

Pakistan Energy Crisis – Breaking the Vicious Cycle¹

“Pakistan has one of world’s biggest untapped coal reserves, ..., Pakistan to tap coal riches to avert energy crisis.” – Reuters, April 13, 2012

1. STARTING STORY

Ali is a plant manager in a large textile firm in Lahore, Punjab province, Pakistan. The textile industry, the backbone of Pakistan’s economy, had a total export of 5.2 Billion USD in 2010. Ali was educated as a textile engineer and has ten years of industrial experience. Till 2007, Ali was very satisfied with his career and the industrial growth in the textile sector. But now things have changed drastically – the textile industry is facing severe problems due to the power shortages. There are 8-12 hours of electricity load shedding on a daily basis in major cities and industrial sectors of the county. The textile industry is unable to meet the export targets as the daily production is disrupted by long hours of electricity shortage. About 28 million people (38% of the total labor force) associated with the textile sector are facing unemployment due to the power outage. [1]

The overall economic condition of the country is even worse and it is becoming increasingly difficult for Ali to cover the expenses of his family of two children. Even with 8-12 hours of electricity load shedding, the electricity bill has risen to 25% of his monthly salary. The inflation rate has risen to 17% (2010 est.) and the prices for food items have increased by 33% over a period of two years. Official figures indicate that there is a 20% increase in crime rate due to the increase in unemployment (15% in 2010, est.). [2]

“Is it better to leave the country as everything seems to be in a mess?” Ali says. “There is no job security even in one of the key industrial sectors of the country; expenses are too high and standard of living is deteriorating every day. I see neither a promising career for myself nor a bright future for my family in this country,” he laments.

2. ECONOMIC BACKGROUND

The economy of Pakistan is the 47th largest in the world in nominal terms (GDP-\$174.8 billion-2010) and 27th (GDP \$464 billion-2009) largest in the world in terms of purchasing power parity (PPP). Pakistan has a semi-

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industrialized economy, which mainly encompasses textiles, chemicals, food processing and agriculture industries. Pakistan is classified as a developing country with the sixth largest population in the world and a population growth rate of 1.573% (2011 est.).[2] Pakistan was a very poor country at the time of independence in 1947 and dependent highly on its agricultural sector. Although it has been growing ever since, the Pakistan economy has been characterized as unstable, low growth and very vulnerable to external as well as internal factors. From 2005-2007, there was a steady economic growth at a rate from 6.1%-6.6%. Unfortunately, this unexpected growth was the beginning of an energy crisis era because the government was unprepared for the rising demand of the energy. The result was that in the following years, Pakistan's manufacturing sector faced a double digit cut in its growth rate due to the energy shortage. According to the World Bank, 40% of Pakistan's population is living below the poverty line (2010 est.), and more people were pushed below the poverty line as the unemployment rate jumped up to 15% (2010 est.). The debt of the country have amounted to 58 Billion USD (2010 est.) – about 1/3 of GDP in 2010. [3] Recent population growth rate, unemployment rate and GDP growth rate are listed in the *Exhibit 2.1*.

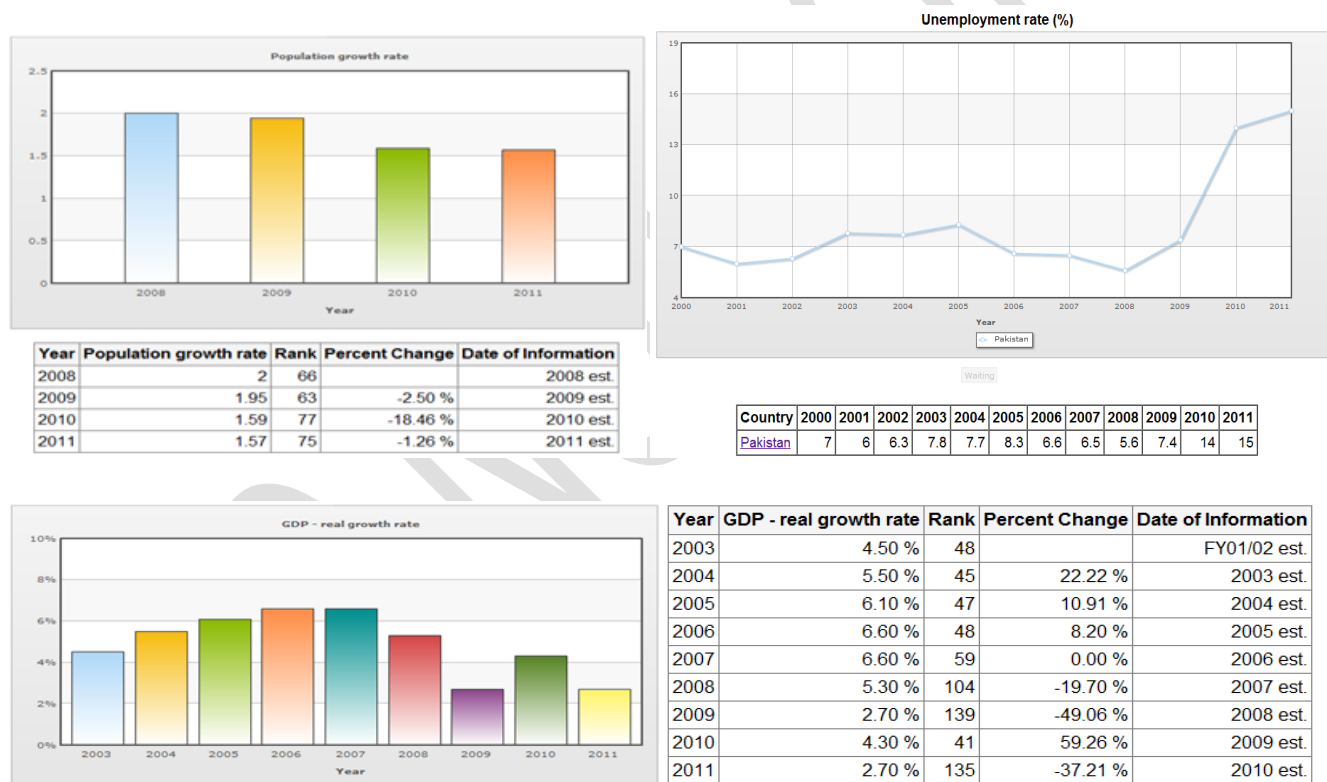


Exhibit 2.1: Population growth rate, unemployment rate and GDP growth rate in Pakistan

Pakistan's sixty-four years of political history is quite volatile and revolves around Indo-Pak wars and overthrow of the civil governments by the military rule. Factors that adversely affected the economy of Pakistan are the Asian financial crisis and 9/11 military action in Afghanistan, political war between parties, the 2005 earthquake, the floods in 2010-11, and on-going war against terrorism which resulted in 34,000 deaths and damage of USD 60 Billion. The overall economic condition of Pakistan is summarized in *Exhibit 2.2*, page 31.