

Islamabad Outlook

Global economic slowdown impacts 2008-09 cotton trade

International recession in financial and economic sectors accompanied with deteriorating local economic, political and law and order situation are badly affecting all sectors but specially the textile sector.

The textile sectors right spinning to garment-making, has overburdened with high cost of production including high rate of interest, high utility charges, frequent power break-downs, liquidity crunch and hostile international climate for Pakistan. Many textile mills have closed down while others have reduced working hours due to poor disposal of products in local and export markets. As such, domestic cotton consumption for this season may be reduced by 20% to around 12.5 million bales.

Local spinning and weaving industries are reportedly incurring heavy financial losses on account of carrying charges on their huge stocks of unsold products beside daily operational losses. The energy crisis and high cost of doing business has swallowed its latest victim, Baig Spinning, a big name in the textile industry. Baig Spinning Mills Ltd, which closed its production units in 2006, has now been wound up.

According to Pakistan Cotton Ginners Association and Karachi Cotton Association, country will face a shortfall of 3.5 million cotton bales as its production remained below the target during this season. The production remained low on the poor production of quality seeds, inadequate supply of quality inputs and uncertified sowing of *Bacillus Thuringiensis* (Bt) variety of cotton in the country.

In Pakistan, most of the Bt cotton varieties were marketed with wrong notation of resistance to all pests. In some instances this variety was mixed with non-Bt cottonseed and affected the yield.

The national seed requirement of cotton in the country is 62,000 tonnes while its availability from local seed sector is about 39,845 tonnes (64% of the total seed requirement). The remaining 36% seed is produced and distributed through informal sector like grower-to-grower exchange.

Pakistan spends about more than Rs 10 billion on import of various kinds of pesticides and about 75% of them were used in cotton. The country's economy depends to a great extent on cotton and its products. Cotton crop required an intensive use of pesticides as various types of pests that attack these crops cause extensive damage.

The Pakistani exporters are quite active in exporting cotton particularly to Bangladesh as local prices are quite viable and US dollar is strong against Pak Rupee. If such export friendly conditions continue, the volume of exports may be increased to 450,000 - 500,000 bales this season. This season cotton imports are expected to be almost 1/3rd of last season's imports at equivalent of 1.5 million (170-Kg) bales in view of reduced domestic consumption.

India is facing more difficult situation. Latest estimates put India's cotton production at 29.5 million (70-Kg) bales against 32.0 million bales previously estimated. However, India may have a record export surplus of more than 12.5 million bales and this season its exports may be quite small as compared to its exports of 9.0 million bales last season. India has also been adversely hit by global recession in finance and economy so its textile exports would be lower and so the textile production.

Cotton situation in China is also not good. Chinese government is also procuring cotton from growers in large volume as local price are lower than Minimum Support Price level. Chinese spinning mills are reducing their yarn production and thus would consume lesser cotton this season. As such, their cotton imports are also expected to be reduced to 9.0 to 9.5 million (480-lb) bales against their last season's total import of 14.5 million bales and record high imports of 18.235 million bales in 2006-07.

However, Global cotton consumption is likely to fall by 11% in the current season due to rising production costs of the textile mills, strengthening of local currencies against the dollar and low enquiries from the recession-hit West.

Cotlook's Business Confidence Survey has forecast a substantial drop in cotton yarn off take in several key Asian markets. Survey pointed to high yarn stocks, spinners struggling to maintain cash flow and consequent reductions in throughput have resulted in us now predicting a further increase in world stocks during 2008-09. ♦