

# Global Financial Crisis And Its Impact On Textile Industry In Pakistan

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## ABSTRACT

*This research investigates the impact of Global Financial Crisis on textile industry clusters in Pakistan. A cross sectional data were collected from 25 textile industries by using simple random technique and data were analysis by using E-Views software. Structural questionnaire was the basic tool for measures the performance of textile industry in financial recession in Pakistan. It was revealed that the industry is in urgent need of financial and technological investments. It was revealed that Global financial crisis has negative impact on the export of textile industry in Pakistan. The export of textile related products has decreased by 20 percent due to decrease in textile demand. It was further revealed that textile industry facing problems such as electricity and high taxes.*

**Keywords:** textile; clusters; empirical analysis; Pakistan

## INTRODUCTION

*G*lobal Financial Crisis hit many economies of the world including Pakistan. It now appears that the financial crises that have gripped America and Europe and also affect the real economies of these countries like Pakistan. Most experts now believe that America and Europe at this time stand at the threshold of deep recessions. The first signs of these have already begun to appear. In September, Americans lost 160,000 jobs; it is expected that by the end of the year there will be a reduction of one million jobs in the United States. Job losses result in declines in spending. Trade, in other words, will transmit to many developing countries the shocks of the current financial crisis in the western world. Global financial crisis has negative impact on the rural poverty in Sindh (F.M.Shaikh et, al 2009)

## COUNTRY ANALYSIS

### Background

The population of Pakistan is approximately 181 million people and it is the sixth most-populous country. Geographically, it is situated in south Asia with its borders with India in the East and Afghanistan in the West. About 20 % of the population lives below the international poverty line of US\$1.25 a day (Economic Survey of Pakistan-2008-09).

### Pakistan Export Situation

The main export items of Pakistan are rice, furniture, cotton fiber, textiles, leather etc (Textile Vision 2005, 2000). Exports were targeted at \$ 19.0 billion or 6.9% lower than last year. Exports started to face global financial crisis since November 2008 and the contraction of world over demand has exacerbated export contraction. The manufacturing sector contributes to around half of the total exports and textile sector contributes around 46% of the manufacturing sector's contribution. Exports shrank from \$16.4 billion to \$16.0 billion or a 2.6% decline. In terms of export clusters, Pakistan's economy is mostly concentrated in textile & apparel, leather goods, agricultural products, construction material, logistics, transportation, fruits, row cotton, fish, vegetables and sports good. Out of

which Textile & apparel are the biggest and the fastest growing clusters. The challenge for Pakistan is thus to develop other emerging clusters to expand its portfolio.

### **Business Environment Of Pakistan**

Pakistan's national business environment is characterized by abundance of semi-skilled and low wage labor, moderate natural resources, poor infrastructure, high rates of corruption, poor governance, moderate level of university-industry collaboration and low scientific research on the factor side. American Business Council of Pakistan (ABC), a formal association of American Multinationals operating in Pakistan conducts informal business survey annually to assess how their members view investment climate in Pakistan. The survey conducted in July – August, 2002, shows that Pakistan's economy is picking up and the investment environment is improving (sheikh, 2005).

### **Key Results Of The Survey**

- 85% of respondents indicated improvement in Pakistan's overall economic prospects while 73% indicated improvement in Domestic Economy.
- 83% reported increase in their revenues in Rupees while 78% in US \$ terms.
- 79% observed that the policies were more consistent than before while 68% felt that the Government was positively impacting business.
- 75% indicated increase in their pre-tax profits.
- 63% indicated improvement in implementation of policies by the Government.
- 51% of the respondents reported that they were planning to expand investment in Pakistan.

### **Data Collection Methodology**

A cross sectional Data were collected from 25 textile industries by using simple random technique and data were analysis by using E-Views software. A structural questionnaire was developed as basic tool of measurement of textile industry in Pakistan.

## **CLUSTER ANALYSIS**

### **Importance Of The Textile Cluster**

The Textiles and Apparels is the backbone of Pakistan's economy. In 2005, textile's contribution to overall GDP was 10% while its share in the exports was at a high of 60%. Moreover, it is the biggest source of employment in the country providing employment to more than 1.3 million people. About 38% of the manufacturing sector employment is in textile sector.

**Table 1**

<b>Year</b>	<b>GDP-real growth rate</b>	<b>Rank</b>	<b>Percent Change</b>	<b>Date of Information</b>
2003	4.50%	48		FY01/02 est.
2004	5.50%	45	22.22%	2003 est.
2005	6.10%	47	10.91%	2004 est.
2006	6.60%	48	8.20%	2005 est.
2007	6.60%	59	0.00%	2006 est.
2008	5.30%	104	-19.70%	2007 est.

Source: World Development Indicators, 2008-09

Table 2.2 Pakistan share of major commodities in worlds contribution

(Value in \$ million and share in %)

	1977	1982	1987	1989	1991	1992	1993	1994
<b>Total Export</b>								
World Total	1041000	1882355	2527885	3080000	3506000	3642000	3257589	3617591
Pakistan	1283	2348	4105	4698	6464	7264	6842	7328
Share	0.12	0.12	0.16	0.15	0.18	0.20	0.21	0.20
<b>Textile and Clothing</b>								
World Total	69071	75217	166200	193900	196834	222708	217926	238433
Pakistan	1521	1071	2447	2734	4423	5041	5091	5593
Share	2.20	1.42	1.47	1.41	2.25	2.26	2.34	2.35
<b>Leather and Leather Goods</b>								
World Total	2339	4115	7949	8706	10660	11751	12697	14645
Pakistan	64	104	270	265	271	254	240	269
Share	2.74	2.53	3.40	3.04	2.54	2.16	1.89	1.84
<b>Fish and Fish Products</b>								
World Total	23862	12225	22126	24588	31982	33038	33384	36531
Pakistan	36	79	121	92	110	137	202	143
Share	0.15	0.65	0.55	0.37	0.34	0.41	0.61	0.39
<b>Carpets, Carpeting and Rugs</b>								
World Total	531	857	1089	1199	1123	1346	1440	1213
Pakistan	103	136	225	224	217	204	158	187
Share	19.40	15.90	20.66	18.70	19.32	15.16	10.97	15.42

Source: General of economic corporation among Islamic countries

Series	* November, 2006		* October, 2006		% Change in November, 2006 over October, 2006	
	Rs.	\$	Rs.	\$	Rs.	\$
Exports	83,805	1,380,001	77,688	1,282,058	7.87	7.64
Imports	168,433	2,773,554	129,170	2,131,662	30.40	30.11
Balance of Trade	-84,628	-1,393,553	-51,482	-849,604	64.38	64.02

Series	* November, 2006		November, 2005		% Change in November, 2006 over November, 2005	
	Rs.	\$	Rs.	\$	Rs.	\$
Exports	83,805	1,380,001	66,546	1,113,472	25.94	23.94
Imports	168,433	2,773,554	137,400	2,299,021	22.59	20.64
Balance of Trade	-84,628	-1,393,553	-70,854	-1,185,549	19.44	17.54

Series	* July - November 2006		July - November 2005		%Change in July - November, 2006 over July- November, 2005	
	Rs.	\$	Rs.	\$	Rs.	\$
Exports	418,937	6,927,683	393,548	6,591,866	6.45	5.09
Imports	745,989	12,333,301	667,277	11,176,213	11.80	10.35
Balance of Trade	-327,052	-5,405,618	-273,729	-4,584,347	19.48	17.91

Source: Govt. of Pakistan statistic division federal bureau of statistic Provisional figures are based on figure provided by the member (FB&amp;S) CBR, Islamabad.

Note: Rupee value is converted into US\$ on monthly average exchange rate for November 2006 (1\$+Rs.60.728219)

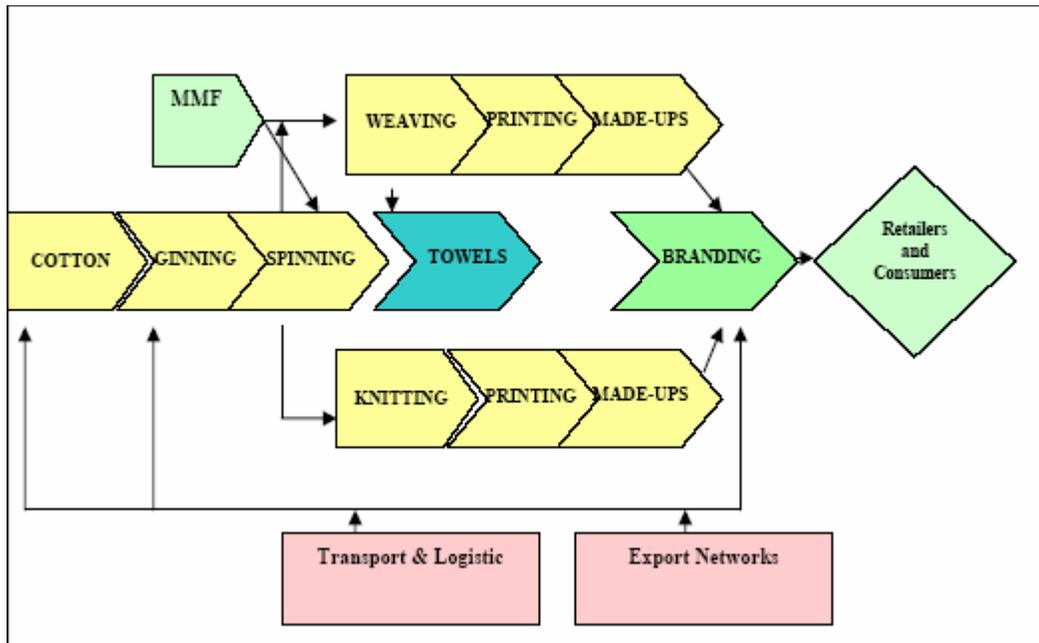
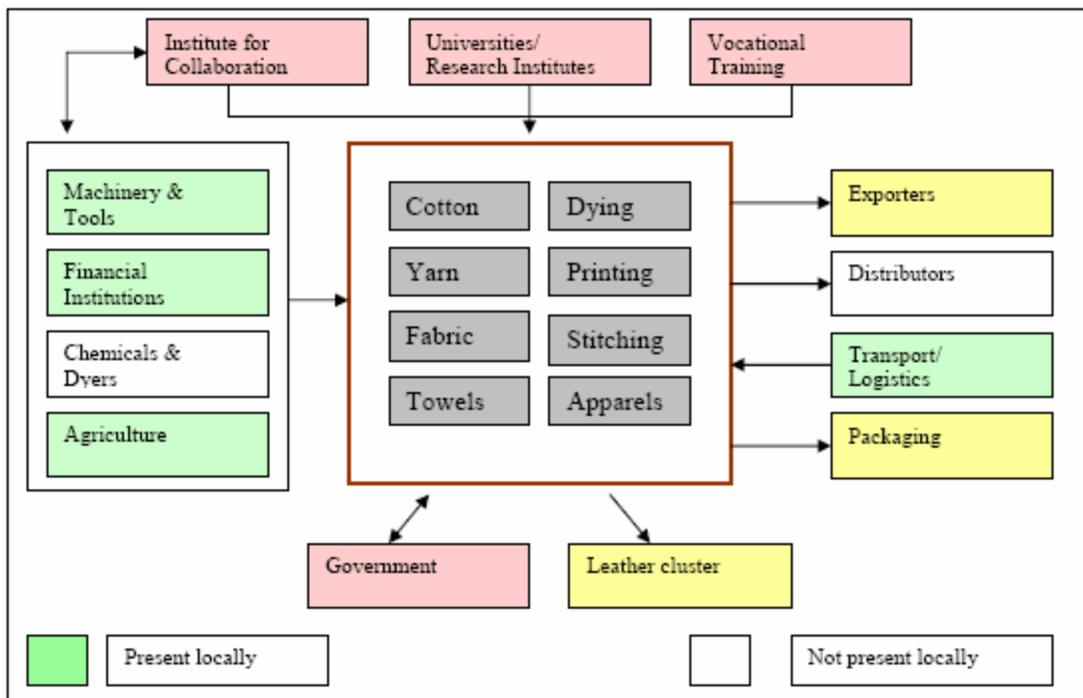


Figure 4.4. Textile Value Chain



**Strengths**

Pakistan is the fourth largest producer of cotton (9% world share) and is endowed with fertile lands and extensive irrigation network (USDA 2007; UNU 2007). The Global financial crisis has negative impact in the

textile industry specially the cotton made garments. Major strengths are quality, innovation, timely supply, designing.

## CONCLUSIONS

Pakistan is the fourth largest producer of cotton and cotton made garments in the world. Pakistan is exporting cotton made garments to the western as well as Asian countries. The export of textile related products has decreased by 20 percent due to decrease in textile demand. It was further revealed that textile industry facing problems of like electricity and issues like high taxes. Keywords: Textile, Clusters, Empirical analysis, Pakistan. Government should focus on the issues related to textile industry to develop this textile sector in Pakistan.

## AUTHOR INFORMATION

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**NOTES**