Chapter 1

DEFINITION AND HISTORY OF A TOWEL

Before we begin our exploration of towel manufacturing, it is crucial to establish a clear understanding of what a towel is, and outline the scope of this study. A towel is essentially a piece of fabric, predominantly woven from cotton, and it has distinctive pile yarn loops on its surface. These loops play a critical role in imparting absorbency to the towel, which sets it apart from ordinary cloth or fabric. Without these loops, a towel would function merely as a plain piece of fabric, unable to absorb much moisture effectively.

In the ancient world, prior to the invention of pile towels, people likely dried themselves using such plain fabrics. While civilizations such as the Indus Valley, particularly Harappa and Mohenjo-Daro, were known to produce textiles on a large scale around 2500 BC, there is no evidence to suggest that they had developed the technique of weaving towels with pile. Textiles from this Indus civilization were widely exported to various parts of the world, but none seem to have been pile-based towels.

Similarly, in ancient China, a civilization renowned for its sophisticated textile production, especially silk, there is no indication that pile towels were ever used. The Chinese were highly advanced in their textile craftsmanship, producing elaborate fabrics using silk, which became one of their most prized exports. However, despite their expertise in creating luxurious textiles, there is no recorded evidence of pile towels being part of their historical repertoire.

The invention of the "terry" towel, also known as a pile towel, is attributed to Turkey. The term "terry" refers to the looped fabric structure that makes these towels so absorbent. These towels were widely used in the traditional Turkish public baths known as "Hammams." In Hamams or bath houses bathing was not only a hygienic practice but also a social and cultural activity. The Turks referred to these towels as "Peshtemal." These thin, large towels were a common feature in Turkish baths and were used for both drying the body and as coverings while participants relaxed in the steamy rooms of the Hammam. Turkish baths were a central aspect of the aristocratic way of life, where friends and acquaintances would gather to bathe, relax, and engage in conversation. Hammams, known for their luxurious atmosphere, still exist in many Turkish cities today, where both men and women partake in this age-old practice.

In addition to providing a space for relaxation, Hammams offered a complete experience of rejuvenation, often including massages and exfoliating treatments. Towels played an essential role in this ritual, not only for drying but also for modesty and comfort during the prolonged time spent in the bath. The use of these thick towels in Hammams can be compared to the modern-day practice of using towels in saunas and steam rooms, where the focus is equally on relaxation and personal care.

According to one account, the concept of the Turkish towel was introduced to England during the 16th century by an English ambassador to the court of Suleiman the Magnificent. This ambassador, Colonel Terry, is believed to have brought one of these luxurious Turkish towels back to England, where he presented it to the court of Queen Elizabeth I. At the time, bathing was a rare practice in England, especially amongst the elite, and the sight of such a sophisticated item astonished the English court. The weaving technique used to create these towels was soon adopted in England, and over time, the fabric became known as the "Terry towel" or "Turkish towel," a term still in use today.

In contemporary international trade, terry towels are classified under the Harmonised System (HS) code 630260/10. Towels are further categorised into several types, each designed for a specific purpose. The most common type is the "bath towel," a large and thick towel used after bathing. These are typically found in homes, hotels, and spas. "Face towels," which are smaller in size, are often placed beside wash basins in restaurants or restrooms for drying the hands and face only. Washcloths, which measure approximately 12x12 inches (30x30 cm), are even smaller and are usually stacked in bathrooms or kitchens for use once and then recycled.

In addition to these, there are "kitchen towels," used for drying dishes, and "glass towels," specifically designed for polishing glassware. In bars, “bar mops” are used to clean up spills. These various towels are classified under different HS codes, such as 630260/90 for non-bathroom-specific towels. Additionally, terry fabric is used to create garments such as bathrobes and beach ponchos, which are categorised separately under garment HS codes. Some towels may not even feature pile loops at all but are instead made from large, thick pieces of cotton fabric, which are classified under yet another set of HS codes.

In Pakistan, all these different items fall under the broader classification of “made-ups.” Regular bath, face, and beach towels are categorised as “terry towels.” Since “made-ups” are classified under a variety of HS codes, making direct comparisons on an international scale is difficult. Despite this complexity, the towel industry remains a vital and diversified sector that requires specialised knowledge in manufacturing, design, and marketing.

A Mature Industry

When discussing Pakistan's towel industry, we refer to an industry that produces all the aforementioned types of towels and related textile goods. In the financial year 2021-2022, the industry achieved exports of over one billion US dollars in terry towels alone (HS Code 630260/10). By 2023, the exports had exceeded one billion US dollars. Alongside these baseline terry towel exports, Pakistan also exported approximately 700 million US dollars' worth of “made-ups,” encompassing a variety of textile products classified under HS code 630260/90 and beyond. Additionally, garments such as bathrobes, or baby wraps, which are made from terry fabric, contribute an estimated 200 million US dollars in exports.

The Pakistani towel industry is almost entirely export-oriented, with little domestic consumption of the products it manufactures. If, for instance, Karachi Port were to cease operations, the towel industry would come to a standstill within a matter of days, as the entire production process is dependent on export markets. The domestic market for towels is not even a 100 million dollars of value in my estimation. To better understand the global context in which Pakistan's towel industry operates, Table 1 on the following page compares the size of the industry with other major towel-exporting countries.

TOP 5 EXPORTING COUNTRIES OF WORLD 2024

Product: 630260 Terry Towel

Exporters	US$ '000'	Unit (Ton)	US$/kg
China	1,921,462	238,538	8.06
India	1,169,690	201,323	5.81
Pakistan	1,085,392	228,608	4.38
Turkiya	567,960	61,916	9.17
Portugal	233,653	18,965	12.32

(Source: Trade Map)

From this table, it is evident that while Pakistan exports a large volume of towels, the prices it commands for its products are the lowest in the world. Although Pakistan is one of the top three towel exporters globally in terms of volume, it consistently lags behind in value, with China and India surpassing it in terms of price per kilogram. This discrepancy between volume and value is a critical issue that will be examined in greater detail in subsequent chapters.

Independent Growth

Despite its challenges, the Pakistani towel industry has grown to its current size without significant government assistance or subsidies. The industry has developed primarily due to the availability of cheap raw materials and low-cost labour in the 20th century. This, combined with the entrepreneurial spirit of local manufacturers and basic engineering skills, has driven the industry's expansion. Growth has been primarily export-driven, as the domestic market for towels and related products is relatively small and economically constrained.

While an export figure of two billion dollars may seem modest in a global context, it is important to recognise that this amount represents entirely earned revenue, generated year after year by an industry that demands no financial support. The towel industry in Pakistan imports almost all of its essential machinery and spare parts, as there is no local engineering sector capable of providing them.

Similarly, the industry relies on imported dyestuffs and chemicals, as there is limited domestic production of these materials. However apart from machinery and dyestuffs all the raw material and other inputs are antirely local.

Furthermore, there are few specialised educational institutions in Pakistan that produce skilled workers or managers for the textile sector. Despite these limitations, the towel industry has succeeded in providing employment for nearly one million households.

When compared to other sectors in Pakistan, the towel industry stands out as a rare success story. Our other exporting sectors, industries or agriculture, or services, perform poorly in global markets. We are nowhere near the top in world ranking in any other sector. The towel industry ranks amongst the top three players worldwide.

Chapter 2

THE GENESIS OF PAKISTAN'S TOWEL INDUSTRY

When Pakistan emerged as an independent state in 1947, its towel industry was minimal, consisting of only two manufacturing units in what was then West Pakistan. These modest operations were sufficient for the limited domestic market, as Pakistan's population then was approximately 36 million, a fraction of the more than 240 million today. The population was predominantly rural and economically constrained, with the main urban centers containing fewer than a million residents each. Pakistan's economy at the time was largely agrarian, limited to basic industries such as cotton ginning, flour milling, and rice husking. Agriculture itself was in a primitive state, most farms were at subsistence levels, and with a cotton crop yielding under two million bales annually up until the 1960's. Given these conditions, the luxury of owning individual towels for each person was out of reach for most families. They struggled to meet their basic needs for subsistence.

As Pakistan's economy started improving, the government's development focus was directed towards the larger textile mills rather than the small-scale towel, or the other value added industry. Large and expansive mills were established with state support and became the focal point for the industrialization of the country. Two of the largest mills inherited from pre-partition India were Delhi Cotton Mills in Lyallpur (now Faisalabad) and Okara

Cotton Mills in Okara. These included specialized sections for towels, for local consumption. However, as both mills were owned by Indian companies headquartered in Delhi, they encountered state-imposed restrictions and the animosity of the consuming public, leading to their eventual shutdown.

During the early years, the towel industry was considered too inconsequential to receive state support, and thus it was left to develop independently. Following the Indo-Pakistani War of 1965, the two large mills owned by Indian firms had fully closed, creating a gap for smaller factories to meet the towel demand of Pakistan's growing, more affluent urban population. Exports also began to drive the industry's growth. In the early 1960's the Soviet Union purchased towels from Pakistan as part of a barter trade agreement. These were the first Pakistani towel exports. These profitable export sales spurred many a small factory to be established, particularly in Karachi, and to grow. However, as Pakistan aligned itself with Western countries politically and joined their anti- Soviet defense pacts such as CENTO and SEATO, political tensions with the Soviets intensified. The Soviets stopped buying towels from Pakistan after the 65 war with India. So this trade halted completely.

As a result of this set back from the Soviet Union the Pakistani towel exporters turned to Western markets, notably the UK and USA. Here they found eager buyers for low-cost towels for their hotels, hospitals and other institutions. The industry quickly adapted itself to produce these low- priced towels. The industry grew purely on market demand, embodying the economic principle of demand creating its own supply. This development occurred without government subsidies or promotions. The small entrepreneurs with limited resources set up their small factories using locally produced looms, often renting the factory sheds and using whatever dying or sizing and preparation facilities they could get. Many of Pakistan's prominent towel manufacturers of today trace their origins to these small, self-financed enterprises, which expanded through reinvested profits and entrepreneurial perseverance.

I began my own journey in the towel industry in the early 1970s after the nationalisation of our family business under Mr. Bhutto's government. Due to my father-in-law's political differences with Mr. Bhutto, we received no compensation for our vegetable ghee mill, where I was the Managing Director. With the limited resources left to us we my father and I purchased a small towel factory with sixteen old Pakistani made looms. Apart from the weaving shed it had two cemented washing tanks for manual bleaching of towel rolls. This washing section, known as "dhobi khata," was open to the sky and therefore at the mercy of the elements.

This was indeed a "humble start." Inevitably the product produced was quite basic and variable. To improve our product range, I would go to a friend's dye house which was part of a large textile mill but it was 250 kilometers away. This allowed me to dye towel rolls in a properly organized dye house. After the dying or bleaching I would truck the rolls back to my small factory where we would cut and sew them. The stitching was done on simple "Singer" power sewing machines with small electric motors attached.

The inspection and quality control process was rigorous, and we always had long discussions on what could be passed as export-grade. I had to convince my quality controllers that even a simple dirt stain would mean an export reject. They would argue back that there was no inherent flaw in the towel and all that the purchaser had to do was to wash the towel. The arguments would go on and on and this was the exasperating part. It is difficult to convince a poor worker whose own clothes are stained and who lives in a hovel that a perfectly good towel was a "reject" simply because it had a small stitching fault or a stain. They would invariably pass the faulty towels, and this would bring angry admonishments and claims from our customers.

This was the birth of an "infant industry". Almost all the startups shared similar small-scale beginnings. However, our costs were low and so were our prices.

Low Costs of Production

Over the latter half of the 20th century, Pakistan's competitive edge in towel production was from its cheap and abundant short-stapled cotton. This variety of cotton was particularly advantageous for towel production. Towels require far greater quantity of cotton than finer fabrics like shirting materials or bed sheets, as they are thick and heavy. Cotton generally accounts for about half the cost of producing a towel, while it comprises only a third or less of the cost of a garment. Garments require a lot more work and additional value-adding processes.

The reasons behind Pakistan's low-cost cotton production were manifold:

1. The dominant cotton strain, AC134, had intrinsically a short staple length of 1⅟₁₆th of an inch, making it unsuitable for finer yarns but well-suited to the coarse yarns required in towel production. AC 134 was adopted by our farmers and the country as it was probably the best cotton strain suited to our soils and weather conditions. Consequently, while Pakistani grown cotton typically traded at around 60 cents per pound, the Indian and Australian varieties were priced about 10 to 15% higher, and Egyptian cotton sold at a premium, often 50% above the Pakistani rate.

2. The average tuft of cotton also contained a significant proportion of short fibers, with only about 75–80% of a tuft meeting the stipulated length of 1 1/16 inches. The Indian, Australian, and American cottons had less short fiber, resulting in a smoother

yarn with fewer waste fibers needing removal. In towels, however, the visible fiber irregularities were acceptable, unlike in garments where they would be seen as a defect or a blemish.

3. Lastly, Pakistan's cotton was poorly ginned. Our ginning factories were primarily using the simple and cheap roller ginns, rather than the more efficient saw gins being used by the more established factories in India and the US. This traditional ginning process left residual leaf particles in the ginned cotton. These were inconsequential in towels but would ruin a high-end garment.

Pakistan's industry continued to expand as the country's cotton production increased from around four million bales in the 1960s to thirteen million at the turn of the century. However, crop failures in the early 2000s reduced yields to around eight million bales, forcing Pakistan to import cotton to meet the textile industry's raw material demands. These are estimated at fifteen million bales by the All Pakistan Textile Mills Association (APTMA). In 2024 our crop came to about five million bales and we have to import almost two thirds of the cotton our industry needs. With rising labour costs and limited technical training, we also lost the advantage of low-cost cotton.

In addition to cotton, Pakistan's towel industry benefited from low energy costs. In the 1960s, the country constructed large hydroelectric dams at Mangla and Tarbela. These were complemented by abundant natural gas sources discovered in Sui and Sindh. This provided the third critical element of production – energy – at very low rates, further supporting the industry's growth.

The labour costs were low, and workers were available at very low wages yet as the industry developed and quality of the product began to improve the lack of vocational training and technical skills became an increasing problem. There was still just one textile college in Lyallpur (now Faisalabad) in the 1960's for the entire textile industry of Pakistan. Although educational initiatives have expanded since, but Pakistan still lags far behind its competitors in skill and knowledge levels.

Despite these limitations, local ingenuity and resourcefulness enabled Pakistan's manufacturers to adapt. In the early 1970s, domestic workshops developed a basic non-automatic terry loom that was significantly cheaper than the imported ones. Produced by workshops in Faisalabad and Karachi, these simple machines lacked the automation and precision of European and Japanese looms but were adequate for low-cost towel production. With a price point of around one-fourth of the imported machines, these looms enabled rapid expansion in the industry, particularly in Karachi and Punjab. The local looms priced at approximately 25,000 rupees per unit, were easily understood and repairable by local mechanics.

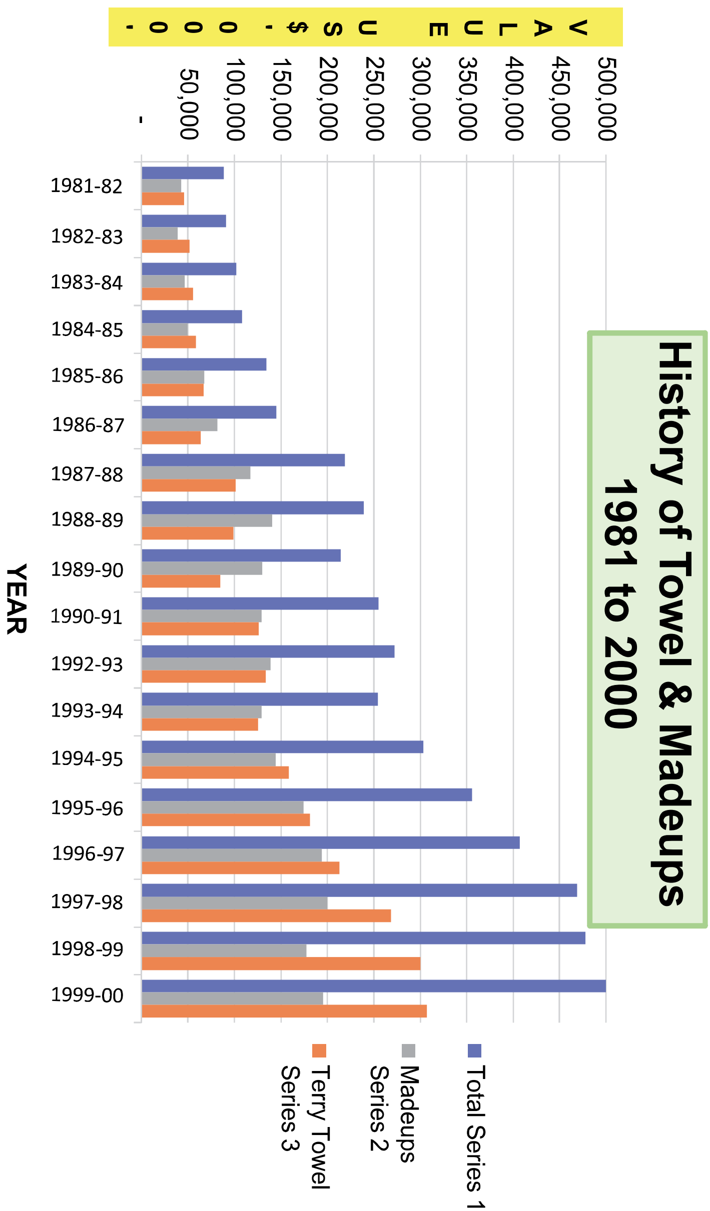
They became an essential component of the Pakistani towel industry. There was a growing demand globally for affordable towels, as tourism, travel and healthcare facilities expanded.

The Towel Manufacturers Association of Pakistan (TMA), established in the 1970s, now represents the interests of towel manufacturers. As a founding member and chairman on multiple occasions, I have seen the association grow to include a diverse membership and recognised by both the Government of Pakistan and international trade bodies. The TMA includes any weaver of terry products, although some manufacturers and exporters remain outside its membership. Many of the statistics and figures cited in this book have been generously provided by the TMA's knowledgeable Secretary General Mr. Muzammil Hussain.

Today, the towel industry in Pakistan has reached maturity. The early phases of rapid growth have passed, and the industry is now a globally recognised entity with a well- developed structure and an intense competitiveness. This competition is not only with exporters from other countries but also with one another. Notably, many former industry giants have been replaced by smaller, more agile firms that have grown significantly over time. Success in the towel industry of Pakistan does not depend upon government licenses or price manipulations but rather on efficiency, adaptability, and marketing acumen. The towel industry's resilience and competitiveness on the international stage are not products of state intervention but due to the inherent strengths and resourcefulness of Pakistan's manufacturers.

Chapter 3

THE HISTORY OF EXPORTS UP TO THE YEAR 2000


History of Towel & Madeups
1981 to 2000
VALUE US$ - 000 -
-
50,000
100,000
150,000
200,000
250,000
300,000
350,000
400,000
450,000
500,000
1981-82
1982-83
1983-84
1984-85
1985-86
1986-87
1987-88
1988-89
1989-90
1990-91
1992-93
1993-94
1994-95
1995-96
1996-97
1997-98
1998-99
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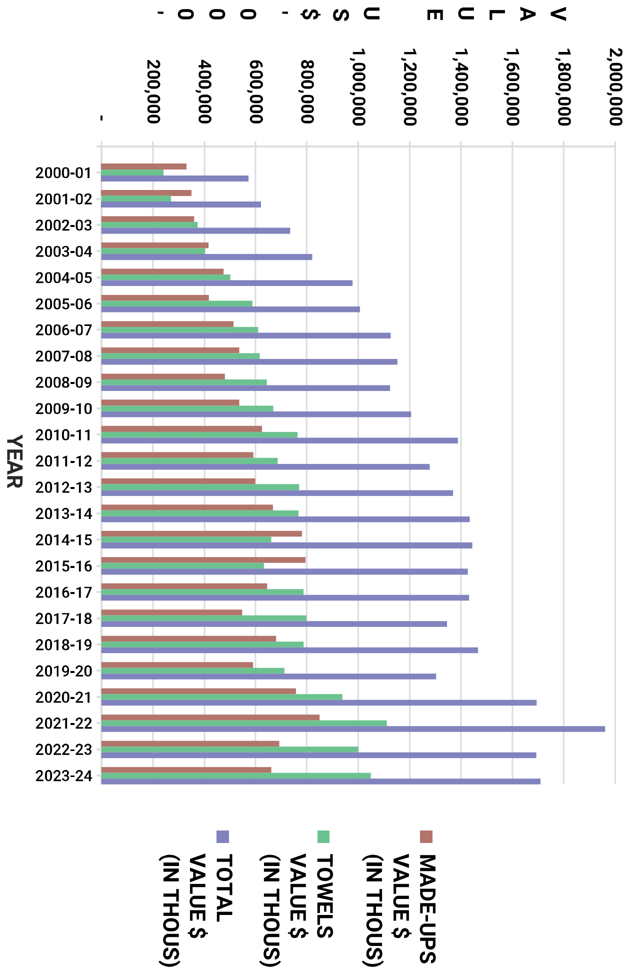
YEAR
Total Series 1
Madeups Series 2
Terry Towel Series 3

YEAR 2000 to 2024



The history of Pakistan's terry and made-ups exports can be divided into two distinct periods. The first phase lasted until the close of the 20th century and then transitioned into a more challenging era. During this initial phase, low costs for essential inputs such as cotton, cotton yarn, energy, and labor provided a competitive advantage. The factors contributing to these low prices, particularly in Pakistani cotton, have been discussed in Chapter 2, resulting in affordable cotton yarn, especially the coarse varieties required for towel production.

Following Pakistan's partition from India, the country's first industry that was developed was cotton spinning. Economic conditions were highly favorable, and the government actively facilitated industrial growth. Cotton was both abundant and inexpensive, and the newly formed state of Pakistan was cut off from its traditional textile supply from India. Development Finance Institutions of the government offered liberal loans and approvals for new units, enabling businesses to establish large mills. Land allocations were facilitated by the government, and WAPDA (the Water and Power Development Authority) willingly provided electrical connections to these mills WAPDA had abundant power generation from the large hydroelectric dams constructed with foreign aid and technical assistance. These projects delivered very cheap electricity. This was bolstered by the discovery of natural gas deposits in the 1960s, further advancing industrial growth. These factors made the primary inputs of a spinning mill—cotton and electricity—extremely affordable. Labour, too, was readily available and inexpensive, ensuring a steady supply of cotton yarn for local weavers.

The first significant opportunity for exporting towels arose from a bilateral agreement with the Soviet Union in the early 1960s. The Soviets purchased towels from Pakistan as a form of payment for goods they exported to Pakistan. At that time, the Soviet Union was a planned economy controlled by the state. Their representatives in Karachi managed the trade agreements on behalf of the Soviet state. They contracted supply deals with many Pakistani units they deemed capable of meeting their requirements. They chose factories that could produce simple dobby towels with yarn-dyed designs. Apparently, a standard requirement in a soviet household. As a result, Karachi saw the establishment and growth of a basic terry towel industry focused on Soviet requirements. However, the bilateral trade agreements were abruptly halted after the 1965 Indo-Pakistani war, during which the Soviets sided with India.

After the Soviet market vanished, the owners of Karachi's towel factories began seeking new export opportunities in Britain and the United States. They soon found a receptive market for affordable hotel towels. These towels were plain and white, requiring no special production skills beyond basic quality, consistency, and cleanliness. Karachi's factories quickly shifted production to meet this demand, creating “institutional towels” for hotels, motels, and hospitals. These towels became a staple product in Pakistan's early export offerings, providing Karachi with a burgeoning export base of not just towels but other value added textiles like bedsheets, covers and knits.

Pakistan governments economic policies presented a challenge to these early exporters. There was a distinct bias against exports and favoured imports. The rupee was grossly overvalued, foreign exchange was tightly controlled, and an open market for foreign currency did not exist. Since its inception, Pakistan's government maintained strict control over foreign exchange, preventing Pakistani citizens from freely trading in foreign currency. Consequently, a black market developed, where foreign exchange sold at far higher rates than the official rate. This policy was intended to keep foreign exchange “affordable,” but, in practice, it distorted the economy, made exports less competitive, and made imports unusually profitable. Yet, despite this barrier, towel exports continued to grow due to the industry's low input costs.

To support the establishment of new industries, the Industrial Development Bank of Pakistan (IDBP), a state-owned development bank, developed a feasibility report for a model towel factory comprising of 12 to 20 imported dobby looms and a basic yarn dyeing unit. The estimated cost of the machinery ranged between 17 to 20 lakhs of Pakistani rupees. IDBP offered to finance this amount as a "foreign exchange" loan to aspiring entrepreneurs. The factory owners needed to cover the cost of land, buildings, and working capital. This loan arrangement was highly advantageous because it was pegged to the official foreign exchange rate, which was significantly lower than the black-market rate. This effectively subsidized the machinery cost by 33% and came with low-interest rates and repayment of the capital spread over 10 to 12 years.

This policy sparked off the establishment of a handful of factories in Karachi and Punjab, primarily for exports. These early factories formed the building blocks of Pakistan's towel industry. These loans and startups were mostly initiated by well-connected individuals who leveraged their influence to secure state-backed loans. However, managing a complex industrial operation was not that simple, and many of these factories were soon sold to individuals more directly involved in the industry. This was how I acquired Hala Enterprises Ltd, with imported looms. These new factories producing higher-quality goods, became a key to success and enabled the industry to flourish.

Traditional cotton spinning and weaving technology, such as the hand spinning wheel ("takla") and hand loom ("khadi"), has been present in the Indus Valley since the times of Harappa and Mohenjo Daro. Modern looms and spindles were an evolution of these ancient methods, speeding up and partially automating the traditional hand loom or “takla.” Local manufacturers and workshops attempted to replicate Japanese and European towel looms, but the results could not match the quality of towels produced on imported looms.

Unfortunately, two major engineering firms that could have developed an automatic loom, comparable to the imported ones —BECO and Ittefaq—were nationalized under Mr. Bhutto's government. This wave of nationalization handed over privately managed companies to the state bureaucracy, duly “assisted” by the ruling party workers. The companies began to deteriorate under bureaucratic management, ultimately becoming ruins, rather than the leaders in industrial expansion and advancement.

Smaller engineering workshops in Pakistan produced terry looms with dobbies, but they lacked automation and features like weft change or warp stop mechanisms, like the imported ones. Consequently, these looms produced towels with variable quality, and many defects like weft marks and “pile pulls.” However, each locally manufactured loom cost only about Rs 20,000 in the 1980s. This when compared to the price of well over a hundred thousand rupees for the imported looms was very affordable. More importantly, these local looms were readily available without requiring government permission or import licenses.

The lack of governmental regulation allowed factories to spring up across Pakistan, especially in Karachi and Punjab. Soon the Pakistani industry became a major supplier of low-cost institutional towels for the UK and USA. With inexpensive cotton yarn and an abundant pool of labour well-versed in basic weaving, the Pakistani towel industry developed rapidly and soon began flooding international markets with affordable towels.

During the 1970s and up until the year 2000, the industry enjoyed optimal conditions for growth. However, internal political decisions introduced new obstacles. Mr. Bhutto's government launched a series of nationalizations in the mid-1970s, but unlike the orderly process of post-war nationalization in the UK, this was seen as a punitive measure. The government vilified the business community, accusing them of amassing wealth at the expense of the poor. They accused the top “21 families” of amassing huge fortunes on the backs of impoverished farmers and workers. This rhetoric struck such fear amongst the industrialists, prompting many to leave the country. Dubai, once a remote, underdeveloped trading post, soon filled up with Pakistan's industrial and business talent. There, they built businesses which they should have made in Pakistan.

Simultaneously, oil-producing countries had formed OPEC, the oil cartel. They increased oil prices dramatically. While Pakistan's government pursued its nationalization campaign, countries like Saudi Arabia and the UAE accumulated vast wealth. Nationalization waves in Pakistan continued unpredictably, affecting sectors from large-scale engineering and chemicals to cement, vegetable ghee, flour mills, and even the small rural ginning factories. Some of these businesses were very small owner-managed enterprises. They were completely unsuited to state control.

Though I do not wish to dwell on the merits or failures of nationalization, it was poorly executed. Civil servants, with no training or experience in managing large commercial enterprises, struggled to handle these industries effectively. The disastrous execution of nationalization, compounded by the loss of East Pakistan, left business people demoralized. Many fled abroad, and those who remained faced a highly unfavorable environment.

Fortunately, the towel industry was neither nationalized nor interfered with, likely due to its perceived insignificance. Yet nationalization indirectly affected the industry by thwarting the development of a domestic automatic loom. BEECO, the largest engineering works in Lahore, had produced a simple, affordable automatic loom for plain fabrics, hundreds of which were already in operation across the textile industry. They had also intended to create a towel loom, a project that was abandoned with the nationalization of their facilities. The remnants of BECO's engineering works in the Kot Lakhpat Industrial Estate near Model Town, Lahore, stand as a testament to these lost opportunities

Mr. Bhutto's badly perceived nationalization policies were a major deterrent to the economic development of Pakistan.

THE MULTI-FIBER AGREEMENT

In 1974, the next significant challenge emerged with the imposition of the Multi-Fiber Agreement (MFA). This agreement, imposed on textile-producing nations by Western countries, restricted exports to “current” volumes, ostensibly for a five-year term. The excuse was the necessity of an 'orderly transfer of the labor intensive industries like textiles from the developed world to the developing world,” Under the MFA, "current levels of exports " was calculated as the average exports over the previous three years, In practice this meant a quota well below recent export levels for rapidly growing industries like Pakistan's towel sector, which had been growing at 10-15% annually. The Indian towel industry, having already established high export levels, was granted a much larger quota. By contrast, Pakistan, a relatively new player, received a severely limited quota, curbing growth. Sri Lanka, without any significant textile exports, faced no restrictions, while Bangladesh was granted LDC (Least Developed Country) status, securing duty-free and quota-free access to Western markets. Thus, Pakistan was the most disadvantaged textile exporter amongst the South Asian countries.

This unequal treatment had far-reaching consequences, and it is remarkable that policymakers in Pakistan seemed largely indifferent to the potential economic impact. Given the importance of the MFA on our exports, the agreement should have been adjusted to provide more leniency for emerging exporters like Pakistan. Yet, while other countries leveraged their diplomatic relations to negotiate favorable terms, we remained complacent.

As the 1980s unfolded, Pakistan found itself embroiled in the Soviet-Afghan War, serving as a key ally to Western interests against the USSR. One might have expected some reciprocal economic reward or relaxation of quotas as compensation for Pakistan's strategic alliance. Instead, Bangladesh capitalized on economic concessions while Pakistan, in effect, shouldered the burden of conflict.

Reflecting on this period, it is clear that Pakistan's leaders failed to understand the economic potential of trade agreements for our development. While we prioritized military aid to arm our forces in Afghanistan, the poverty-stricken population at home received little focus. Our delegation of exporters repeatedly lobbied the government to get increases in our quota ceilings, only to encounter indifference. On one occasion, in the early 1980s, I was part of a delegation representing eight trade bodies of the value-added textile sector. We traveled to Islamabad to meet Foreign Minister Sahibzada Yaqub Ali Khan, who was preparing for a diplomatic visit to the United States and the UN. Our aim was to request for a substantial increase in textile quotas, as a goodwill gesture and recognition of our contributions to the West's geopolitical objectives. Unfortunately, our appeal was dismissed with condescension, as the minister haughtily declared he was the foreign minister and had no intention of addressing "mundane commercial matters." He was only bothered about world affairs and affairs of the realm. He dismissed our plea as if it were a trivial request.

It is both surprising and troubling that developing nations accepted such an unequal quota system for over 25 years. The initial MFA was extended for another five years and then another, and another, for 25 long years. It muzzled our industry and hobbled its growth for 25 years, and our governments did nothing to help. Part of the reason was that in Pakistan at least, the quota system system benefitted established exporters, creating artificial privileges. It blocked major textile groups from entering these lucrative subsectors. Prospective new entrants to the industry needed to purchase quotas before they could start manufacturing. This created a high and uncertain entry barrier. Quota values fluctuated unpredictably, complicating planning, and the entire system of buying and selling quotas operated in a legally ambiguous, unregulated shadow economy. The uncertain costs discouraged major investment in value-added textile sectors such as garments, knitwear, and towels.

India, in contrast, had long-established its towel exports and therefore got ample quotas when the MFA was imposed, allowing its large mills to grow comfortably. Their dependence on exports alone, was much less as India has a sizeable domestic market. By contrast, Pakistan's towel industry was entirely export-based, with the MFA serving as a constant roadblock to expansion.

To prevent the chaos of quota races at the start of each year, we implemented a “quota entitlement” system, where each exporter received an allocation of the allowable export quantity for a given market. These entitlements, based on each exporter's pre-MFA shipment records, could be bought and sold, as they were transferrable. The prices for "hot categories" often exceeded the product's actual price. For example, for Germany, purchasing the rights to export a kilogram of towels often matched the towels' market price, at USD 4-5 per kilogram. Yet, the exporter purchasing quota rights managed to remain profitable, reflecting the exorbitant costs and margins we faced under this restrictive system.

Despite these challenges, Pakistani entrepreneurs found creative ways to bypass quotas. When the UK imposed a quota on towels, we began exporting terry cloth baby diapers, which the UK customs classified as baby garments, sidestepping the restriction on terry towels. As demand for Pakistani baby diapers soared, the UK imposed its own quota, a ceiling for export of terry cloth baby diapers! An item that their own industry had never thought of making. This illustrates the extent of protectionist measures that the champions of free trade were resorting too.

I had established an export office in the USA. I used it to launch a line of simple terry cloth bathrobes, as there was no quota on bathrobes. We designed a simple unisex kimono style robe, simple to stitch and available in just three sizes ; small, medium, and large. Our office was selling these robes at just $7 each. This was a bomb shell and completely disrupted the market. The retailers had previously considered terry bathrobes as a luxury item and sold them at high prices, fifty dollars plus for a robe. My customer retailed our bathrobes at $15-20 a piece! Even at this price the retailer had a comfortable profit margin. We were inundated with orders and quickly expanded our garment factory. However, our joy was short-lived, as US Customs soon placed an embargo on Pakistani bathrobes, blocking all shipments and leading to a significant financial loss for my company.

Despite this adversarial environment, Pakistani towel and textile exports continued to grow, from USD 100 million in the early 1980s to USD 500 million by the year 2000. The removal of the MFA in 2004 allowed for more rapid expansion, a growth trajectory that would likely have been achieved far sooner without such restrictive trade practices.

From the Year 2000 to the present

The second phase in the history of Pakistan's towel exports began with the dawn of the 21st century. Following the MFA's abolition in 2004, Pakistani exporters were no longer constrained by quotas. However, by now other factors had eroded the cost advantages that Pakistan's industry had previously enjoyed. Shifts in the terms of trade began to disadvantage textile producers globally—a trend that I will address in more depth in the coming chapters.

In towel exports, Pakistan has consistently faced competition from India and China. In the last century, Pakistan's lower production costs offered a significant price advantage, but since 2004, India has surpassed Pakistan in terms of cost-effectiveness. As a result, India's textile industry has become Pakistan's primary competitor, eroding some of the advantages Pakistan once held.

Historically, Pakistan had been a “cotton surplus” nation, with Punjab supplying raw cotton to Indian mills in Bombay and Calcutta before Partition. However, from 2005 onwards, Pakistan's cotton crops declined while India's production kept rising. India now produces a significant surplus. In some years they have surprised the world of cotton by exporting as much as 10 million bales in a year. In contrast, Pakistan, once a major cotton exporter, has become a cotton importer, with production falling short of the 13-15 million bales required annually by the local textile industry. This shift in production has reversed Pakistan's previous advantage.

As there is free trade in Pakistan for cotton, i.e. the import and export of cotton is free of all duties or taxes. The price of cotton in Pakistan follows world prices. Pakistani spinners have to pay for their cotton the world price plus transport and import costs. Even if the cotton is locally grown, it sells at the world price plus import costs. The quality discounts apply of course, but Pakistani cottons price is determined by the world price. In a cotton surplus country like India, cotton prices shall be the world price minus export costs. This difference of the import and export costs means that Indian spinners, and their customers are having to pay below world prices. This extra cost typically adds a 15-20% premium for the cost of raw material for Pakistani weavers.

Additional challenges in recent years include the rising costs of power, fuel, and gas. Until recently, Pakistani energy costs were competitive, but these have now reached “international levels.” Today, Pakistan's electricity costs are about double those in India and Bangladesh, creating another cost burden. The spinning mills consume a lot of electricity and this adds to the burden of the spinning industry and their customers, including the towel industry.

Another factor for higher costs in Pakistan are the very high rates of borrowing money. The interest rates in Pakistan are double those in India. We are told that this is due to heavy government borrowing to cover their budget deficits. Recently interest rates were as high as 22% for prime customers, making it impossible to run commercial enterprises on bank borrowings. This very high rate adds to the cost of manufacturing. High cost of capital further restricts industrial investment and modernization of existing units. Most businesses have stopped borrowing for expansion and find just the financing of running capital a huge burden.

Despite these growing costs, the towel industry has continued to expand, with exports of towels and made ups combined growing from around USD 1 billion at the turn of the century to USD 1.7 billion by 2021. Since then exports have grown again, in value and volume to almost two billion dollars today. This steady growth, despite a relative disadvantage of costs as compared to India and Bangladesh, underscores the resilience and potential of Pakistan's towel industry. With targeted improvements in the textile value chain, we can further improve our growth potential.

Since 2000, there has been significant investment in upgrading the towel industry. The import and installation of modern air-jet and rapier looms, as well as advanced dye houses, has raised the standard of Pakistani towels to international levels. Factory owners have trained their workers to operate these modern machines. The newer generations of textile industry owners and managers —many educated abroad—introduced more effective commercial practices. This led to a substantial modernization of older factories and the establishment of new, composite factories equipped with state-of-the-art machinery.

Until recently the USA was the largest importer of Pakistani towels, followed by the EU. In the last two years the EU has become the largest importer as it allows us duty free access to the EU due to the GSP Plus agreement. Most towel factories in the USA and EU have closed down and they rely on imports to meet demand. Nevertheless, Pakistan's towel exports are not limited to these markets. As of the latest reports from TDAP (Trade Development Authority of Pakistan), Pakistan exports terry towels to 128 countries, including such diverse and distant as Benin, Guyana, Guadeloupe, and Kyrgyzstan. While the developed world remains our primary market, Pakistan also serves buyers across the developing world. Pakistan has thus emerged as the most affordable source of terry towels globally, and frequently ranks as the largest exporter by volume in the world of terry towels.

This status has not come without challenges. Capturing global market share has been a prolonged and difficult journey. From less than $100,000 in exports of terry towels in 1980 to $500 million by 1995, the industry has grown steadily. Had the MFA not imposed restrictive quotas, Pakistan would have likely crossed the billion-dollar export mark before the close of the last century. Nevertheless, with the removal of the MFA, Pakistan's towel industry is growing steadily again. This indicates the resilience and potential of a mature and globally competitive industry.

Terms of Trade are moving adversely for the basic textile industry:

Terms of trade is an economic phenomina determining the value of your product and the price it would be exchanged at. Where there is excess production as compared to demand the prices of those products begins to go down, until demand and supply equilibrium is attained. The drop in prices induces more demand, while the lower prices makes some suppliers go into losses, so they either quit or reduce supply. As the demand increases and supply decreases a new equilibrium is struck.

The world has seen a dramatic drop in prices of textiles particularly for the simpler products like towels, bedsheets, jeans and T shirts as compared to other luxury products like cars, good hotels and food, medical care and fashion items. Prices of simple jeans, T shirts, towels and bed sheets have gone down drastically at the manufacturing stage and even at the retail stage. Fifty years ago a pair of jeans made by Levi Strauss or Wranglers of USA cost 30 dollars or more in the stores of New York, today they are selling imported stuff at half the price.

To illustrate my point let me give you a simple personal experience. When I went to see a store buyer in Germany in the late 1980's to sign my first large contract in Europe I nervously quoted the price of a hand towel at one Euro.

When he kept quite, I volunteered to reduce it by a further 5%! Then the Hotel Frankfurterhof room rate was 70 Euros. Today the Frankfurter Hof costs 300 Euros and I am still selling my towel at one Euro! Incidentally my first buyer subsequently became a friend. I asked him why he had hesitated when I quoted one Euro for a hand towel. He told me that he was surprised at the very low price of one Euro. He said he thought I had made a mistake so he was considering his options!

The terms of trade have certainly moved against textile producers. There are too many of them and there is no entry barrier, so more keep joining the ranks. All of them are engaged in cut throat price cutting to get to a market which is growing slowly. Today not a single textile firm is included in the list of Fortune Five Hundred! Large firms like the Cortaulds of 40 years ago are history. The textile giants of India, Pakistan and Bangladesh may provide employment to thousands but rank nowhere in terms of sales and profitability. Even within Pakistan the textile giants with huge mills, chains of retail shops are dwarfed by companies like Engro and the new software firms like Systems Ltd.

Chapter 4

THE MATURE TOWEL INDUSTRY WITHIN A CONSTRAINED TEXTILE SECTOR

A terry towel, unlike a denim jean or a knitted T-shirts, is not a new or newly transformed product that has revolutionized consumer demand. Products like jeans and T-shirts are a transformed version of a traditional daily-use garment like trousers or shirts. They have gained universal acceptance, both as informal sportswear and casual office or work wear. They offer such comfort and easy maintenance, that they have rapidly replaced the older style regular trousers or shirts. Blue jeans, for instance, introduced a practical, durable alternative to conventional trousers, and their popularity surged as people adopted this new, versatile garment. Much the same for a T shirt.

For such developments the market experienced a rapid expansion. The earlier blue jeans manufacturing companies like Levi Strauss in the USA retailed their jeans at a minimum of 30 dollars a pair 50 years ago. Today a Pakistani made pair of jeans is retailing for as little as fifteen dollars in the high streets of Europe or USA. New manufacturing facilities grew rapidly all over the world. The early entrants to the industry have experienced explosive growth. Towels have long been a basic necessity, widely produced and consumed across the world without such transformation or expansion. There is therefore no such explosive growth in its use. The market share has to be contested and growth for the newly established towel industry of Pakistan was slower and more difficult.

Even before the Partition, India's textile industry was producing towels on a substantial scale. They were able to supply the sizeable domestic market as well as exports. The Indian towel industry was dominated by large, established mills that could produce at a lower cost than Pakistan's nascent industry. While the devaluation of the Pakistani rupee has somewhat balanced production costs, the towel sector faces fierce competition from its neighboring India, as well asBangladesh, Vietnam, and at times, even China. Despite this competitive landscape, it is remarkable that the Pakistani towel industry has grown to rival—and in some years surpass—India in export volume.

Today, Pakistan's towel industry is one of the world's top two exporters by volume of terry towels. It has achieved and maintained this position consistently over the last few years. This is especially notable given the inconsistency in the local cotton crop's quality and quantity. Although the industry has achieved high export volumes, it trails behind India and China in terms of export value. India is commanding around 20% higher prices for its towels, and China nearly the double of our export price. The factors behind this disparity will be explored further in this and subsequent chapters on value addition.

For much of Pakistan's early history, the economy provided ideal conditions for developing a towel industry. Towels are best made from natural cotton, especially short-staple varieties, which Pakistan produces in abundance. Alternative fibers such as polyester, viscose, and nylon have significantly impacted the composition of most textiles and garments, but have found very limited application in towels. Paper towels, while convenient, lack the absorbency and environmental sustainability of cotton. Other artificial fibers are not absorbent and are not good for the skin. Pakistan's cotton—short-staple, averaging 1 to 1.06 inches—is ideal for making towels with the soft brushing effect required for absorbency.

Historically, Pakistan has produced a large and reliable cotton crop, but in recent decades, crop failures have increasingly forced the industry to import cotton. Pakistan's cotton production "target" of 10 million bales annually is already far short of the 15 million bales required to meet the textile industry's demands. Most years we miss the target by as much as 40/50 % ! Our base of cheap locally available cotton has therefore been destroyed. Transitioning from a cotton exporter to an importer has posed a serious challenge for our exports. This is further exacerbated by our failure to diversify our raw material sources beyond cotton. Other natural fibers such as silk, wool, and flax, along with man-made fibers like polyester, remain largely underdeveloped or unavailable. We have also failed to develop micro fiber production as well. This is used for cheap mops and wipes. Government policy and our industry has failed to adapt to these shifts. The government kept imposing restrictions and import duties on polyester and other man-made fibers that kept Pakistani-made fibers costly. The locally produced fibers are substandard, thus limiting their appeal for export.

There has been scant progress towards developing domestic sources of other fibers. Wool production remains a cottage industry in the northern areas, producing coarse wool unsuitable for mainstream textiles. Although we have a huge consumption of mutton and large flocks of goats, and sheep roam the countryside. Yet most wool sold in our country is imported. The local wool is used for the low price and low quality “pattu” and other coarse garments. Silk, a potential alternative to long-staple cotton, remains undeveloped. This lack of fiber diversity has limited the entire textile sector's product range and export potential, impacting the garment and knitwear sectors most severely. Why have we failed to develop our resources to get better quality wool or silk?

Compounding these issues, restrictive import policies prevented Pakistan from fully competing in global textile markets, allowing other countries such as Bangladesh to dominate. Their government kept flexible import policies and allowed their industry access to a broad range of fibers from anywhere in the world, including the neighboring India. Bangladesh, therefore imports nearly $30 billion of textiles and textile raw materials annually; but it exports around twice that value in finished garments and textiles. So the value addition of the Bangladeshi industry is 30 billion dollars. This compared to our 20 billion dollar of exports, including the cotton crop we grow.

As Bangladesh's major export companies cater to global brands they have to maintain stringent labor and quality standards. They have to comply with “fair wages” and humane working conditions. Thus the employment they provide is up to world standards.

Pakistan's towel industry has been fortunate as the government has allowed relatively unrestricted import and export of cotton, allowing competitive pricing in international markets. This open policy has balanced farmers' earnings and the textile industry's supply costs. However, other cotton-related policies have hampered production. Pakistan's refusal to introduce genetically modified (GM) cotton, alongside weak pest control and seed development, has hindered cotton yields. In contrast, India allowed GM seeds and made advancements in pest-resistant cotton varieties, resulting in significantly higher yields.

Government policy has also subsidized crops that compete with cotton for land and resources. Sugarcane, for example, has been heavily promoted through import restrictions and artificially high prices domestically. The sugar cane crop requires substantially more water per acre than cotton. The preference for sugarcane over cotton has exacerbated water scarcity in a country already short of water. The sugar industry's powerful political influence has maintained this policy despite its adverse effects on cotton production.

Luckily for the towel industry, Pakistan's spinning sector has provided a steady supply of cheap, lower-quality yarn, ideal for basic products like shop towels, bar mops, and floor wipes. While this keeps input costs low, it also limits the quality of Pakistani towels, particularly compared to those produced by faster, modern looms that require stronger, higher-quality yarn. As a result, Pakistani towels, achieve lower prices in export markets than those of India or China, whose quality and consistency command premium prices.

Moreover, Pakistan's international image has badly damaged exports across all sectors and not just textiles. We as a country are associated with terrorism, lawlessness, religious persecution and gender inequality. This has created an unattractive perception among foreign buyers. Security advisories and travel warnings against Pakistan, especially Karachi, deter customers, as do reports of street crimes targeting foreign visitors. I recall one European client who was robbed of his valuables at a busy traffic light at about mid-day in Korangi, Karachi. Most foreigners are loathe to travel to Pakistan. If my customers cannot visit my factory, see and discuss developments and design, how do I improve my marketing? This is a difficult environment for exporters. I remember welcoming many buyers who enjoyed travelling to Lahore in the last century. Now for years we do not welcome any foreign buyers to our country. At one point, a well-known international retailer closed down their Karachi buying office, citing the risks to its managers and quality inspectors, who could not safely work in Pakistan.

Exacerbating these challenges are behaviors within our own industry. The Pakistan pavilion at international exhibitions, for instance, often resembles a place of worship. There are loud calls or azan for prayer broadcast across the exhibition halls from the Pakistan pavilion. Our exporters often start a sales meeting with non-muslims with proselytizing, rather than concentrating on their product sales. Many foreign buyers find these unsolicited religious overtures off-putting.

The Pakistani towel industry, like many others, faces internal and external constraints that inhibit its movement up the value chain. While global competitors address issues of infrastructure, skills, marketing, and image, Pakistan's industry remains relegated to low-value products sold at lower prices. For instance, despite producing some of the world's finest mangoes, we sell them at the lowest prices globally. This due to subpar marketing, packaging, and quality consistency.

Japan offers a compelling contrast. Following World War II, Japan rebuilt its economy by focusing on quality and efficiency. Over decades, Japanese products—once considered cheap—became synonymous with quality and reliability. The Japanese quality management principles like "Kanban" and "Just-in-Time" became standard lessons in business schools all over the world. South Korea followed suit, and China and Vietnam are now undertaking similar improvements. It is high time for Pakistan to consider these models and adopt similar practices.

As a country our low investment in education further limits industrial advancement. Despite low GDP, Pakistan allocates one of the smallest shares of national income to education. Basic literacy remains alarmingly low even after 77 years of independence, and technical and vocational training is rare. Technical skills are critical in today's industry but remain underdeveloped in our country, with only a handful of textile-focused institutions and vocational schools. Where ever vocational training does exists, it is largely through private sector initiatives and trade bodies. The Towel Manufacturers Association of Pakistan (TMA), for example, established the SMA Rizvi Training Institute to provide mid-level technical managers to the towel industry. Unfortunately, technical or manufacturing careers have little appeal for young people, who prefer professions like law or medicine.

The Inheritance Factor

The lack of formal education in business and industry is another constraint. Many factory owners and managers inherit their roles. When they take control of the management they do so because they are the sons of the owner, and not because they are the best qualified. Very often they lack formal knowledge in accounting, quality control, or production management. Business schools like LUMS and IBA serve top-performing students but are out of reach for the average entrepreneur, who typically learns on the job through trial and error. Expanding access to basic business education would help small and medium-sized businesses, while design schools could focus on international fashion trends and styles to better meet export demands.

Despite its achievements in terms of volume and low-cost production, Pakistan's towel industry remains a work in progress. It lacks the full maturity and versatility of an established industry with offerings suited to diverse market segments. With time, as companies adopt modern practices and inefficient ones are weeded out by market forces, the industry has the potential to progress. A free market corrects itself, and Pakistan's towel industry is no exception.

Chapter 5

WORLD TRADING PATTERNS IN THE TRADE OF TOWEL

Product: 630260

Toilet linen and kitchen linen of all types of textile materials (excluding floorcloths, polishing cloths, dishcloths and dusters)

COUNTRY TABLE & SUMMARY IMPORT

TOTAL IMPORT BY WORLD	6,579,325	100
TOTAL IMPORT BY TOP 11 COUNTRIES	4,287,381	65
TOTAL IMPORT BY REST OF WORLD	2,291,944	35

Source: TRADE MAP

		1	2	3	4	5	6	7	8	9	10	11	
S.No.	Importers	USA	Japan	Germany	Kazakhstan	France	UK	Italy	Spain	Australia	Canada	Netherland	TOTAL
	Exporters	2,129,388	578,492	320,578	248,702	238,325	194,876	163,264	141,549	134,549	132,600	121,609	**6,086,494**
1	China	394,462	317,018	15,279	216,924	12,749	18,747	6,981	6,950	60,693	36,706	11,509	**2,149,116**
2	India	905,843	16,204	38,779	29	25,538	52,967	4,622	9,898	45,056	36,937	13,608	**1,075,760**
3	Pakistan	532,503	2,161	72,092	106	82,419	80,083	64,170	51,108	7,269	10,499	54,743	**1,005,592**
4	Turkiya	145,870	1,002	100,607	25,229	44,588	18,594	33,336	15,088	5,941	7,009	15,287	**560,936**
5	Viet Nam	14,536	227,458	17	-	64	127	325	16	1,355	612	52	**287,981**
6	Portugal	21,225	2,946	11,687	286	30,880	9,306	13,926	39,263	918	4,287	2,381	**216,580**
7	Bangladesh	41,952	6,155	19,755	50	7,961	9,994	3,857	3,890	12,516	29,822	2,367	**158,985**
8	Other Countries	72,997	5,548	62,362	6,078	34,126	5,058	36,047	15,336	801	6,728	21,662	**631,544**

EXPORTING COUNTRIES & SUMMARY EXPORT

TOTAL EXPORT BY WORLD	6,579,325	100
TOTAL EXPORT BY TOP 5 COUNTRIES	4,987,157	76
TOTAL EXPORT BY REST OF WORLD	1,601,168	24

	Importers	USA	Japan	Germany	Netherland	France	Poland	UK	Italy	Spain	Australia	Canada
	Share of Import	32.25	8.16	5.07	2.55	3.54	1.43	3.05	2.40	2.39	2.26	2.24
1	China	6.34	4.40	0.22	0.26	0.15	0.26	0.20	0.15	0.11	1.10	0.61
2	India	10.95	0.42	0.37	0.36	0.29	0.19	0.83	0.02	0.09	0.73	0.42
3	Pakistan	5.72	0.02	0.81	1.15	0.65	0.47	1.22	1.08	0.93	0.12	0.19
4	Turkiya	2.36	0.01	1.22	0.31	0.61	0.11	0.36	0.47	0.20	0.07	0.09
5	Portugal	0.42	0.01	0.27	0.02	0.61	0.04	0.21	0.24	0.83	0.01	0.08
6	OtherCountries	6.45	3.31	2.17	0.45	1.24	0.37	0.23	0.45	0.23	0.23	0.84

The global trade in towel products, specifically under HS Code 630260, highlights significant patterns in imports and exports. This category includes all types of “textile toilet and kitchen linens, excluding floor cloths, polishing cloths, dishcloths, and dusters.” According to data from Trade Map, the top 11 importing countries—such as the USA, Japan, Germany, and France—collectively account for 70% of the world's total towel imports. The other over 250 countries import the balance 30%.

The exports are even more highly concentrated, with the top five countries namely China, India, Pakistan, Turkiye, and Portugal, making up 95% of the global exports. This concentration underscores the fierce competition among exporters. Pakistan's position among the top three is commendable, as no other manufacturing industry in Pakistan has achieved this level of global stature.

In examining specific trade patterns, we find some distinctive relationships between countries based less on proximity, but more on culture, and historical trade links. For instance, China dominates the Japanese market not just due to geographic closeness but mainly because of cultural, linguistic, and historical connections. Chinese manufacturers tailor products to meet Japanese preferences for compact, high-quality, and absorbent towels. Both Japanese and Chinese tend to have smaller homes and limited storage space as compared to their American counterparts. As a result, Chinese products align more naturally with Japanese consumer preferences, an advantage not shared by producers in Pakistan or India. Additionally, Vietnam's growing exports to Japan reflect its competitive labor costs and its role as a manufacturing hub for Japanese and Chinese firms, who have been establishing factories there to cater to the Japanese market. Pakistan has failed to find any space in the Japanese market. For Pakistan, keen to gain more exports this is a serious shortcoming. The important question is whether it can develop products that would appeal to this significant market? Japan ranks as the world's second-largest importer of towels after the USA.

Another notable trend is India's stronghold in the US market and Turkiye's dominance in Germany. This is more to do with business acumen and commercial strategy. Both India and Turkiye have strategically acquired major towel brands in these two countries. India in the United States and Turkiye in Germany. Following the expiration of the Multi Fiber Agreement, large manufacturers in the USA and Germany began closing their domestic production facilities as they were being driven out by the low cost imports and the high costs of local manufacturing. Indian companies acquired prominent American brands like Fieldcrest and Cannon, well-known for towels and bed linens in the USA.

While Turkish firms bought out the major German brand Vossen. This clever move allowed Indian and Turkish manufacturers to take over established brands, which already had a dominant market presence, distribution networks, and customer loyalty. They then shifted the production to their own domestic factories. Companies not only retained the brand's market share but also increased their profitability due to the lower production costs in India and Turkiye.

The strategic advantage enjoyed by Indian and Turkish manufacturers was possible, even encouraged, by their own governments. The foreign exchange rules allowed companies to own assets abroad. They did not face the restrictive exchange controls that Pakistani companies face. In Pakistan, strict foreign exchange regulations limit a company's ability to acquire assets overseas or retain earnings in foreign banks. These regulations stem from a deep- rooted suspicion of businesses and a perception that foreign assets or earnings are often linked to tax evasion or improper financial conduct. Pakistani exporters are required to repatriate foreign earnings within a few weeks from shipment of the goods, with penalties imposed by the State Bank of Pakistan for delays, and even criminal charges if the invoiced amount is not paid. This obviously discourages the holding of foreign assets. Any thoughts of buying floundering firms, distributorships or brands abroad are fantasies that we cannot even dream of.

Whenever a new Pakistani commerce minister takes office, he summons the major exporters, ostensibly to ask for “advice” on how to improve exports. In the ensuing meeting he urges exporters to increase their exports as a “patriotic duty.” It appears that the officialdoms perception is that exports are driven by duty rather than profitability like all other businesses. Exporting is a business like any other: it will thrive if it is profitable. In

Pakistan, exports are subject to a myriad of exchange constraints and administrative hurdles that discourage rather than facilitate trade. Importing, on the other hand, is comparatively simple, allowing businesses to operate domestically without facing similar restrictions or risks.

For Pakistani exporters, the issue is further complicated by government-imposed fines and penalties for unpaid foreign bills, treating them as criminal offenses. For instance, if a foreign customer defaults on payment, the exporter is penalized as if they are intentionally withholding foreign exchange abroad. This is an assumption that fails to consider the normal business risks involved. After all there are bad debts in a normal course of business.

This contrasts sharply with domestic transactions, where unpaid debts can simply be written off without criminal consequences. Pakistani companies are also heavily restricted from investing abroad, establishing foreign offices, or setting up regional distribution centers. These are limitations that ultimately reduce their competitiveness. Its this restrictive and suspicious attitude of the Government agencies that keeps exporting companies from becoming market leaders and multi nationals. They are destined to remain small or medium sized exporters rather than companies with worldwide sales offices, distribution networks and subsidiaries.

Despite these challenges, some Pakistani towel companies did manage to establish operations abroad. This was done by the extreme step of some of the top management, a brother, or a cousin setting up companies abroad. These persons or managers then just lived abroad and became non resident Pakistanis, and in some cases even nationals of the hosting country. This workaround was used by two of the most successful towel companies of Pakistan. They operate a related company in Bangladesh.

Similarly, the late Sheikh Mohammad Obaid, the founder of Towellers Ltd., once Pakistan's leading towel exporter, set up factories in Sri Lanka, Bangladesh, and Malaysia to circumvent the restrictive export quotas imposed on Pakistan by the Multi Fiber Agreement. He was an innovative and dynamic entrepreneur who could have built a multinational empire had Pakistani regulations not been so restrictive. These early endeavors, established by Pakistani expertise but located in countries with underdeveloped towel industries and plentiful or no quotas, were the building blocks of what could have become major multinational corporations.

Pakistan's restrictive policies towards holding foreign exchange and investments, limits its ability to develop a comparable advantage in foriegn markets. Pakistani businesses are discouraged from establishing a global presence due to administrative and legal constraints. There are rules to cap agency commissions and limit the amount that can be sent abroad to maintain overseas branches or compensate agents. These limitations hinder the growth and international competitiveness of Pakistani firms in the global market.

The quota-free status of countries like Bangladesh under the “Least Developed Country” status afforded them valuable access to the Western markets. Our enterprising exporters set up clone factories in these quota-free countries. They leveraged their expertise in low cost manufacturing to supply markets while bypassing quota limitations imposed upon Pakistan.

This model of international expansion has been a significant advantage for Indian firms as well. They have not been restricted by government regulations. “Wellspun,” a very large and successful Indian towel company with its base in Gujrat, have expanded their global footprint. Wellspun has established operations in China, which is considered an “enemy” country by the Government of India. The Indian conglomerate Tata used their Indian base and expertise to acquire floundering firms abroad and turn them around with a similar policy. They are now a celebrated leading company of India.

In Pakistan, there is a cultural skepticism toward business success, which often breeds suspicion rather than admiration. Successful businesses and conglomerates are frequently viewed with mistrust. In contrast a large agricultural estate commands respect and admiration, and a much higher social status. This anti- business bias has been prevalent in Pakistan from its birth and persists today.

The EU countries have given Pakistan a big opportunity by allowing it duty free access to their markets for the last ten years under the GSP plus status since 2013.

This has levelled the playing field with Bangladesh as well. Bangladesh has always enjoyed duty free access.

India's leading conglomerates, on the other hand, have adopted strategies that enhance their influence and reach worldwide. Major Indian corporations operate across borders, with investments in diverse industries spanning from China to North America, a freedom that allows them to compete effectively on a global scale. These companies not only attract admiration for their accomplishments but society is also proud of their success. In Pakistan, there is jealousy and suspicion of business success.

If Pakistan hopes to foster a globally competitive towel industry, its policies and societal attitudes toward business and wealth creation must evolve. While the towel industry has achieved significant recognition as a top exporter by volume, it has yet to attain the level of maturity required to position itself as a premium global supplier. As companies in the industry gradually modernize and adopt international business practices, it's likely that some firms will qualify and succeed while others fall by the wayside. In time, the market will reward those who embrace global standards. Pakistan's towel industry is better positioned to compete on the world stage. The Government of Pakistan, and the officialdom at large must play an enabling role rather than a restrictive one.

Chapter 6

THE SIZE AND STRUCTURE OF THE TOWEL INDUSTRY

The Size of the Industry

The Pakistani towel industry, though complex and varied, can be understood with the insights provided by Mr. Muzammil Hussain, the Secretary General of the Towel Manufacturers Association of Pakistan (TMA) and the export data compiled by the Pakistani customs. Unfortunately there is no official Industrial Survey which could be relied upon for authentic data. According to Mr. Hussain, there are approximately 6,000 active terry looms being operated in 2023. This figure is only an estimate as the TMA members are not required to disclose the number of looms installed or operating. It is therefore difficult to estimate the total number of terry looms in the country.

If a manufacturer wishes to export all it requires is to get its export documents to be certified by some authorized recognized body like a trade body or the Governments trade authority. The exporters therefore have to join some recognized trade body. The largest body for the towel industry is the Towel Manufacturers Association of Pakistan (TMA). The TMA's official membership comprises of 204 factories in 2023. Most of them are small-scale factories with fewer than 20 looms each. To complicate matters not all manufacturers of towels are members of the TMA. Many of the larger factories opt to join the more prestigious All Pakistan Textile Mills

Association (APTMA) rather than the TMA. A number of smaller units are members of local chambers of commerce or even function independently.

While the TMA data offers a general overview, actual production output is well-documented via Pakistan's export data. This is meticulously recorded by the customs authorities at Karachi Port. Almost all Pakistani exports go through Karachi port as there is no trade with India and no recorded trade with Afghanistan. The customs record is well maintained as the government requires this information to track exports. The sales tax refunds on exports also depend upon this data. For the 2022-23 period, the towel export volume reached 220,000 tons. There is an estimated additional 30,000 tons in domestic sales, largely of export rejects, bringing the industry's annual terry production to about 250,000 tons.

The export value of "made ups " alone is 750 million dollars. This is huge as the total exports of towels are valued at a billion dollars. As price per unit or per kg for made ups is lower than that of towels the volume probably approaches the volume of towels. If we include the other exports such as bathrobes, bar mops, and various made-ups, the industry's production likely approaches double that baseline. There is of course the domestic sales of export rejects as well. So, we can guess that the volume of towels and made ups produced in Pakistan is around 500,000 tons. Add to this the large quantity of terry cloth produced for bath robes and other garments, like baby wraps the TMA's estimate of 600,000 tons seems reasonable.

The Secretary General of TMA's assessment is as follows :

Loom Type Estimated Looms Production (Kgs) Daily Estimated Production (Kgs) Yearly

Power	15,000 looms x 45 kgs per day	202,500,000
Shuttleless	3,000 looms x 200 kgs	180,000,000
Airjet	3,000 looms x 250 kgs	225,000,000
Total	**21,000 looms**	**607,500,000**

Production per loom varies widely:

An air jet loom in a modern facility can produce as much as 300 kg of terry material per day, whereas a Pakistani shuttle looms average only about 40 kgs per day. Rapier looms could be producing anywhere from 80 kgs to 200 kgs per 24 hours depending upon their age and model and how well they have been maintained. Seasonality, cyclical demand shifts, and loom types make accurate accounting difficult. I estimate around 10,000 looms are dedicated to terry production, with an equal number for made-ups, totaling around 20,000 looms across the industry. I feel that there a greater number of smaller units with the old style power looms and not as many air jet looms as per the Secretary Generals estimate .

Size and Distribution of the Industry

Estimating industry size from production data offers a more reliable gauge of its scope. Over 90% of towels and made-ups produced in Pakistan are exported. The customs data, scrupulously tracked due to the country's need for foreign exchange, is accurate. It can be said with some confidence that almost all the production of terry is intended for exports and almost none is produced for the domestic market. This can be further confirmed by the fact that local vendors or shops, large or small, luxury or basic, carry towels which were clearly destined for foreign markets. Their labling is as per the legal requirements, and in the language of their destined country's required rules. Export rejects are then dumped on to the local markets at well below costs. Consequently there is no chance to turn a profit on producing towels for the domestic market.

My own personal experience also confirms the same. I am witness to the last 12 looms specifically operated for the domestic market, owned by Hayat Furnishers of the Mall Road Lahore which shut down in the 1980's.

The other tricky assumption in the calculation is that on an average 10% of production becomes an "export reject" and sold domestically at whatever the market will bear. Others could dispute this assumption, and assert that there is some production for the domestic market, and, conversely, some rejects are also exported; but the error will not be large. Essentially these are estimates to assess the size and impact of the industry and not hard statistics.

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Industry's Employment Impact

The towel industry, unlike its heavily automated spinning and fabric weaving counterparts, generates substantially more employment due to the nature of its production. Each terry loom, is loaded by two yarn beams, one for ground and one for pile, unlike regular fabric loom which has only one beam. These two beams as compared to just one ground beam for a regular weaving loom needs twice the attention than a regular fabric loom. So one weaver can only operate two terry looms as opposed to four of the plain fabric loom. A towel loom therefore requires 2-3 weavers per 24-hour period. Then there are additional personnel needed for yarn preparation, maintenance and dyeing.

The stitching, labeling, and packing of towels is a fairly laborious affair. Each towel has to be individually sewn.

All four sides have to be stitched manually and one or two labels affixed in the hems. The larger factories have some automation but sewing is still a very labour intensive affair. Small weaving factories create an average of 6-7 jobs per loom. In total, the towel industry directly employs around 120,000 to 140,000 workers, with another 150,000 in the made-ups sector, plus another 100,000 in ancillary services, for a combined impact of over 400,000 persons, almost a half million households.

Given the industry's dependency on coarse cotton yarn, of around 500,000 tons annually (including a 10% weight loss plus waste) —the total requirement of cotton is over two million bales. As the lower grades of cotton are acceptable for towels and made ups almost all of these two million bales are from domestic production. So the towel industry is a substantial consumer of the local cotton crop. Some of the crop that it buys and converts into an exportable product, may not be easily saleable on the world market because of its poor quality.

Industry Composition and Dynamics

The towel industry is structured with about twenty large-scale, vertically integrated firms at the top, a handful of mid-sized manufacturers in the middle, and a vast number of smaller units at the base. According to TMA, the industry consists of 59 large units, 68 medium units, and 77 smaller entities, categorized as per State Bank of Pakistan regulations. However, numerous additional smaller units operate without formal classification. To my estimation there are another one hundred or more smaller units, which are not on the list of the state bank.

Geographically, the towel industry is concentrated in Sindh, particularly around Karachi, with smaller clusters in Punjab (mainly Lahore, Faisalabad, and Multan). Karachi's centrality to the towel industry can be attributed to its infrastructure, proximity to major ports, and dense clustering of textile expertise.

Structure of the Industry

The industry's top tier has fully integrated facilities with modern weaving sheds, dye houses, and yarn preparation units. Some of the larger units have their own on-site power plants, making for lower energy costs and a reliable supply. These large units, comprising roughly 20 of the industry's top manufacturers, contribute nearly 55% of total exports. These larger companies often maintain superior infrastructure, including effluent treatment plants and workplace safety measures that comply with global standards. In addition to these specialized towel mills at least a dozen large textile mills have established towel sections as well. They have their own spinning, weaving and finishing mills along with power plants and residential colonies.

The mid-sized manufacturers, totaling around 60-70, contribute another 20-25% of exports and are typically vertically integrated for producing towels but do not have their own power generation and residential colonies. These firms are less resilient to cotton and yarn market variations and power outages. They can however service smaller orders and customers due to their greater flexibility. This flexibility enables them to adapt quickly to changes in the market, making them valuable players in the competitive landscape.

The remainder of the industry is populated by small-scale, often family-operated units, many of which function with as few as 16-24 looms. They may have less than one third of the capacity but these are much larger in number. They provide the base of the industry and are typically new start- ups. They are the “flavor” of the Pakistani Towel industry.

At Heimtex, the world largest fair for home textiles there will be a myriad of such firms in small kiosks wanting to find their place in the world. These smaller factories rely on external factories for sizing the yarn, dyeing the fabric and then normally finish the final towel in their own premises.

This segment is marked by a high degree of entrepreneurial resilience, as exporters have to coordinate across multiple production stages, in different factories to fulfill orders. It also has the most tenacious and enterprising persons determined to find their place in the “sun.” However, the precariousness of this structure leaves these enterprises vulnerable to quality issues, as many of the processes are not under their own control. These can cause delays and rejections. At the same time they produce some of the lowest priced towels in the world. They are fiercely competitive amongst each other yet capable of banding together to fulfill larger contracts.

Geographical Distribution

The industry's distribution highlights Karachi's prominence as a production hub, home to most of the large and small units within Sindh. While the larger factories are located in industrial areas like Korangi, SITE, and Super Highway, smaller units operate in Orangi Town and New Karachi.

Karachi's strong industrial base, including an abundance of commercial yarn sizers and towels and fabric dyehouses, facilitates this clustering. These dye houses, and yarn preparation units are specialists and good at their trade. They form the hub for these clusters. Multan and Faisalabad also have similar hubs of commercial yarn sizers and dyehouses. These also have clusters of small size factories around them. Faisalabad is traditionally the home of this cottage sized textile weaving units for the last 50 years. These small "loom factories" started by making cotton fabrics and then grew from there to a wide range of fabrics, towels, bedsheets, upholstery and a myriad of other products. Faisalabad is probably the largest textile center in Pakistan. Lahore and its suburbs house the remaining towel units. Multan is the centre of the 'made-ups" and kitchen towel factories. These tend to be mid sized units particularly those focused on kitchen towels and other specific made up product lines.

In Punjab, the industrial landscape is somewhat different from Karachi. The industrial units are larger, more self-sufficient, and may be located near large cities but they are on their own and self sufficient. They have their own workers housing, power houses, and are integrated. The smaller units cluster near established industrial centers like Faisalabad, which has long been a textile hub. The large cotton mills established in the last century have created a pool of trained weavers and technicions who often band together to make small factory's viable. However, smaller units in Punjab are becoming less common, as many have grown into larger entities or exited the market.

Chapter 7

VALUE ADDITION IN THE TOWEL AND TEXTILE INDUSTRY

There is a debate amongst policy makers re "value addition" or lack thereof, in the textile chain. It is argued that the textile industry consumes a huge proportion of national resources and does not contribute as much to the national well- being and exports. It is even argued that, had there been no textile industry we would have earned more foreign exchange by simply exporting raw materials rather than the finished product. This is a gross misconception and I give below a very rough assessment of the average value addition achieved. Obviously the greater the value addition in our exports, the greater the foreign exchange earned, per kg of cotton produced. It also provides more employment and activity for Pakistan. To gain clarity, let's examine the value generated by various segments from the exports of the Pakistani textile industry.

Value addition in exports

Average value addition and export prices achieved over the last few years. The table shows foreign exchange gain only and does not consider local costs, as the discussion is about value addition for exports. Cotton is the base product.

Textile Segment	Primary Input	Export Price (USD/kg)	Value Added (USD/kg)	Additional Costs Considered	Net Foreign Exchange Benefit (USD/kg)
Raw Cotton	-	1.50	1.50	-	Minimal imported material
Cotton Yarn	Raw Cotton	3.00	1.50	10% waste of cotton plus energy cost	1.00
Towels	Cotton Yarn	5.00	1.75-2.00	12-15% yarn waste during production	3 times over raw cotton
Bed Linen	Cotton Yarn	6.50	3	High costs for finer yarn, dyes, chemicals	3.50/4 over raw cotton
Garments (e.g., T-shirts, Knitwear)	Cotton Yarn	Varies (~3-4 times of towels)	4.00+	Imported accessories (zippers, spandex)	Varies by garment type, but by far the highest value addition.

Value addition in different segments, highlighting key cost factors and net foreign exchange benefits associated with each type of textile product. It clearly shows that all the steps in the textile chain add substantial value to cotton.

Base Cotton Value and Comparative Standards

The export value of Pakistani raw cotton is estimated at $1.20/kg or 0.54/lb, although this is lower than international benchmarks such as the New York Cotton Index, which averages around $0.70 per pound (approximately $1.54/kg) for the US short/middling cotton. This indicates that Pakistan's cotton is shorter-stapled and contains impurities. It therefore fetches a lower market price compared to the longer, more uniform American or Indian cottons. (Egyptian or Pima variety cotton get much higher prices than the American ones.) The actual value achieved for cotton exports in these years of short crops is very low because of the poor standard of what was exported. The best and average qualities are obviously bought up by mills for their own use and never really offered for exports. That is why we have taken a notional price of USD1.50/kg as its exportable value.

Key characteristics that influence Pakistani cotton's price include:

1. **Staple Length:** Pakistani cotton measures about 1

1/16 inches. This is shorter than the US or Indian varieties; making it less smooth and shiny, although acceptable for towel manufacturing where a rougher texture is tolerable.

2. **Fiber Uniformity:** US cotton has a higher uniformity, while Pakistani cotton has a greater proportion of short fibers, impacting fabric texture but again, suitable for towel production.

3. **Contaminants:** Pakistani cotton often has impurities from storage and handling practices, whereas US and Australian cotton are virtually contaminant-free.

Assuming, that the bulk of our crop was exported at the notional price of $1.50/kg, the Pakistani cotton crop of 7 million bales, at around $220per bale, would generate about $1.5 billion annually. This is in the best we could get if our crop was entirely exported. The Pakistani textile industry contributes nearly $17 billion of exports, showing that domestic textile production has an approximate 10-fold value multiplier over raw cotton export. Despite substantial costs associated with imported materials and energy, this refutes the notion that the textile sector adds minimal value to the country's economy. Add to that the clothing provided for 240 million people who live in Pakistan. There is no doubt that the existing industry adds a great deal to the economy of our country.

Value Addition Analysis: Segment-by-Segment

To evaluate value addition across sectors, we can use a benchmark of $1.50/kg for raw cotton, rather than the recorded $1.16/kg. The recorded USD1.16 is an aberration as the volume traded is too small. Possibly it was a special deal or a compensatory contract. A market bench mark can only be established when there is wide and repeated trade at any price point. In any case if we take a higher value for cotton it will only reinforce the argument that the textile industry does add value. This approach helps gauge the sector's effective contributions to value:

1. **Cotton Yarn:** Cotton yarn exports average $3/kg, adding $1.50 in value. Accounting for a 15% waste during processing, we see a net value addition of approximately $1.30/kg. However, spinning mills are energy-intensive, and energy is largely imported, or could be exported if not required domestically. This reduces the net foreign exchange earnings. Thus, each kilogram of yarn adds at least about $1 in value after deducting energy costs.

2. **Towels:** Towels, as a consumer-ready product, achieve an export price of around $5/kg, with an approximate value addition of $3.50/kg over raw cotton. Factoring in waste from spinning and production (12-15%), the net value addition over yarn is $1.75-2/kg. Over raw cotton, it adds

approximately \$2.50/kg. Towels are less energy-dependent than yarn production, making them advantageous for domestic employment and foreign exchange.

3. **Bed Linen:** Bed linen, closely related to towels, is another key segment, exporting at around \$6.50/kg. With finer yarns and sophisticated finishing techniques, bed linen typically offers \$2.50/kg in added value over yarn, outperforming towels. Bed linen exports contribute about \$2 billion annually, with a higher price point than towels. However, bed linen production is more reliant on imported dyes and chemicals, reducing its relative foreign exchange advantage.

From this breakdown, approximate value additions are as follows:

- **Cotton to Yarn:** \$1/kg
- **Yarn to Towels:** \$1.75/kg
- **Yarn to Bed Linen:** \$2.50/kg

Other Textile Exports and Garments

Items such as fabrics, garments, and knitwear add further value, As the export data is recorded in pieces and not kilograms, making precise calculations difficult. Garments, especially, generate significantly higher returns than towels. The coarser knits and thicker materials dominate Pakistani exports in categories like socks, T-shirts, sportswear, and jeans.

Unlike neighboring Bangladesh, which has developed a robust garment sector with a skilled female workforce, Pakistan's garment industry remains limited. Social norms often discourage women from working outside their homes, depriving the sector of skilled labor.

Challenges in Skills and Industrial Readiness

A major hurdle in maximizing value addition lies in the workforce's lack of technical skills. Lack of simple literacy badly impairs the average worker to follow simple instructions, handle bar-coding and labeling, and apply quality control measures. This skill gap creates inefficiencies and increases costs, as multiple quality checks are needed.

Cultural attitudes also differ: in China, for example, workers actively highlight defects to improve product quality, while in Pakistan, workers may try to conceal defects and mistakes. Women are discouraged from working outside their homes and NGOs in Pakistan have concentrated on home-based crafts, limiting women's involvement in modern manufacturing roles. This severely limits our ability to sew quality garments.

Investment in vocational training, particularly in industrial skills, remains essential for enhancing Pakistan's competitiveness. Current efforts are inadequate, with few programs focusing on industrial skills for women. Organizations like TEVTA (Technical Education & Vocational Training Authority) could play an essential role in developing and improving skills that align with industry requirements.

Pakistan's textile sector, while showing significant promise, faces challenges in realizing its full potential. The industry's value addition is deficient across all segments like yarn, towels, bed linen, garments and knits. In each sector we are achieving much lower prices than similar items from other countries.

To achieve the next level of value addition requires:

- **Investment in Skill Development:** Establishing training programs focused on industrial skills, especially for women, would create a skilled workforce that could improve quality and efficiency.
- **Modernization and Upgrading of Facilities:** To match global standards, upgrades in the equipment for weaving, spinning, and finishing facilities are necessary.
- **Policy Support for Competitive Raw Material Access:** Relaxed import duties on necessary inputs such as polyester, dyes, and high-quality cotton would allow manufacturers to create products that cater to international standards.

By addressing these areas, Pakistan's textile industry could shift towards higher value-added products, thereby increasing foreign exchange earnings, generating employment, and strengthening the national economy. The towel and textile sectors, already significant contributors to Pakistan's export landscape, stand poised to advance further with focused support and strategic growth initiatives.

Chapter 8

THE IMPORTANCE OF THE COTTON CROP FOR THE TEXTILE INDUSTRY

The cotton crop has been the foundation of the Pakistani textile industry since its inception. At the time of partition, Pakistan was predominantly an agricultural country with minimal industry. In contrast, India had an established industrial base already, giving it an early advantage. Over the years, Pakistan developed its textile sector from scratch, leveraging its surplus cotton crop, cheap labor, and low-cost hydroelectric power. Additionally, the discovery of extensive natural gas reserves provided affordable energy for the new factories, fueling the textile sector's rapid growth.

Initially, Pakistan's cotton crop was characterized by modest production, with a reported two million bales crop recorded annually. However, the actual production may have been higher, given the rather limited data collection at the time. By the early 1970s, the cotton crop had grown to approximately four million bales. However, nationalization policies and land reforms created a climate of uncertainty that stunted growth for nearly a decade. By the turn of the century, cotton production had surged past 10 million bales. Unfotunately, after this peak, further growth stalled due to the absence of improvements in seed quality, pest control, and available land for cotton cultivation. Government policies began promoting sugar production thus, reducing the land allocated for cotton. As a result, cotton consumption eventually outpaced production, raising prices for domestic manufacturers.

Since the early 2000s, India has gained a cost advantage over Pakistan in cotton production. Whereas Pakistan's cotton production has declined, sometimes reaching as low as five million bales per year, India has vastly expanded its output, producing a surplus crop since 2004. From 2010 to 2014, India exported over 10 million bales annually, cementing its place as a major cotton exporter of the world. At the same time, Pakistan, once a cotton exporter, has become an importer of cotton. We once called cotton our "silver fiber" and main foreign exchange earner after jute from the then East Pakistan.

Today, the Pakistani textile industry requires 13 to 15 million bales of cotton annually. The domestic crop is generally only about seven million bales. The shortfall is filled by imports, often at a premium. The industry relies mainly on cotton, due to the lack of manufacturing facilities for man-made fibers in Pakistan. Even the limited local production of synthetic fibers is uncompetitive, with products sold at higher-than-world prices and of a lower quality. This shortage of domestic cotton adds approximately 15% to the costs for Pakistan's towel industry when compared to India.

Addressing the issue of cotton quality and crop yield will require a concerted national effort. Increasing acreage, improving seed quality, and disseminating modern farming practices are essential. Unfortunately, government support has prioritized other crops, such as sugarcane. Water prices are subsidized, and cane is a heavy user of water.

The agricultural research sector, particularly cotton institutes and university programs, must work for the development of high-quality seeds. Individual farmers lack the resources to develop seeds, and better practices for pest control. Such improvements must come from the cotton institutes and universities of the public sector. Effective public policy and governance are required to facilitate these advancements. Additionally, research should focus on developing cotton varieties with improved staple length and fiber consistency and quality.

Beyond cotton, Pakistan must diversify its raw material sources for textiles. Global markets demand sophisticated fibers and blends tailored for specific applications, which enhance consumer comfort and durability. Pakistan has great potential in sericulture (silk farming), as the climate is well-suited for silk production, offering employment opportunities in rural areas and a valuable product for both local use and export.

Furthermore, the country's wool industry could be a valuable addition to its textile and apparel sector. Pakistan produces a substantial amount of lamb and goat meat, yet no significant efforts have been made to enhance the quality of wool through selective breeding. Although wool and silk aren't directly needed in the towel industry, they would add diversity and resilience to the textile industry.

Pakistan's policy for the development of artificial fibers, has been largely unsuccessful. The limited domestic production is uncompetitive and fails to meet international standards. The country needs efficient facilities capable of producing a variety of synthetic fibers used in modern textiles. Until such facilities are developed, Pakistan should allow the free import of these materials, enabling the textile industry to expand its product offerings and move towards a more sophisticated level of production. Bangladesh, for example, has allowed unrestricted imports of textile materials, transforming its garment industry into one of the largest globally.

Considering these many impediments, Pakistan's current success in towel exports is a notable achievement. Nevertheless, significant changes in national priorities are needed to improve the industry's export potential. The challenges facing the textile industry, including towel manufacturing, are extensive and complex. Without clear strategic focus and support, efforts to boost export earnings in towels and other textile products will remain difficult.

90

Chapter 9

FUTURE PROSPECTS

What does the future hold for Pakistan's towel industry—and indeed, for its entire textile sector? Will Pakistan remain at its current production and export levels, or is there potential for growth that could propel it into the ranks of the world's top textile exporters?

The towel industry and textile sector are already of considerable size and capacity. The infrastructure and basic manufacturing capacity exists for a substantial output, much more than current levels. The industry has already demonstrated an ability for rapid expansion in capacity, whenever profitability has been high. The key now lies in adding and improving value across the entire textile chain, which will lead to higher export prices without increasing raw material inputs. For the towel industry, this means enhancing quality through better finishing, design, and marketing strategies, which will require both investment in new skills and some specialized equipment.

While the necessary equipment can be imported, the issue remains: Where will Pakistan find the skilled labor and expertise required? Where are the designers, marketing specialists, planners, and quality controllers who can elevate the sector? And more critically, how will Pakistan, currently characterized by conservative social and cultural norms, develop the necessary "soft skills" that are vital for global competitiveness?

In larger, more established towel factories, better training systems and management practices have been adopted, resulting in a gradual improvement in workforce education and motivation. This, unfortunately, has been forced by the large global brands who are their main customers, and not by an innate desire of their managements. These brands demand better salaries and humane working conditions from their supplier's factories as a matter of “image” and the public reputation of their brands. They also demand fair work practices with gender and religious tolerance. Some of Pakistan's top firms have achieved a level of sophistication and product diversity comparable to leading global producers. However, much of the industry still lags behind, with a long journey ahead to meet international standards. The towel industry, like other sectors, faces significant challenges in achieving these standards.

Apart from the current socio economic and working conditions, the workforce simply lacks the skills, patience and understanding to produce sophisticated higher quality textiles and towels. There are no quality seamstresses, tailors, cutters and more important, the designers and quality controllers to produce sophisticated textiles. This is not easy to achieve without better levels of education for the workforce. The current system of our education and training cannot achieve those standards for either the workers, or the managers, technicians and even the owners of the textile industry. It will take years or decades to get better education standards, even if we start now.

Unfortunately I do not see any significant improvements in training and education standards of the average worker.

Indicators of Industrial Maturity

The Pakistani towel industry, now mature, exhibits several markers of stability. In a mature industry, production capacity aligns with demand fluctuations, operating at peak capacity during times of high demand, such as holiday seasons, and slower periods in off-peak times. During the rapid growth phase in the early 2000s, leading firms were booked for months in advance. They could book their capacities twice over at peak output. Now demand and supply are balanced and there is some surplus capacity to meet surges in demand. A mature industry should be able to satisfy the demand of its customers whenever they require. Today idle capacity during slower periods suggests that the industry has achieved adequate capacity to satisfy market demand, for its price line and product range.

Another sign of maturity is the extent of international market penetration. Pakistani towels are sold in 128 countries, illustrating their global reach. However, growth in volumes has plateaued, especially when compared to the sharp increases seen during the industry's earlier years. As the sector faces intensified competition, both from within and outside Pakistan. Now efficiency and improvements are crucial for firms hoping to remain competitive.

Challenges with Production Costs

One of the critical hurdles facing the industry is the relatively higher production costs when compared to India and Bangladesh. This is largely due to cotton prices which is a major factor of costs. For the towel industry the cost of cotton is as much as 30/40 % of total costs. These are notably higher in Pakistan than in neighboring India, a cotton surplus country. As India and Bangladesh allow cotton to move freely within their countries and Bangladesh has excellent road and rail links with India, the cheap Indian cotton is available to Bangladesh as well. Unfortunately trade between India and Pakistan was banned a few years ago. For cotton the only way we can import Indian cotton is via the sea route, Bombay Karachi with the trade taking place through third parties. This adds significantly to our costs. As of early April 2024, Pakistani cotton prices are approximately 20% higher than equivalent Indian varieties. On top of this difference Indian ginned cotton varieties are generally of superior quality in terms of staple length and trash content. While the recent devaluation of the Pakistani rupee to PKR 280 per USD has given the industry some competitive edge in exports, most of the sector's costs are "dollar-denominated"—tied to global prices and unaffected by our devaluation.

The higher costs of energy and the higher interest rates in Pakistan as compared to most countries in the world is a major factor for Pakistani industry as well. We probably have higher wages in our country as compared to India and Bangladesh. So higher costs of almost all the major inputs, as compared to India is a major obstacle to the further development of our towel industry.

Despite these challenges, Pakistan's relatively low entry barriers for new start- ups in the towel industry make it easy for new players to set up a factory. Small-scale operations, often comprising of just a few looms in rented sheds, can be easily set up with a small capital. This leads to fierce price competition at the lower end of the market. However, these small-scale factories do not threaten the larger, more established firms, which continue to lead in production and export volumes.

Another positive notable trend has been the emergence of small-scale spinning units that utilize waste materials using rotor technology to produce low-cost, coarser yarns. These yarns, combined with short staple cotton, have significantly lowered raw material costs and are ideal for lower-quality towels, especially floor cleaners and bar mops, and similar products. This innovation has bolstered Pakistan's position in the “made-ups” market, with exports now reaching $750 million annually.

A Dual Market: Low-Cost and High-Quality Products

Currently, the average export price of Pakistani towels is around $5 per kilogram, whereas Indian towels fetch $6 per kilogram despite lower production costs in India. This discrepancy highlights Pakistan's heavy reliance on lower-quality, cost-effective products suitable for budget-conscious buyers. Smaller Pakistani factories are uniquely equipped to produce low-cost, semi-disposable products—an area where they have gained a command of the market and can continue to thrive. However, as demand grows for higher-quality towels on the global market, Pakistani firms aiming to capture this segment will need to invest significantly in modern machinery, skilled labor, and sophisticated marketing strategies.

Barriers to High-Quality Production

For Pakistan to scale its high-quality production, investments in advanced machinery and training are essential. However, the current landscape—marked by high interest rates, rising cotton prices, and costly energy—makes these investments difficult to justify. High-end production requires not only modern equipment but also a highly skilled and educated workforce, capable technical management, and design teams aligned with international trends. Unfortunately, Pakistan lacks specialized educational institutions for textile design. There is little awareness of international design. Quality control, color matching and other essential skills are largely self-taught and limited formal trainings is available.

I will narrate an event which took place many years ago but is illustrative of the misconception we have re textile design. As Chairman of the Towel Manufacturers

Association, I encouraged the textile design section of Lahore's National College of Arts to participate in the Frankfurt Heimtextil Fair. I managed to persuade the Export Market Development Fund (EMDF) to finance their trip. The Heimtex in Frankfurt is the world's largest home textile exhibition and takes place in January every year. The fair showcases home textile products across numerous categories, including towels, bed linens, and rugs. They also have a dedicated hall for textile designers. My effort was to expose young Pakistani design students to global trends and design.

At our company's stand in the fair one of the German designers, a young woman decorating our stall. injured her finger with a power stapling machine. She was stitching bathrobes on to the walls of the stand and mishandled the stapler and injured her finger rather badly. She was bleeding, but, after due medication and bandaging she continued to tack up displays on the walls. Some of the students from the NCA contingent had come to our stand to understand the process of display. The students were aghast at the incident. They declared that while they were happy to design and paint but tacking up towels onto walls with power tools was definitely not their future. Textile design does not just mean sitting in a comfortable spot and painting new design. It could be hard work too! What I am trying to illustrate is that even the institutions for learning that we do have are out of synch with world trends.

Inheritance of business houses: The Need for Professional Training of the owners:

Pakistan's lack of trained management professionals and skilled management personnel is another significant barrier. Most textile business owners inherit their roles as managers and owners of businesses rather than attaining them through expertise and hard work. This reliance on “owner managers” often results in inefficient operations. While some recent graduates from business schools are entering the industry, there is a general absence of professionally managed firms in Pakistan and particularly in the textile industry.

The large multi-national companies are professionally managed, but significantly none of them are in the textile industry. Most of the medium and small- scale industry is owner managed. The original founder was probably efficient and ran his business well for it to flourish. However, by now either the pioneering generation have retired or grown old. Their children and possibly the grand children have taken over the business. They were born into wealth and have not the will or the ability to run their businesses well.

These children of the founder most likely went to a good school and then a generalist university which taught art subjects and Pakistan studies. They do not know accounting, finance textile technology or engineering. If they do not, or cannot hire trained technologists or managers , their firms will not be well run. In most cases the owner manager sees no need to hire good technicians because they are expensive. Very often the firm does not have the size and profitability to hire the right professionals. Good professionals want fat salaries which the owner manager is not willing to pay. He may feel that he can do the job himself, or hire a trusted younger sibling or cousin for the job. These bonds then become a problem when trying to manage a complex business. Lack of professional management is a great obstacle in the further development of the textile industry of Pakistan.

Unfortunately, most of the towel and the textile industry is small and medium scale and is largely owner managed. Hence it is often poorly managed. To improve the standard of management, regular high schools, colleges and universities have to introduce technical subjects like accounting, textiles, costing and marketing. To realize its full export potential, Pakistan needs a transformative approach to education and workforce training. Establishing vocational schools across various fields—from agriculture and textile production to plumbing, carpentry, and electrical work—could profoundly benefit the existing economy.

Education in the fields of the future like computing and electronics will pave the way for the industries of tomorrow. Such institutions must be accessible to all and provide comprehensive, low-cost training to foster a skilled workforce capable of sustaining industrial growth.

The current emphasis on rote-learning subjects like Pakistan Studies and Islamiat, while fostering patriotism, does little to equip students with practical skills for the modern economy.

Sociological and traditional barriers:

Virtually half of our population is discouraged from entering the workforce. Empowering women and encouraging and training them with industrial and technical skills would enhance the labor force and improve productivity. This gender bias is far more pronounced in our country than in most other under developed ones. In Bangladesh for example, female workers form the bulk of the workforce of their famed garment industry. Here again the bias against women working outside the house is deep rooted and traditional. It will not be easy to break it down.

A Complex Path Forward

The journey to a thriving, globally competitive towel and textile industry will require significant investment in human capital, structural reforms, and an education system that prioritizes technical and vocational training. It's a tall order, but only through these measures can Pakistan's towel industry—and the broader textile sector—achieve its true potential in the world.