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Improving export performance

Over the last 3 decades the export performance of Pakistan has remained abysmal as compared to other countries in the region with similar dynamics. The economy faced many internal and external challenges like currency devaluation, high cost of doing business, energy crisis, inflated crude oil prices, internal political instability, and war on terror situation. Required investment to stabilize economy and generate GDP growth was unavailable because the viability of economic outlook was not congenial for the fresh investment consequentially resulting in dismal trade performance.

The export performance comparison of Pakistan, Bangladesh, India and Vietnam for the year 2017-18 illustrates that our competitors have outperformed us. Bangladesh exported goods worth $36.66 billion, Vietnam had total exports of $ 31.5 billion, and India's were US $ 302.84 Billion while Pakistan's exports were a meagre US $23.228 billion for the same year 2017-18.

The inability of Pakistani exports to tap some of the most dynamic world markets along with high product concentration and low-technological level is because of several reasons; firstly, lack of product diversity and low value added products; secondly, lack of market diversification; and thirdly, enormous unrealised SMEs' potential and low skill development. However, fresh investment in the manufacturing sector is the prerequisite for all export enhancement initiatives. Pakistan's investment-to-gross domestic product (GDP) ratio has been hovering around 15% while other developing countries like China, India and South Korea have maintained the ratio above 30% putting their respective economies on a sustainable path. Investment-to-GDP ratio should be raised to at least 20-25% to increase productivity and exports for a sustainable economic future.

Our economy relies heavily on cotton production and the textile sector. The cotton-processing units and textile industries make up almost half of the country's manufacturing base. This sector alone accounts for 11 percent of GDP and approximately 60 percent of export receipts, hence any investment/improvement in this sector has a potential to significantly increase country's exports.

However, withdrawal of zero-rated regime and imposition of 17% GST, along with steep depreciation of local currency together have squeezed the flow of money in exporting sectors. The immediate impact of the withdrawal of SRO 1125 is the transfer of Rs. 300 billion float from industry to FBR for an extended period of time. By the collection of Rs. 300 billion from the exporting industry, the government has started another refund cycle soaking up market liquidity.

Over the last decade the liquidity squeeze in the textile sector has reduced investment in technical machinery to a dismal level of 44 percent of what it was in 2005-2006.The textile sector has not been able to accumulate capital to invest in up-gradation of the industry due to slim margins, liquidity crunch owing to stuck refunds and lack of profitability over the last five to six years. The government owes approximately Rs.200 billion of refunds to the exporting sector and the settlement of these refunds can bring about liquidity in the market for investment that would revive the textile units and hence exports.

In 2006, according to a survey carried out by International firm GHERZI Pakistan's industry had relatively new machinery and a technological edge over its competitors. Over the last decade investment in the country's textile industry fallen because of high cost of doing business resulting in the industry losing its technological advantage over its competitors.

The 30% production capacity across spinning, weaving and processing sectors with export potential of $4 billion has closed down in Punjab in last 4 years due to inappropriate policies and the high cost of doing business.

With the government's determination to boost exports, textile sector investment in their manufacturing infrastructure and upgradation of their production units can deliver on the aim of enhanced exports because of its innate advantage of substantial infrastructure in the country. This sector has the potential to increase textile exports from $13.32 billion (FY 2018-19) to $25 billion in the next 5 years and to $50 billion in next 10 years.

Textile sector requires a total of 9.3 billion dollars additional investment to raise textile exports from $13billion to $29.15 billion in five years. In addition to $6.80 billion to raise exports, approximately $2 billion is also required for revival of closed industry that has a potential to increase exports by $4 billion and $0.5 billion for technology and skill development is required to be injected into the textile sector.

The government rationalized energy prices from January 1, 2019 for the exporting sector by fixing electricity tariff at 7.5 cents/kwh and RLNG price at $6.5/MMBTU. This initiative has reduced cost of doing business restoring exports viability. Pakistan's textile and clothing exports grew by over four percent year-on-year during the first four months of 2019-20. Furthermore, the US- China trade war has opened a window of opportunity for Pakistan resulting in export order books full of Pakistani textile exporters for this season but unfortunately the sector does not have the required capacity to meet these orders. New investment is mandatory for the expansion of the existing production infrastructure and the up-gradation of technological capacity.

Nevertheless, targeted policy initiatives in the specific textile sector need to implement which will enhance exports within a few years but will also have a multiplier effect in the long term creating job opportunities, increasing GDP and stabilizing socio-economic outlook of the country. For instance, setting up of 1000 garment plants with the total investment of US $ 7 billion will generate annual exports of $20 billion and will provide employment to 700,000 workers. If each plant consists of 500 stitching machines for an investment of $7 million, it would be able to produce garments for exports of $20 million, while generating employment for 700 workers. These 1000 garment plants can be established near major textile producing cities such as Lahore, Sheikhupura, Faisalabad, Kasur, Multan, Sialkot, Rawalpindi, Karachi and Peshawar.

To remain competitive in international market, necessary support is obligatory to attract further investment in new machinery and technology compared to the incentives given by our competitors like Vietnam, China, India and Bangladesh. Investors are also reluctant to invest due to burden of taxes, regulatory procedures and unsustainable policies.

The $ 29 billion textile exports, 15 million bales of cotton production, revival of $ 4 billion closed potential; job creation and further investment in textile sector are all subject to a successful and fast track implementation of Prime Minister's Export Enhancement Vision and a long-term textile policy to back it up.

Countries	Change in Exports since 2014 (%)
India	7
Vietnam	93.30
Thailand	9.80
Philippines	9.20
Pakistan	-4.4
Sri Lanka	6
Myanmar	45.60

Source: International Trade Centre