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Export sector at crossroads

That Pakistan's exporters are at a crossroads is a fact. If we are to revive economic momentum and restore our competitive advantage in global trade, there are crucial policy changes needed. The textile sector, especially towel producers, is a key driver of exports, but all-too-sustained challenges risk derailing its promise.

One of the most significant issues remains the overly high tax rates imposed on exporters. Policymakers have long recognized reform as a necessity, yet action has been slow. Making taxes rational—at least incrementally—can bring much-needed relief and facilitate cash flow for nascent exporters, driving innovation and expansion into markets.

The other high-priority task is to further enhance the Export Facilitation Scheme. Open audits and targeted supervision will establish trustworthiness and effectiveness in export activities, whereas reinstating GST zero-rating for local supplies to exporters can remove unnecessary financial pressure. It's an easy yet effective idea that can spur the industry.

Under the Final Tax Regime (FTR), enterprises — particularly SMEs — enjoyed a stable 1 percent tax on turnover, enabling strong fiscal planning. This predictability helped firms invest in growth, innovation, and process enhancement without the fear of abrupt rises in taxation.

But, with the transition to the Non-Final Tax Regime (NTR) supplemented by other taxes in the form of a 1 percent Minimum Tax, 1 percent Advance Tax, and then a following Corporate Tax of 29 percent or more (up to 45 percent), the scenario has been totally revamped. SMEs are now subjected to:

Increased burden of tax – Doubling of tax rates lowers available capital considerably.

Difficulty in cash flow – Taxes are paid irrespective of profitability, resulting in liquidity issues.

Limited reinvestment – Constrained resources for growth, new hiring, and infrastructure investment are jeopardizing long-term viability.

For the thin-margin SMEs, this adjustment stokes growth potential. Rather than reinvesting in equipment, hiring personnel, or spending on marketing, businesses resort to survival mode; some even doubting their sustainability under the new tax regime.

In order to spur exports and aid economic growth, there is a compelling argument to restore FTR, providing SMEs with the financial freedom necessary to compete internationally.

The economy of Pakistan has been devastated by a troubling trend of deindustrialization, which has been caused mostly by policies that unintentionally deter manufacturing. The government needs to remedy this export-unfriendly bias by addressing structural constraints, bureaucratic hurdles, and the unequal cost of energy. Facilities for long-term credit, availability of forex for capital expenditure, and elimination of over-taxation and harassment need to be the pillars of a pro-manufacturing policy framework.

Pakistan's industrial sector has been hit by decades of policy misalignment and economic neglect, resulting in deindustrialization prematurely. The government needs to remove the anti-export bias by addressing energy price disparities, providing long-term credit and forex facilitation for capital spending, alleviating the pressure of over-taxation, and sorting out regulatory inefficiencies. We cannot allow ourselves to be held back by bureaucratic red tape and infrastructural deficits.

Moreover, tariff cuts should be laser-sharp targeting necessary export inputs to avoid needless import surges. Encouraging industries based on indigenous resources like agriculture and minerals can make the economy more self-reliant and less vulnerable.

The textile industry, especially towel exports, is a powerhouse of potential for Pakistan. Through fiscal action, we can build on our dominance in international markets, produce employment opportunities, and fuel sustainable economic development. Policymakers are required to unlock Pakistan's maximum export potential. The hour of hesitation is past; courageous action is the only way ahead.

(The writer is Chairman, Towel Manufacturers Association of Pakistan)