COMMENTARY / INSIGHT

Textile: key lessons from Vietnam

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Top advisors to the prime minister of Pakistan have continuously asserted that Pakistan's economy is improving, but not in a way that has created jobs. The implication of this is that sectors typically linked to job creation–such as the agriculture and industry sectors–will be 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 over the last decade and have lost their market share to regional competitors. For example, textile and clothing exports dropped from USD 13.8 billion to USD 13.5 billion from 2011 to 2018. During the same period, Pakistan's Asian competitors significantly gained a market share in textiles in clothing exports. Vietnam's exports increased from USD 15.2 billion to USD 33.5 billion (a 120 per cent increase) during the same period. Similarly, India, Bangladesh and Sri Lanka raised their textile and clothing exports by 36 per cent, 72 per cent, and 24 per cent, respectively, during this period.

Pakistan's negative growth in this industry makes it a clear outlier, despite having an exceptional textile industry infrastructure. A comparison between Vietnam and Pakistan highlights some significant changes that Pakistan can make to regain its competitive edge in the textile industry.

The economies of Pakistan and Vietnam were very different in the early 1980s. During t
period, the economy of Vietnam faced multifaceted problems against the backdrop of th
Vietnam-US war. The country heavily relied on its agriculture and primary goods product
sectors. Almost all Vietnamese state-owned enterprises were inefficient, and no foreign

investment was available. Thus, the country depended on donors and foreign loans. Meanwhile, the opposite situation occurred in Pakistan. In 1980, Pakistan was 40 to 60 per cent richer in terms of income per capita than its three neighbours (India, China and Bangladesh). So, how did Vietnam acquire the status of “new manufacturing powerhouse” over the last three decades? The country took several holistic steps on several fronts, the most important of which was the “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. As a result, Vietnam made new friends. For example, it withdrew all troops from Cambodia and actively participated in resolving Cambodia’s problems. Then, it normalised relations with China and became the Association of Southeast Asian Nations (ASEAN) observer. 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 forged between the US and Vietnam; further strengthening the relations between the two countries. During this time, Vietnam also improved its political-economic relations with China.

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Vietnam’s normalised relations with various countries sent a strong positive message to international investors. As a result, their confidence boosted, and many foreign investments were made in Vietnam. Moreover, Vietnam changed the structure of its economy to improve the absorptive capacity of the economy to handle increased domestic and foreign investments. These included improvements to the energy supply, the development of infrastructure, the establishment of Special Economic Zones (SEZs), improvements in human capital, the liberalisation of trade, the rationalising of the exchange rate regimes, improvements to the 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 4825-gigawatt-hours in 1990 to 16,319-gigawatt-hours in 2017. Furthermore, the implementation of renewable energy sources in Vietnam 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 waterways were developed with the help of several foreign countries. Several SEZs (industrial zones, hi-tech zones, export zones and processing zones) were established t make use of these 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.

The resultant industrial growth created a demand for a skilled labour force. Therefore, Vietnam invested heavily in its educational sector. Trade liberalisation then 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, the Eurasian Economic Union, and the World Trade Organization. Simultaneously, Vietnam adopted a supportive exchange rate regime. 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 that is 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 – textiles comprise 64 per cent of Pakistan's exports and directly employs 1.4 million people. Moreover, the textile sector comprises around 8.5 per cent of Pakistan's GDP and 16 per cent of the nation's taxes.

Pakistan's textile sector has an undeniably strong base, and its output could be doubled through a holistic development approach similar to that utilised in Vietnam. Moving forward, the government needs to take several necessary steps so that Pakistan's textile industry can outperform those of 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. Of course, policymakers must also address the efficiency of the public sector, and efforts must be made to attract investments in export-oriented sectors. Last, but not least, Pakistan's institutional strength – and the value of its available skilled personnel – cannot be neglected.

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