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Alice in Cuckoo Land

An amalgam of economic distortions, inefficiencies and illogically inflated tariffs is resulting in immense pressure for the export-oriented sectors in Pakistan to remain competitive, and this by default will have grave consequences for our future. It should come as no surprise that livelihood, economic wellbeing, growth and sustainability have a direct link to productive capacity and export potential. Particularly for Pakistan, a vision of export-led growth has recently served as a central agenda point for Prime Minister Imran Khan, and for good reasons. The country's only hope to a sustainable economic future is to harness enhanced exports and investment in the real sectors of the economy, and in the depth of real economic development. The exporting sector must essentially not only be export competitive but also provide import competitive substitution. Textile sector is a perfect example of such a sector which contributes 60 percent to exports and is import competitive. Sadly, sudden shifts in policy continue to hamper expansion and growth of this sector despite the proven capabilities (The snake has truly bitten <https://fp.brecorder.com/2019/07/20190702493518/>).

One of the root causes of the problems/ issues is that of high energy tariffs. This has an immense bearing on the country's industrial units and mills, and may well take them in either direction rapidly, be it an increase in number, size, modernization or rapid closures across the board with massive unemployment. The latter is what has been predicted of late because of the inconsistent application of policies especially electricity tariffs. This seriously places reservations on the PM's vision for bringing Pakistan out of its long drawn-out economic dilemma. The Prime Minister must appoint a neutral body to investigate and report the factual truth.

Adding fuel to the fire that is a lack of cooperation with the export-led vision, a recent decision by the Ministry of Energy negated the crucial concept of a regionally competitive tariff, when it instructed Discos to charge all add-ons to 7.5 cents, thus increasing the electricity price from Rs 11.70/kwh to Rs 20/Kwh (13 cents) an increase of 71%. As energy constitutes 35% of the conversion cost of products, this has resulted in an increase of 24% in the operating cost of the textile sector, rendering its products uncompetitive in the international markets. Comparative electricity prices from authentic sources puts the industrial electricity tariff at 7 to 8 cents/kwh in India, China and Vietnam, and essentially leaves us far behind in the highly competitive game.

Withdrawal or reinterpretation of already granted and notified regionally competitive energy pricing is disastrous not only in terms of operational costs, but also in terms of the impact it will have on the confidence of businessmen and investors. The textile sector is already investing in new plants and upgradation, with current order books at near full capacity. The need for expansion and modernization is being acutely felt, but with these conditions it seems impossible.

In a phenomenon dangerously similar to what is known as premature deindustrialization, Pakistan will be doomed if it continues along this path will not only reduce the economic growth potential, but will begin to uproot its most dynamic sector, textiles, as well as the other export-oriented sectors, upon which growth is dependent.

In the first half of FY20, the overall increase in Pakistan's exports was limited to 3.1 percent while increase in textile exports has been 4%. Although this might not mean much, a deeper look into the sector's growth by volume shows that high value-added exports such as apparel growing the most rapidly. Even the unit prices, in some cases have shown resurgence, which is impressive and should be seen in terms of its potential.

Textile performance should also be viewed with the perspective of the global economic slowdown which currently prevails. A shift in demand from high-priced apparel to mid-range apparel in the developed countries provides Pakistan with numerous opportunities. During the relevant period in 2019, energy prices for the textile industry were in line with regional prices and this is what allowed impressive gains.

The following figures show a breakdown of recent textile sector growth by volume.