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Exports to grow

There is negativity around, but one sector that is bullish in today's so called gloom and doom environment, is textile. The value added sector is operating at almost full capacity and many big players are in the process of expansion. Unlike others, those who are in exporting businesses are seeing the light at the end of the tunnel.

The ministry of finance sources is expecting textile exports to grow to $7-7.5 billion in the April-June quarter - average monthly exports of $2.3-2.5 billion versus $2.0 billion in Jul18-Feb19, and $2.2 billion in Apr18-Jun18. Although industry players are not too bullish on immediate off-take, they certainly are seeing significantly high numbers in 2-3 years. For details read "Textile ready to take off", published on 14th December 2018.

One big textile group is eyeing its sales to grow by around 20 percent in the next two years, but is expecting all the increase in sales to come from exporting. On the flip, the higher concentration of sales growth in the past five years was in domestic sales. That is the story of a big player, which is reaching a size where big expansions are hard to come by without resolving the issues of basic raw material - cotton.

However, there are many other companies that have the potential to grow at a much higher pace because of their relatively smaller size. The positive sentiments are across the board where many players are aggressively expanding. The potential is in value addition. There are multiple reasons for exuberance - currency devaluation, subsidy to textile, and availability of energy at regional competitive rates are known to all.

One big booster is improvement in perception. The overall image of the country is improving and the opening up of visa regimes is helping as well. The buyers are visiting and new orders are being placed, and there is soft commitment of new businesses, given that the expansions are carried out.

The textile exports, in volume terms, stopped growing, in the last decade. The problem of currency overvaluation is more of a recent phenomenon - started in 2014. Prior to that, energy and security started hitting the exports bad. Enough has been said on the energy, and its availability is paying dividends.

The perception improvement needs to be highlighted. The textile and other exporters swayed away from exporting to domestic sector, before the currency was capped by Dar. Buyers were not coming and it was hard to get new business. There were fears of getting shipment delayed from Pakistan and that had helped Bangladesh to grow.

Now the situation is changing. If the travel advisory from the US is relaxed, it would be a game changer for Pakistan exports - be it in goods or services. With recent tariff war between US and China, and protests against low wages in Bangladesh, buyers are thinking to diversify from these two markets. Pakistan has the opportunity to grab its lost share.

However, building requisite backward linkages are required. Three big textile players resonated that without enhancing cotton production, it is hard for textile industry to reach its true potential. One of the reasons for competitiveness erosion is fall in cotton production, which has reduced from its peak of 14-15 million bales per annum to around 10 million bales.

The long term strategy should be to take annual cotton production to 20 million bales in 5 years or so. The need is to work on our agriculture strength. The cotton seed market is orphan today with too many kids on the street - every district has multiple unregulated seed companies. The stewardship is missing. Industry players are of the opinion that the seed industry needs to be regulated and serious consolidation is required to improve the yield. The other factor is to do away with price support to other crops - such as sugarcane, which has resulted in substitution to sugarcane from cotton.

Concurrently, the need is to find new markets. The FTA with China is being revised and industry players expect Chinese market to open for value added sector. These all will take time. The need is to move step by step. There is no magic wand to boost the exports right after correcting currency or by giving subsidy. The capacity expansion takes time, buyers' perception improves slowly, and human skill set needs to be built.

Importantly, the government has to do away with these cash subsidies - it's not sustainable in the long run. And along with that, the refunds do not have to be just cleared, but their buildup should be stopped. The government role has to be in facilitation across the value chain, while the entrepreneurs will enter where they smell value.

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