



Impacts of economic crises and reform on the informal textile industry in Karachi

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Working Paper

April 2015

Urban

Keywords:

Informal economy, globalisation, urban development, Karachi

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Acknowledgements

The authors would like to thank Donald Brown for his edits and contributions to the paper.

Produced by IIED's Human Settlements Group

The Human Settlements Group works to reduce poverty and improve health and housing conditions in the urban centres of Africa, Asia and Latin America. It seeks to combine this with promoting good governance and more ecologically sustainable patterns of urban development and rural-urban linkages.

Published by IIED, April 2015

Arif Hasan with Mansoor Raza. 2015. *Impacts of economic crises and reform on the informal textile industry in Karachi*. IIED Working Paper. IIED, London.

<http://pubs.iied.org/10727IIED>

ISBN 978-1-78431-175-9

Printed on recycled paper with vegetable-based inks.

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To date, no empirical research has examined the local impacts of economic crises and reform on cities in Pakistan, including Karachi. This study addresses this gap by examining how the textile industry – as one of Pakistan’s most productive economic sectors – has been impacted, with a focus on the informal power loom sub-sector. The factors that have contributed to the decline of the textile industry and the repercussions for this sub-sector, including one of the settlements in which it operates, are discussed. The conclusions contemplate the challenges of formulating urban policy responses to an economic problem that is shaped simultaneously by local, regional and global pressures.

Contents

Executive summary	4	4 History of power loom units in Dibba Colony	15
1 Introduction	6	4.1 Problems facing power loom units	16
1.1 Method	7	4.2 Repercussions for power loom units	17
1.2 Structure of the report	7	5 Discussion and conclusions	21
2 Pakistan’s textile industry	8	References	22
2.1 Sub-sectors of the textile industry	10	Appendix 1. List of persons interviewed	23
3 The study area	12		

Executive summary

This study examines the local impacts of economic crises and reform on the textile industry in Karachi, with a focus on the informal power loom sub-sector and the low-income settlement (Dibba Colony) where it operates. A number of undocumented issues about these impacts have emerged, and are summarised below:

- Pakistan's evolving political landscape has had a major influence on industries and businesses and on people's livelihoods and property values. The country's flirtation with socialism in the 1970s led to the nationalisation of large industrial units and to the development of active trade unionism. To overcome the resulting economic repercussions and fear of nationalisation, many large industrial units were broken up into smaller units by the *seths* (local entrepreneurs) and relocated from formal industrial areas to low-income residential settlements or their officially designated commercial areas (commercial areas are not meant for industry). Although the government made available cottage industry estates, these remained mostly unoccupied because working from low-income settlements and through informal arrangements of production enabled the *seths* to lower production costs, make the development of trade unionism difficult and overcome their fear of being nationalised. This research found that similar processes had also been followed in other industries and settlements, some of which have been identified.
- Liberalisation in the 1990s made possible the importation of cheaper Chinese and Indian silk. This had an adverse effect on the silk industry in Pakistan, mainly because of the higher labour and energy costs in Pakistan and a more liberal investment regime in other countries. Liberalisation made it possible for Pakistani industries to relocate to other countries, notably Bangladesh; also, retailers and wholesalers make greater profits and face fewer problems when dealing with imported silk textiles than with the local industry.
- Regional conflicts have closed borders, making trade difficult and often erratic. This has discouraged production, severely disrupted tourism (and hence the demand for manufactured items, such as silk and leather) and has led to the development of illegal trade, adversely affecting the functioning of the country's political and bureaucratic establishments. However, no in-depth studies on this subject exist.
- The absence of a political consensus in Karachi between the Sindhi, Urdu and Pushto speakers has led to a turf battle. Disagreement over the nature of local government has led to a breakdown of governance and to violence and strikes. Furthermore, Islamic militancy has led to a rise in targeted killings of its opponents and to protests, causing the city to sometimes close down. Protagonists in these conflicts have sought the support of 'criminal elements', who extort protection money from traders and businesses. The breakdown in law and order results in strikes and demonstrations, hence markets are often closed; even when they are open, business is slow. Retail markets in the residential areas are not directly affected by these conditions but prices have risen as a result.
- When silk production was no longer profitable, due to high energy costs, liberalisation and regional and provincial conflicts, the *seths* sold their looms to their workers and left the industry. The new owners then shifted the businesses from the commercial 'mill area' to their residential areas in Dibba Colony for three reasons. First, energy charges in residential areas (especially low-income areas) are much lower than in commercial areas. Second, rents for premises in Dibba Colony are much lower than in the mill area. Third, premises are on non-commercial small plots meant for low income groups, which are exempted from property taxes, and Karachi Water and Sewage Board (KWSB) charges are also much lower.
- Energy outages have reduced production by 30 per cent. Unlike in formally designated industrial areas, the new owners' premises do not qualify for a continuous electricity supply, but they lack the economic capacity to relocate to formally designated areas.
- There is general consensus that working conditions were better and pay more regular under the *seths* than under the present system. The 'class war' was better managed because the *seths* had better financial and managerial capacity than the present owners, who belong to the same class as the *karigars* and their helpers.

- The study also provides insight into migration and its relationship to location and history. Urdu speakers were the original residents in Dibba Colony, but could not take advantage of their proximity to a designated industrial area because they were mostly white-collar workers and not the skilled labour that industry needed. So they shifted to areas comprising people similar to themselves and of similar ethnicity.
- Skilled Punjabis have replaced the Urdu speakers as the Punjab has a long tradition of textile-related activities and industry and a well-established system of apprenticeships. With increasing demand for *karigars*, the number of trained people in the Punjab increased; however, training of *karigars* from other ethnicities has not been successful. Hence, the *seths'* loom units were purchased by their more enterprising labour force (mostly Punjabis). But with the recession in Dibba Colony, the Punjabi *karigars* are either looking for new livelihoods, where they can make use of their technical and related managerial skills, or are returning to the Punjab where conditions are better.
- Byelaws and zoning regulations forbid industry in residential and commercial areas. However, government building control and planning agencies ignore violations for three reasons. First, the scale of industry is so large that challenging it would be very difficult and disruptive. Second, it integrates workplace and residential areas, reducing costs and travel time for workers. Third, it helps reduce traffic within the city. The agencies also feel that existing regulations are irrational and need to be changed to allow mixed land use.
- The scale of the spatial spread of industry in low-income residential areas, its relationship with government agencies and formal sector industry and businesses, and its contribution to Karachi's economy remain undocumented even in the recent Karachi Strategic Development Plan 2020. As such, modifications to existing byelaws and zoning regulations cannot be made rationally.
- Byelaws and zoning regulations are routinely violated in Karachi. Buildings where only two storeys are allowed in both formal and informal settlements often rise to five or more, and the Sindh Building Control Authority (SBCA) is paid informally by the builders to turn a blind eye. However, Dibba Colony is located next to a military airport regulated by the Pakistan Air Force and the CAA, who have limited building height to three storeys in the surrounding area. As such, the price on the open market of plots in Dibba Colony is less than in other similar low-income settlements. These constraints will determine future land use (including warehousing for port- and cargo-related activities).
- A number of informal industrial activities and their locations (including Shershah, Akber Road, Korangi, Malir, Juria Bazaar, Boulton Market, Ranchore Lines and Nagin Chowrangi) have been identified. Activities include cardboard and plastics recycling; second-hand clothing (storage and sale); rope- and quilt-making and sale; scrap collection and sale; and retailing of these and other recycled materials. Boulton Market is particularly important as the wholesale markets there are surrounded by retail markets. How does this huge enterprise, consisting of brokers, importers, exporters, market operators, *havala* and *hundi* (local, informal processes for currency transfers) dealers, transporters and labour function? The diversity of these activities points to the segmented nature of the informal sector, rendering generalisations not entirely useful and potentially counter-productive.

1

Introduction

Conventional development theory initially viewed the informal sector as a marginal and transitory phenomenon that would eventually be absorbed by the modernising urban industrial sector. In reality, however, the inverse scenario has taken place in many low- and middle-income countries where economic growth has not kept pace with urbanisation and overall population growth, and where macroeconomic crises and reforms have led to rising unemployment in the formal sector (for an overview of informalisation trends see Brown *et al.* 2014, 11). This scenario has accelerated rapidly in Pakistan: in 2010, it was estimated that 73 per cent of the country's non-agricultural employment was concentrated in the informal sector (Government of Pakistan 2010).

The informalisation of labour markets in Pakistan – and South Asia more broadly – has accompanied globalisation and trade liberalisation following the implementation of structural adjustment programmes (SAPs) in the 1980s and 1990s (Hasan and Mohib 1998; PILER 2010; Reddy and Jeyaranjan 2013). The economic difficulties that Pakistan experienced included inflation (as the rupee devalued), recession, growing competition from import markets (due to the elimination of import duties), rising costs of production (due to the removal of subsidies and subsequent increases in utility charges, notably electricity) and increasing formal unemployment (PILER 2010).

In Karachi, these changes have been exacerbated by escalating political tensions and ethnic conflicts, which have led industry to shift to other parts of Pakistan and to other countries (Hasan and Mohib 1998). As a result of declining employment opportunities, particularly in the large-scale manufacturing sector, low-skilled Karachiites have increasingly moved into the informal sector (Hasan 2002), reflecting a broader trend in Pakistan (PILER 2010). These trends have been accompanied by rapid urban population growth, rising urban poverty levels and the expansion of *katchi abadis* (informal settlements) (Hasan and Mohib 1998). It is estimated that 75 per cent of the working population in Karachi is employed in the informal sector, which is based mainly in informal settlements (Hasan and Mohib 1998).

To date, no empirical research has examined the local impacts of economic crises and reform on cities in Pakistan, including Karachi, the country's economic centre and most populous city.¹ To address this gap, this study has two main objectives: first, to examine how the textile industry in Karachi has been impacted by macroeconomic economic crises and reform, with a focus on the informal power loom sub-sector; and second, to identify the causes behind these impacts and their repercussions for the future of power loom units and the low-income settlements in which they operate.

¹ According to the most recent census, Karachi's population was 9.86 million in 1998, although UN estimates suggest that the population rose to 16.13 million in 2014 (UNDESA 2014).

1.1 Method

A detailed case study was undertaken in Dibba Colony, a refugee resettlement area of about 25,000 people in Karachi. Dibba Colony was chosen due to its strategic location in Baldia Town, where the largest number of power loom units in the city are concentrated. Mixed methods were used, including the collection of primary data from key informant interviews with local actors, namely: power loom unit owners and workers; brokers, shopkeepers and wholesalers; scrap dealers and recyclers of textile-related waste; government officials; academics; and corporate executives (see Appendix 1 for the list of interviewees). Secondary data was collected from academic studies, scholarly journals, press reports, and government reports and statistics. This working paper presents the findings of this study.

1.2 Structure of the report

The paper is structured into five main sections. This introduction is followed by Section 2, which provides a brief profile of Pakistan's textile industry and identifies the key factors that are contributing to its decline. Section 3 describes the study area of Dibba Colony, including its history and existing conditions. Section 4 examines the history of power loom units in Dibba Colony and identifies the repercussions that the decline of the textile industry has had on them. Section 5 concludes by reflecting on the challenges of developing appropriate urban policy responses to a highly complex, multi-scalar economic problem.

2

Pakistan's textile industry

The textile industry in Pakistan accounts for more than 60 per cent (US\$9.6 billion) of total exports, contributes 8.5 per cent to gross domestic product (GDP) and employs 38 per cent of the total manufacturing labour force (Khan and Khan 2010). It is also the eighth largest exporter of textiles in Asia (Khan and Khan 2010). The industry has, however, experienced a sharp decline since 2005 (Figure 1), which can be attributed to four major contributing factors:

- Trade liberalisation, which has removed import tariffs, thus increasing competition between Pakistani textile producers and cheaper Chinese and Indian suppliers.
- Regional and domestic conflict (associated with the war in Afghanistan; territorial disputes with India over Kashmir; sectarian violence between different Muslim sects and other religious groups; and terrorism and Islamic militancy), which has cut trade ties and led to reductions in tourism from Central Asia.
- The declining law and order situation, particularly in Karachi, which has led to the extortion of local businesses and traders.
- Rising electricity tariffs and power shortages, which have decreased productivity among textile producers, thus further reducing their ability to compete with cheaper Chinese and Indian suppliers.

These factors have placed significant constraints on the productivity of manufacturing in Pakistan and have motivated growing numbers of textile producers to shift to other countries, particularly Bangladesh (Box 1). Recent reports suggest that upwards of 40 per cent of Pakistan's textile industry has shifted to Bangladesh since 2007.

As the textile sector in Pakistan continues to decline, it is slowly transforming from a once formal and unionised sector into a sector comprised of informal clusters of small- and medium-sized units and large factories (PILER 2010, 21). Power loom units have been particularly hard hit, with many closing down (PILER 2010). The causes behind their decline and the repercussions for Dibaba Colony are discussed below, beginning with an overview of the different sectors that comprise the textile industry in Karachi.

Figure 1: Growth of the textile sector in Pakistan 2002–2011



BOX 1. SHIFTING TO BANGLADESH

Pakistan's textile industry is shifting to Bangladesh, which has been granted tax-free access to 37 countries, including the European Union, Canada and Australia. Labour costs in Bangladesh are also much lower than in Pakistan even though, in 2011, Bangladesh doubled the minimum monthly wage in the garment industry to US\$42. This is still low compared with competitors in China, India, Viet Nam, Thailand and Cambodia. In Pakistan, however, the minimum wage is still relatively high at US\$70 per month, thus providing another incentive to shift.

There is no official data on business migration, although media and industry representatives continue to report on the decline of the textile industry in Pakistan and the shift not only to other countries, but also from Karachi to the Punjab where the law and order situation is better. Press reports indicate that

30,000 businesses have made this shift from Karachi to the Punjab; however, industry representatives point out that it is small traders and not industrialists who have made the shift. Industrialists have reportedly moved to other countries, such as Sri Lanka, and are exploring the possibilities of establishing businesses in Viet Nam, Cambodia and African countries. Industry representatives also report that other countries are offering incentives to attract textile producers, and that between 15,000 and 20,000 small to large units in Karachi and some 5–10 per cent of large textile exporters have shifted to foreign destinations.

Source: Reuters (updated 30 August 2011, 09:06 am) From Pakistan to Bangladesh. <http://www.dawn.com/news/655674/from-pakistan-to-bangladesh>; Khan, A S (10 February 2013) Business shifting amid poor security. <http://www.dawn.com/news/784981/businesses-shifting-amid-poor-security>

2.1 Sub-sectors of the textile industry

The weaving sector is the largest sector in the textile industry, and is comprised of three sub-sectors: integrated; independent weaving units; and power loom units. The integrated and independent weaving units operate in the formal 'mill' sector and use what are known as 'shuttleless' looms or 'air jet' looms (Khan 2011). These looms are used for the production of cotton textiles, which are the main textiles produced in Pakistan.

On the other hand, power loom units operate in the informal 'non-mill' sector and use 'shuttle' looms,² which manufacture both silk (almost exclusively produced on shuttle looms) and cotton. Estimates indicate that there are 360,000 power looms in Pakistan (including

in Karachi, Faisalabad, Multan, Kasur and Jhang) (Map 1), of which more than 30,000 small- or medium-size power loom units are located in Karachi (Map 2). According to a recent survey (PILER 2010, 24), small power loom units usually comprise six to eight looms manned by 10 to 12 workers, while the medium units comprise up to 50 looms worked by 60 to 80 workers. All loom workers are male. However, it should be noted that unlike the formal mill sector, the informal non-mill sector does not provide production statistics, nor is much of the sector recorded on the official tax roll.

The importance of the power loom sector can be gauged from the fact that in 2009–10, it supplied 8.5 billion square metres of total export fabric, amounting to 65 per cent of the weaving sector's total supply. However, due to the factors mentioned above (Section 2.1), it is estimated that, between 2008 and 2012, 40,000 power looms were converted into scrap and

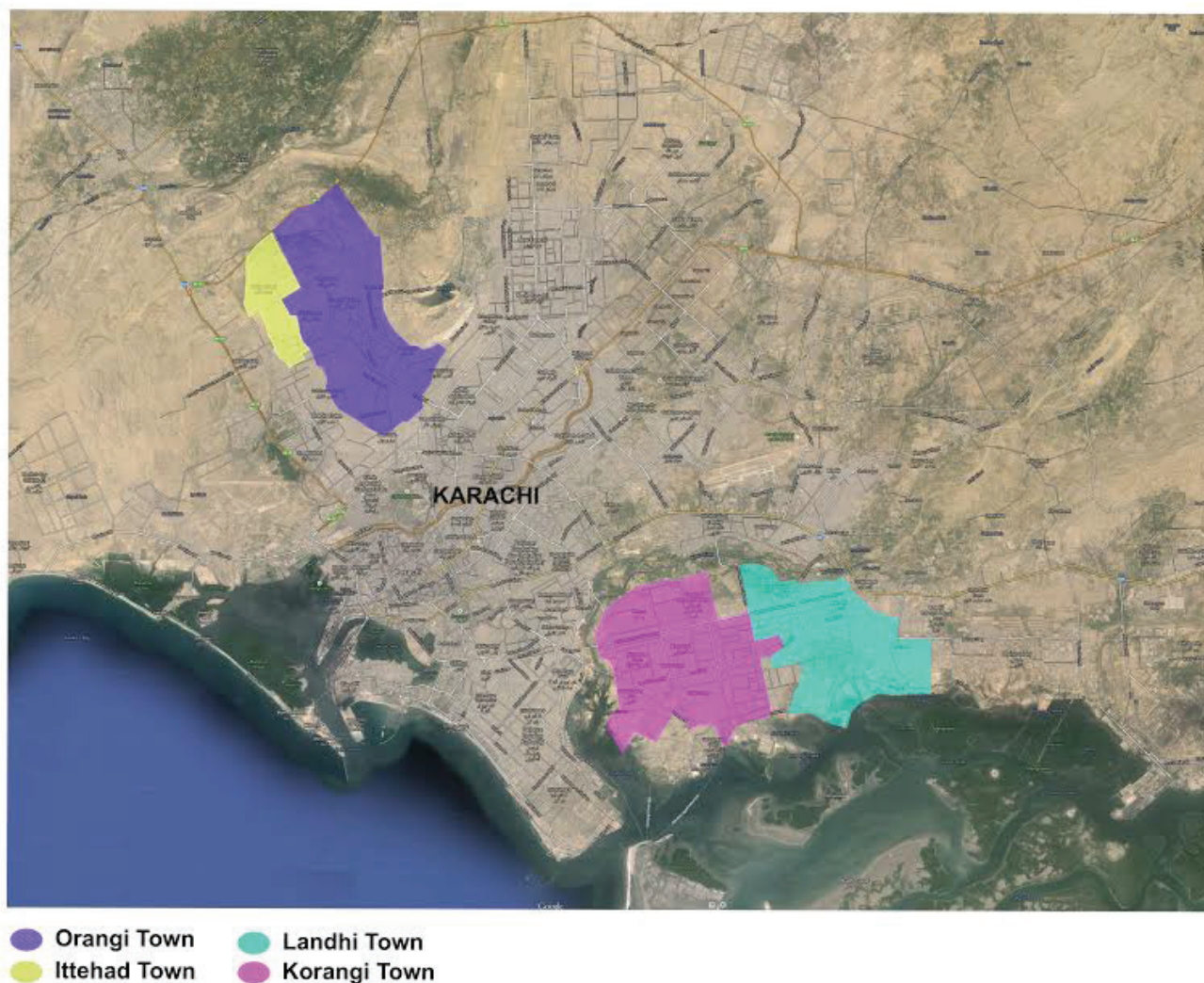
Map 1: Major power loom clusters in Pakistan



Source: Authors.

² The 'shuttle' loom is the oldest type of weaving loom. It uses a shuttle, which contains a bobbin of filling yarn that appears through a hole situated in the side. The shuttle is batted across the loom and, during this process, it leaves a trail of the filling at a rate of about 110 to 225 picks per minute (ppm). Although very effective and versatile, the shuttle looms are slow and noisy. Also the shuttle sometimes leads to abrasion on the warp yarns and at other times causes threads to break. As a result, the machine has to be stopped to allow the broken yarns to be tied. 'Shuttleless' looms overcome the problems faced by shuttle looms and take a variety of forms.

Map 2: Karachi settlements with power loom clusters



Source: Authors.

10,000 were partially closed, and as a result, 100,000 workers lost their jobs.³ Another important factor to emphasise is that the fabric manufactured on power looms is of low quality and does not fetch high values in the international market (Khan 2011). According to the Pakistan Institute of Labour Education and Research (PILER 2010), the industry has fallen into a low productivity rut, which is probably one of the reasons why loom owners have been cutting labour as a means of lowering production costs in order to compete in the global market.

³ APP (9 May 2012) 40,000 power looms closed down, 100,000 left unemployed. <http://www.pakistantoday.com.pk/2012/05/09/news/national/40000-power-looms-closed-down-100000-left-unemployed/>

3

The study area

The area chosen for the study is known as Dibba Colony, which is located in Baldia Town. Baldia Town is one of Karachi's 18 towns (Map 3), each of which serves as an administrative unit. It consists of 7,200 acres (292 hectares)⁴ and is divided into eight union councils, which are the lowest rung of local government. These include Saeedabad, where Dibba Colony is located (Map 4). According to the 1998 census, the population of Baldia Town is just over 400,000,⁵ while current estimates place it at one million. It also contains the rapidly expanding informal settlements of Islam Nagar and Ittehad Town. Baldia Town contains all the major ethnic and linguistic groups of Pakistan, although no group forms a clear majority.

Baldia Town began as a planned settlement in 1962. Refugees (1947 migrants from India) living in the inner-city informal settlements or squatting in the open areas of Karachi were moved to Mohajir (refugee) Camp and Saeedabad. Here, they were given 80-square yard plots serviced by sewage and water-related infrastructure. They built their own homes incrementally. The advantage of this location was that the Sindh Industrial Trading Estate (SITE) – Karachi's main industrial area – was adjacent to these newly planned settlements.

In official planning, Dibba Colony does not exist on paper. This name has been given by its inhabitants to an area comprising about 2,500 80-square yard residential plots and about 200 120-square yard commercial plots along the main Altaf Hussain Road. The settlement as a whole covers an area of 19 hectares, while the mill area covers 11 hectares (Map 5).

According to the building byelaws and zoning regulations, no industrial activity is permitted in the commercial and residential areas. However, as discussed below, manufacturing units (including power looms) were established illegally on the 120-square yard plots, which came to be known informally as the 'mill area'.⁶ The government has tolerated such informal activity because of the benefits to people who live and work in the same area, including the time and money saved through avoiding commuting, and also reduced traffic congestion. City officials feel that if the byelaws and zoning regulations were strictly followed, low-income residents would have many more problems than they have today.⁷ Thus, local government planners feel that there is a need to rationalise existing byelaws and zoning regulations to make it easier for people to live and work in the same area legally.⁸ However, the most recent Karachi Strategic Development Plan 2020 does not recognise the growth of informal industry or its contribution to the urban economy. Rationalising existing regulations is thus unlikely to take place until informal economic activity is made an urban policy priority.

⁴ Interview No. 15.

⁵ City District Government Karachi (defunct) official website: BaldiaTown/cdgm/Home/Towns/BaldiaTown/tabid/201/Default.aspx

⁶ Interviews No. 13 and No. 15.

⁷ Interviews No. 11 and No. 15.

⁸ Ibid.

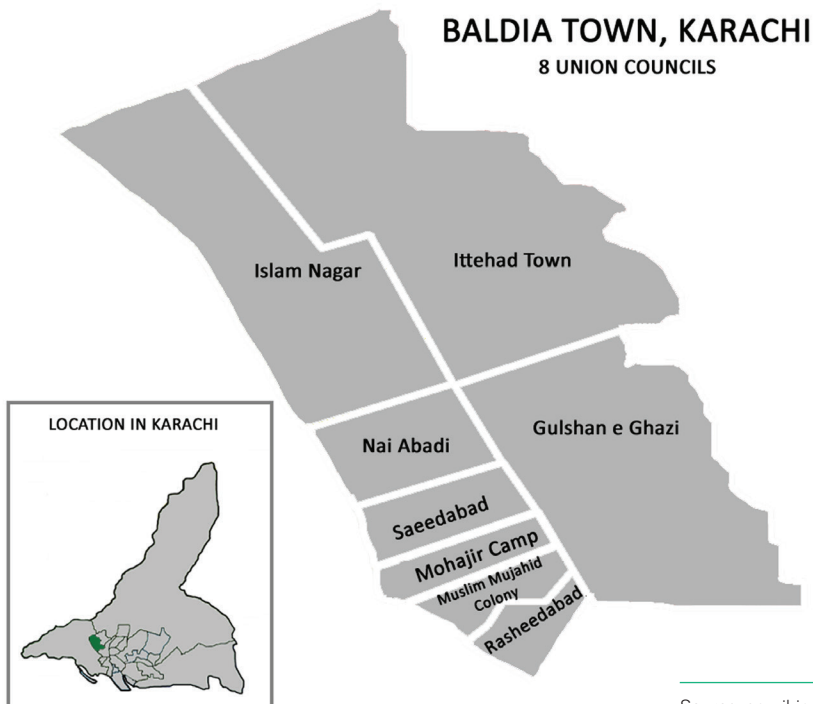
Map 3: Location of Baldia Town



● Baldia Town

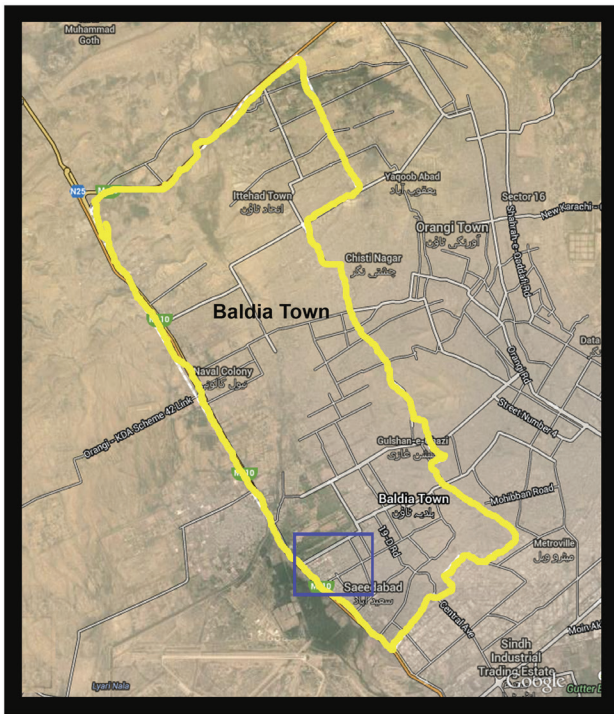
Source: Marked by the authors on a google map of Karachi.

Map 4: Baldia Town union councils

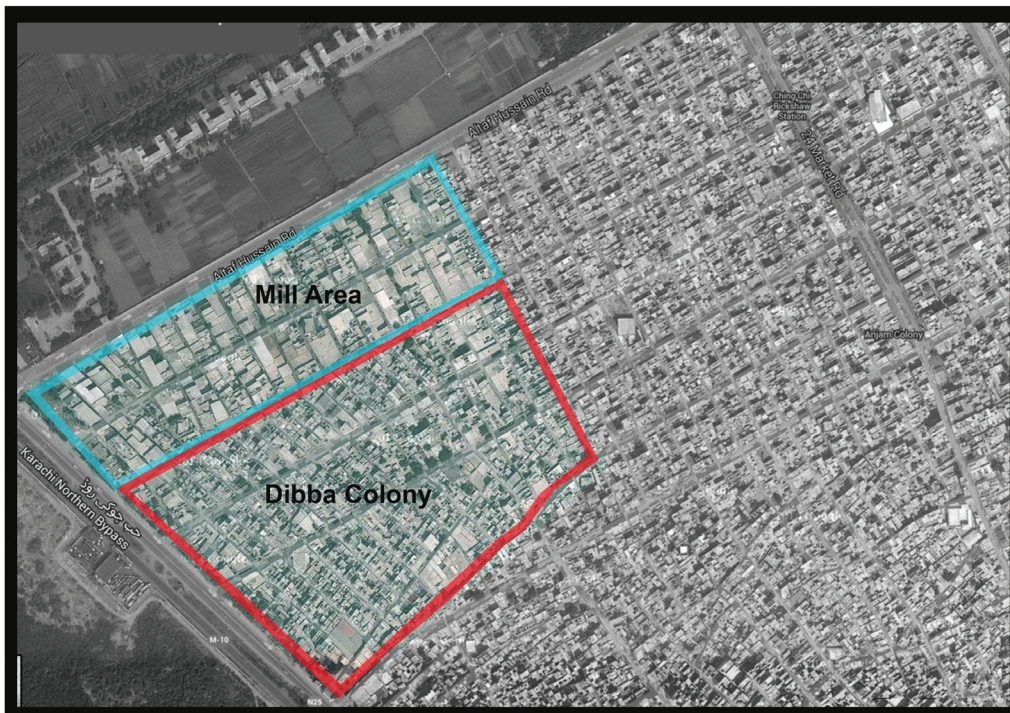


Source: en.wikipedia.org/wiki/Baldia_Town

Map 5: Location of the mill area and Dibba Colony



— Baldia Town boundary line



— Dibba Colony: 18.9 ha — Mill Area: 10.9 ha

Source: Marked by the authors on a google map of Karachi.

4

History of power loom units in Dibba Colony

The first settlers in Dibba Colony were the Urdu-speaking refugees who were given 99-year leases for their 80-square yard plots. The refugees were mainly shopkeepers and white-collar workers rather than skilled labour. As such, they could not take advantage of their close proximity to SITE. In addition, the major low-income Urdu-speaking localities had land values that were much lower than those of Dibba Colony. As a result, they began to sell their properties and move to other areas, including the Buffer Zone, New Karachi, Korangi Crossing and Shah Latif Colony, where Urdu speakers are located.⁹ Their original location was slowly taken over by people from Mianwali, who were initially camel/camel cart transporters (required by the SITE industry) before becoming truck drivers in the 1970s. Pushto speakers also established a presence in Dibba Colony to work as labourers in the rapidly expanding construction industry in SITE and as transporters in Baldia Town. With the arrival of the power loom sector to Dibba Colony in the mid-1970s, skilled Punjabi-speaking migrants rapidly grew in number.¹⁰ This is because Punjab has a long textile-related tradition and a well-developed system of apprenticeships. The town of Faisalabad contains the first textile mills, which were established before independence and partition in 1947.

In 1973, the then Bhutto government nationalised a number of industries, but the textile industry was exempted. Small power loom units (up to eight looms) were also exempted from taxation. To save on taxes and

out of fear of nationalisation, entrepreneurs, commonly known as *seths*, sold their properties in SITE and in the other officially designated industrial estates at high prices and invested in power loom units in low-income settlements, which they viewed as more secure in light of the populist politics of the time. There were other advantages to operating power loom units from outside the formal industrial sector. The *seths* could employ cheap contract labourers and sack them at will in the absence of centralised trade unionism. It was during this period that the commercial plots in Dibba Colony were purchased or rented from local residents by the *seths* and informally converted into power loom units.¹¹ This change attracted more skilled labour from the Punjab.

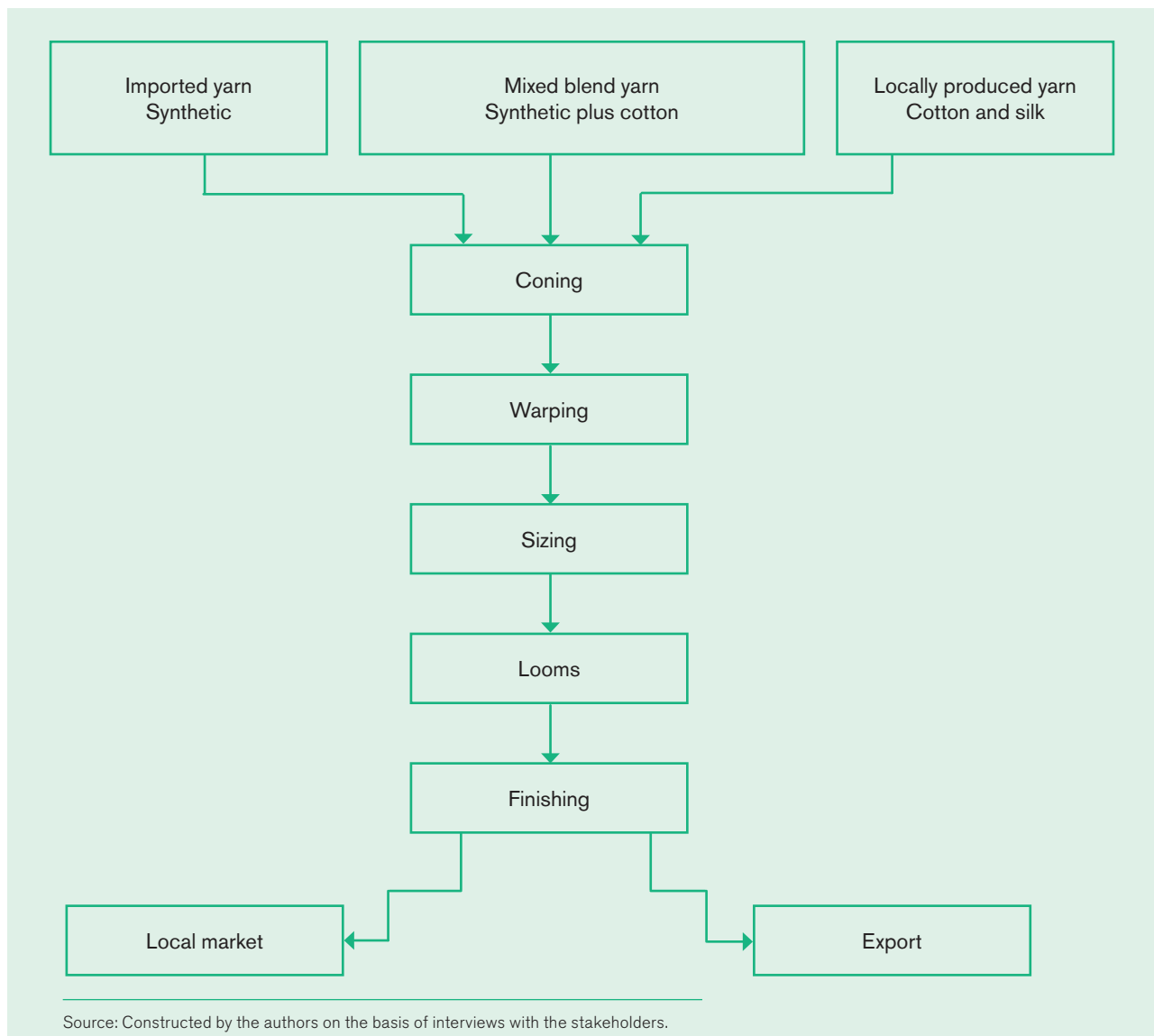
The *seths* who set up the loom units managed the entire production process: they acquired the yarn; completed the coning, warping, sizing and finishing; and transferred the finished product to their warehouses in Boulton Market, the main textile retail and wholesale market in the central business district. The *seths* estimated the amount of material that was required by the market and then produced it accordingly (Figure 2). There were no other players in the process except for the producers of imported and locally produced yarn and the transporters who facilitated the production and distribution process.

⁹ Interview No. 13.

¹⁰ Ibid.

¹¹ Interviews No. 1, 10, 13 and 14.

Figure 2: The cloth-producing process



4.1 Problems facing power loom units

In 1992–93, the textile industry in Dibba Colony began to experience a number of problems. Liberalisation led to an influx of Chinese and Indian silk into the Pakistani market. Then, in 2003, regional conflicts disrupted exports to Iran and Central Asia, which were big clients of the industry. In addition, with the anti-Taliban war, the war in Afghanistan and terrorist attacks within Pakistan, the government imposed a strict visa regime that led to a significant reduction in demand for silk and leather goods among tourists from Central Asia, who stopped coming to Pakistan.¹² Meanwhile, exports to India continued since Pakistani products, although more

expensive, were of better quality. However, due to the erratic nature of India–Pakistan relations, borders were often closed, trade suspended and, in many cases, orders, although processed, could not be delivered. Consequently, the manufacturers and traders began to incur losses.¹³ Ethnic politics involving extortion of local businesses in Dibba Colony also increased insecurity among power loom unit owners, many of whom received *purchis* (notes) demanding money and making threats if payments were not made.¹⁴ However, there is general consensus among interviewees that extortion in Dibba Colony was limited compared to other locations in Karachi, because no one political party dominated the area due to its mixed ethnic composition. There is also a perception that labour was attracted to Dibba Colony for this reason.

¹² Interview No. 8

¹³ Interviews No. 1, 8 and 14.

¹⁴ Interview No. 1.

The final blow to power loom units in Dibba Colony came with the growing power outages in 2004, which subsequently increased to about six to seven hours a day. Since power loom units operate continuously, the outages resulted in losses in production of at least 30 per cent.¹⁵ Energy costs also increased in 2004, and within six years, they had almost doubled. Power loom unit owners claim that 75 per cent of units in Dibba Colony have no work and are likely to close down, while some already have. The possibility of solar technology was contemplated by the brokers and the power loom unit owners as an alternative energy source, but the costs were deemed prohibitive. It should be noted that the government has exempted SITE and other officially designated industrial areas from power outages due to their formal status. This does not apply to the looms sector in Dibba Colony as they are located in an officially designated residential area.

4.2 Repercussions for power loom units

The problems noted above have had a number of repercussions for power loom units and the settlements in which they operate.

4.2.1 Changing ownership and shifting sites of production

As a result of the problems faced by the industry, the *seths* put their power looms up for sale. These were then bought by the more enterprising of the skilled labourers, many of whom sought financial support from their families in the Punjab, whose were willing to invest because yarn is imported through Karachi and its price has increased by the time it reaches the Punjab.¹⁶

The new owners shifted the power looms from the commercial plots in the mill area to the residential areas (even though industrial land uses were prohibited), often establishing units on the ground floor of their houses or in spaces rented from other residents. There were three main advantages to shifting production to the residential areas. First, rents are lower than in SITE and the officially designated industrial areas; second, electricity is charged at residential rates, which are much lower than commercial rates; and third, residential plots of 80-square yards or less are exempted from property taxes, thus lowering overhead costs.

There were two other repercussions accompanying this change in ownership. First, some *seths* (there are no exact figures) returned to SITE and set up shuttleless loom units producing cotton instead of silk. In this way, they avoid power outages and, unlike in the 1970s and 1980s, the trade unions exist 'only in name'. The labour from Dibba Colony cannot work in these enterprises as they are not trained/accustomed to working on shuttleless or air jet machines. Second, unlike the *seths*, the new owners lack the financial and managerial capacity to manage the production and marketing system, and as a result, a new system emerged.

4.2.2 Changing production and marketing systems

This new system, which continues to operate today, involves a key role for a middle-man known as the 'broker'. Acting as the king pin, the broker sits in the wholesale Boulton Market with a corresponding agent in Dibba Colony. An exporter or a local trader contacts the agent when there is demand from a 'party'. The broker then contacts the power loom unit and arranges for a supply of yarn to be delivered. Warping is carried out at the loom unit if facilities are available. If not, the broker arranges for the warping to be done elsewhere. After the cloth has been produced, it is then taken by the broker to a finishing factory (if required by the party) where it is washed, coloured and/or pressed. The party pays the finishing factory directly, picks up the finished product from the factory, and delivers it to their client or stores it for future sale in its warehouse in Boulton Market. The broker gets a commission from all these transactions.

As the crisis emerged in 2004, the financial relationship between the brokers and the power loom unit owners slowly began to change. Previously, along with the order, advance payment was made by the broker to the owners. Now, only the yarn is provided and payments are made on completion of the order, often with considerable delay (two months in one case).¹⁷ In addition, it was reported that brokers frequently disappeared with advance payments.¹⁸ As a result, many exporters, local traders and retailers are reluctant to advance loans to brokers as they used to, particularly in light of Karachi's declining law and order situation.¹⁹

The power loom unit owners of Saeedabad have an association that presents their claims and guards their gains in dealing with officialdom and with other players in the power loom business. The association has about

¹⁵ Daily Times (22 September 2012) Economy takes a blow on national holiday: Sindh's business activities suffer Rs21 billion loss.

¹⁶ Interview No. 5.

¹⁷ Interview No. 9.

¹⁸ Interview No. 25.

¹⁹ Interview No. 25.

600 members and employs around 4,000 people. The association has, however, not been able to effectively influence government policies, although it was able to negotiate a reduction in power outages with the Karachi Electric Supply Company (KESC) to two hours a day. However, a few months later, the outages started again despite several attempts by the association to renegotiate. As the recession in the textile industry continues, the union members are beginning to lose interest and hope.²⁰

4.2.3 Declining demand and profits

As demand continues to decline with the recession, competition between power loom units has intensified, while profits have decreased. Retailers have also shifted towards wholesaling imported Chinese and Indian textiles, which are more profitable because they are cheaper, although of lower quality, than local textiles. One solution offered by the brokers and power loom unit owners is to ban imported silk textiles in order to protect local products. However, there is an understanding that this solution would not be possible given the shift towards trade liberalisation. Those interviewed also felt that if such a ban was imposed, foreign textiles would be smuggled into Pakistan, which is suspected to take place even today.²¹

Decreasing demand has also meant that overhead costs have become increasingly difficult to cover. Since 70 per cent of the premises for power loom units are now rented, periods of inactivity can put owners heavily into debt.²² Other overhead costs, such as electricity, have also increased significantly, as have production inputs, such as yarn.

4.2.4 Declining wages, working conditions and job security

Each power loom unit in Dibba Colony employs one master technician, who maintains the looms; one *munshi* (accountant); two *karigars* (loom operators); and two helpers who wind and unwind the thread. In total, there are about 3,500 persons directly involved in production in Saeedabad. Although salaries for helpers vary, they earn on average Rs1,500 (US\$15) per month, while *karigars* earn Rs4.25 per metre of silk produced, amounting to about Rs13,000 (US\$130) per month.

Since power loom units operate 24 hours a day, labourers work 12 hours a day and, on alternate days, 12 hours a night. They have no holidays but are given three- to four-hour breaks on Fridays. Workers are paid every 15 days on the basis of how much they produce. However, workers have no contract, and if they fail to reach their targets (which vary between power loom units and between orders), they can be sacked. There is also no guarantee that employment will be renewed for the next 15 days. Some workers are even sacked for no apparent reason. Since workers are only eligible for formal protection if owners register their units (which they rarely do), the owners are able to control any expression of discontent from their workers and prevent the development of trade unionism.²³

Site visits also indicated considerable variation in the existence and quality of facilities available to workers. Most factories lacked drinking water, toilet facilities, fire exits and firefighting equipment; also, ventilation was inadequate, making the heat generated by the machines difficult to bear. The absence of these and other facilities indicates a clear failure to comply with the regulations of the Sindh Building Control Authority (SBCA) and the Labour Department. Commonly reported health impacts associated with poor working conditions include respiratory tract infections and eye injuries leading to a loss of vision.²⁴

There was general consensus among interviewees that environmental conditions were much better when the *seths* were in charge, as they provided at least some facilities, such as toilets, water coolers and fans. Payments during this period were also reportedly higher and more regular than they are today, because pay rates for the *karigars* were determined through consensus by the offices of the *seths* in Boulton Market and subsequently applied to all power loom units. This arrangement prevented the negotiation of lower rates.²⁵ Today, however, as power loom units continue to close down, workers are increasingly looking for new jobs, which appear to be increasingly marginal (for example scrap recycling). Some *karigars* are even moving back to the Punjab where businesses are reportedly faring better than in Karachi (Box 2). Others have migrated to Faisalabad or have attempted to find work on shuttleless machines.²⁶ The crisis is so severe that looms that once sold for Rs100,000 on the open market now sell for no more than Rs30,000 to 40,000.²⁷

²⁰ Interview No. 13.

²¹ Interview No. 14.

²² Interview No. 3.

²³ Interview No. 1.

²⁴ Interview No. 5.

²⁵ This has been recorded in most interviews: Interviews No. 8 and No. 9.

²⁶ Interviews No. 5 and No. 8.

²⁷ Interview No. 8.

BOX 2. ALTERNATIVE LIVELIHOODS

Zafar lives in rented accommodation in Dibba Colony. He comes from the Jhang district in the Punjab and came to Karachi in the 1980s, at the age of 16. In the 1990s, he spent four years as a helper in a *seth*-owned loom factory in the formal mill area. He worked for 12 hours a day but with different shifts: 12 hours a day for 15 days and 12 hours a night for the next 15 days. He begged the *karigars* and the *ustads* to teach him how to operate the looms and how to repair and maintain them. However, over the last two years it has been very difficult to find work because there are not sufficient orders from the market, and so the loom units do not operate regularly and many are closing down. So, Zafar started to look for an alternative livelihood and decided to become a dealer of scrap from the loom units in Dibba Colony.

A lot of thread is left over from the production of cloth, and Zafar and his partner Abdul Hakeem purchase this from the loom units. They also purchase the plastic cones on which yarn is supplied to the loom units. In addition, they purchase cardboard boxes and the Geo Textile sacks in which the yarn is supplied. Zafar has rented a small space as a store and installed a machine for collecting the threads and making them thicker. The space he has rented is small because, had it been larger, the police would certainly have asked him for 'protection' money.

The collected threads are sold to rope-making factories in Orangi, Korangi and Malir. Most of these factories are small units but there are also a few larger ones undertaking this work. Different size ropes are made and most are purchased by the fishing industry to make nets and for anchoring boats. They are also used for weaving the surface of *charpais* (coats/ beds) and for other furniture such as chairs, as well as being sent to Quetta (where temperatures drop below freezing) for use in quilts. The main markets for finished rope products are Juria Bazar and Ranchore

Lines in Karachi. In their collected and unwashed form they are used by mechanics for servicing machines and in their washed form they are used for cleaning purposes. The washing is not done by Zafar but by the workshops who purchase the collected threads from him.

The plastic cones are also sold to small workshops in Shershah, where they are granulated and subsequently turned into plastic toys and utensils. Some factories also send granulated plastic to the Punjab, where it is similarly used. Cardboard boxes are sent to Shershah, where they are recycled into small boxes for the shoe and bangle industry and supplied to various towns in Sindh for packaging purposes. The Geo Textile sacks are also sold to retailers and wholesalers in various Karachi markets. They can be purchased in bulk from Akber Road and then sold on to retailers or to whoever needs them.

The main problem that Zafar and Abdul Hakeem face is that in order to get scrap from a looms unit or a factory, they have to pay an advance of at least Rs50,000 (US\$500). This is apart from the money they need to buy the scrap. Business would be greater and profits far larger if Zafar and Abdul Hakeem could get a loan from a bank. However, informal loans are not possible as the interest rate is too high. Zafar tried to get a loan once and the bank representative visited his premises to see if he had sufficient collateral. The loan was refused because the amount that Zafar needed was too small. Zafar is of the opinion that even if the loom units in Dibba Colony close down, he will still be in business. This is because SITE is only five minutes away and there will always be factories there and hence scrap. He says that he deals in scrap but his business is not scrappy.

Source: Conversations between Zafar and Abdul Hakeem and Arif Hasan and Mansoor Raza, November 2013 and February 2014.

4.2.5 Declining property values and changing land uses

Most of the households in Dibba Colony originally rented and worked in the power loom units before eventually purchasing property. However, as mentioned above, most of the remaining power loom units today are rented ground floor spaces from house owners who live on the floors above.

Moreover, businesses in the formal mill area are closing down or have already closed. This is mainly attributed to the significant increases in electricity charges for commercial enterprises over the last year and a half. These price increases have reduced the value of a 120-square yard plot in the mill area from about Rs2.5 million to Rs1.6 million, and even so there are few buyers. Rising electricity costs in the mill area have also reduced rents from Rs13,000–14,000 per month to Rs7,000–Rs8,000 per month. Some speculate that property values would be much higher if households

were allowed to increase the number of floors on their property informally, as happens in other settlements similar to Dibba Colony. However, this is not possible because of the existence of a nearby military airport, which attracts low-flying planes over the area,²⁸ and as a result, the SBCA, the Civil Aviation Authority (CAA) and the Pakistan Air Force have instituted height restrictions that are strictly enforced.

Real estate agents are of the opinion that the entire area will gradually become solely residential as loom units continue to close down. It is speculated that the mill area will only survive if high-end industrial or commercial activities capable of covering high energy costs can be attracted. There is no indication that such activity will materialise, however. Some of the loom units in Dibba Colony have been converted into storage for second-hand clothing, scrap metal and plastic sorted from solid waste, and if this continues, heavy traffic will begin to enter the lanes of Dibba Colony. Some of the mill area commercial plots have also been converted into warehousing, while many of them (about 50 per cent) are unoccupied, although built over.²⁹

The designated area for cottage industry planned by the city government is rapidly becoming an informal residential area and is therefore attracting a growing number of families looking for a home. These families are being settled by middlemen who are supported by different political parties. The area was originally designed as a 452-acre (183 hectares) site, but now only 172 acres (about 70 hectares) are left. Undeveloped properties belonging to the city government adjacent to the Naval Colony area have also been encroached upon by a graveyard.³⁰ With these developments, real estate agents do not foresee that residential property values can increase to the same level as in similar settlements in other parts of Karachi.³¹ However, Dibba Colony could serve as an ideal location for warehousing since the western boundary of Dibba Colony forms the Northern Bypass through which heavy cargo traffic moves from the port to Balochistan in the West and to Northern Pakistan. This is, however, unlikely to take place as long as locations that can accommodate warehousing are available nearer to city markets.³²

²⁸ Interview No. 13.

²⁹ Authors' observations and random conversations.

³⁰ Interview No. 15.

³¹ Interview No. 26.

³² Ibid.

5

Discussion and conclusions

This paper has shown that the causes behind the ongoing decline of power loom units in Dibba Colony are primarily related to liberalisation, domestic and regional conflict, the declining law and order situation, and power outages. These factors appear to be creating the conditions for further informalisation as loom units in both the informal non-mill sector and the formal mill sector continue to close down, and as workers seek out other livelihoods that appear to be increasingly marginal (for example scrap recyclers). While neoclassical economists claim that liberalisation will foster more efficient and inclusive markets, it is difficult to see how this could be achieved in a city like Karachi, where existing markets are inefficient, inequitable and highly distressed by local, regional and global pressures. It is also difficult to see how free markets would lead to tangible improvements in the livelihoods of the working poor, particularly in the urban informal sector where labour protection and representation are widely lacking.

This working paper has offered some solutions, but they have clear limitations. For example, reforming zoning byelaws and regulations to permit mixed uses would allow low-income groups to live and work in the same area while supporting broader city planning objectives (for example reduced traffic congestion), but these reforms are unlikely to be supported until the informal manufacturing sector is made an urban policy priority. Exempting residential areas where the sector is located from power outages would increase the productivity of power loom units, but this would not resolve the problem of declining demand. Also,

allowing owners to informally add floors to existing buildings would likely boost property values; however, this is not possible because of the existence of a nearby airport. Furthermore, the macroeconomic factors at play present clear limitations to what any of these reforms could possibly achieve at the local level. Even solutions proposed to protect Pakistan's textile industry by banning cheap Chinese and Indian textile imports would not be possible in the context of free trade. Nor would such solutions position Pakistan to better compete with more liberal investment regimes in other countries, not least Bangladesh.

Overall, the economic crisis facing Dibba Colony is tremendously complicated, with no clear or easy solutions. What is clear is that the informalisation of industrial activities and their spread into low-income settlements is likely to continue as the crisis unfolds, representing a clear priority area for urban policy. To inform such policy, further research is required on a number of key issues, including the different informal activities that are emerging; their linkages with the formal sector (through relations of labour and production); their potential to support the livelihoods of the working poor (and the policies required to protect labour); their potential to contribute to employment and economic growth in the transition to a more inclusive and sustainable economy; and their implications for devising formal regulations that promote the potential contributions that informal enterprises and their workers can make in this transition.

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Appendix 1. List of persons interviewed

All interviews carried out by Arif Hasan and Mansoor Raza

Interview no.	Date of interview	Name of person interviewed	Place	Typology	Designation (if any)
1	28.11.2013	Zafar	Dabba Colony, Saeedabad, Baldia Town	Loom worker (<i>karigar</i>)	
2	28.11.2013	Zubeda	Dabba Colony, Saeedabad, Baldia Town	Working woman	
3	28.11.2013	Asif Gul	Dabba Colony, Saeedabad, Baldia Town	Owner of power looms (Gulshan Silk Mills)	
4	28.11.2013	?	Dabba Colony, Saeedabad, Baldia Town	Owner of power looms	
5	11.02.2014	Zafar and Abdul Hakim	Mill Area, Saeedabad, Baldia Town	Recycler	
6	11.02.2014	Mohammad Asghar	Mill Area, Saeedabad, Baldia Town	Iron scrap dealer	
7	11.02.2014	Saeed Nafees Shah	Mill area, Saeedabad, Baldia Town	Labourer	
8	11.02.2014	Muhammad Karim, Muhammad Ejaz and others	Mill area, Saeedabad, Baldia Town	Workshop owner and president of the power loom owners union	
9	11.02.2014	Koshi Muhammad	Mill area, Saeedabad, Baldia Town	Broker	
10	12.02.2014	Abdul Majeed	Forum shopping mall, Clifton	Corporate sector	CEO National Foods
11	13.02.2014	Nadim Ahmad Khan	Arif Hasan's office	Government official	
12	13.02.2014	Iftikhar Ahmed Kaimkhani	Arif Hasan's office	Government official	
13	24.02.2014	Abdul Khaliq	Dabba Colony, Saeedabad	Real estate dealer	
14	24.02.2014	Jawed Memon and others	Mill area, Saeedabad	Brokers	
15	03.03.2014	Kamal Sheikh and Bilal Ahmed	Civic centre	Government official	Assistant Director, Land; Assistant Director, Auction
16	06.03.2014	Muhammad Saleem	Bolton Market	Shopkeeper	
17	06.03.2014	Amir	Bolton Market	Shopkeeper	
18	06.03.2014	Gul Muhammad	Bolton Market	Shopkeeper	
19	06.03.2014	Abdul Razzak	Bolton Market	Shopkeeper	
20	06.03.2014	Bilal	Bolton Market	Shopkeeper	
21	06.03.2014	Muhammad Shahid	Jamia cloth market	Shopkeeper	
22	06.03.2014	Unknown	Jamia cloth market	Shopkeeper	
23	06.03.2014	Salman	Jamia cloth market	Shopkeeper	
24	06.03.2014	Jawed Bashir	Jamia cloth market	Shopkeeper	
25	06.03.2014	Prof. Noman Ahmed	NED University	Government official	Chairman, Department of Architecture and Planning
26	23.03.2014	Ashfaq Ahmed	Saeedabad, Baldia Town	Estate agency	Proprietor

To date, no empirical research has examined the local impacts of economic crises and reform on cities in Pakistan, including Karachi. This study addresses this gap by examining how the textile industry – as one of Pakistan’s most productive economic sectors – has been impacted, with a focus on the informal power loom sub-sector. The factors that have contributed to the decline of the textile industry and the repercussions for this sub-sector, including one of the settlements in which it operates, are discussed. The conclusions contemplate the challenges of formulating urban policy responses to an economic problem that is shaped simultaneously by local, regional and global pressures.

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Funded by:



This research was funded by UK aid from the UK Government, however the views expressed do not necessarily reflect the views of the UK Government.



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