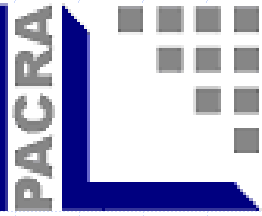


# Garments Sector – An Overview







# History of Textile Industry in Pakistan

1950s

PIDC was formed and industrialization started in the country with textile industry at its center

1960s

First wave of private investment began with a highly protected home market

1970s

Government established CEC, as part of its nationalization drive and took over from private sector

1980s

Textile industry boomed due to denationalization, industry friendly policies and boom in international markets

1990-98

Second wave of investment came for BMR. Government also lifted custom duty on machinery import

2005

Introduction of WTO and elimination of quota system for exporters hampered textile industry

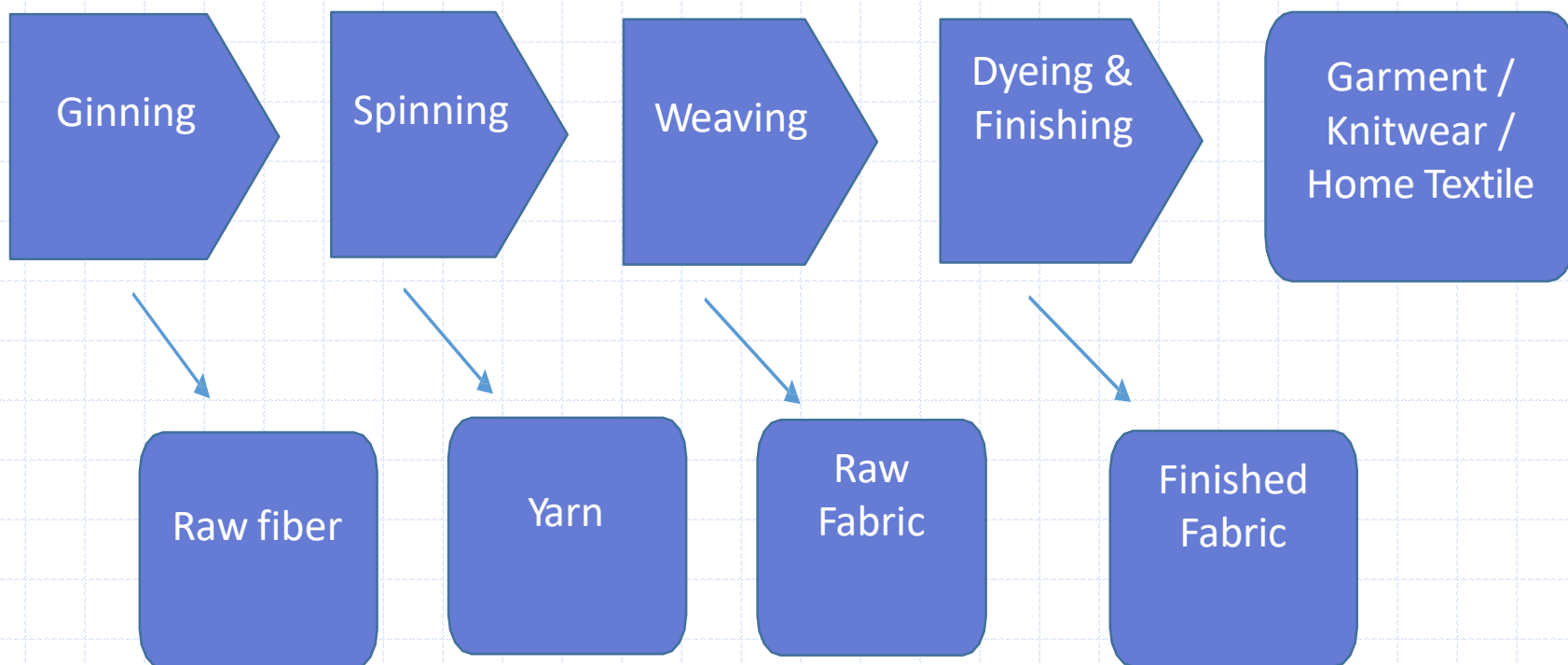
2009

Textile industry was hit hard by energy crises, depriving the gas supply to industry for three days a week

2011-2019

Textile industry recovered due to zero rated tax regime, GSP+ status from EU and improvement in energy supply.

# Garments Value Chain



# Garments Manufacturing Processes

## GARMENT MANUFACTURING PROCESS FLOW-CHART

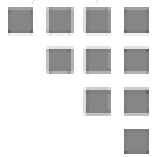


# Top 10 World Garment Exporters

USD in Millions

Top 10 Garment Exporting Countries				
Rank	Particulars	2018	2017	2016
1	China	172,823	171,590	172,000
2	Bangladesh	37,558	33,751	31,886
3	Vietnam	32,203	25,758	23,770
4	Germany	26,539	23,546	19,945
5	Italy	23,224	21,331	19,968
6	India	20,912	22,295	21,526
7	Turkey	17,358	16,805	16,729
8	Spain	15,046	14,164	12,549
9	Hong Kong, China	13,128	13,728	14,916
10	France	12,920	11,519	10,821
14	Pakistan	9,496	8,937	8,404
	<b>Total World Exports</b>	<b>547,299</b>	<b>514,940</b>	<b>491,201</b>

Source: Trade Map



# Pakistan Garment Exports

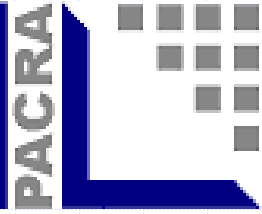
Garment Exports									
Product Category	FY19			FY18			FY17		
	Qty. (TH. DOZ)	Per Dz Price (USD)	Value (USD 'mln)	Qty. (TH.DOZ)	Per Dz Price (USD)	Value (USD 'mln)	Qty. (TH. DOZ)	Per Dz Price (USD)	Value (USD 'mln)
Ready-made Garments	53,142	49.96	2,655	40,027	64.38	2,577	35,158	65.96	2,319
Knitwear	121,996	23.76	2,899	105,606	25.67	2,711	104,091	22.69	2,361
<b>Total</b>	<b>175,138</b>	<b>31.71</b>	<b>5,554</b>	<b>145,633</b>	<b>36.31</b>	<b>5,288</b>	<b>139,249</b>	<b>33.61</b>	<b>4,680</b>
Total Textile Exports of Pakistan			13,329			13,521			12,173
% Contribution of Garments in Total Textile Exports			42%			39%			38%
YoY growth trend in Garments Exports			5%			13%			-10%
YoY growth trend in Textile Exports			-1.42%			11.07%			0.26%
Source: Trade Development Authority of Pakistan (TDAP), Pakistan Bureau of Statistics (PBS)									

# Pakistan's Top 10 Export Destinations

<b>Pakistan's Top 10 Garment Export Destinations</b>				
S.No.	Country	FY19	FY18	FY17
		US\$ 'mln		
1	United States	1,636	1,516	1,396
2	United Kingdom	746	754	648
3	Spain	570	551	464
4	Germany	549	543	490
5	Netherlands	377	340	253
6	Belgium	293	319	312
7	Italy	156	151	140
8	France	140	146	143
9	United Arab Emirates	120	137	105
10	Poland	102	92	75
	<b>Top 10</b>	<b>4,687</b>	<b>4,549</b>	<b>4,027</b>
			-	-
	<b>Total Garments Exports</b>	<b>5,554</b>	<b>5,288</b>	<b>4,680</b>

Source: Trade Development Authority of Pakistan (TDAP)



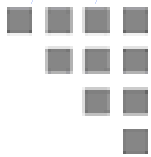


# Main Players in Pakistan



# Taxes & Duties

<b>Custom Duty</b>			
<b>S.No.</b>	<b>Category</b>	<b>FY20</b>	<b>FY19</b>
1	Cotton	3%	3%
2	Yarn	11%	11%
3	Fabric	20%	20%
4	Finished Goods	20%	20%
5	Worn Clothing	3%	3%
<b>Anti-dumping duty</b>			
<b>S.No.</b>	<b>Category</b>	<b>FY20</b>	<b>FY19</b>
1	Polyester Yarn	4-11%	4-11%
<b>Sales Tax</b>			
<b>S.No.</b>	<b>Category</b>	<b>FY20</b>	<b>FY19</b>
1	Cotton	10%	0%
2	Yarn-Local	17%	0%
3	Yarn-Export	0%	0%
4	Fabric-Local	17%	0%
5	Fabric-Export	0%	0%
6	Finished Goods-Local	17%	0%
7	Finished Goods-Exports	0%	0%



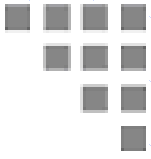
# Effect of Imposition of Sales Tax

## Export Sales

- ◆ The imposition of sales tax on export sales will result in liquidity pressure on the Companies as they have to pay input sales tax on purchases and will not be able to claim output tax on exports. This will increase funding requirements for working capital.
- ◆ Although the FBR has made arrangements for expediting refunds through issuance of sales tax refund bonds, but system's effectiveness is yet to be seen.

## Local Sales

- ◆ There will be little impact on profitability on local sales made to registered persons as the companies will be able to pass on the increased costs to the end consumer. However, this will increase pressure on liquidity as input costs will increase.
- ◆ There will be more hassle on local sales made to unregistered persons as it will increase the cost of finished goods for unregistered persons, making them less competitive. This could also impact profitability of the companies as they may have to bear part of the additional costs in order to maintain profitability.

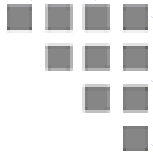


## Strengths

- ◆ GSP+ status from European Union
- ◆ Local availability of raw material
- ◆ Favorable support from Government
- ◆ Subsidized interest rate Export Refinance Facility (ERF) and Long-term Financing Facility (LTFF) from State Bank of Pakistan
- ◆ Long-standing reputation of Pakistan's textile industry in the international market
- ◆ Subsidized energy prices

## Weaknesses

- ◆ Lack of R&D and technological innovation
- ◆ Poor human resource training and low productivity of labor
- ◆ Poor access to credit, especially to SME sector
- ◆ Low quality of local cotton and yarn
- ◆ Low penetration in high value-added goods

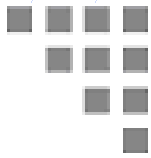


## Opportunities

- ◆ Setup of new garment clusters, similar to other regional competitors.
- ◆ Removal of GSP+ status of India by USA, and expected inclusion of Pakistan
- ◆ Increasing production costs in China provides opportunity to promote Joint ventures with Chinese companies
- ◆ Development of capability in high value-added products and shift to greater mix of man-made fibers
- ◆ Development of ancillary industry in Pakistan

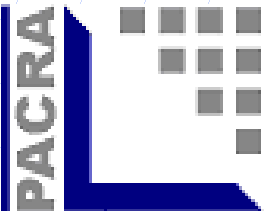
## Threats

- ◆ Stiff competition from regional players
- ◆ Higher cost of doing business in Pakistan compared to other regional competitors
- ◆ Significant delays in sales tax refunds to the industry causing liquidity crises
- ◆ Higher interest rates in the economy, increasing the finance cost
- ◆ High export markets concentration in USA and Europe
- ◆ High product concentration



# Future Outlook

- ◆ Increased liquidity pressure due to withdrawal of zero rated status
- ◆ Currency devaluation will have positive impact in future
- ◆ Continuous support from govt. and SBP means favorable industry environment
- ◆ GSP+ status from Europe and potential GSP+ from USA
- ◆ Increase new orders from US-China Trade war
- ◆ High energy prices & possible threat of removing subsidy
- ◆ Increased minimum labor wage rate



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