The textile sector's vulnerabilities

December 27, 2020

Textile exports have been a major source of foreign exchange for Pakistan. Resultantly, the textile sector has been a dominant player in influencing government policies towards granting concessions to the textile sector. Thus, with time, government policies became heavily skewed in favour of the textile sector, putting other industrial sectors at a disadvantage.

The textile sector started in the 60s with low value-added items, and with excellent quality indigenous cotton-main raw material in textile products, our textile sector dominated the Western markets.

However, due to short-sighted government policies and the rent-oriented textile sector, the profits were not ploughed back into upgrading machinery for better productivity. Similarly, efforts were not made to move into higher value-added markets, as learning is always a difficult process and requires investment of time and money. Further, no efforts were made to tap markets other than the USA and Europe. Thus, in sum, we were competing in the international markets on a cost competitiveness basis.

Fast-forward a few decades, competitors came from Vietnam, Sri Lanka and India, who also initially competed in these low-value-added markets on a cost competitiveness basis, and thus began the story of steady decline of our textile sector. With time, many of these countries managed to move to higher value-added markets, leaving space for Pakistan. But then came Bangladesh, and our textile sector again lost share in the international market. China at times imports low-cost yarn and textiles from us, which are further value-added for export to Western markets.

To overcome the sudden onslaught of competition, the textile sector resorted to short-term solutions such as tax exemptions, tax holidays from the government, and favourable concessions from export markets, without addressing its basic vulnerabilities. Unfortunately, successive governments toed the textile sector's line for short-term gains: favoured the textile sector and sought preferential treatment from export markets for the textile sector. GPS+ status is one example where the EU gave preferential access to Pakistani textiles. Thus, policies were formulated and executed without addressing the malaise ailing the textile industry. Even frequent currency devaluations did not help to make our textile sector competitive at the international level.

Now, again, the textile sector is in the news because of the volume of international orders received which has it running at full capacity. But this sudden jump in orders has probably come due to recent currency devaluation and some external factors. Therefore, these gains might be short-lived, because all the factors which could help sustain textile exports such as productivity, technology upgrading, and investments for tapping higher value-added markets have not been addressed.

It is understandable that any government, which has a mandate of five years, will probably prefer policies that favour instant returns as it would look good on their economic performance indicators sheet. Therefore, a paradigm shift in the textile sector's thinking has to take place if it wants to survive, and it should go for harder but surer choices for sustained market share at the international level. Simultaneously, the textile sector can influence the government to give tax breaks on technological upgrading, while any other rebates and exemptions may be linked to the export of higher value-added products.

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