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Urgent need for long-term textile 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 galore post-2000. Pakistan’s textile and clothing exports have lost international market share by dropping from 2.2% in 2006 to 1.7% by 2017. Poor trade performance in the last decade is an outcome of diminishing export competitiveness and imprudent national policies. Export competitiveness, as indicated by the country’s market share of global exports, has been declining over the years, while market share of peer economies such as Malaysia, Mexico and Thailand has doubled.

Over the period 2013–15, Pakistan only managed to increase its export share in nine out of its 20 biggest export markets. World exports to China dropped by 5.4 percent over the period 2013–15, while Pakistan’s exports to China dropped by a higher rate of almost 10 percent. Similarly, world exports to the UAE dropped by 2.9 percent during the period 2013–15, while Pakistan’s exports dropped by 20.2 percent. Pakistan’s higher ‘decay’ rate, as opposed to the world decay rate for China and the UAE, points to the existence of barriers to trade that have hindered growth in exports.

Textiles being the largest industrial sector of the country, contributing almost 60 percent of total Pakistan’s exports, demands special dedication of the authorities to help improve 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% (2011-17) while Pakistan’s declined by 10% (2011-17).

TEXTILE & CLOTHING EXPORTS GROWTH

Countries % Change 2011-17

Value $ "Billion"

India 31%

Bangladesh 63%

Vietnam 107%

Sri Lanka 20%

Pakistan -10%

The major reason behind this decline is that country’s textile sector failed to innovate and modernize production owing to systemic inefficiencies, administrative delays, low profitability due to ever-increasing cost of doing business, squeezed profit margins and liquidity crunch due to cash flows soaked up by FBR and State Bank in delayed refund/drawbacks along with tariff and non-tariff barriers on import of raw materials.

Currently, more than 70-80% of textile machinery is more than 10 years 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 America, China and European countries. America’s share in our textile and cloth exports is 30%, European countries 41% and China has 18% share. 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 share in 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, share of cotton products trade was more than 70 percent when Pakistan had its name internationally, which has now declined to 30 percent. Now World trade has started moving away from cotton products, preferences have shifted to Man Made Fibers (MMF) and yarns globally due to their affordability and durability, whereas, Pakistan's export mix has stayed the same leaving us out of the arena.

In order to produce exportable surplus, raw materials should be made available at affordable prices but our policies are distorting both cotton and synthetic fibre market and they have become so regressive in last years that cotton is burdened with an import duty of 11 percent. While, the import duty on Polyester Staple Fibre (PSF) which is spun to make Manmade Fibre (MMF) yarns reaches up to 20 percent - 7 percent import duty and 2.9 to 11.5 percent anti-dumping duty.

Looking at the current dismal situation of once leading export sector and future opportunities, a two-pronged strategy shall be developed to restructure and revive textile industry. Those textiles units, which are suffering from the general market slump but are otherwise technically viable should be helped through transitional support in the form of loan restructuring, interest rate relief, relaxation of prudential regulations, additional financing, investment tax credit etc. Others that lack technical viability shall be encouraged to merge with sounder units through the vehicle of Resolution Trust Corporation (RTC). Bankruptcy law shall be introduced which is absolutely necessary for development of a robust corporate sector in the textile industry.

The government reform its approach and implement progressive policy measures, the textile industry of Pakistan has committed to deliver increase in export volume to US $ 45Bn 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 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 mandatory.

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