

Editor's Page

Global recession hit Pakistan textile industry

At present Pakistan's textile sector has been passing through difficult times these days as higher input cost, rising interest rates and intense competition in the export market have brought the sector on its toes.

The recent spike in gas prices will have a spiralling effect of 15% to 20% on textile sector's cost of production. Most of the textile companies are operating their mills on captive power plants, for which gas is the major input. It is estimated that gas accounts for 65% to 70% in the total fuel and energy component of textile sector's cost of production. The profit margins, which are already dwindling, would be further squeezed, denting their profitability in the coming days. Though, the effect of gas rate hike would be varying for different industries of the textile sector, the badly hit would be spinning, weaving and value-added garment industry.

Analysts believed the greater cost of borrowing from banks, and low consumer demand in the international market for Pakistani products particularly in the USA and EU were to blame. Pakistan's exports to major markets USA, Germany, Japan, UK, Hong Kong witnessed negative growth.

Pakistan's exports may go on decreasing in the current fiscal year due to deteriorating domestic business conditions. In nut-shell, economic performance would further deteriorate on poor law and order situation, expanding war on terror, escalating border security dangers, water and power crisis, increasing power and unemployment, unstable political conditions and unwanted government spending.

The world textile market accounts for US \$530 billions (Textiles \$219 billion and Clothing \$311 billion) of which China has 27.18% market share and India reports 3.68%. Other small countries like Bangladesh, Pakistan and Thailand have shares even bigger than India.

Despite all odds China and India have enough potential to fight the effects of global recession and their economies would absorb the shocks at comparatively low cost. Bangladesh, Thailand, Vietnam, Sri Lanka are in the second line in textile exports. Pakistan has great potential than these countries but the war on terror may cost Pakistan too much crippling its economy, thus Pakistan may lose its chance and opportunity of becoming the thirds largest textile economy.

The country's overall textile exports stood at \$9.774 billion at the end of last fiscal year over the exports of \$10.354 billion in FY 2007-08. Out of 12 major textile export 9 registered negative growth and export of only three items - raw cotton, bed wear and towels has posted some increase. According to the figures of Federal Bureau of Statistics the exports of textile group declined to \$ 800 million in the month of July 2009 against \$ 908 million in July 2008 registering a negative growth of 12%. On the other hand buyers are not visiting Pakistan due to adverse travel advisory and importing countries are not facilitating visas to exporters.

Textile products like knitwear, cotton cloth and readymade garments account for over half of the Pakistani exports. A tough competition in international markets and falling industrial output at home have hammered down the exports this year. Alarming decline in Pakistan's textile exports has prompted a deepening challenge for a range of investors including those holding textile stocks in the equity market. For equity investors with stakes in the stock market decline in textile exports is certain to translate into lower returns for textile companies. As a result, this fall in textile company income will then inevitably translate into a further fall in the value of textile stocks.

Recently textile stocks reacted positively on commitment by US dignitaries of allowing a greater market access to the local goods, followed by action (committing issuance of 400 visas to local businessmen) continued to invite renewed buying interest, besides confidence expressed by the textile manufacturers on the textile policy, have already brought the benefiting stocks in the limelight. ♦

