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Pre-requisite for enhancing textile exports: long-term policy

Pakistan was once the leading textile exporter and was considered the most efficient and technically advanced textile sector in the region. The sector gradually started losing its shine in the last two decades. The foremost reason behind this decline was that country's textile sector failed to innovate and modernize production owing to systemic inefficiencies, administrative delays, and low profitability due to ever increasing cost of doing business, low profit margins and liquidity crunch because of cash flows soaked up in delayed refund/drawbacks along with tariff and non-tariff barriers on import of raw materials.

Long-term economic crisis in the form of stagnant economic growth, declining exports, worsening Balance of Payments (BoP), increasing unemployment rate and limited GDP growth rate, all require long-term policy framework focused on sustainable economic recovery. Policymaking in Pakistan has remained weak and its implementation is even weaker with no mechanism of policy outcome evaluation.

Textiles being the largest industrial sector of the country, contributing almost 60 percent of total exports, demands special dedication of the authorities to assist in improving exports. Pakistan has had two five-year textile policies; first five-year textile policy was developed in 2009 and the second one came in 2014. Both policies were comprehensive on paper but they failed because of their non-implementation and technical shortfalls. Over the same period, Pakistan's textile and clothing export growths have decreased, whereas our regional competitors are seeing a multiplying growth with Vietnam's newly emerging textile market growing at the rate of 107% (2011-18) while Pakistan's declined by 10% (2011-18).

Currently, more than 70-80% of textile machinery is more than 10-year-old while an international GHERZI benchmarking study in 2007, deduced that Pakistan's textile infrastructure was the most updated and had modern spinning technology in the region compared with India, China, Indonesia, Egypt, Vietnam and Bangladesh at that time.

Over the past decade, Pakistan's export market base, much like its product base, has also remained stagnant. Traditionally, our trade partners include the US, China and European countries. America's share in our textile and cloth exports is 30%, European countries' 41% and China's 18%. While, on the other hand, Africa, which we have failed to focus upon so far, is going to be the single largest buyer of textile and clothing in coming years. Africa is the second highest populated region in the world with Sub Saharan Africa economy of 2 trillion dollars. Looking at future size of their economy, it is high time to establish ourselves in the emerging markets in order to reap economic benefits in the future.

Simultaneously, we also need to reform our product mix within our industry to compete with the world. A decade or two back, the share of cotton products' trade was more than 70 percent when Pakistan had its name internationally, this share has now declined to 30 percent. Now world trade has started moving away from cotton products, preferences have shifted to Man Made Fibers (MMF) globally due to their affordability and durability, whereas Pakistan's export mix has stayed the same in favor of cotton leaving us out of the arena.

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TEXTILE & CLOTHING EXPORTS GROWTH

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Countries	% Change 2011-18
(In Billion Dollars)	
India	31%
Bangladesh	63%
Vietnam	107%
Sri Lanka	20%
Pakistan	-10%

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Without a doubt now exports have started to pick up and increased exported product volumes are surely on track to reflect in dollar terms which were previously not yielding results in value terms, raising concerns. During the first four months of FY20 exports have shown 4 percent year-on-year growth even with bleak global economic outlook indicating continuous decline in prices of almost all the key commodities including Pakistan's top exporting category textiles.

Nevertheless, textile sector has responded rather well to the deteriorating global situation and has illustrated its capability to compete globally. The volumes for most of textile exporting categories are hitting all-time periodic highs. Readymade garment export quantity has increased by 32 percent year-on-year in 4MFY20, while, bed wear and knitwear grew by 19 and 7 percent, respectively. These three commodities combined constitute nearly 40 percent of the country's total exports. This improvement in numbers was made possible because of the corrective policy interventions by the government like rationalizing energy rates for exporting sectors and; hence providing a regionally competitive platform.

The rise in textile sector is likely to translate into LSM numbers as well. The textile sector is the single largest industrial employer in the country. If there will be any sizeable expansion in this sector, the sector's capacity for creating employment and exportable surplus will go even further higher in coming months, hence serving the country's precise need of earning dollars and creating employment. Exportable product diversification and engaging new markets

might be a long-term goal, the significance of this sector in reviving exports and serving as a catalyst for economic growth and industrialization cannot be overlooked.

A multi-dimensional strategy shall be developed to restructure and revive textile industry according to the contemporary needs. The welcome initiatives aimed at restoring the viability and competitiveness of the textile sector like reducing energy prices, swift settlement of pending refunds and enhanced financing facilities should be continued as part of long-term policy measures.

Furthermore, interest rates should be reduced in the light of economic target of earning foreign exchange and attracting fresh investment for a sustainable Balance of Payment (BoP) solution. Higher interest rates have escalated borrowing cost of money because if interest rates rise, the opportunity cost of investment rises, and thus investment level falls. Only implementation of progressive policy measures has the potential to increase export volume to US \$45 billion plus in next five years along with creation of 3-4 million additional jobs through tapping unutilized potential, exploring nontraditional markets and setting up industries focused on value-added textile products and apparel.

The threat of increased competition in the global textile market is serious and becoming progressively more so. In order to compete with the world and also regionally, there is need to further reduce our cost of doing business and make it comparable to regional competitors like India, Bangladesh, Vietnam and Thailand and for that a long-term policy is a must. Pakistan needs consistent and implementable long-term textile policy focusing on increased productivity that fosters sustainable export volumes imperative to long-lasting economic growth.