Ladder and the snake

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The story of our why Pakistan has not been able to maintain or increase its market share in the rapidly growing textile market has been very much like the game of Ludo. Each time industry has been poised to take off we land on the proverbial snake and have to restart from a much lower base.

Exports touched the $25.05 billion mark in 2013, but have hovered between $20 Billion and $23 Billion ever since. The economic/export takeoff that was anticipated (and achieved by our competing countries)was never realized through a combination of factors; lack of a long term vision, enabling environment for investment and industry, energy availability, subsequently affordability, liquidity squeeze through nonpayment of industry dues, non-implementation of policy initiatives, consistently overvalued and a poor country perception due to geo political circumstances leading to foreign brand buyers leaving Pakistan. Except for the poor country perception all other factors have been self-inflicted wounds which could have been avoided through appropriate economic management.

For our economy and exports to prosper, Pakistan needs reliable and competitive policies that are continued without any breaks for an extended period of time.

To revive exports and the economy, very rightly the PTI government, taking stock of the situation, took some extraordinary measures to rationalize cost of doing business such as providing electricity at a regionally competitive US cents 7.5/KWH, and regionally competitive Gas/RLNG at $6.5/MMBTU to the Zero rated industry. Along with rationalization of energy prices, a few other market enablers are also in place like Long Term Financing Facility (LTFF) and Export Refinance Scheme (ERS) but both are only available to direct exports which should be extended to indirect exporters to enhance the scope of facilitation and hence providing a multiplier effect to exports. Drawback of Local Taxes and Levies (DLTL) scheme is also in place that allows refunds against exports on local taxes to minimize tax burden on exporters but the hindrance is that refund payments for DLTL against 2017-18 claims are still pending straining liquidity of the industry.

These steps area prerequisite to making exports including textiles (60% of national exports) competitive in the international market and facilitate in realizing the sector’s great potential. A little over five months have passed since this decision was implemented, all sectors have started increasing their production capacity, restarting units that had shut down, finding ways to modernize their manufacturing units and setting up new units to take advantage of the lower cost of doing business.

In line with our history of snakes and ladders and according to the press, it is likely that government may withdraw its decision to provide Zero- Rated exporting sectors regionally competitive energy rates which were designed in an effort to pull country out of the clutches of twin deficits through export led growth. This is troubling because it creates the impression that the government has given up on the only sustainable solution of managing Balance of Payment (BoP) and exchange rates.

It is being a repeated ad-nauseum that the devaluation was implemented to boost exports, but nothing can be further from the truth as the fundamental reason was to curb unnecessary imports. This strategy has worked to a limited extent as the official import figures show a decrease but not to the extent that was desired as a cursory look at the retail markets show that they are flooded with imported luxury goods and foodstuffs. Apples, bananas, grapes oranges, pears, melons, you name it are available in different varieties imported from all over the world. Try buying breakfast cereal from your local grocery store and chances are you will be handed a foreign brand.

On the other hand prices of a great majority of the inputs for the textile sector which has almost 60% share in our export basket are directly linked to international prices, whereby, devaluation by definition cannot increase exports.

In reality, due to currency devaluation of Pakistani rupee, the working capital requirement for the same amount of exports, has gone by 40 percent due to currency devaluation. This coupled with lack of payment of refunds has created an extreme money squeeze in the sector. Now if the energy rates are also increased beyond the level of our competitors, this will further increase cost of production significantly, implying that sustaining production and meeting export orders will become impossible. No sector or business has the liquidity or accumulated profits to put money from their own reserves to sell products at a price lower than the product cost.

The electricity prices for the zero-rated industry were brought down at the regionally competitive rate of 7.5 cents/KWH by the PTI government and in line with the true cost of supply, if we remove mismanagement, corruption and cross subsidy costs from its price makeup. This tariff of 7.5 cents/KWH for industry does not contain any subsidy and increasing it would only make industry uncompetitive. In this context, the role of the IPPs making dollar-based returns of over 50%, have been a major contributor to the unsustainable power tariffs.

Looking at the gas/RLNG supply and its pricing, we see an already distorted system with provincial disparities both on account of pricing and the supply mix. The government fixed the price of system gas at Rs 600/MMBTU and RLNG at $6.5/MMBTU. Withdrawing the weighted average rate of $6.5/MMBTU for gas in Punjab will render the 70 percent of textile industry (largest manufacturing sector) uncompetitive translating into industry shutdown, unemployment and unfulfilled booked export orders.

Many argue that exporting sector has not shown desired growth even after reduced cost of doing business, these decision makers and detractors need to realize that there is a time lag of almost 6 months between implementation of incentives (reduced cost of doing business) and realization of enhanced exports from reduced cost of doing business. This season textile sector has its export orders booked at full capacity and some major buyers are also returning to Pakistan after a long time. At this time, reversing key policy decisions will not only break the confidence of investors and business community but will also shake the whole economy. Pakistan's economy along with the employment of masses is at stake of the government's decision to continue its vision of reduced cost of doing business and export led growth policy or withdraw from the dream of self-sustaining economy.

This also brings into question the government's commitment to reform the economy through substantial and sustainable means, any U-turn suggests that this government is again getting into short-sighted quick fixes to secure foreign loans rather than giving its own countrymen a chance to build up manufacturing sector, increase exports, create employment through enhancement of production capacity, substitute imports by local products and hence strengthen economy through endogenous resources.

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TEXTILE & CLOTHING EXPORTS GROWTH

Value $ "Billion"

Countries	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	% Change 2011-18
India	27.7	32.9	32.3	35.4	37.6	36.3	36.4	39	41%
Bangladesh	19	21.4	24.6	28.4	30.7	31.8	31	33	84%
Vietnam	15.2	16.7	18.1	21.5	25.2	28.4	31.5	38	150%
Sri Lanka	4.1	4.2	4	4.5	4.93	4.82	4.9	5.3	29%
Pakistan	13.8	12.4	13.1	13.7	13.5	12.5	12.5	13.53	-2%

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