What Our Textile Sector can Learn from Vietnam's Progress

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The Prime Minister's top advisors have reassured us the economy is improving. But jobs are not being created. The implication is that sectors typically linked with job creation, agriculture and industry, are neglected. This is a potentially alarming situation. If this is the case, Pakistan's economic improvements will be one-legged and shaky. Therefore the government must pay attention to the labour-intensive agricultural and industrial sectors. These sectors have long production chains, meaning that they have excellent job-creating potential.

Unfortunately, these sectors have struggled to perform over the last decade and lost their market share to regional competitors. Pakistan's textile and clothing exports dropped from USD 13.8 billion to USD 13.5 billion between 2011 and 2018. During the same period, Asian competitors gained significant market shares. Vietnam's textile exports increased from USD 15.2 billion to USD 33.5 billion (a 120 percent increase), while those of India, Bangladesh, and Sri Lanka increased by 36, 72 and 24 percent respectively.

Pakistan's negative growth in this sector mark it as an outlier in the region. A comparison between Vietnam and Pakistan highlights some significant areas where Pakistan can make changes to regain its competitive edge in the textile industry.

The economies of Pakistan and Vietnam were very different in the early 1980s. The Vietnamese economy faced multifaceted problems against the backdrop of the Vietnam-US war. The country heavily relied on its agriculture and primary goods production sectors. Almost all Vietnamese state-owned enterprises were inefficient, and no foreign direct investment was available. Vietnam depended on donors and foreign loans.

The situation in Pakistan was the opposite. In 1980, per capita income wise, Pakistan was 40 to 60 percent richer compared to India, China, and Bangladesh. So how did Vietnam acquire the title of 'new manufacturing powerhouse' over the last three decades? Simply put, the country took several holistic steps on several fronts, the most important of which was a 'rethinking' of policy.

The Doi Moi economic reforms of 1986 shifted the paradigm in Vietnam from 'political relations' to 'political-economic relations.' This changed the mindset of Vietnamese policymakers. For example, it withdrew all troops from Cambodia and actively participated in resolving Cambodia's problems. It normalised relations with China and became an observer in the Association of Southeast Asian Nations (ASEAN). Most importantly, it improved relations with the US. Consequently, the US lifted the economic sanctions it had imposed on Vietnam. Afterwards, a bilateral trade agreement was signed between the two countries, further strengthening relations. During this time, political-economic relations with China were also improved.

Vietnam's normalised relations with various countries sent a strong positive message to international investors. As a result their confidence was boosted and many foreign investments were made. The structure of the economy was geared towards improving absorptive capacity to handle increased domestic and foreign investments. These included improvements in energy supply; development of infrastructure; establishment of special economic zones (SEZs); improvements in human capital; liberalisation of trade; rationalising of exchange rate regimes; improvement in overall business environment; and stabilisation at the macro-economic level. Notable improvements were made in terms of the electricity production of the country, which increased from 4,825 gigawatt hours in 1990 to 16,319 gigawatt hours in 2017. Furthermore, renewable energy sources in 2015 exceeded that of all other ASEAN countries. This was instrumental to Vietnam's ability to overcome its energy shortage problem. In terms of Vietnam's infrastructure, a vast network of roads, high-speed railways, ports, and waterways was developed with the help of several foreign countries. Several Special Economic Zones were established to make use of new roads, railway stations, and ports. As a part of this effort, special facilities were offered to foreign enterprises and attracted a massive amount of investment.

Country	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	% Change 2011-18
India	27.70	32.90	32.30	35.40	37.60	36.30	36.40	37.70	36.10
Bangladesh	19.00	21.40	24.60	28.40	30.70	31.80	31.00	32.70	72.11
Vietnam	15.20	16.70	18.10	21.50	25.20	28.40	31.50	33.50	120.39
Sri Lanka	4.10	4.20	4.00	4.50	4.93	4.82	4.90	5.10	24.39
Pakistan	13.80	12.40	13.10	13.70	13.50	12.50	12.50	13.50	-2.17

The resultant industrial growth created a demand for a skilled labour force. Vietnam invested heavily in its educational sector. Trade liberalisation became the primary driving force behind Vietnam's structural transformation. Vietnam signed trade agreements with South Korea, the ASEAN, and the European Union, and it joined the Asia-Pacific Economic Cooperation, Eurasian Economic Union, and the World Trade Organization. A supportive exchange rate regime was adopted. The Vietnamese Dong depreciated considerably, which made Vietnam competitive in the international market. Importantly, all these efforts were backed by favourable macroeconomic stability and a business-conducive environment.

The case of Vietnam proves that a holistic development approach accompanied by dedicated resources can change the fate of the country. As such, this case provides important takeaways for Pakistan's struggling textile sector. The textile industry of Pakistan is one of the country's essential industries – it comprises 64 percent of Pakistan's exports and directly employs 1.4 million people, contributing around 8.5 percent to GDP 16 percent to tax revenue.

If Pakistan adopts a holistic development approach similar to what was used in Vietnam, output can be doubled. Moving forward, the government needs to take notable steps to ensure Pakistan can outperform its regional competitors. The most crucial step towards achieving this goal is to ensure that all economic policies in Pakistan are backed by strong political will and are consistent. Efforts must be made to attract investments in export-oriented sectors. Last but not least, our available skilled personnel cannot be neglected.