BUSINESS RECORDER
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Decline in our exports

There are two major factors behind the decline of the dollar value of our textile exports. The first is a drop in the dollar price of cotton from around USD1.15/lb. level in 2322 to about 80 cents today. This is a drop of 30/35 cents or 25%. Cotton is about 40% of the cost of most of our textile exports.

The price of cotton in Pakistan is directly linked to the world prices of cotton. So, about 10 to 12 percent or about half the 23% reduction in the dollar value of our textiles can be directly attributed to the drop in the world prices of cotton.

Some will argue that we mainly use our own cotton and not American cotton to manufacture our textiles. This is no longer true; this year we will harvest about 5.5 million bales and our industry requires about 12 million bales a year.

Moreover, the prices of cotton all over the world are directly linked to the NY cotton exchange. Any changes there are fully reflected in the prices of cotton in Pakistan, India, Australia and Egypt.

Whether that's good or bad is a separate issue, but that is a fact. Our textile exports are very basic and low priced; their prices follow the vagaries of the cotton market. So, about half the drop in the dollar value of our exports is because of this.

The misfortune for us is that our farmers will get lower dollar prices for the little cotton that they have managed to salvage from the floods and heavy rains of last year.

The further misfortune is that this will be a powerful disincentive for them not to grow cotton in the future and switch to other crops. This will make us more and more dependent on imports of cotton. This in turn will lead to further increase in our import bill.

The second reason of the sharp drop is mercifully a short-term one. During the pandemic sea port functions, the supply chain, and the distribution systems were badly affected. This was so all over the world but particularly so in the USA and China. Some cargo ships were waiting to berth for as long as one month off US and Chinese ports.

This led to an unusual pressure on the cargo space available to all trade. Sea cargo rates quadrupled, and even then cargo was piling up at Karachi. Incoming cargo ships were delayed and often arrived full up from Indian ports, which is normally their first port of call. Hence the cargoes of Pakistani exporters were often "shut out," vessel after vessel.

We do not have any Pakistani shipping lines. The State shipping line went bust long ago and was shut down. The private sector was never allowed the freedom to flourish. Exchange controls and excessive interference led to the demise of all of our private sector lines. The effect of this uncertainty in our delivery dates had a peculiar effect on our exports.

The "buyers" working in the big chain stores are trained to keep their store shelves full of merchandise at all costs. An empty shelf in a retail store is a "cardinal sin" of the buying department. It causes the customer to switch allegiance to another store, and will not be tolerated by any management.

Fearing a shortage of merchandise particularly from Pakistan, already considered an unreliable country, the buyers over-ordered from multiple sources and countries, to ensure a steady supply.

As the supply chain started improving and the two months transit time improved and became the normal one month the merchandise started piling up at the store's warehouses.

The buyers put existing orders on hold, leave alone place fresh ones. This was the cause of the sharp drop in exports over the winter months. We were hoping for a resumption of normal flow of trade from March this year. The big fair "Heimtex" in Frankfurt was also well attended and most Pakistani participants came back satisfied that the pause in ordering was short lived.

Then came the fears of recession and fears of a severe downturn in the West. A number of retail chains went bust in the USA and many more announced store closures. As per press reports, 1400 stores are scheduled for closure in 2023 alone.

The foremost being Bed Bath and Beyond, an icon for home textiles, which has applied for Bankruptcy Protection and is closing 416 stores. They were a major customer for Pakistani exporters.

Even the mighty Walmart is cutting back and shutting down 20 locations. Bath and Body is shutting down 50 stores and Gap and Banana Republic are also shutting down 46 stores. These are the news from the USA. All these closures will directly impact our exports.

Higher interest rates and rapid inflation of the last one year have forced consumers to concentrate on the basics, food, mortgage payments, school fees and transport; leaving little for purchase of textiles.

In any case the average US or European consumer has enough stocks of clothes, towels, bed linen, etc. that if they do not buy fresh ones for a while it will not affect their lifestyles.

My estimation is that about 12/15 % drop in our textile exports is due to this recession in the West. On top of the 10% due to the drop in cotton prices this accounts for most of the decline in our exports over 21/22.

One of the reasons that our textile exports grew rapidly during the latter half of the Covid-19 years was the decline in competition from India, Bangladesh and China. Both India and China mismanaged their response to the outbreak of this pandemic so badly that their industrial hubs were shattered and most factories either shut down or reduced operations drastically. Our response by contrast was to keep our factories going. Whether this was by design or just pure disorganization, I cannot say; but we did much better. As a result, all the markets and customers we lost during the years of Mr. Ishaq Dar's last stint as Minister of Finance; by his effort to maintain the exchange rate of 104 rupees to the dollar; came back to us.

Now Ishaq Dar is back and so is his desire to make the Pakistani rupee "strong." Let's hope the IMF will restrain him from doing so. In any case the Indian and Chinese exporters are back in form.

So further growth will be a hard fought one. The Government as is its wont is also trying to suppress exports. From time to time our sales tax refunds are held up, new laws to punish exporters are passed while imports are encouraged by gross misdeclarations and loopholes in the tax regime.

I shall endeavor to detail these issues as well as possible policy measures in my next article. We should promote our exports so that the current account balance is achieved by higher exports rather than just lower imports.

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The writer is also the current Chairman of the Towel Manufacturers Association of Pakistan