

Pakistan Knitwear & Sweater Exporters Association

1014-16, Park Avenue, PECHS Block 6

Shahrah-e-Faisal, Karachi-75350

Tel: 34544035 SG: 34544039, email: kho@paksea.com

Circular to members # 45/2025-26

August 28, 2025

Exports expansion needs more than good wishes



The government authorities want textile exports to pick up by leveraging the recently introduced Trump Tariffs. The opportunities are there for the taking; however, competitiveness challenges – primarily due to higher production costs – are preventing major players from committing to any expansion.

Recently, leading textile players met with the government's finance and energy team (including the Prime Minister and SIFC) and expressed their concerns. The government is receptive, largely agrees with the industry, and wants to kick-start the process of expansion and capturing new business. However, good intentions are not enough, as on every issue the authorities shift the burden onto the IMF. Progress will not be achieved in this manner.

The biggest issue is higher energy prices. The government has recently imposed hefty levies on RLNG and FO usage by industries through captive power plants. The levy is set at prohibitive rates to discourage the use of these fuels. The objective, in the case of RLNG, is to shift industries to the grid in order to safeguard the tumbling grid system. Unfortunately, that is not happening due to the grid's own problems, resulting in increasing reliance on alternatives (mainly solar and battery-powered solutions).

When the levy on RLNG was imposed, some industrial players switched to FO, as they already had plants installed. But in the recent budget, a higher PL was imposed on FO, since it is considered a dirty fuel. However, that dirty fuel will remain in the system, as age-old refineries are bound to produce it until they upgrade. Some have begun the upgrade process, while others are waiting to collapse.

When the industry highlighted its concerns, including reluctance to shift to the grid due to stability and reliability issues, the government acknowledged the problem. The headache the petroleum ministry faces is how to fully utilize the must-import RLNG, as the most efficient player has exited due to pricing. There is no other buyer willing to purchase at full cost recovery.

The industry is demanding that RLNG be offered at full cost recovery – particularly for efficient plants that remain viable at this level. The government has said it will raise this issue with the IMF in the next review meetings. The problem, however, is that grid consumption is not increasing, and the system is deteriorating anyway. Industrial players and Sui companies should not be dragged into quicksand. The government should instead focus on free-market solutions, which the IMF should not

oppose.

Industrial players, who currently have opportunities for new business, are increasingly refusing to expand. There is one Chinese company in the garment sector in Pakistan. A few years ago, it acquired a piece of land for expansion, but the plan has since been halted. Observing this, other Chinese companies are refraining from entering the market. Some local players approached Chinese companies for joint ventures, but they refused, citing the experience of the existing player.

The chairman of the Chinese company recently met with the Prime Minister and explained that they had received a new business proposition from a major US-based sportswear retailer to expand in Pakistan. However, due to higher energy costs, interest rates, and taxation, there has been no progress. A similar sentiment is echoed by a large local company that has received a new business offer in denim, but it is not pursuing it, as it is already incurring losses in that line of business.

The point is that the prices offered by customers are not viable in Pakistan, and importers are reluctantly turning to other jurisdictions, despite their initial intention to diversify to Pakistan. The global tide is favouring Pakistan; all we need is to fix our internal mess.

Nadia Iqbal Soomro
Deputy Secretary
021-34544035 Ext: 103