2018 was a year of challenges and diminished opportunites

2018 was the year of turmoil and change for Pakistan with a new government that took over charge in mid-2018 after the conclusion of the fiscal year in June 2018. During the year Pakistani rupee lost more than 6% of its value against US$ from August 2017 to March 2018 and another 20% decline from March to November 2018.

This currency devaluation should have translated into enhanced exports. However, the resultant increase in exports was much less than expected. Pakistan's textile sector was able to achieve an increase of only nine percent to $13.53 billion for the fiscal year 2017-2018 ending on June 30 2018, while Rupee lost much 20 percent against the US dollar since December 2017 to the fiscal year end.

The export performance has not been encouraging from July -December 2018. The textile sector remained unchanged in the first six months of the fiscal year as compared with the previous year despite massive devaluation of rupee of more that 28%. While the provisional statistics show that the value added sectors of Readymade Garments and Knitwear showed growth compared to the dismal performance of the yarn and fabric exports. Knitwear sector was the only one to show a double-digit growth of 19% in terms of quantity and 10.5% in terms of the value.

Readymade Garments showed a significant increase in the quantities exports of 24% but with no change in terms of value. Bed ware showed an increase of 11% in terms of quantity and only 3% in terms of value. The increase of export quantities come at a price of unit value. There seems to be severe price pressure from the customers who are well aware of the declining rupee and demand and negotiate for lower prices negating the benefit of the devaluation.

Furthermore, the raw material import costs have increased significantly due to the weaker Pakistani rupee. The energy cost also increased particularly for the industry in the north due to higher imported RLNG price post-devaluation. While being the fourth largest producer of cotton in the world, the cotton crop was a disaster this year staying closer to 10 million bales leaving a shortfall of 5 million bales that need to be imported. The prices of imported chemicals and inks have also increased severely affecting the bottom line of the textile industry.

It will take a while for the industry to stabilise from the sudden correction of the artificially overvalued Pakistani rupee for several years. The over valued rupee allowed our industry to lose its global competitive advantage while allowing unfettered imports into the country which rose to as high as 50 billion US$. On the other hand, margins of the textile industry are getting smaller due to the pressure to remain competitive as evident from the declining unit value of exports.

It can be said that the devaluation has given our industry a breathing space to consolidate and to be efficient in order to be viable and competitive.

The textile mills are facing challenges to remain sustainable to make the necessary investments in machinery. Investments are made when cash surpluses are created, textile sector efficiency didn't improve since there was no surplus created to invest back in innovation and technology up-gradation. Industrialists tried to survive utilizing all their resources and credit lines just to keep their factories running.

If the new government is able to follow policies export-led growth strategy, results will start showing soon. It will take time to reach a 45 billion target over next five years it can be said with caution that Pakistan's textile industry has started moving in the right direction.◆