



Textiles and Apparel Policy 2020-25

Message from the Advisor to Prime Minister on Commerce and Investment



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Globalization, technological advancements, varying global sourcing patterns, regulatory and compliance legislations and meeting the world-class performance standards in terms of speed to market, design and innovation, price, quality, and sustainability are few of the challenges for Pakistan's textiles and apparel industry as it adjusts to global trade landscape. Meeting these challenges require an increasingly attention on the business oriented policies, enabling environment and the consistent, coherent, and distinctive business acumen to have strategic, sustainable, and responsible economic growth.

The global textiles and apparel trade grew significantly in the post quota regime after 2004, however Pakistan's exports could not increase substantially vis-à-vis competitor countries due to the high cost of doing business, anti-industrial import tariffs and a complex taxation regimes, low domestic and foreign investments, regulatory impediments and cumbersome processes, limited focus on product and geographic diversification, high logistic costs, low productivity, and unpredictable policies. Despite being the leading supplier of home textiles and hosiery products, Pakistan still ranks very low in exports of high value-added products and accounts less than two percent of global export share.

Regardless of several barriers to trade, it is commendable that the Pakistan's textiles and apparel sector kept on endeavoring to sustain footprints in global markets and continued to explore new business avenues. Resultantly, despite the fallout of COVID-19 pandemic, textiles and apparel industry has achieved highest ever record exports in fiscal year 2020-21 and momentum of rising exports is continued further in fiscal year 2021-22.

Aiming to consolidate increase in investment and growth of industry to boost exports, growth in GDP and nationwide employment, I am pleased to announce third Textiles and Apparel Policy that outlines the strategic interventions to mainly focus on providing business conducive environment, reducing cost of doing business, enhancing the economy of scales, capacity building (in terms of infrastructure and supply chain development, marketing, compliances, research and development), and formulating the strategies to promote Made in Pakistan, facilitate international buying houses for effective supplier-customer relationship, and initiate mass level training programs for Skill Development.

I am optimistic that this policy will act as a catalyst to enhance the collaboration among public and private stakeholders to accomplish set targets and make the Pakistan a leading exporter of value-added goods globally.

FOREWORD



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Textiles and apparel sector of Pakistan being the most energetic, dynamic, and export-oriented encompasses a unique distinction of having an intensive backward and forward linkages which translates into an extended value-chain starting from the cotton ginning to a finished product marked by a great reflection of modern fashion. It contributes around 60% in total exports and provides a platform for the large, medium, and small scale manufacturing and employment which are hallmarks of modern progressive industrialization. More emphatically, paramount importance of the sector can be gauged by the fact that its total exports have crossed the threshold of US\$ 15.4 billion during fiscal year 2021-22 despite numerous challenges.

The concerted efforts were made to formulate Textiles and Apparel Policy, 2020-25 by critically evaluating challenges being faced by the industry and barriers to industrialization and export amid COVID-19, considering incentives and support being extended by the regional competitors to their industry and incorporating valuable inputs from the public and private stakeholders. By Textiles and Apparel Policy, a firm resolve is done to address the issues confronted by the industry through pragmatic interventions and focused approach to enhance share of Pakistan's textiles and apparel exports in global markets. This is aimed to be achieved by enhancing the production capacities, focusing more on high value-added and quality products, targeting niche and non-traditional markets, substituting imports, conforming to regulatory and compliance standards, improving productivity, and reducing wastages, carrying out research and development for value-addition, newness, and emerging technologies, and most importantly developing a knowledge driven economy to make the sector more progressive and forward-looking.

Textiles and Apparel Policy, 2020-25 is a complete reflection of interventions, plans and supports that are envisaged to create a business conducive environment for global competitiveness, robust processes and sustainability through capacity building, marketing initiatives, revitalizing projects, consistent and predictable measures and level playing field for textiles and apparel value-chain.

I would like to appreciate everyone involved for the dedicated and untiring efforts in formulation of the 3rd Textiles and Apparel Policy. Ministry of Commerce in collaboration with the public and private stakeholders will continue to strive the best to achieve set targets which are so important for development of the country, industry, and uplift of economy.

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Acronyms

ATC	Agreement on Textiles and Clothing
MFA	Multi Fiber Agreement
SMEs	Small and Medium Enterprises
BMR	Balancing, Modernization and Replacement
MMF	Manmade Fibers/Filaments
TUF	Technology Up-gradation Fund
LTFE	Long Term Financing Facility
EFS	Export Financing Scheme
DLTL	Drawback of Local Taxes and Levies
DDT	Duty Drawback of Taxes
PTCL	Pakistan Textile City Limited
KGCC	Karachi Garment City Company
LGCC	Lahore Garment City Company
FGCC	Faisalabad Garment City Company
SEZ	Special Economic Zone
SBP	State Bank of Pakistan
FBR	Federal Board of Revenue
ANF	Anti-Narcotics Force
MNFS&R	Ministry of National Food Security and Research
BCI	Better Cotton Initiative
EDF	Export Development Fund
EOBI	Employees Old-Age Benefits Institution
SS	Social Security
NAVTTTC	National Vocational and Technical Training Commission
TEVTA	Technical Education and Vocational Training Authority
TDRO	Trade Dispute Resolution Organization
CSR	Corporate Social Responsibility
PPE	Personal Protective Equipment
NTC	National Tariff Commission
IOCO	Input Output Coefficient Organization
BOI	Board of Investment
SECP	Securities and Exchange Commission of Pakistan
PMEX	Pakistan Mercantile Exchange
RLNG	Regasified Liquefied Natural Gas
kWh	Kilowatt hour
MMBtu	Metric Million British Thermal Unit
CPEC	China-Pakistan Economic Corridor
GCI	Global Competitiveness Index
LC	Letter of Credit
ODM	Original Design Manufacturing
OBM	Original Brand Manufacturing
GSP+	Generalized Scheme of Preferences Plus
EU	European Union
B2B	Business to Business
B2C	Business to Consumer
B2B2C	Business to Business to Consumer
GVC	Global Value Chains
MoIP	Ministry of Industries and Production
MoFEPT	Ministry of Federal Education and Professional Trainings
FDA	Food and Drug Administration
CE	Conformité Européenne
N/A	Not Applicable

Background

Textiles and apparel sector occupies a pivotal position in Pakistan's economy having most intensive backward and forward linkages compared to any other sector. Linking agriculture through industry to exports is a distinction which is unique perhaps to this sector. Pakistan's textiles and apparel sector encompasses distinctive and self-reliant value-added production chain that is developed by its own industrial resources starting from Cotton to Ginning, Spinning, Weaving, Knitting, Processing, Finishing to Apparel and Home Textiles.

The Agreement on Textiles and Clothing (ATC) gradually dismantled quota regime under the Multi Fiber Agreement (MFA), completing abolition on 31st December, 2004. Global textiles and apparel trade grew substantially in post quota regime however, Pakistan's exports in this category did not increase substantially vis-à-vis competitor countries due to various distortions at macro and micro level. Pakistan is the fifth largest Cotton producing country, however this comparative advantage could not transform Pakistan to become one of the major textiles and apparel exporting country in the international market.

The measures undertaken in previous Textiles Policies (2009-14 and 2014-19) addressed immediate looming issues such as reducing the cost of doing business. However, long term structural measures like sustainability of investment were highlighted in policies but could not be addressed in real manner. Therefore, these facilitation measures just led to sustain exports but could not cause rapid growth in textiles and apparel exports.

An independent Ministry of Textile Industry was established in 2004 to address sectoral issues, however it was not fully empowered and some functions of Ministry even remained under the ambit of other ministries like trade negotiations on textiles and apparel under the domain of the Ministry of Commerce. Further, due to shortage of human resources, Textile Division could not pursue projects to achieve set goals. Absence of coordination of Ministry of Textile with relevant ministries / divisions / departments led to failure to resolve issues. For better coordination, Textile Division was merged with Commerce Division in December 2019 and formulation of Textiles Policy was placed under Rules of Business of Commerce Division.

Textiles and Apparel Policy 2020-25 thus requires a holistic approach to tackle issues confronting the textiles and apparel sector amid COVID-19 that has resulted in supply chain disruptions and affected global prices of commodities and trade adversely, and address withdrawal of SRO-1125 and cost of doing business related matters. Furthermore, the policy would attract domestic and foreign investments in textiles and apparel supply-chain and development of value-added sectors, with prime focus on SMEs.

Introduction

Policy Vision

To fully utilize potential of home-grown Cotton augmented by Manmade Fibers/Filaments to boost value-added exports and become one of the major players in global textiles and apparel supply chain.

Mission Statement

To provide conducive business environment, consistent, predictable and foreseeable measures and level playing field for the domestic and export-oriented textiles and apparel value-chain.

Export Projections

Realizing potential of value-addition in each segment of supply-chain and inherited know-how of products / markets by textile and apparel sector, export projections are as following:

Values in US\$ Million

Fiscal Year	Model Based Projections			Projections based on export target of FY 2021-22	
	Scenario	Value-Added Textiles (Apparel, Made ups, and Carpets)	Textiles		Total
2020-21	-	11,955	3,497	15,452	-
2021-22	I	11,418	3,064	14,482	20,000*
	II	13,432	3,604	17,036	
	III	14,397	3,863	18,260	
2022-23	I	12,955	3,209	16,164	25,000*
	II	15,514	3,843	19,357	
	III	16,947	4,198	21,145	
2023-24	I	14,251	3,258	17,509	31,000*
	II	17,374	3,972	21,346	
	III	19,354	4,425	23,779	
2024-25	I	15,841	3,343	19,184	40,000*
	II	19,661	4,149	23,810	
	III	22,328	4,712	27,040	

In the above table, three scenarios have been proposed by the Ministry of Commerce for projections of exports. These projections comprise the recent more than expected growth forecast by the Government of Pakistan.

*Ministry of Commerce has undertaken an exercise of thorough consultations with private stakeholders and proposed to set an export target of US\$ 20 billion for textiles and apparel industry during FY 2021-22 and the afore-mentioned target has also been approved by the Prime Minister. The export target for FY 2021-22 is further cascaded till FY 2024-25 with a projection to double textiles and apparel exports to US\$ 40 billion. However, strong resolve

and long-term commitments from Federal Government, robust implementation of policy interventions by relevant ministries / divisions / departments and full fiscal support from the Finance Division would necessarily be required to keep intact the due support on proposed interventions throughout the policy years to achieve set milestones.

Strategic Objectives

- a. To leverage advantage of complete textiles and apparel supply chain by encouraging value-addition at each stage of processes, especially in the finished products
- b. To restore profitability of Cotton farmers by increasing yield, improving quality and decreasing cost of production
- c. To strengthen MMF sector, to make this chain export oriented
- d. To support textiles and apparel value-chain not only for BMR but importantly for new capacities
- e. To facilitate in manufacturing by carrying out an exercise to review temporary importation schemes and role of regulatory organizations
- f. To provide level playing field to make this sector export competitive and increase share in the domestic market
- g. To give priority to SMEs for infrastructure, compliance, energy efficiency, quality assurance, productivity and E-Commerce related projects

Critical Appraisal of Textile Policies

The previous Textiles Policies were formulated with an aim to enhance textiles and apparel exports to \$25 billion and \$26 billion respectively. Objectives of both policies were to fully utilize the comparative advantage of Cotton and presence of nearly self-sufficient complete value-chain starting from fiber to finished products. Both policies proposed several financial and facilitation measures including but not limited to the availability of energy at regional competitive rates, reduced mark-ups for technology up-gradation and working capital, tariff rationalization, simplification of temporary importation schemes, improvisation of ease of doing business parameters and infrastructure and human resource development. These measures were devised to attract investment, reduce the cost of doing business, diversify product range and notably increase exports of finished products instead of semi-finished products.

Both the policies set ambitious targets and financial commitments of Rs. 188 billion and Rs. 65 billion respectively for first and second Textiles Policies were made by the Government to achieve them. However, these targets were not fully achieved due to delayed / no payments under respective facilitation schemes and non-allocation of funds for the infrastructure development, vocational training, productivity and compliance related programs.

During first policy period, energy was not fully available and textiles and apparel value-chain was not allotted the top place in priority list for energy distribution. In second policy period, energy was available but not on regionally competitive prices.

High and volatile international commodity prices and high mark-up rates limited exports during the first policy period. During second policy period, although commodity prices were lower, but industry was not competitive enough to increase exports due to high utility rates.

Moreover, zero-rating regime was withdrawn in 2013 without providing an expeditious refund system that was committed, thereby creating liquidity crunch for exporters. The zero rating regime restored in 2016 but withdrawn again in 2019. Similarly, other than sales tax refunds, customs duty drawback and withholding tax refunds were also not paid on-time.

Technology Up-gradation Fund (TUF) scheme was included in previous policies with special provisions to support SMEs. This scheme aimed to improve the overall technological configuration of sector, remove critical imbalances in value-chain and achieve compliance with international standards. However, payments were disbursed only for first fiscal year of second TUF scheme. Pending payments could not be disbursed due to shortage of funds. Less support was provided same as first policy due to which investment in machinery and new technology remained scant. To reduce the cost of doing business, DLT scheme was launched in first Textiles Policy only for two years but payments were not made on-time, whereas in second Textiles Policy, scope of scheme was linked to incremental increase in exports compared to previous year. Further, no new infrastructure and human resource development programs were initiated in both Textiles Policies. On the other hand, Pakistan Textile City Limited (PTCL), a project of 1,250 acres, was placed under liquidation.

Importantly, Cotton production has fluctuated due to various reasons and further import duties on Cotton were imposed, thereby increasing cost of production for the downstream value-chain. Moreover, robust implementation mechanism was not devised and financial commitments by Government were considered the only tool for implementation of policies.

This policy is aimed to address shortcomings in previous policies and multipronged strategy will be devised as under:

- I. Having strong resolve to fulfil commitments, it is imperative to mention that present government disbursed Rs. 121 billion in pending liabilities of previous governments in last three years, while previous two governments only disbursed Rs. 68 billion.
- II. Market driven exchange rate is a great boost to increase exports and reduce imports.
- III. National Tariff Policy, working now under the domain of the Ministry of Commerce, is determined to rationalize tariff structure of the textiles and apparel value-chain.
- IV. Temporary importation schemes for re-exports will help to increase the value-added exports providing the employment opportunities to abundant labor force including women available in Pakistan:
 - a. Simplification and proposed bond to bond transfer to diversify product base
 - b. Availability of raw materials at competitive price to value-added exporters
 - c. Product diversification
 - d. Improvement in fiber mix as Cotton currently accounts only 27% of total fiber consumption in the world

- V. Customs duty drawback rates will be revised.
- VI. Provision of consistent and long-term foreseeable future while undertaking following key measures:
 - a. Supply of energy (Electricity and RLNG) to export oriented units / sectors of textile industry at regionally competitive rates throughout the policy years.
 - b. Duty drawback scheme (DLTL/DDT) for value-added textile products only i.e. technical textiles, apparel, made-ups and carpets.
 - c. Long Term Financing Facility (LTFF) and Export Financing Scheme (EFS) rates will be continued at 5% and 3% respectively during FY 2021-22. These rates would continue for policy years, however, the SBP may review mark-up rates keeping in view monetary policy and prevailing economic conditions.
 - d. Review of LTFF and refinance scheme for SMEs, and indirect exporters and building cost (covering manufacturing area only) will be included.
 - e. Brand development and acquisition fund will be launched.
- VII. Revitalization of KGCC
- VIII. Mass level training program will be launched specially on industrial stitching and majorly for women
- IX. Marketing strategy will be reviewed
- X. First ever E-Commerce policy is under the implementation phase that will provide an open access to textiles and apparel industry to tap available business opportunities across the globe. Amazon has already started registering Pakistan manufacturers and exporters including textiles and apparel.

Challenges Faced by the Textiles and Apparel Sector:

Previous Textile Policies encompassed schemes to incentivize manufacturing and enhance exports of textiles and apparel, notably value-added products, while addressing issues that afflict entire value-chain. Nevertheless, most of the targets were not realized due to the reasons already discussed under the appraisal of previous textile policies.

Even though Pakistan is currently fifth largest Cotton producer, however biggest challenge is restoration of profitability of Cotton farmers by increasing per acre yield while introducing latest seed technology.

Second major challenge being faced by textiles and apparel sector is product diversification via improvement in fiber-mix and concentration on MMF (artificial or synthetic) to enhance competitiveness and manufacture goods more in line with global demands. Tariff escalation in value-chain intended to encourage domestic value-addition only led the sector to become uncompetitive. Tariff rationalization is therefore imperative to ensure equal distribution of profits and encourage industry for investment to increase exports and diversify products.

Furthermore, Pakistan remained a major supplier of greige / semi-processed raw materials but there is a need to make a shift towards value-added products i.e. technical textiles,

apparel and made-ups. Due to lack of state-of-the-art facilities, industry has to invest on the infrastructure related components, captive power generation and effluent treatment and water recycling plants. This needs to be covered through development of state-of-the-art Textiles and Garments Parks having status of Special Economic Zones (SEZ) and it would also facilitate in defragmentation of textiles and apparel value-chain.

Foreign direct investment could not be attracted in textiles and apparel due to inconsistent policies including over-valued exchange rate, lack of infrastructure facilities and availability of energy at regionally competitive rates. Another challenge would be to restore confidence of international investors by implementation of the Policy in letter and spirit. Pakistan has recently been able to clinch a favorable deal in the China-Pakistan Free Trade Agreement-II. Development of Gwadar Port and projects under China-Pakistan Economic Corridor (CPEC) will also provide a launching pad to attract investment in textiles and apparel value-chain.

The challenge of improving productivity and increasing exports of value-added products will require initiation of a mass level training programs especially in industrial stitching with prime focus on SMEs.

The major obstacles for SMEs are access to concessionary finance, international marketing, skilled labor, compliance with international standards, logistics and digital payments issues, etc. Without addressing these key issues, it would be difficult to attract new ventures / entrepreneurship in this sector.

Major issues of textiles and apparel value-chain relate to other ministries/organizations and few subjects have also been devolved to the provinces. Improved collaboration among the various ministries / divisions / provinces is needed for the policy implementation. Moreover, provinces are required to either offer additional benefits to exporters/manufacturers for investment in their respective provinces or at least provide them a conducive environment.

Pakistan ranks low in ease of doing business and global competitiveness index (GCI). Earnest resolve and optimal support by the Government is required to improve rankings in various segments of these indices.

Moreover, a looming challenge is textiles and apparel sector demands for the restoration of zero-rating regime and the release of delayed refund payments by the Government. This is crucial if exporters have to enhance capacities and production. Timely refund mechanism is essential to address liquidity crunch of the exporters, otherwise, the Government have to restore the zero-rating regime.

Textiles industry is known globally for generating massive employment opportunities especially in garments and this is the reason various countries provide extensive support to this particular sector. The Government of Pakistan must also provide regionally competitive

utility rates and other financial support as extended by our regional competitors. Therefore, successful implementation of this policy would require adequate fiscal commitment by the Government and strong unwavering political will is a prerequisite to serve the purpose. Last but not the least, sufficient human resource at implementation level should be provided.

Thrust Areas

Few of important reasons for not fully utilizing export potential in textiles and apparel value-chain were the inconsistent policies, especially in availability and pricing of energy and raw materials, taxation, refunds and regulatory regimes.

- a. During Policy period, the Federal Government will ensure that energy prices remain regionally competitive and rationalized among provinces.
- b. Deliberations would be made with provinces that additional facilitation may be given from their own resources to attract investment in their respective provinces.
- c. Government will ensure to automate refund and incentives disbursement processes and continuously simplify the procedure to the satisfaction of SMEs.

Proposed Measures to Achieve Strategic Objectives

1. Capacity Building

1.1. Technology Up-gradation

1.1.1. To keep pace with advancements in technology and capacity enhancement, one of the priority areas will be to review LTFF schemes of SBP, include indirect exporters and add construction in financing (covering manufacturing area only) for apparel and made-ups sectors along with adequate project limits. Further, the SBP will allocate sufficient funds for LTFF and EFS. Textiles and apparel machinery, spare parts, accessories, and dyes and chemicals will also be included in LTFF schemes of SBP.

1.1.2. International donors will be approached to support in knowledge and technology transfer.

1.2. Infrastructure Development

1.2.1. To reduce cost of manufacturing, the Government will establish state-of-the-art infrastructure having electricity and steam generation system backed by combined effluent treatment and water recycling plants. This would not only reduce cost of infrastructure but also operational cost. Moreover, availability of such infrastructure would be an attraction for foreign investors to install manufacturing units.

1.2.2. The Ministry of Commerce is committed to revitalize KGCC after analyzing facilitation measures being extended to existing industrial parks / cities and new business plans will be formulated accordingly. Further, SEZ status will be granted to KGCC.

1.2.3. In consultation with stakeholders, Government will develop new garment cities for SMEs having plug and play buildings including but not limited to Sialkot, Sahiwal, Multan, and Hyderabad. In existing garment cities, more state-of-the-art buildings will be added and buildings and procedures for renting will be designed in a manner suitable for SMEs.

1.2.4. Expo centers will be developed in Sialkot and Multan which would cover Gujranwala and Bahawalpur industries respectively.

1.3. Small and Medium Enterprises (SMEs)

1.3.1. All the measures/interventions envisaged in the policy are intended to materialize in perspective of SMEs.

1.3.2. Biggest step government will take to boost value-added exports is to allow back-to-back LCs. This would be the basis for development and provide a launching pad to SMEs.

1.4. Marketing

1.4.1. Exhibition Plan:

The Ministry of Commerce will develop an exhibition plan and devise participation criteria in consultation with private stakeholders and support to be extended. Moreover, process of holding virtual exhibitions will also be continued.

1.4.2. Digital Marketing:

Digital marketing has been playing a vital role to showcase the products and attract business opportunities. The erstwhile Textile Division (now Textile Wing, Ministry of Commerce) has created one stop E-Portal, however SMEs has limitation to digitally showcase their products on this portal. Ministry of Commerce will develop E-Commerce Facilitation Portal for SMEs to digitally showcase their products and support them to make international standard web portals.

1.4.3. Facilitations to International Buying Houses:

International buying houses will be consulted to develop incentive package and encouraged to open offices in Pakistan. Package will consist of tax exemptions, free space and any other measures proposed by buying houses and their supplier textiles and apparel units.

1.4.4. Brand Development and Acquisition:

As branding the product requires long term investment, therefore, government will develop branding and acquisition fund to provide long term financing and encourage ODM and OBM models.

1.4.5. Country's Image Promotion:

An important recommendation by textiles and apparel associations is to improve country's image as Pakistan has already achieved peace but message has not been communicated effectively to the world. Ministry of Commerce will initiate promotion programs in textiles and apparel importing hubs.

1.4.6. Market Access

Ministry of Commerce will encourage stakeholders to support the ratification and effective implementation of international conventions on human and labor rights, environmental protection and good governance and secure Generalized Scheme of Preferences Plus (GSP+) status for upcoming years to avail preferential tariffs in EU. Further, Ministry of Commerce is already in negotiation with developed and developing economies for market access. The competitor countries have taken bold steps by opening their markets and secured access of major markets. Textiles, apparel and many other sectors remained hesitant and focused to get market access of other countries without offering anything in response. The Ministry of Commerce will formulate an aggressive road map to get market access of developed/developing economies and trading blocks. However, textiles and apparel value-chain must be ready that market access of any country would only be available if they opt for reciprocal opening of their domestic market for the other country.

1.4.7. E-Commerce

First ever E-Commerce Policy is under implementation phase which will provide an open access to textiles and apparel industry to embrace digital economy by taking leverage from emerging global opportunities. Amazon has already started registering Pakistan companies including textiles and apparel, however Ministry of Commerce will also engage with other international online marketplaces on similar patterns to access new business avenues for textiles and apparel industry. Ministry of Commerce will extend support to SMEs to reap benefits available under E-Commerce Policy and focus B2B, B2C and B2B2C online export models, initiate training programs regarding online marketplaces and facilitate stakeholders in all the matters pertaining to E-Commerce ecosystem. Further, support will be extended to textiles and apparel sector to establish warehouses abroad.

1.4.8. Dedicated Textile Exhibition:

The Government has been holding dedicated textiles and apparel exhibition namely TEXPO in alternate years. Ministry of Commerce will organize TEXPO on yearly basis not only in Pakistan but also in other countries.

1.5. Integration in Global Value Chains

1.5.1. International production, trade and investments are being increasingly organized within GVC where firms try to optimize their manufacturing processes (design, production, marketing, distribution, etc.) by restructuring them internationally through outsourcing and offshoring activities. Participation in GVC, through international fragmentation, can lead to increased job creation and economic growth.

1.5.2. Ministry of Commerce jointly with stakeholders will identify the measures which will complement strategies including regulation of business services, investment, taxation and tariff rationalization, industrial development, logistics and trade facilitation, infrastructure building to labor market mobility, vocational trainings, conformity to international standards to foster entrepreneurship for active participation of textiles and apparel industry in GVC.

1.6. Domestic Commerce

1.6.1. Pakistan has low to medium per capita income, however imports of used clothing is very high as equated to comparable economies. Import of used clothing has continuously been hurting manufacturing sector and their importers exploit sentiments in case any action is taken against them. It has also been reported that new clothes are imported under used clothing. While protecting consumer and vulnerable class of society, the government will, in stages, staggered over reasonable time, place imports of used clothing in red channel.

1.6.2. Government will take steps to strengthen domestic commerce (especially in areas of logistics, warehousing, storage, networking, sourcing and e-commerce) and local market systems and effectively enforce the intellectual property rights to protect domestic brands.

1.6.3. In consultation with the stakeholders, labeling of product specification will be made compulsory on products sold in the domestic markets.

1.7. Regulatory Regime and International Compliances

1.7.1. Current system of regulatory regime for social and environmental compliances is outdated and industrialists are of the view that it does not encourage compliance but adds the cost by settlement of some out of the audit arrangement.

1.7.2. Ministry of Commerce in consultation with textiles and apparel associations will carry out stock taking of entire regulatory regime to highlight changes to adapt international best practices which may consist of performance grading of the compliance practices. Further, to achieve international compliances, Ministry of Commerce will work-out to launch a compliance program for SMEs by facilitating textiles and apparel associations to establish compliance set-ups to provide one-window facility to SMEs.

1.8. Technical Textiles and Fourth Generation Textiles

1.8.1. Although traditional textiles and apparel business has been increasing but technical textile is an area in which research and development has an important role and Pakistan can attract investment and gain a reasonable share in global markets. Ministry of Commerce will include technical textiles and value-added products in DLTL / DDT schemes to encourage their manufacturing and exports. Further, the Ministry will constitute a special focus group comprising academia and manufacturers to formulate a strategy and propose measures to introduce fourth Generation Industrial Revolution in textiles and apparel industry.

1.9. Research and Product Development

1.9.1. Ministry of Commerce jointly with MoFEPT will coordinate with universities carrying out research and education in textiles and apparel and provide an E-platform to share their research work the value-chain.

1.9.2. It has also been observed that majority of research depends on grants from Higher Education Commission which involves a bureaucratic process and limited funds and further takes enough time for approval and implementation. Ministry of Commerce will establish research and product development fund to introduce new products and improve quality of existing products. This would also facilitate in diversifying the fiber and product mix and facilitate in introducing high value-added and technical textile based products.

1.9.3. Ministry of Commerce in collaboration with the MoFEPT will facilitate universities for accreditation of their testing laboratories and establishment of FDA, CE and Organic Cotton accredited laboratories and pursue the relevant bodies. Further, product standards across value chain will be devised after consultation with stakeholders and organization concerned.

1.9.4. To promote innovation and entrepreneurship, the Ministry of Commerce will extend optimal support to new ventures / startups.

2. Reduce Cost of Doing Business

2.1. Level Playing Field

2.1.1. Around the world, textiles and apparel value-chain has been taken as employment generation sector and not a tax collection source. It is pertinent to mention that this sector provides value addition, creates maximum job opportunities with little investment in skill development and requires less capital to initiate manufacturing. As this export-oriented value-chain competes globally, therefore, competitor countries have been providing much support to this sector to sustain/expand employment and revenue.

2.1.2. Government will carry out an exercise to evaluate support extended by competitor countries and facilitate to make textiles and apparel industry internationally competitive.

2.2. Cost of Doing Business

2.2.1. Manufacturing industry in Pakistan has been complaining about un-competitiveness vis-à-vis competing countries. Recently government extended much facilitation to textiles and apparel sector, however, it has not brought much investment which suggests that long term profitability needs to be restored to attract investment specially by SMEs.

2.2.2. Energy (Electricity and RLNG) will be provided to the export oriented units / sectors of textiles and apparel industry at regionally competitive rates throughout the policy years. An exercise will be conducted by Ministry of Commerce jointly with the Ministry of Energy (Power and Petroleum Divisions) and the Finance Division during pre-budget consultative sessions annually to review the energy tariffs. The rates may be revised on an average of energy prices for industrial consumers of regional competitors and announced in Federal Budget along-with budgetary allocations by Finance Division as actually required by Ministry of Energy so that energy subsidy would remain fully funded throughout the policy years. For the captive and the cogeneration units, a separate policy will be made by the Ministry of Energy, in consultation with the Ministry of Commerce and Finance Division.

2.2.3. Ministry of Commerce and Ministry of Energy will jointly devise a mechanism in two to three months on targeting energy regime to real beneficiaries in a way that export oriented sectors / units of textile industry would remain internationally competitive.

2.2.4. DLTL/DDT scheme will be continued for exports of value-added products only i.e. technical textiles, apparel, made-ups and carpets. Ministry of Commerce will further pursue SBP and FBR to automate disbursements process of the duty drawback schemes on the lines of custom duty drawback mechanism where payments are made directly to exporter accounts by SBP on receipts of foreign exchange for notified products exported, subject to allocation of funds by the Ministry of Finance.

2.2.5. Further, to attract investment, textiles and apparel machinery that has been customs duty free since first Textiles Policy will be continued. Additionally, Ministry of Commerce will conduct an exercise with MoIP on spare parts which are not manufactured locally and their customs duty will be made zero.

2.3. Tariff Regime

2.3.1. Tariffs have been kept high to encourage investment in the upstream value-chain. Nevertheless, high tariffs encourage domestic sales and inefficiencies are induced in the pricing. To encourage exports of value-added products and product diversification, Ministry of Commerce will take following measures on priority:

- a. Tariff structure of entire value chain including MMF and Cotton based value-chains will be rationalized on priority followed by accessories and dyes and chemicals
- b. Customs duty drawback rates of textiles and apparel products will be reviewed taking into account additional customs and regulatory duties
- c. Temporary importation schemes will be simplified in perspective of SMEs. Ministry of Commerce will ensure common warehousing, include indirect exporters in temporary importation schemes and pursue FBR to devise new temporary importation scheme to cater fast fashion trends.

2.4. Rationalization of Taxation Regime

2.4.1. Ministry of Commerce in consultation with SMEs and large-scale industry will review federal, provincial and other organization based taxes/cess and provide recommendations to the Government to rationalize them to reduce cost of manufacturing. Federal taxes will be reviewed jointly with the FBR.

2.4.2. Duty free import of textiles and apparel machinery will be continued and spare parts of this machinery will also be made duty free. Duty free import will be admissible only on those machinery and spare parts which are not manufactured locally.

2.4.3. Ministry of Commerce will pursue Finance Division and FBR to restore Tax Credit for Investment under 65B of Income Tax Ordinance 2001.

2.4.4. SBP in collaboration with FBR has automated the disbursements of custom duty drawbacks directly to exporters account. Likewise, Ministry of Commerce will further pursue FBR and SBP to automate disbursements for sales tax and withholding tax.

2.5. Lead Times

2.5.1. In today's competitive market, speed to market is one of the biggest concerns of international buyers and decisions of order allocations are made subject to shorter lead times than competitor countries even if product value is higher. Ministry of Commerce will play its effective role to reduce the imports/exports lead times in collaboration with ANF, Customs and Port authorities.

2.6. Allied Industry

2.6.1. Textiles and apparel industry has grown to be the single largest manufacturing sector of Pakistan. However, textiles and apparel machinery, dyes and chemicals, spare parts and accessories related manufacturing industry could not be developed proportionally. Most of demands in these areas are managed through imports. Ministry of Commerce will provide appropriate incentives to strengthen the allied industries to ensure indigenous supply of machinery and materials at competitive prices.

2.6.2. Import tariffs of accessories, dyes and chemicals utilized by the textiles and apparel value-chain will be rationalized.

3. Strengthening of Textiles and Apparel Value Chain- Sector Specific Initiatives

3.1. Cotton

3.1.1. Although subject of Cotton is with Ministry of National Food Security and Research (MNFS&R) however, Cotton remains mainstay and major comparative advantage of textiles and apparel value-chain. The Plant Breeders Rights Act has been enacted and registry is established by MNFS&R. As the data suggests latest seed technology has helped countries to increase Cotton yield significantly, therefore, Ministry of Commerce will pursue to attract international and domestic seed companies to introduce latest seed technology in Pakistan. Increase in yield will also address the issue of profitability in Cotton farming.

3.1.2. Another initiative which can stabilize Cotton prices will be re-introduction of Cotton Hedge Trading to facilitate farmer and value-added exporters. This model has successfully been operating in other countries. In previous Policy, it was intended to reintroduce Hedge Trading in collaboration with the stake holders, however, consultations could not reach to any conclusion. Ministry of Commerce will encourage initiation of Hedge Trading however, reservations of various stakeholders would be taken into consideration.

3.1.3. As Pakistan is net Cotton importer for long period, therefore, suppliers do not feel the need to improve the quality of Cotton. The Cotton trade is between buyer and supplier however, provinces will be encouraged to implement Cotton Control Act. Moreover, Cotton is a basic raw material, however, export of Cotton will be encouraged to improve quality and avoid any chance of depressed Cotton prices by the user industry.

3.1.4. Ministry of Commerce will pursue MNFS&R to introduce the quality/grading-based Cotton marketing mechanism in collaboration with stakeholders

3.1.5. Ministry of Commerce will coordinate with MNFS&R to support farmers to reduce their cost of production and ensure quality inputs for Cotton farmers.

3.1.6. Ministry of Commerce will join hands with MNFS&R to increase Cotton area, production and importantly yield. Further, scope of Better Cotton Initiative will be enhanced to ensure bulk availability of BCI certified Cotton to textiles and apparel value-chain.

3.1.7. Ministry of Commerce will take on board WWF Cotton Chapter and other relevant bodies to promote domestic production of Organic Cotton keeping in view demand of textiles and apparel Industry and extend facilitations for testing and certifications of Organic Cotton. Efforts will be made to promote the manufacturing of Sustainable / Organic / Recycled products in Pakistan and gain market share of these value added segments.

3.2. Manmade Fibers / Filaments

3.2.1. Manmade fibers and filaments-based value-chain has confined itself to domestic market only. Tariff and custom duty drawback rates of this value-chain will be rationalized. International companies will be invited for investment to bridge the demand and supply gap in the fiber/ filament production.

3.2.2. MMF not being manufactured locally will be duty free.

3.3. Other Natural Fibers

3.3.1. A committee would be constituted for development of wool, jute, silk, hemp, and other natural fiber-based textiles and apparel value-chain. Till the development of these sectors the raw and semi processed raw materials will be placed in zero import tariffs.

3.4. Ginning

3.4.1. Ginning needs immediate technology up-gradation and provincial departments of Industries issuing the ginning licenses will be approached to link technology up-gradation of ginning sector with the licenses. Provinces will be approached to implement Cotton Control Act in true spirit. Further, the matter will be debated to convert ginning sector into service industry and policy measures will be devised. This would help the farmers to get fair price. Introduction of Hedge Trading will also facilitate in achieving this objective.

3.4.2. Ministry of Commerce has already provided funds from Export Development Fund (EDF) for establishment of first ginning institute in Multan which will facilitate to improve the ginning process and quality of ginned Cotton. First ginning institute may also provide commercial services to local farmers.

3.5. Spinning, Knitting, Weaving and Processing

3.5.1. Spinning, Knitting, Weaving and Processing sectors have highest share in large scale manufacturing. Availability of yarn and fabric has provided lead time advantage to Pakistani downstream value-added export-oriented sectors over the competitors. Measures such as review of LTFF to include indirect exporters, review of customs duty drawback, simplification of temporary importation schemes, inter/intra transfer, common bonded warehousing and tariff rationalization of entire value-chain will encourage investment in these sectors.

3.6. Apparel, Made ups/Home Textiles and Technical Textiles

3.6.1. It has been noticed the world over that trend has been shifted in favor of finished products like apparel, technical textiles and made ups. For rapid growth of these sectors, the Government will initiate Skill Development programs, review labor laws and role of regulatory organizations, international and domestic labor compliances and importantly to simplify temporary importation schemes for availability of raw materials and accessories.

3.6.2. Moreover, new garment cities will be established to provide state-of-the-art infrastructure to SMEs for plug and play machinery installment.

3.7. Carpets

3.7.1. Carpets especially of hand-woven category is a value-added segment of textiles and apparel value-chain. The sector will be given due importance as a value-added Made-ups industry of Pakistan. Ministry of Commerce will initiate programs to support sector in skill development, technology upgradation, infrastructure support and marketing.

3.8. Handicraft

3.8.1. Pakistan's artisan economy is troubled because of non-legislation for production and marketing of handicraft products, nonexistent networking support, lack of design and skill enhancement facilities and limited credit facilities. Ministry of Commerce will emphasize on collaborative approach to support handicraft sector and offer support in skill development, technology upgradation, infrastructure support, and marketing. Artisans will further be encouraged by offering opportunities and financial support to display their art and products in national and international exhibitions.

4. Human Resource Development

4.1. Women Participation in Manufacturing

4.1.1. To promote the apparel sector, it is imperative that women participation may be encouraged. In this regard, Ministry of Commerce will review the labor laws specially to allow women to work in three shifts.

4.1.2. Ministry of Commerce will take measures in consultation with private stakeholders and concerned government vocational training organizations to initiate mass level female exclusive textiles and apparel training programs especially in apparel stitching.

4.1.3. Ministry of Commerce will consider to link support measures to provide facilitation to the women at workplace such as daycare center, pick and drop, etc.

4.1.4. Ministry of Commerce will further formulate a support scheme for women, disabled and handicapped in textiles and apparel on incremental increase in employment and consider that EOBI and Social Security contributions on incremental increase in employment of such persons are picked up by the Government. However, textiles and apparel Sector will ensure to facilitate such persons to avail this support scheme.

4.2. Productivity and Skill Development

4.2.1. Productivity is an attribute of many combinations, however an important and major share depends on skilled human resource, energy efficiency, technology, etc.

4.2.2. Ministry of Commerce in collaboration with MoFEPT/NAVTTTC and TEVTA will initiate mass level training programs for textiles and apparel value-chain especially in industrial stitching and importantly for women. EDF funded textiles and apparel institutes will also be strengthened.

4.2.3. Textile and apparel associations will be strengthened to build in-house set-ups for technical guidance on productivity and process improvement, energy efficiency, etc.

4.2.4. Ministry of Commerce in collaboration with MoFEPT will extend support to designing institutes to strengthen collaboration with textiles and apparel industry. These institutes will be encouraged to stay ahead and act as a leader for sharing emerging fashion trends and market intelligence with the industry.

5. Others

5.1. Trade Dispute Resolution

5.1.1. Ministry of Commerce will strengthen Trade Dispute Resolution Organization (TDRO) to address trade disputes between suppliers and buyers. Moreover, an online portal will be established to register the trade complaints. Textiles and Apparel associations will also be involved to settle the trade disputes.

5.2. Strengthening Role of Textiles and Apparel Associations

5.2.1. The Ministry of Commerce will play its part to emphasize and strengthen role of textiles and apparel associations in providing awareness to industry to promote technology up-gradation, compliance with quality, social, and environmental standards, product and market diversification, resource efficiency, sustainability, lean and agile manufacturing, cost reduction, process improvement, Industry 4.0, digitalization and automation, E-Commerce, human resource development, gender diversity and women empowerment, and corporate social responsibility (CSR).

5.2.2. The Ministry of Commerce will extend support to textiles and apparel associations to devise media strategy to build image, position, and brand of Pakistan's industry to:

- a. Actively steer industry towards sustainable, ethical, and responsible manufacturing
- b. Demonstrate internationally that Pakistan's industry grasps on responsible sourcing and sustainability principles
- c. Brand "Made in Pakistan" while promoting the sustainable and social compliance perspective of the industry

5.3. Support to Mitigate COVID-19 Scenario

COVID-19 has limited international trade of conventional Textiles and Apparel however, it has also provided a trade opportunity for PPE based products such as textiles masks, disposable gowns, etc. As international trade is expected to reduce, therefore, the situation would continuously be monitored in major markets. Although initiatives have already been identified and proposed in this Policy, however, if required, additional measures would be proposed accordingly. Moreover, Ministry of Commerce would provide feedback to Finance Division and SBP for continuation / discontinuation / modification of schemes to mitigate impact of COVID-19.

6. Implementation Strategy

Textile Division has been merged with Commerce Division for augmentation of resources and coherence among various departments. Sectoral Councils / Committees particularly for value-added sector will be constituted to engage stakeholders in policy implementation and propose measures while considering domestic and international trade dynamics. Ministry of Commerce will be responsible for implementation of policy and submit bi-annual report to the Advisor to the Prime Minister on Commerce and Investment for onward submission to National Export Development Board (NEDB) chaired by the Prime Minister. Textile Wing in Ministry of Commerce will be provided necessary resources for implementation of Textiles and Apparel Policy as per requirement. Moreover, the EDF allocations will be made having equitable share for textiles and apparel Value Chain for implementation of projects.

6.1. Roadmap to Facilitation Measures

Sr. No.	Measure	Purpose	Action Plan	Timelines for development of Proposals/Actions	Interdependency on Ministries / Divisions	Funding Source
1	Tariff Rationalization of textiles and apparel value chain	Reducing Cost / Ease of Doing Business	Rationalization of entire supply chain including MMF and Chemicals / Accessories / Dyes and Chemicals	6-12 Months	FBR NTC	N/A
2	Simplification of Temporary Importation Schemes	-do-	An exercise with the support of Textiles and Apparel associations	3-6 Months	FBR	-do-
3	Continuation of duty-free import of textiles and apparel machinery and addition of spare parts	-do-	-	Immediate	-do-	-do-
4	Revision of Custom Duty Drawback Rates and System Upgradation	-do-	An exercise to start with MMF and Chemicals	12-24 Months	IOCO FBR	-do-
5	LTFE to continue at 5%	Investment	Lower mark-up rate will continue throughout policy years, however, SBP may review rates annually keeping in view prevailing economic conditions	Immediate	SBP	SBP
6	EFS to continue at 3%	Working Capital	-do-	-do-	-do-	-do-

Sr. No.	Measure	Purpose	Action Plan	Timelines for development of Proposals/Actions	Interdependency on Ministries / Divisions	Funding Source
7	LTFE for indirect exporters	Investment in upstream	Revise scope of scheme in consultation with stakeholders	6-12 Months	SBP	SBP
8	LTFE for Infrastructure Development in Apparel/ Made ups (covering manufacturing area only)	Investment in value-added sectors	-do-	-do-	-do-	-do-
9	Enhancement of LTFE Project limit	-do-	Annual review for sufficient fund allocation under the scheme	-do-	-do-	-do-
10	Enhancement of LTFE disbursements by Rs. 100 billion per annum	-do-	-do-	-do-	-do-	-do-
11	International Brand Development and Acquisition Scheme	Marketing	Development of Scheme	-do-	-do-	-do-
12	Scheme for women, disabled and handicapped on incremental increase in employment	Increase Women Participation	-do-	12-18 Months	Finance Division OPHRD Provincial Labor Departments EOBI /SS	-do-

Sr. No.	Measure	Purpose	Action Plan	Timelines for development of Proposals/Actions	Interdependency on Ministries / Divisions	Funding Source
13	Revitalization of KGCC and formulation of new business plans	Infrastructure	Development of PC-I	12-24 Months	Planning Division BOI MoIP	PSDP
14	Establishment of New Garment Cities in areas having dense population	-do-	-do-	-do-	-do-	-do-
15	Adding buildings in LGCC and FGCC	-do-	-do-	-do-	-do-	-do-
16	Establishment of Combined Effluent Treatment and Water Recycling Plants in Textile / Garment Cities	Ease of Doing Business	-	-do-	-do-	-do-
17	SEZ status to existing / new Textile and Garment Cities	-do-	Consultation with stakeholders	-do-	FBR	N/A
18	Facilitation measures for International Buying Houses to establish their Offices in Pakistan	Marketing	Tax exemption, free space and any other measures proposed by buying houses and supplier textile units	-do-	do-	EDF

Sr. No.	Measure	Purpose	Action Plan	Timelines for development of Proposals/Actions	Interdependency on Ministries / Divisions	Funding Source
19	Vocational Training specially for Apparel and women	Skill Development	Development of Scheme	12-24 Months	Planning Division MoFEPT / NAVTTC TEVTA	PSDP
20	Role of various regulatory organizations	Ease of Doing Business	An exercise with the support of Textile SMEs	-do-	MoIP OPHRD Provincial Labor Departments EOBI / SS	N/A
21	Review of labor laws	-do-	Consultation with stakeholders	-do-	MoIP OPHRD Provincial Labor Departments	-do-
22	Restoration of Tax Credit for Investment (65B of Income Tax Ordinance 2001)	Investment in value-added sectors	Consultation / Review	-do-	Finance Division FBR	-do-
23	Hedge Trading	Predictability and Stabilization of Cotton prices	Consultation with public and private stakeholders	-do-	Finance Division MNFS&R/ SECP/ PMEX	-do-