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Impact of Financial Crisis on Textile Industry of Pakistan: Evidence from Faisalabad

No. 11 - 02

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March 2011

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ABSTRACT

October 06, 2008 was the day when many developing countries saw record declines in their stock markets. These declines were registered in those sectors which were dependent on the markets of developed world. Its repercussions were seen in developing countries also. Ongoing financial crisis has affected them through many channels. However, exports, employment and investment are suspected to be affected most. Textile sector is the most important sector of Pakistan's economy, contributing about 57% to the export earnings and 46% to the employment. This study intends to explore the impacts of financial crisis on Pakistan's textile sector exports and employment. Based on pilot survey of 25 firms, the results revealed that rising unemployment rate; high cost of production, lower demand and exchange rate volatility in foreign countries had unpleasant impact on Pakistan's export indents. The main cause of the above mentioned deteriorating conditions is said to be the ongoing financial crisis.

1. INTRODUCTION

The financial crisis of year 2008 (till date) commenced from United States of America (USA). The failure of banking system in USA resulted in this misfortune. It ruined the US economy; trillions of dollars were lost in stock markets, property markets and the overall economic activity was at halt. Strong trading and financial linkages with other developed countries seized the economic activity in those countries also. While all this ruination was going on in the Developed Countries, developing countries also could not free themselves from the affects of this financial shock. Exporting the bulk of their goods to developed countries and having financial links with them made them vulnerable also. Their small economies were also subject to decrease in export demand and financial losses.

The very first study which analyzed the effects of financial crisis on developing countries is of Justin Yifu Lin (2008). The study depicted that the exports of LDCs reduced substantially, owing to this financial crisis, which lead to higher trade deficits in their trade accounts. The IMF recently projected that growth in world trade volumes has reduced from 9.3 percent in 2006 to 4.1 percent in 2009. The crisis will have negative effect on investment in emerging markets. In the first round, financial crisis will affect the external sources of funds for investment. Portfolio investment will fall and so does FDI. In addition, developing countries that are able to gain access to capital will pay higher interest rates, because of the flight to safety and greater risk aversion of lenders. The global slowdown will reduce demand for commodities and manufactured goods, cutting into export earnings. This all will result in slackness in labor markets in both developed and developing economies. Foreign workers will also face disproportionate impacts on their earnings, which will eventually reduce remittances. Second round effects will likely deepen the slowdown because of the investment surge of the past years; and especially large numbers of investment projects are already underway. As investment financing drops, two outcomes are possible: Firstly, the projects will not be completed, making them unproductive and saddling banks' balance sheets with non-performing loans, Secondly, when the projects are completed, they will add to the excess production capacity that will result from the global slowdown, and thereby add to the risk of deflation.

According to Economic Survey of Pakistan (2008), Textile production is comprised of cotton ginning, cotton yarn, cotton fabric, fabric processing (grey dyed-printed), home textiles, towels, hosiery & knitwear and readymade garments. These components are being produced both in the large scale organized sector as well as in unorganized cottage/small and medium units. The industry is categorized into following sectors,

- Cotton Ginning Sector
- Cotton Spinning Sector
- Weaving & Made-up Sector
- Art Silk and Synthetic Weaving Industry
- Filament Yarn Manufacturing Industry
- Cotton Cloth
    - Textile Down-Stream Industry
    - Hosiery Industry
    - Readymade Garment Industry
    - Towel Industry
    - Canvas
    - Synthetic Fiber Manufacturing Sector

According to Pakistan Textile Journal (Dec, 2008), textile industry is presently comprised of 521 textile units (50 composite units and 471 spinning units) with installed capacity of 10.0 million spindles and 114 thousand rotors. Pakistan has third largest spinning capacity in Asia with spinning capacity of 5% of the total world and 7.6% of the capacity in Asia. The entire value chain represents production of cotton, ginning, spinning, weaving, dyeing, printing and finally garments manufacturing. Pakistan has emerged as one of the major cotton textile product suppliers in the world with a market share of about 28% in world yarn trade and 8% in cotton cloth. The value addition in the sector accounts for over 9% of GDP and its weightage in the quantum index of large-scale manufacturing are estimated at one-fifth.

Textile is the backbone of Pakistan's exports. But lately its facing many troubles which includes low value added and poor quality products, fetching low international prices and export houses, lacking capacity to meet bulk orders as well as meeting requirements of consumers in terms of fashion, design and delivery schedule. The problems faced by textile industry are structural in nature and cannot be resolved through financial support of the government.

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TABLE 1.1

Import of Textile Industry in Pakistan's Economy

	2006-07	**2007-08**
Share in Total Exports	61.1 %	53.8 %
Share in Manufacturing	46.0 %	46.0 %
Share in Employment	38.0 %	39.0 %
Share in GDP	8.5 %	8.5%
Textile Exports	$ 6.6 billion	$ 6.3 billion
Investment in Textile	$ 6.4 billion	$ 7.0 billion

Source: Textile Commissioner's Organization

There were 209 companies listed with the KSE under this group in December 2007. The share index of cotton and other textiles was up by 11.6 percent and its market capitalization by 13 percent during July-April 2007-08. The profit before taxes of this sector was also reduced to Rs. 8.2 billion in 2007, when compared to Rs. 9.3 billion in 2006.

The dismal performance of textile exports can be attributed, beside their structural issues, to rising cost of production owing to increase in domestic cotton prices and stifling power shortages. In addition, the deteriorating law and order situation in the country also resulted in reported diversion of export orders to other countries. Poor quality of cotton on account of contaminated cotton issue has also adversely affected the export of spinning industry.

Furthermore, textile exports appear to have also suffered from the slow down in the US economy which has been the largest destination for Pakistani exports during the last few years. Pakistan also faces tough competition from China, India, Bangladesh and Turkey in the EU market in textile apparel. Pakistan's exports are highly concentrated in a few items namely, cotton alone contributing 54.7 percent and synthetic textiles (2.9%).

Textile exports during the first eight months of current financial year registered negative growth of 5.6 percent as against the exports recorded corresponding period of the last financial year. Exports during July-February (2008-09) totaled $ 6.47 billion against the exports of $6.85 billion recorded during July-February (2007-08), according to data by Federal Bureau of Statistics. During the time under review, the highest negative growth of 51.24 percent was recorded in the exports of yarn (other than cotton yarn) while exports of art, silk and synthetic textile were decreased by 23.45 percent.

Similarly, exports of cotton yarn declined by 15.28 percent, cotton (carded or combed) by 13.81 percent, knitwear by 2.66 percent, bed wear by 10.44 percent, tents, canvas and tarpaulin by 21.18 percent, readymade garments by 12.43 percent, made-up articles by 0.3 percent while the exports of other textile materials declined by 15.28 percent during the period. However, the exports of raw cotton witnessed increase of 154.5 percent during the time under review while exports of cotton cloth increase by 5.57 percent and towels by 10.02 percent.

During February 2009, exports of textile decreased by 13.42 percent as compared to the exports of January 2009. Exports during February 2009 were recorded at $ 652.813 million as against exports of $753.981 million recorded during January 2009. During the month under review, exports of raw cotton were declined by 26.82 percent, cotton cloth by 6.32 percent, cotton (carded or combed) by 50 percent and knitwear by 18.86 percent. Similarly, the exports of bed wear increase by 21.71 percent, towels by 18.81 percent, tents, canvas and tarpaulin by 14.89 percent, readymade garments by 8.32 percent, art, silk and synthetic textile by 20.72 percent while exports of made up articles witness negative growth of 19.48 percent during the month. On the other hand, exports of yarn (other than cotton yarn) grew by 25.02pc cotton yearn by 0.81 percent while exports of other textile materials increased by 2.22pc.

Initially, the view was that the financial crisis that began in the USA and then spread to Europe would not seriously affect the economies of the developing world. Most developing countries were not closely linked with the global financial system anchored in the US. However, on 6th October, 2008, many large developing countries saw record declines in their stock markets. The declines were registered in the sectors in which there were close connections with the developed world.

2. LITERATURE REVIEW

Empirical work is available for developed countries ab-initio this calamity. This work is based on the analysis of financial markets, property markets and the nature of the financial market failure. Like the previous market failures, it came silently and turned millionaires poor within days. Majority of the economist declare it the worst disaster after the Great Depression of 1930's. Developing countries also have strong trading and financial relations with developed nations. Pakistan being a developing country is no exception to it. Pakistan earns more than 60 percent of its foreign exchange just from its exports to United States and Europe. The situation is same for other developing countries also.

After realizing the importance of empirical research in this area, Bhalhotra (1998) was the first who investigated the impact of 2008's world financial crisis. Bhalhotra (1998) empirically determined the significant positive effects of capital stock, previous period's employment and output change, and negative effects of man-hours and previous period wages on the employment.

Rizwanul Islam (2004) has pointed out that studies on poverty are replete with an equally important finding that high growth alone is not adequate; the pattern and sources of growth as well as the manner in which its benefits are distributed are important for achieving the goal of poverty reduction. Concerning this, the importance of employment as the key link between growth and poverty alleviation is often pointed out. Conceptually, the linkage between output growth, employment and poverty can be analyzed at both macro and micro levels. At the macro level, the linkage between poverty in its income dimension and output growth can be conceptualized in terms of the average productivity of the employed work force which in turn gets reflected in low levels of real wages and low levels of earnings in self-employment. At household level, the same linkage between poverty and employment operates through the type of economic activities, productivity of earning members of household in these economic activities, the level of human capital of the members of the workforce, the dependency burden that limits participation in the workforce, and the mere availability of remunerative employment.

Khan, A. A. (2007) suggests many aspects of the linkage between employment and poverty. The poor can escape poverty when they have: (a) an increase in employment wage; (b) an increase in the real wage; (c) an increase in self-employment; (d) an increase in productivity in self-employment; and (e) an increase in the terms of exchange of the output of self-employment. Poverty declines if the aggregate of all these effects is favorable for the poor.

Stiglitz, J. E. (1999) has lately persuaded all but the traditional skeptics that contagion is a reality, though the channels may be more diverse than previously thought and misunderstood. Conventional responses to these increasingly frequent and deep crises—the beggar-thyself policies—exacerbate rather than ameliorate at least the short-run consequences of contagion. Those who defend such policies argue that the consequences of pursuing alternative policies would have been even worse, but the evidence for this position seems far from clear.

Malik A. (2000) has taken Small Country Hypothesis as demand is infinitely elastic with respect to price, and world income has no influence on exports irrespective of the size of the income elasticity of demand. In order to test ‘small country’ hypothesis, a simultaneous trade model is specified for the textile exports of Pakistan. A traditional demand function is modeled, with price and world income, along with trade weighted real effective exchange rate (REER) as important determinants. REER is included to serve the purpose of competitor’s price.

Baneerjee and Newman (1993) predict that the dynamics of wealth distribution and financial market imperfections are correlated. The model indicates that opportunity for investment in high return projects may be restricted to those individuals who own wealth greater than a threshold level. More specifically, under the imperfect financial markets, only agents with wealth in excess of this threshold level may undertake high return mega investment projects while those with inadequate wealth will not.

Caroli, Eve and Penalosa (2004) suggests that workers being risk averse would themselves be willing to accept fixed wages less than their average productivity. It is done in order to avoid uncertainty of non-fixed wages that must be linked with fluctuating marginal productivity and technology shocks.

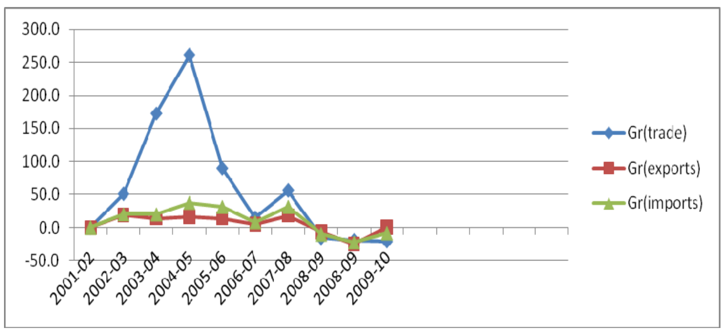
Ramaswamy (1996) has estimated a negative impact of the small factory growth on the labor productivity growth. Though this study has not directly analyzed the effects of various factors on the employment, this has been facilitated by the estimation of their effects on labor productivity and an implicit assumption that labor productivity and employment are negatively related.

Dertouzos and Pencavel (1980) have estimated a model of trade union behavior, which supports their hypothesis that wage and employment are the results of the maximization of the union's objective function constrained by the employer's labor demand function. There is a trade-off between these two variables.

3. IMPACT OF FINANCIAL CRISIS ON MACROECONOMIC VARIABLES

This section provides the details of the effects of global financial crisis on the macroeconomic variables in Pakistan. All the macroeconomic variables are not much sensitive to the financial crisis, specially the financial variables, due to the lesser integration of the Pakistani economy with the world. This section investigates, graphically, the impact of financial crisis on balance of payments in Pakistan for the period of 2001 to 2010. Data have been obtained from Economic Survey of Pakistan 2009-2010. This graphical analysis will elaborate the impact level of financial crisis on different macroeconomic variables.

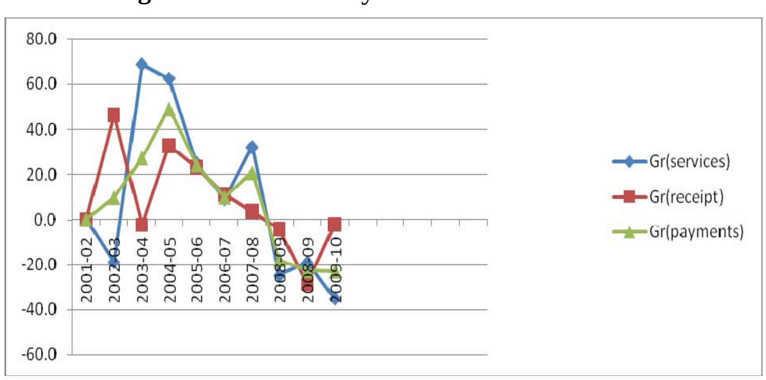
Figure 1: Trade Balance



(Gr = Growth Rate)

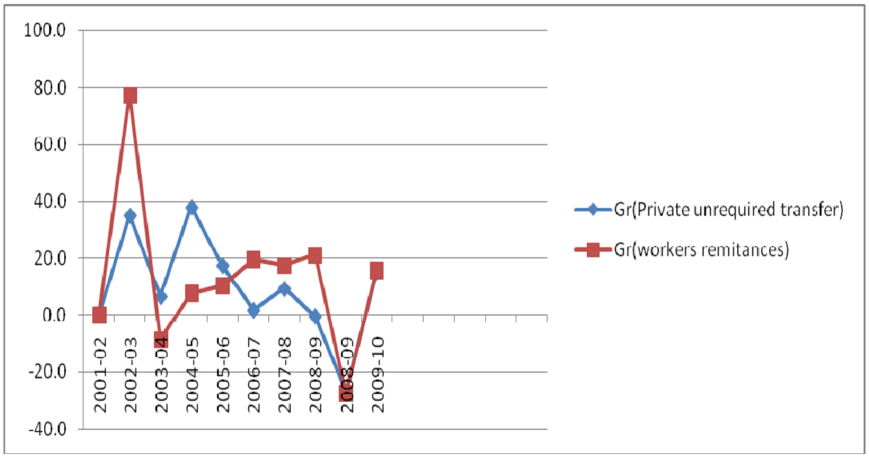
Pakistan is not directly affected by global financial crisis, but ensuing lower income of the foreign consumers decreased the exports of Pakistan significantly. This lower level of demand enhanced the trade deficit, as it is evident in the figure 1.

Figure 2: Transfer Payments and Net Services



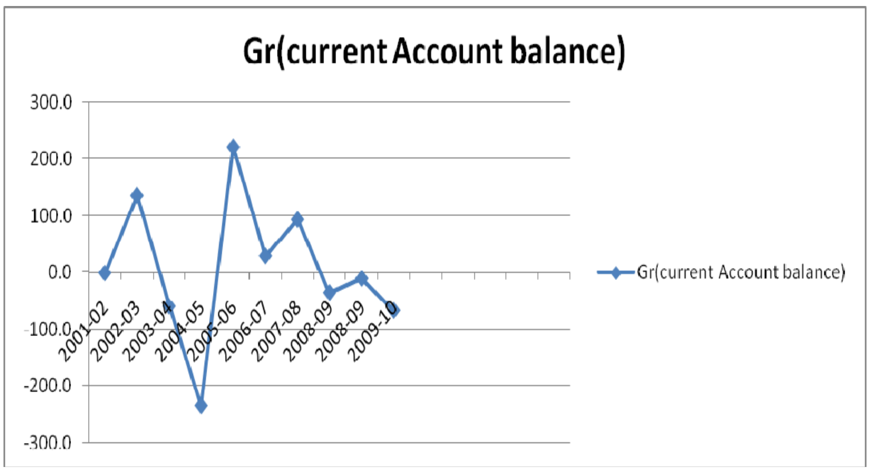
This graph shows that Transfer Payments and Net Services are volatile. The years 2007-08 to 2009-2010 show the more volatility due to as initial worse impact of financial crisis. Nonetheless, it improved subsequently because of recovery in financial crisis.

Figure 3: Transfers and Worker Remittances



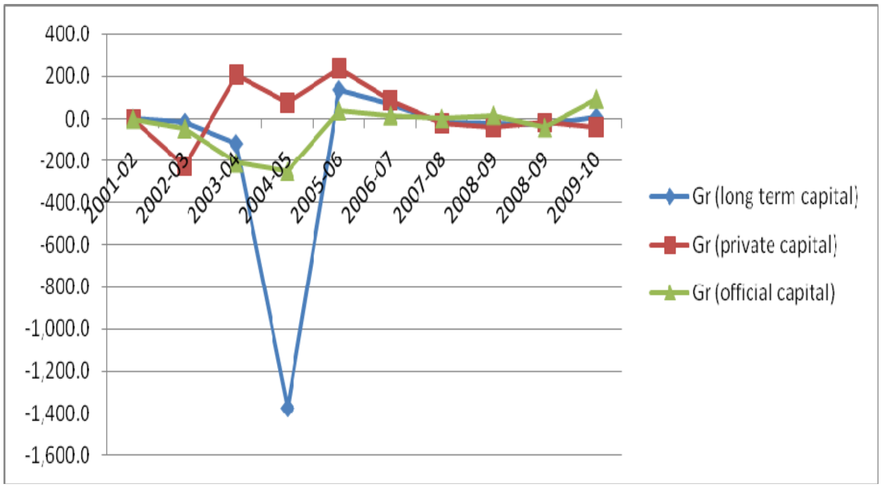
There is also much volatility in Transfers and Workers Remittances throughout the period of analysis, year 2001 to 2010. Initially is did not affected much to the economy, but after lags of one year financial crisis was at its peak.

Figure 4: Current Account Balance



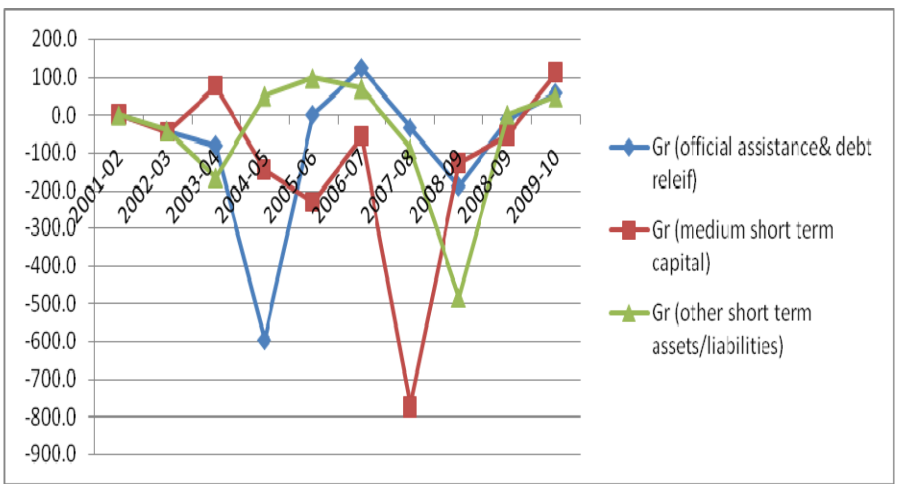
Along with the adverse global economic conditions, Pakistan faces higher export cost due to war on terror, energy crisis, unsecure business environments and political instability. Current account balance showed surplus from 2001 to 2003, however it shows deficits in the subsequent periods. It shows deficits for the period of 2007-08 to 2009-2010, but it on the way of recovery in the ensuing period. This recovery was mainly contributed by a sharp contraction of the current account deficit and the external current account deficit. It is expected to contract to around 2.8 percent of GDP in the outgoing year. This large improvement is mainly due to the sharp decline in imports, improving exports as world demand is gradually restored. In addition to all this, macroeconomic stabilization, measure taken by government, also significantly contributed to overall improvement in the external sector of Pakistan. A large part of this recent improvement in macroeconomic stability comes from amplifying remittances.

Figure 5: Long Term, Private and Official Capital



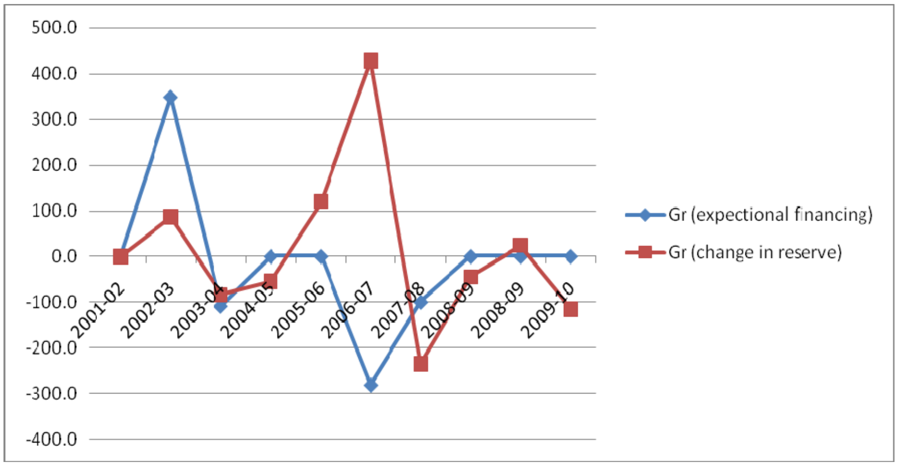
Pakistan financial sector is not well organized and bears the lower degree of integration with advanced economies of world where this event originated, which is why different capitals remained stable during the financial crisis. From 2002-03 to 2005-06, it showed negative trend but after this period it got improvement because recovery of economic conditions.

Figure 6: Medium, Short Term Capital, Official Assistances & Debt Relief



Medium and Short Term Capital are much volatile component of balance of payments. It is much affected by the global financial crisis from 2006-07 to 2008-09 and shows negative growths in that period. But now it is also on the way of recovery due improvement in world economic conditions and some what political stability in Pakistan. These are green signals that attract foreign direct investment in Pakistan.

Figure 7: Exceptional Financing and Change in Reserve



In the context of BOP and international monetary systems, the reserve asset is the currency or other store of value that is primarily used by nations for their foreign reserves. BOP imbalances tend to manifest as hoards of the reserve asset being amassed by surplus countries, with deficit countries building debts denominated in the reserve asset or at least depleting their supply. These are shown in graphs how imbalance in balance of payments has been adjusted by using reserve assets.

In addition rigorous power deficits in Pakistan, foreign investor, risk averseness along with global financial crisis led to significant fall in foreign direct investment. And as well others sectors that recorded decline of including communication, financial business and oil & gas exploration. On the positive side, foreign investment in stock market has recharged significantly during the period under analysis. However, these inflows are short term in nature and disreputably volatile.

4. DATA AND METHODOLOGY

In order to have an in-depth analysis of the financial crisis of the year 2008 on the cotton industry of Faisalabad, survey data is used for initial analysis of the study. The data were collected through Questionnaire survey from the randomly selected middle managers from different sectors of the textile Industry of Faisalabad, Pakistan. There was much difficulty in the accessibility of the data because many venders don’t want to show their secret business information due to secrecy and the tax avoidance. The selected sample size is 141 firms. The nature of the study requires the simple statistical tools rather highly complicated econometric techniques. Following these simple statistical tools, some tables also have been augmented in the study in later pages. These tables provide an analytical approach to have some useful conclusion form this data.

TABLE 3.1

Following will be Sample Distribution

No.	Sector	Sample Size

1.	Cotton Ginning Sector	0
2.	Cotton Spinning Sector	18
3.	Weaving & Made-up Sector	13
4.	Dying	02
5.	Printing	06
6.	Processing	36
7.	Garments	07
8.	Stiching	09
9.	Home Garments	27
10.	Hosiery Industry	14
11.	Others	09
12.	**Total**	141

4.1 Aggregated Results and Discussion

This section explains the aggregated results based on the survey data of 141 firms. These results have been explained through descriptive statistics particularly through percentages**.** Moreover, these results will be presented in a disaggregated way in section 4.2 for a more brief analysis.

The observed empirics state that a moderate fraction of firms sells a large proportion of its products in foreign markets. Only a minor share of firms exports all of its products in the foreign market. A brief analysis of the foreign markets depicts that United States is the major exporting country for Pakistan. Almost all the manufacturing industries export their products, heavily, to United Sates.

The second major market is Europe. More than fifty percent of the manufacturers export their products to Europe. However, there are a very small proportion of manufacturers with no export to Europe. The survey sample showed that Pakistan enjoyed no (or little) trade relations with Japan, no industrial cluster showed any interest in exporting to Japan. Finally, more than half of industrial clusters exported nothing to other countries. However, sixteen percent of each category of exporters exports 25 percent and 50 percent of their products to other countries.

The sample results assert that rising unemployment rate; high cost of production, lower demand and exchange rate volatility in foreign countries had adverse impact on export orders. Fifty percent of the manufacturers think that rising unemployment rate are severely harmful to the export orders. Only a very small segment of producers believe that rising cost of production has no impact on export orders. However, more than 80 percent of the manufacturing class showed their reservations about the higher cost of production in the country. They think, with these every day increasing cost of production, they would not be able to compete their rivals in the international markets. Most of the manufacturers are of the view that that a major ground for the decrease in exports orders is the lower level of demand. As, they say, today people have lesser job security and income than before.

It had an adverse brunt on export to foreign countries. Exchange rate volatility had its own undesirable impact, during the times of financial crisis. Majority of exporters think that exchange rate volatility had not such a significant impact that it could reduce the export orders. This was because of stable exchange rate of Pakistan with foreign currencies. Despite the depreciation of U. S. Dollar and Pound Sterling against the other major currencies, Pakistani Rupee remained stable against Pound Sterling and US Dollar.

A major proportion of firm owners consider that financial crisis of 2008 had unfavorable impact on the financial structure of their organizations. On average, this impact seemed to be less harmful for all the financial categories being selected. However, a small class showed their acute reservations about the harmful impact. A closer glimpse shows that Trade Finance was the worst affected category. After that, Commercial Banking Finance then Debt Capital Ration and State Bank Finance come in the last. A notable finding was the response of last 16 percent people surveyed. They were at the peak of the risk. It might be due to their heavy exports to those foreign countries with poor financial market. On the other hand, most of the exports appeared with cautious and conscious measures by adopting diversified markets and diversifying their risks too.

Energy Crisis had the worst impact on production, and then comes Financial Crisis, Labor Cost, Product Diversification and Product Quality comes at the last. All the firm owners had serious reservation about energy crisis in Pakistan. Severe energy crisis resulted in higher cost of production in the short run and huge losses in the long run, which adversely affects the entire industry. Financial Crisis also had terrible impact on the production of goods. Due to lower export orders, economies of scale cannot be attained by firms. They could not cover their cost in the long run.

However, product diversification secured the interest of exporters up to some extent. Exports of Pakistan are extremely skewed towards the United Sates and Europe. Financial crisis in these countries resulted in lowered consumer demand, export orders and bank defaults. It made the economic conditions even worse in the both (importing and exporting) countries. Likewise, higher labor cost and lower quality of the products also increased the cost of doing the business.

It was a very unpleasant fact that none of the companies has been properly entertained with bailout packages, during the times of financial crisis. However, the part of the rescue came from State Bank of Pakistan and Ministry of Finance. The foreign Institutions/Countries showed least (no) interest in helping Pakistan during the time of troubles.

Most of the exporters believed that Personal Finance was the cheapest way of financing the capital requirements. To cater this need, they use their family and friends' resources. Short Term Financing was the second cheapest source for capital requirement. The availability of the medium and long term finance also matters. There was some discrimination on this part; people face enormous difficulties to have access to medium and long term finance in Pakistan. The most expensive component of the capital requirement was the foreign capital financing. There are a number of elements which make it expensive, such as volatile exchange rate, the persistent depreciation of local currency, weak financial market to have access to it.

The survey data showed that the financial crisis had severely disturbed the contractual workers and daily wagers. Any organization was easy to fire these temporary workers, in the face to controlling its cost. On the other hand the permanent production workers, partners and proprietors had to bear the least brunt of this financial crisis. It seemed that permanent workers and the proprietors are on the more secure end. As they were the main player of the productions activity, so removal of any such worker might dissatisfy the other permanent workers.

A quick glance demonstrates that all the labeled costs had a dominant role in decreasing the profits of the firms. They need a quick and persistent attention to induce the capital in the economy. Persistent energy crisis and the skewed tax policy had severely affected the profits of the concerned organizations. High input cost resulted in enlargement of average cost. Firms were no more competent in the international markets. Same was the case with deteriorating infrastructure situation in Pakistan. Inflation also reduced the profits of the firms. It reduced the real income of the masses, aggregate demand decreased and output level fell from natural level of output. During the time of crisis, there was no last resort to these firms from government side. They had to rely on expensive means of financing or had to shut down, to control their cost.

4.2 Disaggregated Results and Discussion

This section elaborates the disaggregated data of the 141 firms in graphical form. It makes the analysis more convenient to discuss each individual category one by one.

Figure 4.1: Domestic Sales

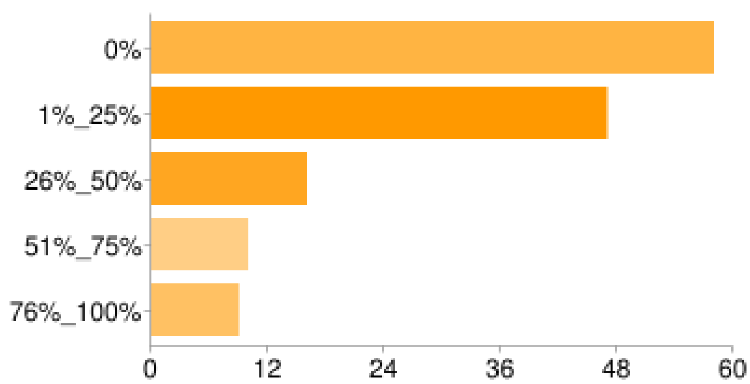
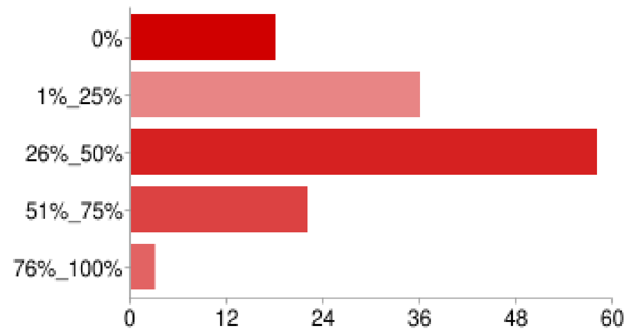


Figure 4.1 confirms that the most of the vendors in the manufacturing industry sells their products broad. A moderate fraction of firms sells a large proportion of its products in foreign markets. Only a minor segment of firms exports all of its products in foreign market.

Figure 4.2: United States



Let's decompose the results to show somehow exact fraction of the firms dispatching their products in foreign markets. Figure 4.2 presents this analysis for United States. It states that United States is the major importing country for Pakistan. About half of the firms in the manufacturing industry export up to fifty percent of their products there. While the remaining firms do not have trade relations with United Stated and only a small fraction of the firms got United States as the final destination for their products.

Figure 4.3: Europe

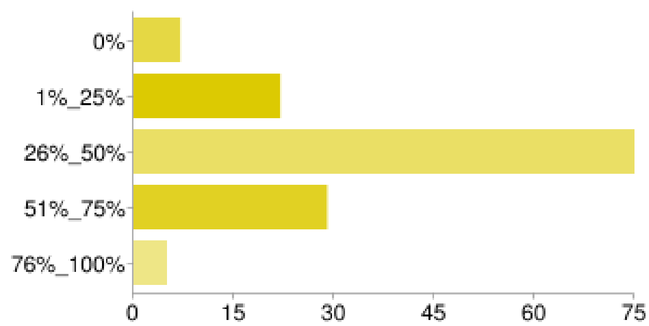
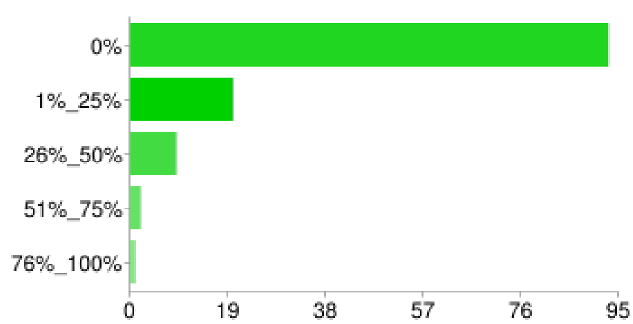


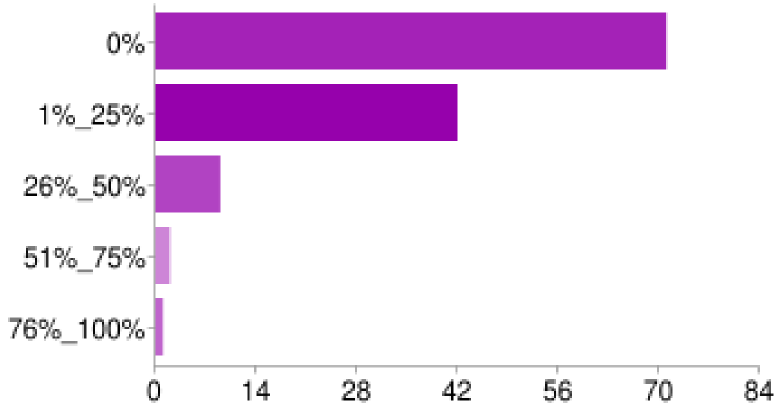
Figure 4.3 depicts that more than fifty percent of the manufacturers export their products to Europe. However, a very small proportion of manufacturers export nothing to Europe. Making a comparison of United Sates with that of European markets, the findings are consistent with the fact that Pakistani vendors are more comfortable with their European counterparts.

Figure 4.3: Japan



The survey sample displays that Pakistan enjoyed the least trade relations with Japan. Majority of the industrial cluster showed least interest to export to Japan. Comparing the trade relations of Pakistan with that of United States, Europe and Japan, Pakistan has the least trade relations with Japan.

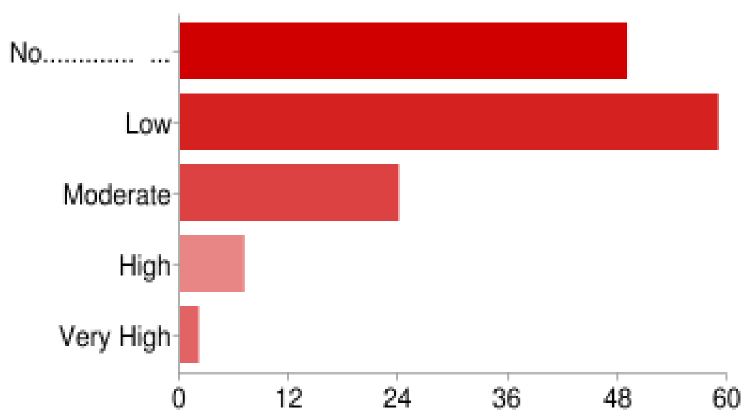
Figure 4.4: Others



In the last, more that half of industrial clusters exported nothing to other countries. However, thirty percent of each category of vendors exported up to 25 percent of their products to other countries respectively.

The following graphs will elaborate the impact on export orders as a result of ensuing economic downturn.

Figure 4.5: Rising Unemployment



The sample results assert that rising unemployment rate had little unpleasant impact on export orders. Majority of the vendors face no change in the export orders. A moderate segment of vendors observed a reduction in the export orders. While only a very small, negligible, segment of producers think that rising cost of production has significant impact on export orders.

Figure 4.6: High Cost of Production

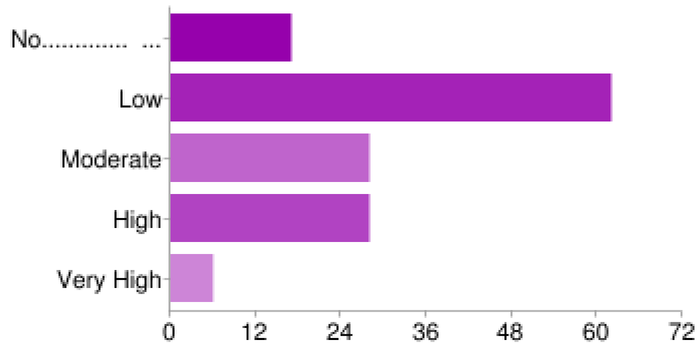
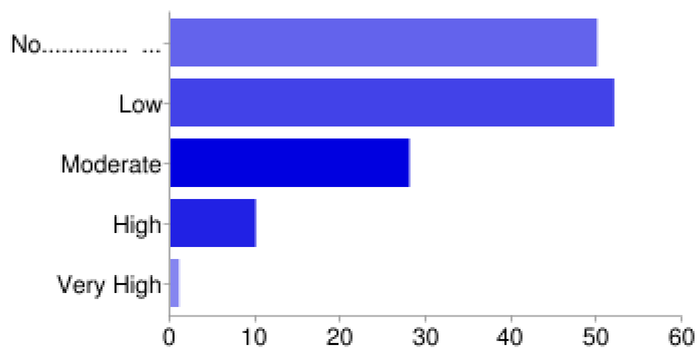


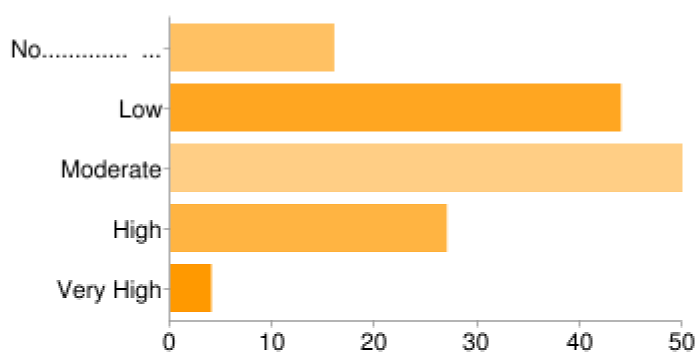
Figure 4.6 states that majority of the exporters consider that this every day increasing cost of production will destroy their competiveness in the international markets. While less than half of the vendors think that it had only moderate impact on the export orders. This might be the result of the over all rising cost of production in the Asian market.

Figure 4.7: Decreases in Product Demand



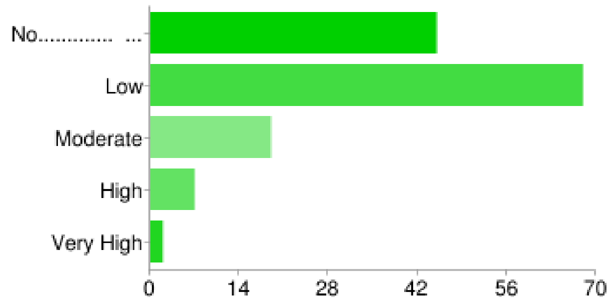
Most of the manufacturers think that a major ground for the decrease in export orders, is lower level of demand. People have lesser job security and income than before in the foreign countries. Figure 4.7 depicts that majority of the vendors feel significant decrease in the export orders due to decrease in product demand, while a moderate segment does not feel much change in the export orders.

Figure 4.8: Exchange Rate Volatility



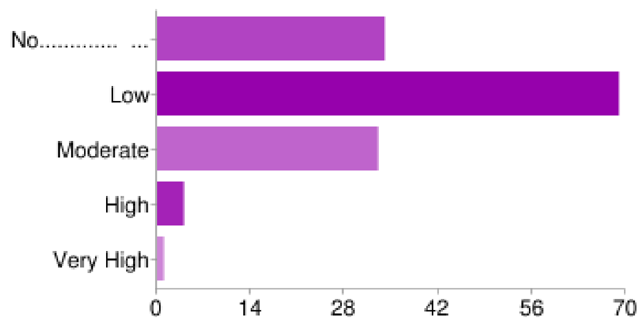
Exchange rate volatility had its own undesirability during the times of financial crisis. Almost all of the exporters felt that exchange rate volatility had a significant impact on the export orders. Despite the depreciation of U. S. Dollar and Pound Sterling against the other major currencies, these currencies were stable with respect to Pakistani Rupee.

Figure 4.9: Equity Capital



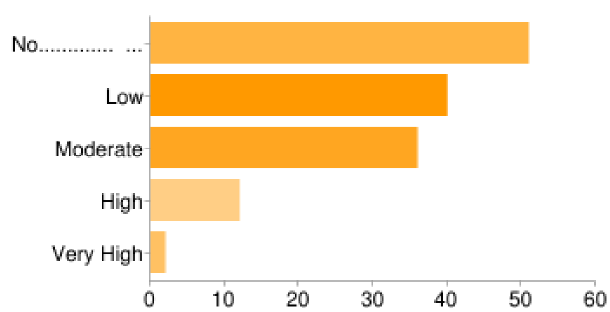
A major proportion of firm owners consider that financial crisis of 2008 had unfavorable impact on the financial structure of their organizations. On average, this impact seemed to be much harmful for all the financial categories being selected. However a moderate portion of the firms show little reservations about the harmful impact.

Figure 4.10: Trade Finance



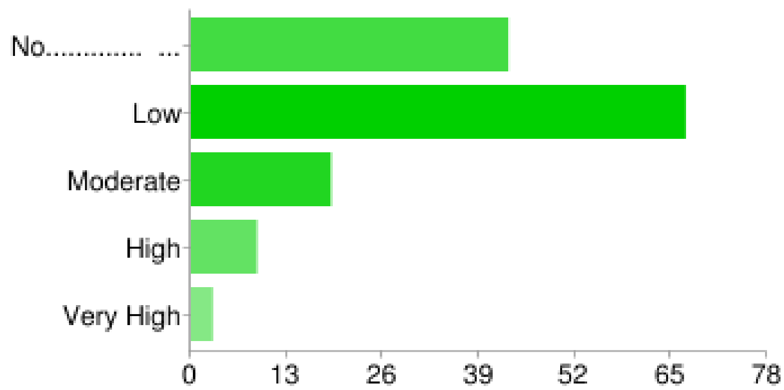
A closer glimpse shows that Trade Finance was the least affected category. However, within this class, majority of the vendors seems affected in their financial structure but is seems not as much serious issue.

Figure 4.11: Commercial bank financing



Commercial Banking Finance seems more affected from the financial crisis of the year 2008. Majority of the vendors feel that commercial banking finance has become less available and more expensive than before. While on the other hand, commercial banks are also reluctant to finance in the private investment due to increasing ratio of bad debts. This fact is also evident by the analysis of the Debt to Capital ratio of the firms. This ratio has increased much in the ensuing era, figure 4.12 states this fact more clearly.

Figure 4.12: Debt Capital



The disaggregated data exhibits that Energy Crisis had the worst impact on production, and then comes Financial Crisis, Labor Cost, Product Diversification and Product Quality come at the last. This issue will be addressed one by one:

Figure 4.13: Financial Crisis

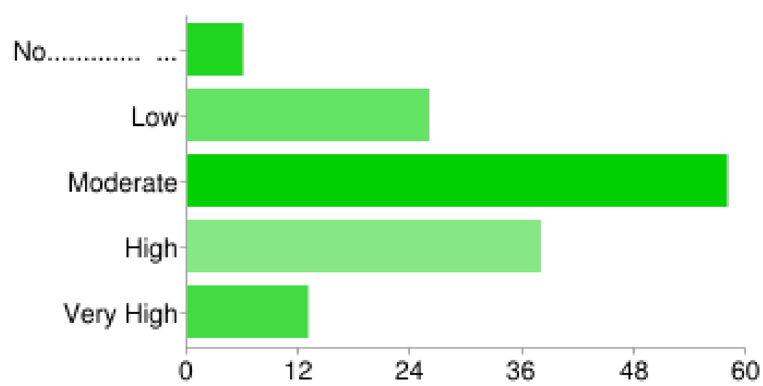


Figure 4.13 show that overall financial crisis had an adverse impact on the production of the firms. It resulted in the slow down of the economic activity and the employment rate in the country significantly. Majority of the vendors felt that the ongoing crisis reduced their production. Due to the negative externalities of this disaster on the economy, it had become quite difficult to survive in the market.

Figure 4.14: Energy Crisis

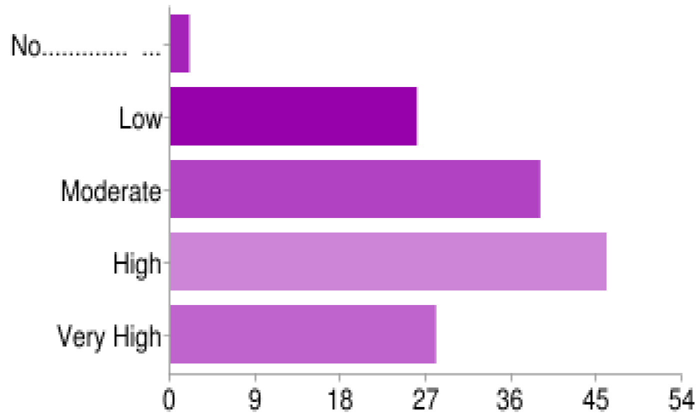
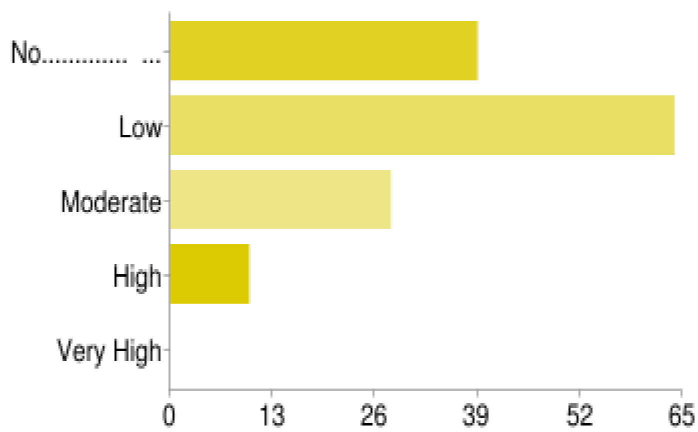


Figure 4.14 shows that all the firm owners had reservation about energy crisis in Pakistan. Severe energy crisis resulted in higher cost of production in the short run and huge losses in the long run. It adversely affects the entire industry along with the financial crisis, lower export orders, economies of scale cannot be entertained by firms.

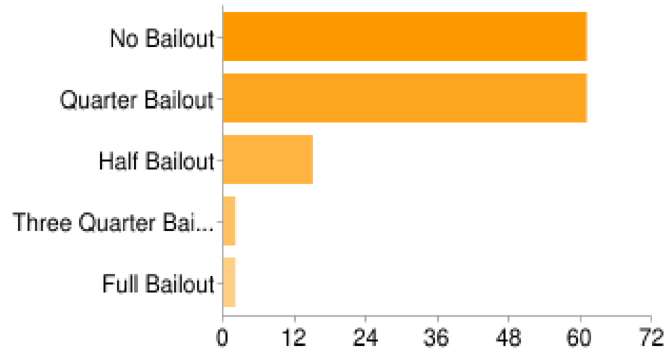
Figure 4.15: Product Diversification



However, product diversification secured the interest of exporters to some extent. Exports of Pakistan are extremely skewed towards the United Sates and Europe. Financial crisis in these countries resulted in lowed consumer demand, export orders and bank defaults. It made the economic conditions even worse in the both (importing and exporting) countries.

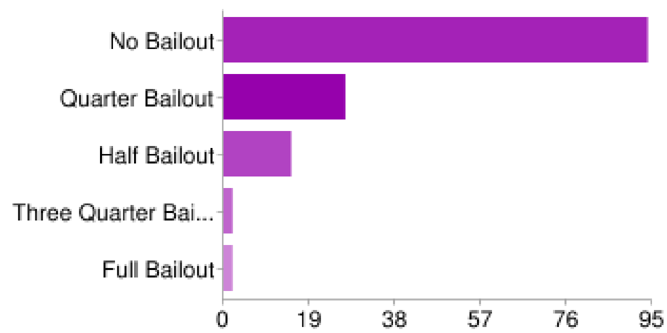
Bailout package are the last resort for any industry to survive, on the face of acute crisis. Bailout offered by the foreign Institutions/Countries showed least (no) interest in helping the exporters in Pakistan during the time of troubles. Nonetheless, Ministry of Textile contributed much after the financial crisis.

Figure 4.16: State Bank of Pakistan/ Ministry of Finance/ Ministry of Textile



State Bank of Pakistan provided only a quarter of bailout to a moderate number of exporters. On average, majority of the vendors up to a significant level were without any sort of financial help from the government. Ministry of finance and Ministry of Textile also followed the same policy in line with the State Bank of Pakistan. And this was the maximum level of the bailouts provided to the vendors in Pakistan.

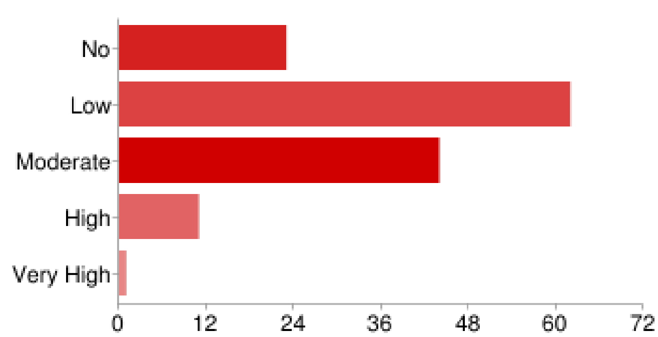
Figure 4.16: Ministry of Commerce/ International Organizations/ Others



Moreover, Ministry of Commerce, International Organizations and other foreign donors were much reluctant to provide any financial help to the Pakistan.

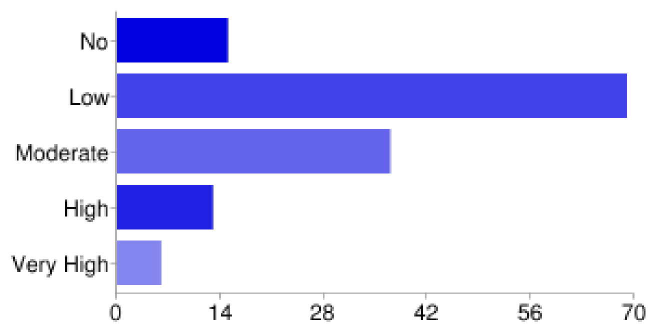
The ongoing financial crisis had negative impact on the employment level in the country. It affected the level of employment in all the classes of the workers specially production workers, daily wagers and contractual workers.

Figure 4.17: Production/ Daily Workers



Results state that majority of the production workers had to bear the brunt of the financial crisis. Almost all the firms had to reduce the amount of its production as well as the daily workers to minimize the cost owing to reduced demand of their products, figure 4.17 shows this fact. The survey data showed that the financial crisis had severely disturbed the contractual workers, see figure 4.18. Any organization was easy to fire these temporary workers, in the face to controlling its cost. It seemed that permanent and the production workers are on the more secure end. As they were the main players of the productions activity, so removal of any such worker might dissatisfy the other permanent workers.

Figure 4.18: Contractual Workers



The energy crisis, rising prices along with the financial crisis made it very difficult to run a profitable business in the country. The following figures show the reduced profits of the firms due to inflation, rising energy prices and enhanced the transportation cost.

Figure 4.19: Inflation

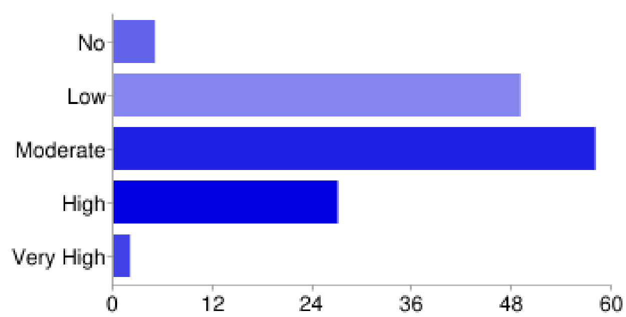
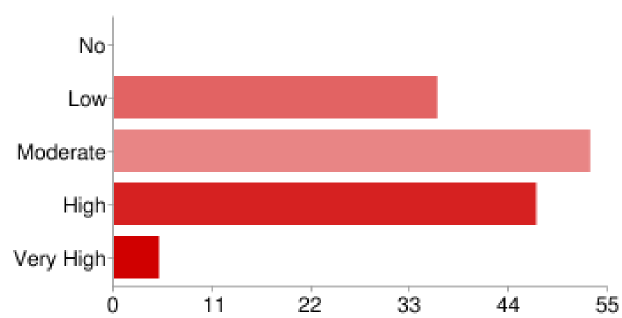


Figure 4.20: Transportation Cost



A quick glance shows that all the labeled costs had a dominant role in decreasing the profits of the firms. They need a quick and persistent attention to induce the capital in the economy. Persistent energy crisis and the skewed tax policy had severely affected the profits of the concerned organizations. High input cost resulted in enlargement of average cost. Firms were no more competitive in the international markets. Same was the case with deteriorating infrastructure situation in Pakistan.

Inflation also reduced the profits of the firms. It reduced the real income of the masses, aggregate demand decreased and output level fell from natural level of output. During the time of crisis, there was no last resort to these firms from government side. They had to rely on expensive means of financing or had to shut down, to control their cost.

Figure 4.21: Lack of Subsidy

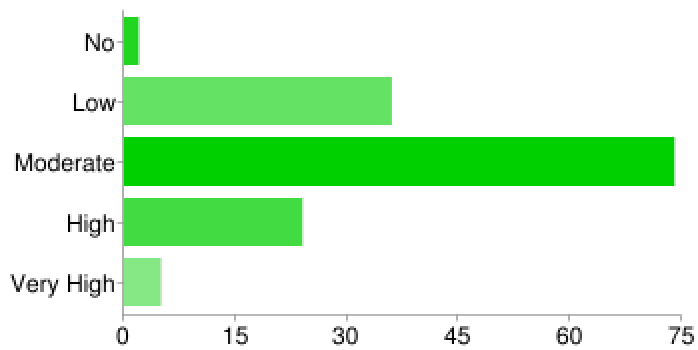
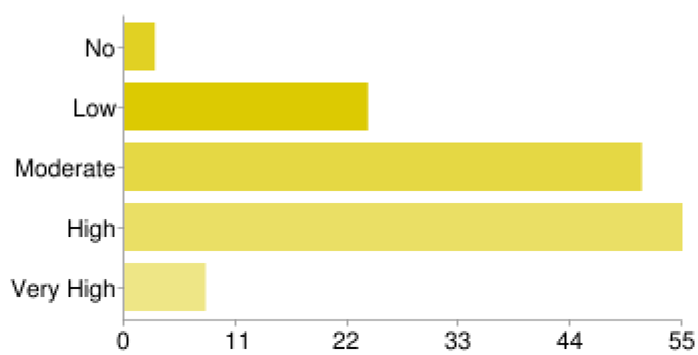


Figure 4.22: Tax Policy



Despite all these facts, lack of subsidy and no relaxation in the tax policy also had very adverse and harmful impacts on the profits of firms which ultimately resulted in the shut down of many firms.

5. CONCLUSION

It is evident that the financial crisis of year 2008 along with energy crisis and rising inflation has adversely affected the firms in Faisalabad. Moreover, there was much difficulty in the accessibility of the data because many businessmen were relectant to show their confidential business information due to secrecy and the tax avoidance.

Initially, aggregated analysis was conducted to capture the influence of the financial crisis on the cotton industry of Faisalabad. Later on, the disaggregated analysis was carried out for robustness and an in-depth analysis. The data is concerned with the 141 cotton firms in Faisalabad, Pakistan. The findings confirm that financial crisis and energy crisis enhanced the equity ratio of many firms and they were lesser likely to survive in international markets. Moreover, State Bank of Pakistan enhanced the fund rate to overcome the rising inflation rate; it also increased the cost of business. At such times, the role of government should have been more accommodative towards business. Like, United States offered, along with the discount rate cut, the initial bailout package of $700 billion to its major industries. There are many other such examples like Germany, China and France where businessmen have been accommodated by direct or indirect relief by governments. But in contrary to all these accommodative actions, there were neither such a suitable tax relief nor some sufficient bailout packages that could compensate the effects of financial crisis of the year 2008 to the major cotton industry in.

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10. GLOSSARY

Spindle – stick or pin used to twist the yarn in spinning.

Rotor – the rotating armature of a motor or generator.

Spinning – creating thread.

Ginning – A Cotton Gin' (short for cotton engine") is a machine that quickly and easily separates the cotton fibers from the seedpods.

Weaving – creating fabric.

Dyeing – the use of dye to change the color of something permanently.

Printing – Printing is a process for reproducing text and image, typically with ink on paper using a printing press. It is often carried out as a large-scale industrial process, and is an essential part of publishing and transaction printing.

Yarn – a fine cord of twisted fibers (of cotton or silk or wool or nylon etc.) used in sewing and weaving.

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