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'Earthquake' for textile industry?

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EDITORIAL: It's understandable that reports of the commerce ministry scrapping the Textile and Apparel Policy 2020-25 have left the sector's producers and exporters feeling abandoned and invoking the constitution about fundamental rights of businesses, etc. The policy was approved by the Economic Coordination Committee (ECC) and ratified by the cabinet, after all, which means that they would have made plans as well as investments based on the incentives provided by it.

But now that a number of the steps would have to be rolled back, there's no telling just what kind of damage is going to be done to their balance sheets and also their export markets. What, for example, of orders that would have been booked and might not be met because of a change of heart in the finance ministry?

The local textile industry's been buoyed by higher earnings following the initial global lockdowns induced by the pandemic, partly because of the higher prices that their products were able to fetch in a still largely closed market, and naturally wants the good times to continue.

But the finance ministry's point of view is also very valid because despite all the tax breaks, subsidies and incentives provided to this sector over many, many years, its performance in terms of revenue generation hasn't exactly done justice to all the effort. For example, in the last three years alone about Rs115.5 billion under duty drawback on local taxes and levies (DLTL) and more than Rs100 billion as power and gas subsidy were disbursed among zero-rated sectors, in addition to a host of other concessions including tax- and duty-free import of raw material at market-determined exchange rates and also subsidised financing by the State Bank of Pakistan (SBP).

Yet exports of five zero-rated sectors still registered negative year-on-year growth in 2019-20 and annual cumulative growth rate has hovered around six percent over the last three years.

These facts lead to another important academic argument and industries that receive too much support for too long, especially infant industries, never learn to survive without it. In the words of the famous economist, Professor Samuelson, "Lo they have not shed their diapers these many years."

But even if the policy had to be axed, it should have been done in a more transparent and far less confusing way. The government was already in the thick of the International Monetary Fund (IMF) programme when the commerce ministry so painstakingly hammered out the textile policy in 2020.

The finance ministry was well aware of the Fund's limitations with regard to industry-specific incentives, and should have put the brakes on the policy then and there, which it didn't. It displayed a similar lack of responsibility at the time of the annual budget for this fiscal year when the new finance minister stood the existing policy on its head in favour of a blatantly expansionist outlook for the new financial year; claiming that he would get the IMF to see things his way. That, as we know only too well, did not happen and the core of the year's fiscal policy must also be abandoned mid-way, pretty much like the textile policy.

Sometimes it's not what you do but rather how you do it that can make all the difference. The government never tires of enlightening everybody about how it wants to revolutionise exports, but it appears more confused than committed when it comes to the nuts and bolts of policy making. That way it gets itself into the one-step-forward-two-steps-back trap for no reason at all. And now it's all but run out of time to do something about exports and the current account.

The country's trade deficit touched $25 billion in H1 of the ongoing fiscal, against $12.36 billion in the same period last year. If this trend continues for much longer the current account will implode and the country may well have to default. And it's a shame that the finance and commerce ministries still haven't sat down to properly work out the contours of the government's trade policy.