

Export 'boom' may not last long

Jubilation at a 24% growth in exports in US dollar terms is not entirely justified. About 15% of this 24 % is really not our doing and the other 9% is really covering a bit of lost ground. The fact is that the price of cotton went up from around the 60 cents/lb. mark last summer to over 90 cents in May. Even today it is about 87 cents/lb. Pakistan is no longer a cotton surplus country. The demand for cotton by our textile industry is 11/12 million bales a year and we are now growing just about half that quantity. The rest is to be imported from Australia and the USA, as we are not on talking terms with the Indians. The Indians incidentally, have a huge cotton surplus.

Our cotton crop went from seven million bales twenty years ago to 13 million bales and then went back to six million bales. The Indian crop meanwhile soared from 13 million bales to 35 million bales, and stayed there. The price of cotton in Pakistan is the world price of cotton PLUS import expenses. Import expenses amount to about 4 cents per pound of cotton. In India, the domestic price of cotton is the world price (when the Government of India allows free exports) less export charges. The net result is that the Pakistani textile industry pays about 8 cents per lb. more for the cotton it uses than their Indian competitors.

The increase of about 27 cents per lb. for cotton this year translates into 30 cents/lb. for yarn and about 33 to 35 cents per pound of finished textiles when you allow for the waste factor in the process of manufacturing. This means about 75 cents per kg. Considering that the mean price of our finished textile exports is about five dollars this amounts to 15% of our FOB price. Obviously, the industry has to pass on this increase in cotton price to our customers so the prices went up by 15% just to pass on the extra cost. Hence out of the 24% increase this year about 15% is due to the increase in the price of cotton.

To our good fortune the Indian and Bangladeshi industrial units are still suffering from the pandemic. The factories are in disarray; they are struggling to survive. In these circumstances demand was diverted from India and Bangladesh to Pakistan as we have been lucky with the pandemic and managed it better.

To top it all the Chinese were black-balled by the major Western retail chains on the issue of Xinjiang cotton and its products. Most large retail chains now demand that goods supplied to them be completely free of any cotton or yarn from Xinjiang. So at the moment the Pakistani industry has a clear run in the world markets and that is why all our exporters are fully booked.

If we look at the data as published by the government the picture is a little more complicated. In terms of quantity knitwear is the only category which has shown a substantial increase in exports in 20/21 over say 2017/18. It goes from 106,000 dozens to 165,000 dozens approximately. Readymade garments are about where they were, in fact 10% lower now than 3 years ago; towels are up by 2% in quantity and bed linen is about 15% up. Cotton yarn and cloth are badly down. Yarn is down by 30% and fabric or cloth is less than half.

So overall the high price of cotton has decimated the lower value-added exports like yarn and cloth and given an edge to the higher value added exports. This may be considered beneficial by some but it has its drawbacks or downsides too. If we are losing our competitive edge in costs then what is the advantage we have over our other competitors? Quality, reliability, or better design? In fact Pakistan has a terrible country image. Foreign buyers do not like to travel to Pakistan and we have had negative travel advisory from most affluent countries due to our law and order problems. As such the only advantage we have is our lower prices and possibly some firms have developed a reputation of some reliability. Overall our country image is negative.

Most of all our biggest dis-advantages is our lack of skills, education and knowledge. Now all products require some element of skill in first producing the product, then labeling and packing it and then its presentation. The biggest export values are being achieved by “knowledge and skill- based” products and companies. So a cell phone producer must have at its command skills and assembly lines and vendors beyond the reach of Pakistan. Our failure in educating our nation will now hold us back in the race for development. The pandemic will not last forever and the Indian and Bangladeshi suppliers will put their act together soon. Their tremendous cost advantage will work for them and the buyers will happily shift back to them soon.

Our export boom may not last long and some of the gains made may be lost in a year or so. I shall explore this aspect and its possible remedies in some other article.

(The writer acknowledges the assistance he received from the Secretariat of TMA for his write-up)