additionally, renewal of Pakistan's GSP plus status in December 2023 is critical for the sector performance. Overall, the textile industry has significant growth potential but facing structural issues around cotton supply, energy costs and upgrading technology to improve productivity and competitiveness. Compliance with international environmental and labor standards is becoming critical for access to major export markets. Reforms in the industry, targeted policy efforts and public-private investment will shape the future outlook of the Pakistan textile sector.

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