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Mansoor Ahmad

Waning export values reveal competitiveness crisis entering endgame

LAHORE: The economic managers are overhyping a quantitative increase in exports conveniently disremembering there has been a massive regression in terms of value.

It may be so because they are either innocent of this nosedive or they don’t have the heart to admit our competitiveness has slipped through our fingers like sand in an hourglass and ended up in the hands of our competitors.

One fact they all know is that technology has disrupted the business models of most of the industries around the world. It has annihilated for instance the entire photography business forcing almost all manufacturers of photographic paper and color films to go out of business. Technology has sped up the manufacturing processes, cut the consumption of power and energy, besides reducing the human resource requirements at the manufacturing floor.

All these changes have a profound impact on the cost and efficiencies. This process was introduced in textiles few years back as a result of which the prices also started dropping regularly. Now, every textile exporting country has to produce more to earn the same they used to five years back on much lower export volume. So declining per unit prices in textiles have become a new normal. The efficient producers now export more and the most efficient among them are also increasing their market share in value terms as well.

Much has been written about the inefficiencies of our basic textile sector. The knitwear and garments were ignored because despite the fact that their unit values were declining, these sectors were posting growth.

However this growth was no way near the growth posted by few new but highly efficient Asian economies.

According to a study by Pakistan Business Council, Pakistan’s knitwear exports grew at 3 percent and woven exports at 7 percent in recent years. These growth rates seem unsatisfactory when compared with competitors. The fastest growth in knitwear and woven apparel exports respectively was depicted by Cambodia (9 and 17 percent), Vietnam (11 and 8 percent), and Bangladesh (7 and 6 percent), which are Pakistan’s regional competitors as well. This has resulted in widening export gap and relative world export shares between Pakistan and its competitors.

The study reveals that Pakistan has also been unable to leverage GSP Plus scheme to its advantage in full. Although acquiring GSP Plus has improved Pakistan’s margin of preference in readymade garments vis-à-vis China, India, Thailand, and Vietnam. But the point worth noting, according to study, is ever since Pakistan acquired GSP Plus in 2013, garments exports to EU have increased by 10 percent, which is less than 0.5 percent increase in the share of Pakistan’s garments in EU imports. Compare this with Bangladesh, Cambodia and Vietnam, whose share increased by almost 6, 2, and 1.1 percentage points over the same time period. This reflects that Pakistan has directly lost out on potential exports that the EU has imported from its competitors instead.

The study also noted that most garment manufacturers operate at low levels of efficiency and productivity. This is because firms lag in terms of knowledge about modern production techniques as well as organisational knowledge such as factory floor and inventory management. Technology adoption rates are low as investment in technology is risky and has longer payback times. Furthermore obtaining loans from banks during the learning periods is difficult. Due to this they are unable to upgrade, and are stuck in a low-technology equilibrium where fierce price competition within the local market erodes profit margins and makes technology adoption even less likely.

The most disturbing aspect is that the labor productivity in garmenting industries of Pakistan is low due to absence of skilled workers in the design, planning and production stage of garments manufacturing, and unavailability of competent mid-level management.

Garment manufacturing either woven or knitted is a highly labour-intensive industry capable of creating millions of jobs if the workers are properly trained and manufacturers could borrow from the banks terms similar to the basic textile sector.

As long as the root-causes of these inefficiencies remain unaddressed, the per unit export values will continue to fall until it would not be feasible for our exporters to carry on at low rates, outdated technology, and eroding productivity.