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Textile Policy 2020-25: PM approves textile export target of $28 bn in five years in principle

ISLAMABAD: In a major development, Prime Minister of Pakistan Imran Khan has accorded approval to the country's textile policy 2020-25 under which the textile exports will be jacked up to $28 billion in five years' time by 2025. And to achieve the target of $28 billion textile exports, cotton production in the country will be enhanced to make availability from nine million bales to 20 million bales within five years.

Razak Dawood, Adviser to PM on Commerce and Textile, in his tweet said that the prime minister has in principle approved the Textile Policy 2020-25 and under the rules of business it will be processed to the federal cabinet for approval. The draft of the Textile Policy 2020-25 available with The News also reveals that electricity and gas tariff will be fixed for the next five years till 2025 at US Cent 7.5 per KWh and $6.5 per MMBTU respectively. It also indicates that withdrawal of Zero Rating or SRO 1125 will be reviewed.

Under the textile policy, formation of Specialized Economic Zones (SEZs) will be ensured to accelerate exports by providing Plug and Play facilities, especially for garmenting units. Pakistan is one of the few countries having a complete textile value chain from farm to fashion and the textile sector is the biggest employment generator -- especially garments.

It mentions that the global market for textile exports is dominated by China, having 32pc share of textile trade that is $302 billion. Pakistan's share is 1.6pc in the global textile trade which is targeted for 3pc over the next five years. Mentioning about the initiatives to enhance production and yield of cotton to make availability from nine million bales to 20 million bales within five years, the textile policy says that cotton seed quality willbe improved and the latest farming and picking practices will also be introduced. The government will emphasize the production of long staple cotton resulting in minimal reliance on imported cotton that will enhance overall exports.

It also touches the important issue of availability of Man Made Fiber (MMF) at competitive prices as the world trade is rapidly shifting from cotton to man-made fibers. Globally, use of man-made and synthetic fibers against natural fibres has shifted to a ratio of 70:30, with synthetic fibres having the main share. At present, Pakistan's consumption ratio of MMF to cotton is 30:70 and currently there is 7pc customs duty on the import of polyester staple fibre with total import expenses ranging up to 20pc including anti-dumping duty. Pakistan will shift focus from cotton to Man Made Fibres (MMF) and target fibre mix of 50:50

Pakistan has not been able to achieve its full export potential and product diversification owing to limited access to raw-material and to this effect the application procedures for temporary import schemes will be simplified. Inter/intra-Bond/Scheme transfers of intermediate products to direct or indirect exporters and commercial importers will be allowed. And by extending TIS to indirect exporters, Pakistan will be able to achieve price competitiveness and product diversification and effective implementation of this reform will be a game changer.

However, the official of Textile Ministry said that withdrawal of Zero Rating or SRO 1125 has created a serious liquidity crisis for the export sector. Zero Rating was withdrawn to collect sales tax from domestic sales. "It was assured to the export industry that sales tax refunds under the FASTER system will be paid in 72 hours.

However, the system has completely failed and billions of rupees of refunds are stuck in the system." He said that the ambitious target of $28 billion textile exports by 2025 cannot be achieved if the liquidity crisis of textile sector is not resolved immediately.

The textile policy also states that in a bid to exploit the export value chain, the overall limit of LTFF (long term financing facility) will be enhanced by at least $1 billion per year for each upcoming year. The LTFF scheme will be extended to the entire value chain since the whole value chain requires upgradation and modernization to meet the export targets. And in order to ensure investment in the entire textile value chain, LTFF is to be provided to direct and indirect exports. The LTFF should be extended to building infrastructure costs of garments and knitwear sectors. The LTFF for projects will also be provided to achieve international sustainability requirements i.e. effluent plants, etc.

Mentioning about the Special Economic Zones, it says that currently no state-of-the-art infrastructure is available, shifting common infrastructure costs to the investors. It also pinpoints that state-of-the-art industrial zones will be established with an aim to accelerate exports by providing Plug and Play facilities, specially for garmenting units. Workers' residential colonies are to be developed through the prime minister's housing scheme around SEZs.

Talking of the facilitation for value added products, it says that currently Drawback of Local Taxes and Levies (DLTL) is provided to segments (2018-2021) that include four percent for garments, three percent for made ups and two percent for processed.

Additionally, 2pc is provided for non-traditional markets and 50pc of DLTL is given unconditionally and remaining on 10pc growth. Under the textile policy 2020-25, DLTL after 2021 is to be provided to garments and made-ups.

The textile policy also highlights that the government through the Finance Act 2013 had raised the General Rate of Minimum Turnover Tax under Section 113 of the Income Tax Ordinance 2001 to 1% from 0.5%, which was further increased to 1.5% through the Finance Act, 2019. And now the minimum turnover tax will be reverted to 0.5% and indirect exporters will also be extended taxation regime available to direct exporters. About the skill development, the textile policy says that the textile industry is the largest industrial employer in Pakistan. It informs about employing about 40pc of the total labor force in the country. Labor costs are estimated to be about 5%-8pc of the total cost. Despite abundant supply of labor, productivity of labor is very low.

Now under the policy 2020-25, private training facilities will be incentivized and restriction on women workers for 3rd shift will be abolished to avoid gender discrimination.

And the labor laws will be made compatible with the region and competing countries. A new vocational training program will launched to train 120,000 men and women with a monthly stipend for trainee, trainer's salary cost, over the five-year period, for skills required in the textile sector, especially in the value added sector.