

**Strategic Engagement Abroad and Labour Non-Markets at Home:
Globalisation and Employment in Pakistan**

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1. Introduction

Globalisation is an overarching phenomenon in academic as well as popular understandings of the contemporary economy. Its proponents emphasise the importance of economic liberalisation, specifically removal of any barrier protecting an economy from global exchange. Opening up a country's markets is supposed to bring about profound changes in the domestic economy in general and with respect to employment in particular. This paper attempts to understand the impact of globalisation on labour and employment in Pakistan. It documents how trade liberalisation has been carried out in the country, taking into account the influence of external factors as well as domestic political cycles. A closer look at employment data and actual labour arrangements suggests a paradox: while macroeconomic trends of a 'globalised Pakistan' are by and large heavily dependant on external politics, domestic social institutions like patriarchy and hierarchy continue to shape labour markets and employment opportunities.

The following section employs a political economy lens to summarise Pakistan's experience with trade liberalisation. Standard trade theory is then reviewed in Section 3 along with a discussion of its application in the Pakistani context. Section 4 examines recent empirical evidence to understand trends in the labour market followed by an analysis in Section 5 accompanied by a description of informal institutions that influence the functioning of the labour market in Pakistan. In Section 6, we argue that globalisation had already influenced the labour market even before specific trade reforms. Section 7 offers concluding remarks.

2. Globalisation: contextualising Pakistan's experience

Globalisation is the integration of a country in the global system. Trade liberalisation is one aspect of globalisation and another aspect is the international movements of capital, including foreign investment, portfolio flows and aid.¹ In the last few decades, the move towards free markets and opening up of trade barriers has changed the system of production to a more globalised one. This has impacted the international division of labour and the in turn domestic labour markets.²

To understand Pakistan's experience with trade liberalisation, it has to be analysed within a political economy framework. Many developing countries, Pakistan included, followed protectionist policies in the 1950s and the 1960s to protect their infant industries against global competition. The first major reversal of the policy regime of the 1950s and 1960s occurred in 1972 when the rupee

¹ Harrison and McMillan (2010)

² Milberg (2004)

was devalued by 58 per cent.³ Pakistan had just transitioned from military rule to civilian rule and had lost East Pakistan and the export revenue that it had contributed.

The devaluation was not accompanied, however, with other policies that have come to be associated with globalisation. It was a specific response to a particular crisis in the economic model that had been in place in the previous decade. Another response was to go for large-scale nationalisations in the industrial and financial sectors, and investments through public sector enterprises.⁴ The 1970s saw modest economic growth and relatively high rates of inflation.⁵ The populist government which oversaw this period was blamed by its detractors for adopting anti-growth policies, but hailed by its supporters for equalising income distribution and economic opportunity.⁶ In fact, besides domestic economic management significant exogenous factors were also at play – most notable being the oil price shocks of 1973 and 1974.⁷

The elected government was overthrown in a military coup in 1977, and the incoming regime initially signalled its support for a liberal economic policy. A macroeconomic crisis forced the military regime to apply for structural adjustment lending from the IMF, which led to limited privatization, devaluations and loosening exchange-rate controls. By the early 1980s, however, Pakistan found itself at the centre of the Cold War, when the US decided to confront the USSR in Afghanistan. The military regime was the beneficiary of massive flows of aid and concessional lending, and lost interest in pushing through with its early promise of pro-market reforms. In addition, the inflow of remittances from Pakistani migrants working in the oil-rich Gulf states which had begun in the 1970s, now became a major factor in the national economy.⁸

By the end of the 1980s the country started facing a macroeconomic crisis once again. The war in Afghanistan also began to wind down as the direct military occupation of that country by the USSR came to an end. The death of Pakistan's military dictator in a plane-crash in August 1988 created conditions for a transition to civilian government. One of the pre-conditions for the negotiated transfer of office to elected representatives was their endorsement of an IMF Structural Adjustment Program (SAP). This programme is seen as a significant turning point in the liberalisation of the Pakistani economy.

Trade barriers were removed, exports were promoted, privatization was encouraged and to keep in line with neo-liberal policies, the size of the government was reduced. In 1990, the incidence of import duties was about 40%

³ *ibid*

⁴ Gazdar (1999)

⁵ Haque (1999)

⁶ Gazdar (1999)

⁷ SPDC (2006)

⁸ Gazdar (1999)

which rapidly declined over the decade and in 2004, it was under 10%. In addition to trade liberalization, capital accounts were also opened up and foreign direct investment (FDI) was encouraged.⁹

In the decade of the liberalisation (the 1990s), real GDP growth in Pakistan fluctuated, however, had an underlying downward trend. The period was marked by the steady isolation of Pakistan from the global system, as its western allies lost interest in the country's strategic position following the end of the Cold War. Pakistan's economy, which had become accustomed to generous foreign assistance, now had to deal with the consequences of past profligacy. Although the country was formally ruled by elected civilian governments, there was much behind-the-scenes interference in political matters on the part of the powerful military. This interference, in addition to the inability of the main political parties to evolve an agreed modus vivendum contributed to political instability.

Trade liberalisation reforms, in the meanwhile, led to a squeeze on fiscal revenues, as import taxes were scaled down without compensatory increases in domestic indirect taxes. In 1999 the military stage a coup once again, citing, among other things, poor economic performance as a reason for the takeover. The military regime which faced political isolation abroad was forced to initiate touch stabilisation measures alongside further liberalisation, not only of trade but of investment. There was a stress on freeing up the financial sector from regulation, as well as providing lucrative incentives to foreign investment.

The economy remained stagnant, however, until after 2001, when growth rates began to rise to historically high levels, reaching the 8.4% mark in 2005. The main turning point in economic growth coincided with significant inflow of military aid, development assistance and concessional lending. A debt re-scheduling was negotiated in December 2001, which amounted to a windfall gain of equivalent of 2% of GDP¹⁰. This renewal of foreign economic support was a direct consequence of the country's engagement with yet another strategic military alliance following 9/11. This same period also saw sharp increase in private financial flows into the country – largely attributed to capital returning from abroad as a result of the fear of greater international surveillance of 'Muslim' and 'Pakistani' funds.

Economic policy favours the financial sector as the primary channel for the utilisation and assimilation of these massive new inflows. Various financial markets boomed, and new domestic as well as international players entered the scene. There were derivative booms in property investments and prices as highly liquid investments chased for high returns. The policy regime became more open to international investment in various sectors. Public investment increased in this period for the first time since the early 1990s, as the government was awash with funds. This growth period began to falter, however,

⁹ SPDC (2006)

¹⁰ based on authors' own estimate

from around 2006 when the current account deficit started to increase. Manufacturing growth had peaked a year earlier. This period witness a decline in the tax-GDP ratio to below ten per cent.

An economic crisis was precipitated in 2007, and continued into late 2008. International price bubbles were partly to contribute, but the crisis also exposed the vulnerability of Pakistan's own economic model. 2008 was the year of a transition once again to an elected civilian government, and also the escalation of the war in the north of the country against Taliban insurgents. The economic crisis led to yet another agreement with the IMF in October 2008 aimed at stabilisation.

Summing up, Pakistan's experience of globalisation and economic liberalisation needs to be read alongside the country's internal political changes and its engagement with strategic military partnerships abroad. A conventional view of economic liberalisation simply as a process of market integration and pro-market reforms needs to be replaced by a more nuanced picture of an economy where many reforms are initiated but left unfinished when there is a politically-induced improvement in external balances and internal resource availability. While all Pakistani governments since 1988, including bitter civilian rivals as well as their military detractors, have accepted the basic neoliberal logic of pro-market policies, their success at actually going through with many of the proposed reforms has been limited.

Moreover, despite international rhetoric about economic openness, Pakistan's experience, particularly in the 1990s showed vividly the dangers to national economies of being cut-off from the global system due to political differences with powerful industrial economies. Even at the present moment, one of the main constraints to Pakistan's greater engagement with the global economy is not domestic policy obstacles but the reluctance of international investors and trading partners to carry out transactions in a country which is seen as vulnerable to insecurity and conflict. Another constant, in Pakistan's globalisation experience, has been the impact of its strategic rivalry and insecurity vis-à-vis its largest neighbour, India. A conspicuous feature of Pakistan's increasing economic openness to the rest of the world is its relatively restricted interaction with India.¹¹ The country's Afghan border is the polar opposite in terms of openness, and is often held responsible for the undermining of even the relatively liberal trade regime that exists.¹²

Finally, it is not possible to properly appreciate the nature of Pakistan's process of economic liberalisation without reference to the importance of worker migration

¹¹ Between 1999 and 2004, India's share in Pakistan's trade was less than 2% and Pakistan's share in India's trade less than 1%. (Sayeed, 2011)

¹² There exist strong cross-border linkages between Pakistan and Afghanistan. Cities such as Quetta and Peshawar, and surrounding areas, and the bordering regions of Afghanistan are virtually a single market. (Collective for Social Science Research, 2005 Collective for Social Science Research, 2006).

and foreign remittances. Since around the late 1970s, the emigration of Pakistanis to labour markets in West Asia and elsewhere has remained a significant factor in domestic labour markets.

3. Theoretical perspective

According to the neoliberal orthodoxy, liberalisation should lead to higher growth rates. Employment is the critical link between economic growth and poverty reduction. This link is sometimes acknowledged explicitly, but at other times only implied. This paper takes the view that employment needs to be viewed primarily through the lens of poverty reduction.

The standard neoliberal account of the domestic implications of trade liberalisation builds upon the original insight in classical economic theory relating to an economy's comparative advantage. According to this view, trade liberalisation increases the real income of the abundant factor in the economy.¹³ For labour-abundant countries such as Pakistan, an increase in trade should increase demand for labour-intensive products in which they have a comparative advantage. As a consequence, the demand for unskilled workers increases leading to a sectoral shift in the labour market towards unskilled labour.

Since free trade would be favourable for unskilled workers, the relative wage inequality between skilled and unskilled workers should also reduce, thereby, reducing poverty. Proponents of free trade, use these theories to argue that trade reform can lead to pro-poor growth.¹⁴ Moreover, cross country evidence and a review of economic literature shows that increased trade liberalization should result in the feminization of manufacturing labour especially in developing countries which produce more labour intensive products as female workers are usually concentrated in sectors requiring unskilled labour.¹⁵

Some of the readings of trade theory have been criticised on the grounds that the assumptions underpinning the simple models are unrealistic, and the linkages between openness, growth and poverty reduction are typically fraught with complexity. Studies using trade data for India and Poland, for example, show that labour market distortions such as the immobility of labour prevent the predictions of standard trade theory from coming true, as they assume labour to be completely mobile. As a result, increase in trade does not necessarily have a favourable impact on poverty and in fact trade reform can hurt the unskilled labour class who have been generally employed in sectors such as textiles that

¹³ The Heckscher-Ohlin model and the Stolper-Samuelson theorem represent a widely accepted interpretation among neoliberal economists, of the classical trade model due to Ricardo (Harrison and McMillan, 2010).

¹⁴ *ibid*

¹⁵ Ahmed & Bukhari (2007)

had previously been protected.¹⁶ In Pakistan, a majority of industries that had been protected experienced a decrease in percentage share of employment after removal of trade barriers.¹⁷

Cross-country studies have shown that trade liberalisation, specifically FDI-induced trade, increases income inequality rather than reducing it as predicted by standard trade theory. FDI usually “flows into extractive, natural resources-based or capital-intensive industries or more recently in high skills-based services Industries” which usually increase returns to skilled workers, and not to unskilled labourers, therefore increasing relative income inequality.¹⁸

SPDC (2006) carries out simulations of the Pakistan’s economy to assess the change trade liberalisation has had, and will have in the future. Trade liberalisation does not hurt the poor as it enhances growth through increase in investment and productivity. However, loss of revenue from import taxes decreases government revenue leading to a fall in public expenditure which impacts the poor. This can be combated by introducing, in conjunction with trade reforms, other fiscal policies and “strengthening key domestic institutions”.¹⁹ Trade reform can, thus, only help reduce poverty or improve lives of unskilled workers if they are carried with complementary policies in place. These include social safety nets, policies removing barriers to labour mobility and policies improving access to credit and technical knowledge.²⁰

4. Workforce and employment trends

We use data from the Labour Force Surveys to assess the impact globalisation on the labour market in Pakistan. Simple statistical evidence is used to determine the trend in the labour market in the last decade to see if liberalisation of the economy has increased employment, caused shifts in the sectoral employment and altered the gender imbalance in the labour market. As the economy was significantly liberalized in the 1990s, labour data from the decade after i.e. 1999 – 2008 is analyzed.

Less than half the working age population in Pakistan is involved in the labour force (Table 1). These figures are somewhat biased as the Labour Force Survey counts anyone above the age of 10 years as being of “working age”. Taking the male participation as a benchmark, however, it is still the case that a substantial portion of women are not in the workforce. Although the female labour force participation rate has increased somewhat, it remains low.

¹⁶ Harrison and McMillan (2010)

¹⁷ Based on comparison of employment share in “potential IS industries” between FY86 and FY01. See SPDC (2006)

¹⁸ For a review, see SPDC (2006)

¹⁹ *ibid*

²⁰ Harrison and McMillan (2010)

Table 1: Labour force participation rates – per cent

	1999-2000	2005-2006	2007-2008
Both sexes	42.8	46.0	45.2
Male	70.4	72.0	69.5
Female	13.7	18.9	19.6

Source: Labour Force Survey, various

The distribution of the workforce by type shows that a large proportion of even those who are reported to be in the labour force cannot be counted as being in the labour market. Table 2 shows that “unpaid family helpers” constituted over a quarter of the total workforce and that this proportion had actually increased in the recent period.

Table 2: Distribution of workforce by type – per cent

	1999-2000	2005-2006	2007-2008
Employer	0.78	0.90	0.93
Self-employed	42.23	34.90	34.16
Unpaid family helpers	21.41	26.9	28.94
Employees	35.58	37.3	35.97

Source: Labour Force Survey, various

The male-female classification of workers by type (Table 3) confirms the importance of the gender dimension in the Pakistani workforce. Nearly two-thirds of female workers were unpaid family helpers and the proportion had increased since 1999-2000. A surprisingly high number of male workers too (one-fifth) were unpaid family helpers. Four-fifths of all unpaid family helpers were in agriculture. Even after accounting for gender and sector, unpaid family workers were relatively more likely to be rural and from larger households.²¹

Table 3: Distribution of workforce by type and gender – per cent

	Male		Female	
	1999-2000	2007-08	1999-2000	2007-08
Employer	0.90	1.16	0.14	0.05
Self-employed	46.40	39.63	16.64	12.83
Unpaid family helpers	16.73	19.68	50.14	64.98
Employees	35.98	39.52	33.14	22.14

Source: Labour Force Survey, various

²¹ Shahnaz, Khalid, and Akhtar (2008).

Underemployment, measured as the proportion of workers reporting that they worked for less than 25 or 35 hours a week stood at 6.5 per cent 14 per cent respectively in 2007-2008. In the recent years the pattern of under-employment was seen to be shifting towards “unpaid family helpers”. While 30 per cent of the self-employed and 28 per cent of the employees in 1999-2000 were working for less than 35 hours weekly (Table 4), by 2007-2008 underemployment was overwhelmingly concentrated among “unpaid family helpers”. This might suggest some degree of specialization among households and in the labour market - as those who were in the labour market (as employees or own-account workers) were now working longer hours and workers outside the labour market were working less.

Table 4: Per cent of workforce reporting working under 35 hours/week by type – per cent

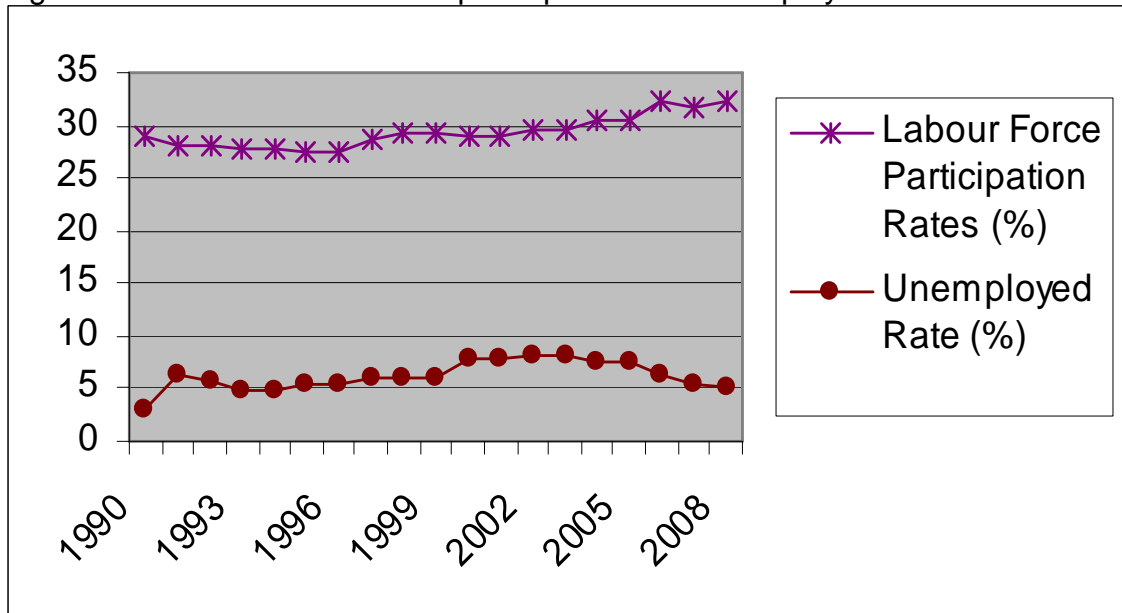
	1999-2000	2005-2006	2007-2008
All workers	100	100	100
Employer	0.42	0.49	0.28
Self-employed	30.3	22.7	21.5
Unpaid family helpers	40.9	53.0	57.8
Employees	28.3	23.8	20.5

Source: Labour Force Survey, various

Trends in labour force participation and unemployment rates (Figure 1) indicate that the previous decade was marked by unemployment rates compared with historical data, but that the end of the decade saw a decline in unemployment to the level of the 1990s, the period before the economic liberalization. Whether and to what extent these latter downwards trends were sustained over the period of economic downturn from 2007-2008 onwards remains to be seen. The reduction in unemployment towards the end of the reference period was largely due to increase in “unpaid family labour” category.²²

²² Anwar (2009).

Figure 1: Trends in labour force participation and unemployment rates

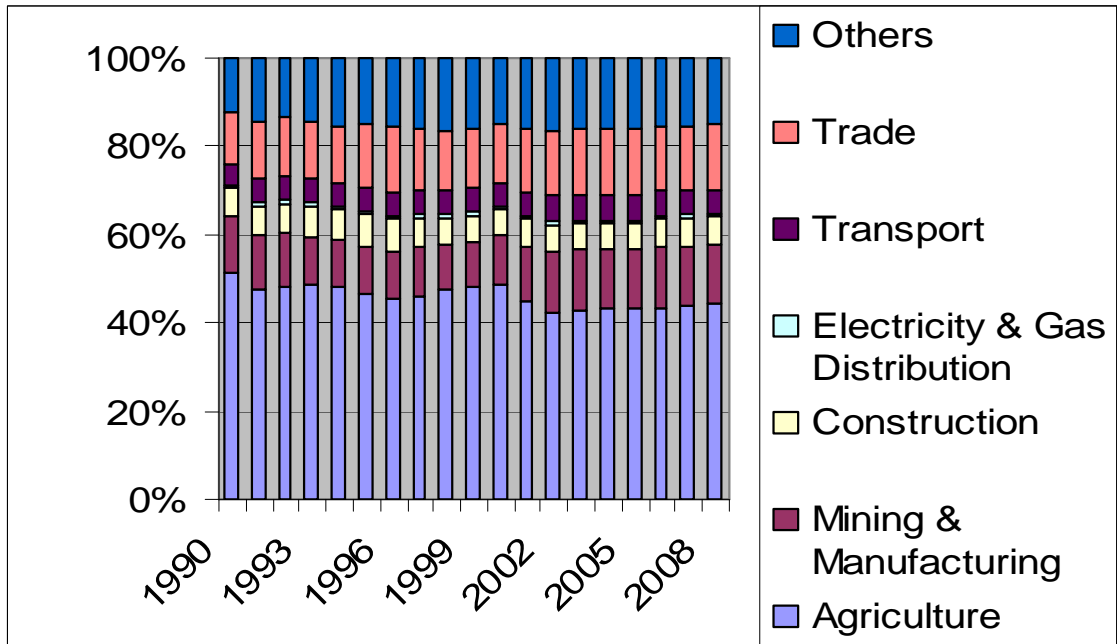


Source: Labour Force Surveys, various

The sectoral trends in employment (Figure 2) suggest that the contribution of agriculture declined from above 50 per cent in the early 1990s to the low 40s towards the end of the last decade. Service sector activities were major contributors to this trend and manufacturing a minor contributor. In the same period agriculture's contribution to the GDP had declined from 26 per cent to 21 per cent. By the end of the last decade, crop farming contributed under a 10 per cent of the GDP compared with 15 per cent in the early 1990s. This implies that agriculture remained a reserve of under-employment.

The last decade saw a mixed record in economic growth with a strong correlation between growth and external strategic and economic conditions. Growth was low in the early part of the decade, speeded up in the middle, and then decline towards the end of the decade. In terms of job creation, however, the overall experience was even less promising. The proportion of the workforce employed in formal sector jobs declined for males and females (Table 5).

Figure 2: Trends in sectoral distribution of workforce



Source: Labour Force Survey, various

Table 5: Distribution of workforce by formal/informal and gender – per cent

Sector	MALE		FEMALE	
	1999-2000	2007-08	1999-2000	2007-08
Agriculture	44.43	36.87	72.93	74.98
Non-Agriculture	55.56	63.12	27.14	25.07
Formal	19.01	17.15	9.29	6.86
Informal	36.55	45.97	17.79	18.22

Source: Labour Force Survey, various

To summarize trends, it can be seen that in the last decade unemployment increased, and only declined in the last two years. However, a large part of this decline can be attributed to an increase in employment of unpaid family workers. Moreover, data shows that the gender gap between male and female employment is still wide and that the proportion of women unpaid family workers increased, while proportion on female employees decreased. Sectoral trends show that there was a decrease in workers in the agriculture sector and that liberalisation did not result in increasing employment in the manufacturing sector. The service sector, on the other hand, has seen an increase in employment. Lastly, there has been a shift in the workforce from the formal to the informal sector.

5. Analysing the trends

As discussed in the introductory paragraphs, growth in Pakistan is sensitive to external changes. The economy responded to exogenous impulses such as greater aid and capital inflows during the 2000s. Growth was led largely by the service sectors, particularly the financial sector, and partly by public investment up to around 2006-2007. As the employment data reviewed above have shown, the linkage between growth and poverty reduction through employment was relatively weak.

There were concerns in other countries too about the weak employment effect of economic growth in the recent period.²³ Many of the conditions that were studied more rigorously in these countries also appear to hold true in Pakistan. It was found that unlike East Asia the South Asia region did not succeed in escalating the creation of high quality jobs. The main causes of this failure were found to be poor infrastructure development in the region, and the unavailability of skilled labour in some of the countries including Pakistan.²⁴

The experience of these countries with respect to the growth-employment linkage suggested a number of important lessons. In India it was found that states with high levels of pro-worker regulation had not been able to create high quality formal sector jobs, whereas states with pro-employer regulation had been more successful in expanding formal sector employment.²⁵ Mexico showed that an overwhelming focus on liberalization – without corresponding improvements in skills and incentives for formal job creation - could lead to stagnation in employment.²⁶ The International Labour Office (ILO) found that it was important for countries to find the optimal mix between labour market flexibility and worker security, and that regulatory regimes that found the correct balance were successful not only with respect to employment generation, but also in terms of economic growth and poverty reduction.²⁷

Cross country evidence shows that as income increases the size of the informal markets decreases as workers move from informal to formal labour markets. However, South Asian countries are huge outliers. Labour market distortions restrict the mobility of labour force from moving to formal markets from the informal sector and from rural to urban areas.²⁸

²³ See Gordon and Baily (1993), and Bhattacharya and Sakthivel (2004).

²⁴ Khan, A. R. (2007)

²⁵ Ehrenpreis (2007)

²⁶ Ehrenpreis (2008)

²⁷ Sharkh (2008); Vandenberg (2008)

²⁸ Ghani (2010)

5.1 Increase in the informal sector

As a result of adhering to the conditions laid out by the SAP, Pakistan underwent several macroeconomic changes. This included reduction in subsidies on utilities, increase in interest rates, reduction in public expenditure on infrastructure and the introduction of the indirect direct taxes in the form of a General Sales Tax. This increased the cost of manufacturing and become a “push factor” towards sub-contracting – since wages in the formal sector are rigid downwards, firms seeking to cut down costs, would choose to cut down on jobs and move towards sub-contracting. Women make up a large part of the informal sector which is largely unregulated²⁹. According to Pakistani labour law, workers are those who work in an industry with more than 10 employees. As a result home-based workers are usually not protected by labour laws.³⁰ This explains the trend in the increase in informal sector employment post liberalisation.

5.2 Impact of liberalization on female employment

According to SPDC (2010) trade liberalization has not delivered increased employment for both male and female workers, as assumed it would. The increase in female participation rate in the last 2 decades has been mostly due to increase in women as unpaid family workers.³¹

Data shows employment of women in urban areas to have increased in 1991 and then steadily declined. However, available data can be misleading as employment of women might be underreported. Other changes in the economy indicate that there might have been an increase in employment of women post-liberalization. There has been an improvement in literacy rates among women in urban areas between 1981 and 1999. Increasing literacy rates should enable more women to join the labour force. Secondly, privatization and deregulation decreased government employment both in previously nationalized industries and in government departments. Since a large number of male workers were laid off, women had to step in to support their families. Lastly, poverty levels increased in the 1990s which again indicates that more women had to take up employment.³²

5.3 Social institutions and labour

While Pakistan might have liberalised its economy by encouraging free trade and inflow of capital, the labour market is still influenced by local institutions. Pre-modern practices of bonded labour and child labour still exist and informal

²⁹ Balakrishnan and Sayeed (2002)

³⁰ Khattak (2002)

³¹ SPDC (2010)

³² Balakrishnan and Sayeed (2002)

institutions such as social networks play a great role in the labour market. Social norms regarding the role of women dictate the labour market and women remain under represented in the workforce.

Social institutions and social marginalization influence the functioning of labour markets, and contribute to the prevalence and perpetuation of various non-market labour arrangements. The clearest instance of this is observed with respect to gender and patriarchy, and it was seen above that the labour market is highly segmented by gender. Societal institutions as well as economic constraints also play an important role in the perpetuation of child labour. Extreme forms of exploitation often work across multiple dimensions of social marginalization, and manifest themselves in the shape of forced labour and bonded labour. These extreme forms of exploitation, however, need to be viewed as part of a more general continuum of labour arrangements, in which personalized transactions and obligations remain important even in apparently “open” labour markets.³³

Women workers

Women’s access to the labour market – both formal and informal – is heavily regulated by families and communities. There continue to be strong social norms governing women’s access to public spaces and their ability to take up remunerative activities outside the family sphere. While it is common for women in rural areas to work outside the home – e.g. cotton farming depends on female labour – working outside the context of the family is still regarded as an undesirable activity among many communities. So much so that taking up paid employment outside of one’s family context is often seen as a marker of lower social status. These norms are breached in many urban areas and at the upper segment of the labour market.

In urban areas with rapidly diversifying economic opportunities women’s limited mobility and autonomy has led to a growth in home-based work. This work, which is often carried out by women and children, places workers at a great disadvantage in terms of pay, working conditions, bargaining power and contractual security.³⁴

Women’s access to formal paid work is thought to have second round effects for women’s empowerment on several counts.³⁵ Direct access to sources of livelihood reduces dependence on male household members. Over time the increasing presence of women in the public domain is likely to change the gendered division of space in Pakistani rural and urban communities, making it easier for women to access not only economic resources but also political and

³³ Informal social networks, for example, play an important part in access to most labour markets and also facilitate intra-country and overseas migration.

³⁴ See Azhar (2009).

³⁵ For a review see Khan (2007).

social resources that are their citizenship-based entitlements. Even relatively low-paying public sector engagement can have important social repercussions in terms of women's empowerment in many communities.³⁶

Women's participation in paid work is often a signal of a "double burden" – that of earning a living as well as providing care within the family. Pakistan's recorded rate of female labour participation is so low, and the correlation with the gendered division of space so close that the expansion in women's autonomous economic opportunities is bound to be a move in the positive direction.

Child labour

Child labour is complicated for many of the reasons that apply to women's work. There are stronger formal legal restrictions on sectors and activities considered to be harmful. At the same time the law and policy provide a great deal of leeway to existing social norms and practices. In fact, it is widely acknowledged that there are no reliable up to date statistics on child labour in the country. Child labour is closely linked to the absence of good quality and affordable schooling, and some counts rely on the number of children of school-going age who are out of school as the starting point. Child labour is also often linked to social marginalized and social hierarchy – as it is children belonging to marginalized groups who end being exposed to dangerous and harmful economic activities.³⁷

Bonded labour

The persistence of bonded labour and other forms of forced labour is the starkest indication that the relevance of the labour market framework remains severely restricted in Pakistan. Bonded labour is defined in law to denote any form of employment where forced labour is procured against debt or on any other pretext. Bonded labour abolition legislation has been useful for highlighting a once-neglected issue. Two decades since enactment, however, the task of abolishing bonded labour outright remains to be achieved. In fact, there is still a dearth of reliable empirical evidence on the incidence of bonded labour and its regional and sectoral prevalence.

It is widely believed that some sectors and regions such as brick kilns in Punjab, agricultural tenancy in Sindh have a high prevalence of bonded labour. Nationally representative household and labour force surveys have been of limited use in ascertaining the scale of the problem. Qualitative studies and smaller scale sample surveys have shown that bonded labour is not limited to these sectors, and not all credit-labour contracts in these sectors are necessarily coercive.³⁸

³⁶ See Khan (2008) on the impact of Lady Health Workers on women's empowerment in rural areas.

³⁷ See Danish (2009) and Khan (2009).

³⁸ See Danish (2009), and ILO supported sector studies cited there.

Social marginalization along the lines of group identity (caste, kinship, ethnicity, religion) is one common factor in the presence of bonded or forced labour. Individuals and families who belong to traditional marginalized groups – “low” castes, indigenous communities, and religious and ethnic minorities – are particularly vulnerable to forced labour. In many instances the debt or *peshgi* relationship – credit-labour linkage – is significant. Dependence on employers for residential land also plays an important part. In general, situations where employers have recourse to strong collective action and workers are socially marginalized and politically disempowered, have a high degree of vulnerability to bonded or forced labour.

Social networks

The importance of social networks is simply the flip side of social marginalization and labour vulnerability. Labour arrangements in Pakistan range from the highly coercive to contracts with a high degree of worker protection. Despite the existence of protective laws and legal mechanisms, there is a great deal of inequality between individuals in their ability to access existing laws and protections.

Social networks play a key role in facilitating employment opportunities, lowering the cost of migration, and creating assurance between workers and employers. Personal recommendation or *sifarish* on the part of someone with whom there is a prior social connection is quite often the only way in which jobs and workers get matched. The role of personal connection is important in the traditional *ustaad-shagird* systems of apprenticeship and vocational training.³⁹ Even in the case of overseas migration personal and kinship relations dominate formal arrangements for labour matching.

While micro-level studies generally reveal the personalized nature of labour arrangements even in the urban sectors, there is relatively little statistical data or policy focus on this aspect of labour and employment. This implies that even though labour markets have a potentially emancipatory role, in the absence of promotional policies these markets will reverse existing social inequalities only slowly. Existing social norms and hierarchies mediate access to opportunities that open up as a result of public and private investment or in the overseas labour markets.

On one hand, in Pakistan, liberalisation of the economy aims to modify the economic structure to make it more globalised, but at the same time, informal institutions and practices like child labour and bonded labour still exist in the labour market. As a result, outcomes of trade theories like Hecksher-Ohlin theory and Stolper-Samuelson theorem, which assume labour markets to be well-functioning, cannot be translated to reality in the Pakistani context. Modern economic growth is meant to bring with it a structural change from the traditional

³⁹ Janjua and Naveed (2009).

to the modern sector. The existence of practices is evidence that in Pakistan economic growth has not delivered this transition.

6. Globalisation of labour – before liberalisation reforms

One aspect of globalisation is migration of labour. While it can be said that flow of labour between countries is far from being mobile, workers from Pakistan have moved to foreign countries to search for employment. In the 1970s following the global oil shocks, countries in the Gulf became wealthier and embarked on a series of development projects. Thus there was a demand for both skilled and unskilled labourers.⁴⁰ A substantial number of workers from Pakistan took up these jobs in the Middle East which had a favourable impact on foreign reserves in the 1980s. In 1982-83 workers remittances equalled to over one-tenth of the GDP.⁴¹ Migration of workers from the rural areas also had an impact on female employment in Pakistan as it increased opportunities for women to take up work.⁴²

A substantial part of the labour force is still made up of Pakistani workers employed abroad. In 2008, for example, the flow of workers abroad was over 400,000.⁴³ This amounted to around 28 per cent of the total addition in the size of the domestic workforce between 2006-07 and 2007-08.

Using conservative assumptions about the length of stay abroad it is estimated that the stock of Pakistani workers in non-OECD countries is around 1.6 million.⁴⁴ The total number of Pakistani residents in OECD countries amounted to around 575,000 individuals in 2000.⁴⁵ Even if one out of every three Pakistanis in the OECD countries were a worker (others being students or non-working family members) the total number of Pakistani workers abroad would be around 1.8 million persons. This amounts to 3.5 per cent of the total domestic workforce.

7. Conclusion

Proponents of globalisation emphasise the importance of removing protective barriers and greater external integration. They use trade theory arguments which

⁴⁰ SPDC (2010)

⁴¹ Gazdar (1999)

⁴² SPDC (2010)

⁴³ Ghayur (2009c).

⁴⁴ Based on Bureau of Emigration and Overseas Employment, Ministry of Labour and Overseas Pakistanis, Government of Pakistan, Annual Data on Labour Migration 1971-2006. URL: <http://www.beoe.gov.pk/DATAS/Country%20wise%2071-2006.xls>

⁴⁵ Organisation for Economic Cooperation and Development (OECD), Database on Migrants and Expatriates, updated 2005, based on OECD national census reports circa 2000. URL: http://www.oecd.org/document/51/0,3343,en_2649_37415_34063091_1_1_1_37415,00.html

declare that free trade reduces poverty in a developing country as trade increases relative incomes of unskilled labour. Gender imbalances in the labour market are also corrected as employment of women is boosted as women make up a bulk of unskilled labour. The neoliberal argument however, does not take into account specific features or circumstances in a country which usually substantially influence functioning of markets and impacts economic performance.

For Pakistan, trade liberalisation and globalisation has not just been driven by economic policy imperatives. In fact an understanding of Pakistan's political and economic history highlights the importance of strategic military engagement and its interplay with domestic policies. Pakistan has experienced bursts of growth in those times when it has been of strategic importance to Western powers. During the war following the Soviet attack in Afghanistan and again in the war after the 9/11 attacks, Pakistan's growth rates peaked. This was mainly a result of an increase in inflow of funds in the form of military aid and concessionary lending, augmented by remittances coming from ex-pats abroad. The importance of external dependency is brought out even more when macroeconomic indicators of periods with decreasing foreign assistance are analysed. Paradoxically, because of social, political and economic conditions in these times, foreign investment and trade have decreased.

Likewise, conflict between India and Pakistan has resulted in minimal trade through Pakistan's eastern borders, preventing the notion of trade liberalisation from being fully realized. At the same time, and from well before the 1988 turning point, the western border with Afghanistan has remained virtually unregulated also for political and strategic reasons, and hence a source of *de facto* liberalisation even during the period of protectionism.

The influence strategic politics has on access to the global economy is further illustrated by the imposition of sanctions by key Western states or the international community. The end of the Cold War led to the revival of interest in globalisation, but also coincided with the widening use of economic sanctions to isolate many countries from the global economy. In the 1990s, Pakistan faced economic sanctions on the basis that it was developing nuclear weapons. In fact, economic sanctions of varying duration and severity have affected a large number of countries in this period. The most conspicuous cases have included Iraq (1990 to 2003), Iran, North Korea, Libya, and Cuba, and Pakistan's experience with globalisation has also been, at least partly, coloured by sanctions. Being cut off from the global economy is, therefore, not necessarily a result of a country's own agency but can be a product of political differences with leading world powers.

According to neoliberal views, trade liberalisation is meant to result in economic growth, increased employment of abundant unskilled workers and better employment opportunities for women. A review of labour data from the previous

decade (1999 – 2008) shows that there has not been a substantial change in the male-female divide in the labour market – female participation in the labour force still remains abysmal. Much of the increase in female employment that has taken place is driven by the increase in women as unpaid family helpers. While unpaid family members count as part of the labour force, they do not generate any earnings for themselves.

There has been a sectoral shift in employment patterns. The share of workforce in agriculture has decreased but this has not translated to an increase in employment in manufacturing - the service sector has seen a boosted in employment while the manufacturing sector has remained stagnant. Unskilled labourers are usually employed in manufacturing industries, which goes on to show that removal of trade barriers in Pakistan has not favoured the unskilled labour force as predicted by trade theory. Moreover, there has been increased informalisation of the workforce as a result of sub-contracting production. Standard labour laws do not apply to the informal sector, wages are not regulated and working conditions are often poor.

Almost two decades after Pakistan entered agreements with the IMF to liberalise its economy social norms continue to determine the functioning of labour markets. Women's access to employment is heavily influenced by patriarchal norms which perpetuates the gender divide in the labour market. Practices of bonded labour and child labour still remain at large. Traditional hierarchical structures dictate access to employment as social networks, in the form of personal contacts (or *sifraarish*), play an essential role in facilitation of employment opportunities. Slowly changing informal institutions, therefore, continue non-labour market arrangements in Pakistan.

To conclude, globalisation cannot be narrowed down to an introduction of a standard economic reform across countries as the shape it takes is largely determined by social and political issues at home and abroad. For example, in Pakistan's case, the labour market had already been exposed to global forces, long before the economy was liberalised, through immigration of workers to oil-rich Gulf States. Furthermore, neoliberal theories assume markets to be well-functioning and able to respond to change not taking into account country-specific labour market arrangements influenced by local institutions. From Pakistan's experience it can be seen that despite global and domestic market integration, labour markets have not been created and non-market arrangements continue to persist.

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