

Pakistan economy starts to unravel

By Matthew Green in Faisalabad

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At first, Malik Aman and his three brothers refused to accept their father's grim-faced verdict. To sell their looms would feel like a family betrayal.

It had been 43 years since their grandfather fled his village to seek his fortune in Faisalabad – dubbed the “Manchester of Pakistan” for its textiles. His descendants had spent their teenage years learning to weave, and so would their sons.

After much discussion, the father relented and agreed to preserve 32 of their 80 looms. Men armed with sledge-hammers broke the rest of the ageing contraptions into pieces. His inheritance was melted down for Rs40 per kilo of scrap.

“I spent my whole childhood in that factory,” said Mr Aman, recalling the destruction that took place earlier this year. “When the wreckers came and started smashing the machines my heart wept.”

Family-run textile businesses – which employ an estimated 10 per cent of Pakistan's workforce – are being choked by [a chronic power crisis](#) that last week triggered riots in major cities.

The unrest exposed the risks to stability posed by the failure of the government of Asif Ali Zardari, the president, [to achieve faster growth](#) when inflation and unemployment are a far greater concern for the vast majority of the 180m population than militant violence.

Textiles account for some 60 per cent of Pakistan's exports. With state finances under growing strain, meanwhile, there are fears that the

economy could face greater pressure in the coming year, raising the risk of further unrest.



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“The government is living on the edge,” said Akbar Zaidi, an economist based in Karachi, the commercial capital. “There’s no consistency, no leadership, no commitment to an economic vision.”

Pakistan enjoyed something of a boom after Pervez Musharraf, the former president, aligned with the US in the wake of the September 11, 2001 terror attacks, winning debt relief and aid that helped push GDP growth to 7 per cent.

The picture has since darkened, with a combination of inflation, insurgency, power cuts and floods cutting growth to 2.4 per cent in the last financial year.

Top financial officials have rotated frequently since Mr Zardari’s government took power in 2008. Relations with the [International Monetary Fund](#) have been rocky – the fund suspended disbursement of an \$11bn facility in May last year after the government failed to broaden Pakistan’s tiny tax base.

The concern among economists is that the government will resort to printing more money to finance its growing deficit – which has hit 6.6 per cent of GDP – raising the risk of sharply higher inflation next year.

Pakistani officials argue that the economy has shown a degree of resilience, supported by healthy flows of remittances and \$18.2bn of

foreign reserves. The central bank took the bold step of cutting interest rates by 1.5 per cent on Saturday in an attempt to spur growth.

But critics say the government's failure to tackle the energy crisis is symptomatic of a broader reluctance to enact tough reforms.

With elections due within 16 months, Mr Zardari's fragile coalition has shied away from taking steps to put the power sector on a more commercial footing by cutting subsidies and [cracking down on widespread non-payment of bills](#).

Sakib Sherani, a former government adviser, estimates the resulting power cuts have robbed Pakistan of up to four per cent of its GDP, which stood at \$175bn in 2010. "The economic cost of the power crisis is even greater than the impact of terrorism," he said.

The textile sector has been hit hard. Although big mills have increased profits in the past few years, the pain has been acute for smaller businesses that cannot afford to run generators.

In the backstreets of Faisalabad, a city of some 5m people in the eastern Punjab province, workshops are falling silent. "One of our colleagues tried to commit suicide," said Rizwan Ashraf, owner of the Matex textile company. "He said: 'no more, I can't face the workers'."

Waheed Raamay, of the Faisalabad chamber of commerce, says the city's textile industry has shed 100,000 jobs in the past three years due largely to power shortages and competition from Bangladesh and India. "It's a slow death," he said.

The government hopes to boost electricity generation by building a \$12bn dam in the north-east but the scheme may be too late for Mr Aman.

He says his sacked workers are drowning their sorrows with sugar cane moonshine. "We used to work in air-conditioned offices, we were bosses," he said. "Now we're just killing time."