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1992

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MPRA Paper No. 39265, posted 11 Jun 2012 18:58 UTC

The Employment Challenges for Pakistan in the 1990s

Rashid Amjad

At a recent conference organised by the World Bank on the problems of developing countries in the 1990s an eminent economist Professor Richard Eckaus commenting on the recent experience of South and West Asian countries wrote, "Pakistan is a puzzle, a miracle of levitation. With one of the lowest domestic savings rate in Asia, its economy has performed quite creditably. Since we do not believe in miracles, we have to wonder whether the capital inflows that have sustained the growth rate will last" (World Bank Discussion Papers 1990).

There has always been a touch of mystery surrounding the performance of Pakistan's economy. It has always managed to confound its critics. The manner in which the newly born state, soon after independence, set up from almost scratch a well-functioning administrative and financial infrastructure was no less than a miracle. Starting in 1947, from a non-existent industrial base, within less than two decades a significant proportion of its national output originated from the manufacturing sector. It was at the forefront of the agricultural "green-revolution" in the 1960s. In the 1970s over 2 million people left Pakistan for employment abroad mainly to the Middle East. Between 1977 and 1987 they sent back a total of US\$20 billion as remittances through official channels alone, which at its peak in 1982-83 was almost 10 percent of gross domestic output and equal to the country's total export earnings of goods and non-factor services. Remittances together with sustained growth in agriculture in the 1980s contributed significantly to reducing the high levels of poverty. There is general agreement that prevalence of extreme malnutrition and destitution is extremely limited in Pakistan. These are not insignificant achievements. Indeed, its rather sturdy growth rate of around or about 6 percent was once described as the "Pakistani rate of growth"¹ (in contrast to its neighbours "Hindu growth rate" which till recently was around half this figure).

1. Mr Zafar Iqbal, ex-chairman, National Development Finance Corporation, used this expression while explaining Pakistan's growth performance to me in New Delhi in 1988.

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Table 3.1. *Annual Growth Rates of Major Sectors and GNP*

	1949-50 to 1959-60	1959-60 to 1969-70	1969-70 to 1976-77	1976-77 to 1982-83	1982-83 to 1987-88	1987-88 to 1990-91
Agriculture	1.6	5.0	1.6	3.9	3.5	5.0
Large-scale manufacturing	15.4	13.3	2.6	10.5	8.1	3.9
Others	3.7	7.1	6.0	7.6	7.2	5.2
GDP	3.1	6.8	4.0	6.8	6.3	5.0
GNP	3.1	6.8	4.4	7.4	4.9	4.5
Per capita GNP	0.6	3.8	1.2	4.2	1.7	1.3

Note: Till 1982-83 based on constant factor costs of 1959-60 and based on old methodology discontinued in 1988-89. For 1982-83 onwards based on new methodology.

Source: Government of Pakistan 1991.

And yet the concerns expressed by Professor Eckaus on the structural weaknesses of the economy remain equally true and valid. Tables 3.1 and 3.2 provide a broad aggregate picture of Pakistan's economic performance over the past four decades as reflected in the growth of major sectors and key variables such as investment, savings and foreign resource inflows. Not only are the savings rate extremely low as are the levels of investment, but till recently a large proportion of investment was dependent on foreign resource inflows.²

Equally, if not more striking is the fact that despite a respectable growth performance, Pakistan has still not managed to break-away from the group of low income countries (defined by the World Bank as those with a per capita income of less than \$500 in 1990). The binding constraint on our overall performance throughout this period is the continuing high growth rate of population. As table 3.2 clearly brings out, except for the sixties, and for the period end-1970s to the early 1980s the economy has just not managed even a 2 percent growth in per capita GDP. Even more worrying is that fact that in recent years per capita GDP growth has slowed down to around 1.3 percent, almost to the same level of the seventies.

The most direct and socially explosive impact of this high population growth of over 3 percent is on the employment situation. As we shall see from our projections in the next section the Pakistan economy will need to create 2.3 jobs every minute in the 1990s to ensure that the existing employ-

2. It is important to reiterate that the manner in which some of these key-statistics are computed leave grave doubts about how accurately they reflect or capture actual developments in the economy. This is especially true of investment rate and the growth of small scale manufacturing and services sector. Similarly the manner in which domestic savings are calculated (as a residual between investment and current trade deficit) is not very satisfactory especially when there are significant remittance flows into the economy (for discussion on some of these issues see Amjad (1986)).

Table 3.2. *Investment, Savings and Foreign Resources Inflows*
(percentage of GNP)

	1959-60	1964-65	1969-70	1972-73	1976-77	1982-83	1990-91
Gross fixed capital formation	10.5	21.1	14.3	11.3	18.0	15.3	16.3
Private	4.5	11.5	7.3	5.5	5.9	6.6	8.5
Public	6.0	10.0	7.0	5.8	12.1	8.7	7.8
Foreign resource inflows	6.0	10.0	2.7	-0.5	8.2	19.3	3.7
Gross domestic savings	4.5	11.5	11.6	11.8	9.8	6.0 ^a	12.6 ^a

a. Gross National Savings defined as gross domestic savings plus net factor income from abroad for both 1982-83 and 1990-91 was 15.7 percent of GNP.

Source: Government of Pakistan 1991.

ment situation does not worsen, as the labour force will be increasing by 1.25 million per annum in this period.

The principal focus of this paper is on how to meet the challenge arising from the high growth rate of the labour force and its implications for the development strategy for the 1990s. The basic thrust of this paper is that the employment strategy must be seen within the context of an overall strategy for integrated human resources development (HRD) which combines investment in human capital, the "supply side", with the creation of productive employment, or the "demand side", so as to lead to a fuller utilisation of human resources and minimise skill mismatch in the labour market.)

Indeed, the overwhelming evidence from our past experience is that Pakistan continues at a low level of human resources development or what we term as a "low level HRD trap". This condition more than any other helps explain why, despite a satisfactory growth performance, Pakistan is not able to break away from its present low levels of per capita income or move on to a sustained higher growth trajectory as, for example, has happened in a number of South East and East Asian countries.

The "low level HRD trap" is difficult to break out from due to the following reasons. Low levels of education,³ especially female education, is primarily responsible for high fertility rates and resulting high population growth which negates any real gain which may accrue from a respectable level of economic growth. The resulting very low levels of growth of per capita income mean low investment and low savings, and increasing dependence on foreign borrowing to finance development expenditures. Trying to break this "vicious circle" either through attracting substantial amounts of foreign investment or through sustained export led growth is again con-

3. A considerable body of demographic literature supports the view that higher levels of education (especially for women) lowers fertility rates as education delays marriage for women, partly by increasing their chances of employment and their knowledge about family planning (see for example Wheeler (1984) and Corner (1986) for a review of the literature).

strained by lack of trained and skilled manpower. For a key determinant influencing the level and pattern of investment and especially in explaining shifts towards higher value added industries is the quality of available human capital.⁴ Perhaps the most worrying feature of this situation is that a bold response to meet this challenge remains singularly lacking. The "low level HRD trap" also permeates a short-term planning horizon with government and people hesitant to invest resources in human development, due to a perception that dividends from these investments take a long time to realise.⁵

In these circumstances Pakistan's growth strategy for the 1990s must not only reflect an immediate concern for the employment situation but also initiate decisive steps to break away from this "low level HRD trap" so that the nation can enter the 21st century no longer constrained by an unbearable growth rate of population and inadequately trained and equipped human resources. This will require not only far reaching "economic reforms", many of which the present government has initiated, but a bold concentrated effort, will and determination from all members and sections of society, especially to raise public consciousness and change attitudes in the field of female education. Women still remain Pakistan's most neglected, underpaid and overworked human resource. Given to choose one particular variable to break the "low level HRD trap" it would be to concentrate on increasing female education especially at the primary level.⁶

The paper is arranged as follows. Section I attempts within limitations of existing data and measurement problems to gauge the pressures on the labour market in the 1990s. Section II examines employment and labour market problems in a historical perspective to identify the key elements of an employment strategy which can play a major role in tackling these problems in the 1990s. Section III suggests policy measures for tackling the employment problem within an integrated human resources development strategy for the 1990s.

4. Romer (1989) finds, as did Wheeler (1984), that changes in levels of literacy are positively associated with rates of investment as well as the pattern of investment.

5. A few additional points regarding the "low level HRD trap" need to be mentioned. The first that while in some sense it is similar to the UNDP (1990) HRD index which reflects low literacy, low life expectancy and low per capita income it is at the same time a more 'dynamic' concept in that it also reflects the capacity of the economy to generate reasonably high levels of economic growth. Also the UNDP HRD index does not capture the 'natural' skill ability of the Pakistani workforce, as is for example reflected in the success of Pakistani labour in finding job opportunities abroad, albeit mostly in semi skilled and unskilled categories. The need for formal education and skill training is most keenly felt in moving towards higher value added industries especially those using more sophisticated and modern technology. Also with a number of countries (including Eastern Europe and India) now opening up to foreign investment the competition would be greater, and in the choice of location, education and the skill levels of the work force could be extremely important.

6. It is true that this will also increase female labour force participation rates and increase pressures on the limited job opportunities available. However, these costs will be more than outweighed not only in terms of lowering population growth but also the gains that will accrue from having available a more skilled, low cost and flexible female labour force in the economy.

I. THE EMPLOYMENT PROBLEM IN THE 1990s

The projections given in table 3.3 bear out the formidable task the country faces on the employment front in the 1990s. If existing unemployment and underemployment levels are not to increase there is a need to create 1,250,000 jobs per annum over the next decade. The projected growth of the labour force is insensitive to the growth of population in the 1990s (i.e. between the high growth rate of population scenario of 3.5 percent and low growth scenario of 2.5 percent per annum). Any impact on the growth of labour force of slowing down of population growth will be felt after the year 2000. This is because new entrants to the labour force in the 1990s have already been born.

The projection assumes that increases in educational enrolments for both males and females will be offset by increases in female participation rates

Table 3.3. *Population and Labour Force Projections*
(millions)

	1985	1990	1995	2000	2010
Population					
High ^a	96.2	111.6	130.1	151.3	202.9
(Percentage aged 10-24)	(32.5)	(33.2)	(32.7)	(32.0)	(30.2)
Low ^b	96.2	109.8	124.3	140.0	174.9
(Percentage aged 10-24)	(32.5)	(32.1)	(29.6)	(27.8)	(24.6)
Labour force^c					
High ^a	28.5	33.1	38.9	45.8	63.8
(Percentage aged 10-24)	(37.9)	(39.3)	(40.9)	(41.3)	(40.4)
Low ^b	28.5	33.1	39.0	45.4	59.5
(Percentage aged 10-24)	(37.9)	(39.3)	(49.9)	(40.6)	(36.4)
Growth rate (percent per annum)					
Labour force (high)		3.0	3.3	3.3	3.4
Labour force (low)		3.0	3.3	3.1	2.7

a. Based on a decline of total fertility rate from 6.5 in 1985 to 5.1 in year 2010 and birth rate from 44.7 to 36.7 and death rate from 13.8 to 7.7 in the same years (see World Bank, Pakistan: Rapid Population Growth Concerns and Consequences, March 1989).

b. Based on a decline of total fertility rate from 6.5 in year 1985 to 3.6 in year 2010 and birth rate from 44.7 to 29.4 and death rate from 13.8 to 7.8 in the same years.

c. (i) Labour force participation for 1985 are from Labour Force Survey 1984-85 and for 1990 assumed same as in Labour Force Survey 1986-87. For subsequent year changes are based on labour force participation rates and age structure of population as given in World Bank, Pakistan: Employment Issues and Prospects, April 1989.

(ii) Net return migration is assumed at 50,000 per annum between 1985 and 1995 and 20,000 per annum between 1995 and 2000.

Source: Government of Pakistan 1990.

in the 1990s, as better educational facilities for girls enhance their opportunities for employment. However, if secondary enrolment ratios do not increase (from 30 percent in 1990 to 65 percent in 2000), and there is a 30 percent increase in female participation rates over the same period, then the growth rate of the labour force will jump up from 3.3 to 3.6 percent per annum.

On overseas migration, the projection assumes that return migration will exceed out migration by 50,000 per annum between 1990 and 1995 and 20,000 per annum between 1995 and 2000. Even if out and return migration balance each other or there is a marginal positive net migration, the growth rate of the labour force will only decrease marginally from 3.3 to 3.2 percent in the high growth scenario. Migration, it is clear on present trends, will no longer provide the safety valve to increasing population and labour force pressures as it had done in the second half of the 1970s and early 1980s.

The other major challenge in the 1990s will result from the high growth rate of urban population especially in the major metropolitan cities. Pakistan's urban population increased almost four fold between 1951 and 1981 from 6 million to 23.8 million. By the year 2000 the urban population is projected to more than double with over 50 million people or 36 percent of the total population living in urban areas. Pakistan's major metropolitan cities Karachi and Lahore are projected to have a population of over 11 and 6 million respectively (World Bank 1989). This high growth rate of urban population is reflective of both the high natural population growth as well as rural-urban migration. Since a large proportion of the migrant population are of working age, the employment pressures in the urban areas is further accentuated. To that extent the urban unemployment problem is rural in origin but finds manifestation in a politically explosive form in the urban areas, especially in the major metropolitan centers.

The most socially explosive element among the unemployed are the educated youth. Defining the educated as those who had passed matriculation, the National Manpower Commission estimated the imbalance between supply and demand for educated manpower as about 54,000 annually for matriculates and those having passed the intermediate examination (table 3.4). At the graduate level the Commission estimated the number who fail to find jobs at about 3000 per annum. At the master's level with an annual outflow of about 13,000, it was of the opinion that the country is probably facing a shortage of qualified persons. The National Manpower Commission estimated that the cumulative total in 1990 from this persistent imbalance in the supply and demand for educated manpower is about 200,000.

In all probability this number underestimates the extent and intensity of the problem. If we add to their figures the numbers who fail matriculation, the total increases substantially, as almost 45 percent of the approximately 600,000 who appear annually in the matriculation examination fail. The recent survey of the unemployment situation in Karachi (Aisha and Wasti 1989) found that 12 percent of secondary school matriculates and 8 percent of higher educated degree holders and postgraduates were without employ-

Table 3.4. *Imbalances between the Demand and Supply Flows for Educated Manpower*
(thousands)

<i>Education</i> (Col. 1)	<i>Students completing relevant studies</i> (Col. 2)	<i>No. of failed candidates from next higher level</i> (Col. 3)	<i>No. of educated entering into labour market</i>			<i>Estimated annual demand^c</i> (Col. 7)	<i>Imbalance</i> (Col. 8)
			<i>from (2)^a</i> (Col. 4)	<i>from (3)^b</i> (Col. 5)	<i>Total</i> (Col. 6)		
Matric but less than intermediate	77	266	54	40	94	68	26
Intermediate less than graduate	65	109	46	16	62	34	28
Graduate	39	10	30	2	32	29	3
Post-graduate	14	—	13	—	13	12	1
Others	22	NA	21	NA	21	11	10

NA Not available.

a. Using participation rates of 0.70, 0.70, 0.77, 0.94 for matriculates, intermediates, graduates, post-graduates and others respectively.

b. Using participation rates of 0.15 and 0.20 for the failed candidates in inter and graduate examination respectively.

c. The average annual difference between employment for different levels of educated during 1982-83 and 1986-87 has been taken as additional employment demand.

Source: Government of Pakistan, Report of the National Manpower Commission, 1990 p.90.

ment. A survey conducted by Gallup (Pakistan) in 1989 also suggested high rates of unemployment among graduates with 36.4 percent of the responding graduates and higher educated being unemployed. While the low response rate of the survey of around 42 percent makes it difficult to place confidence in their results, it does point to a fairly serious unemployment situation amongst the highly educated.

II. EMPLOYMENT SITUATION FROM A HISTORICAL PERSPECTIVE

In sizing up the implications of the high growth rate of the labour force on the emerging employment and labour market situation one needs to view developments in a historical perspective. An important reason for this is that estimates of "open" unemployment give little feel for actual developments in manpower utilisation. As can be seen from annex table 3-A-1 "open" unemployment estimates are extremely low at about 3 percent and fairly insensitive to overall developments in the economy. This is both because of measurement problems as only a small proportion of the labour force is in formal wage employment and also because unemployment (in terms of having no source of current earnings) is a luxury few can afford. Far more important is the nature of employment in terms of hours of work, the income it generates and the security, protection and the social benefits it affords. What is needed, therefore, is a careful analysis of the kind of jobs the economy is generating, the sectors in which these jobs are being created and income, wages and remuneration levels for different forms of employment. In this context it is also important to examine the legal and administrative regulations imposed by the state on the functioning of the labour market. While these only cover the organised segments of the labour force, in the present era of structural adjustment, deregulation and privatisation, these rules and regulations are being subjected to close scrutiny. Concern is also being expressed that these forms of protection prevent the labour market from adapting to new conditions of production and international competitiveness. There is a growing pressure for increasing labour market flexibility.

Table 3.5 shows the changing sectorial distribution of the employed labour force in Pakistan. The share of employment in agriculture has significantly declined from 66.4 percent in 1951 to 51.2 percent in 1990-91, although it still continues to be the major sector of employment in the economy. The share of manufacturing after an initial increase from 9.9 to 13.8 percent in the 1950s has stagnated at this level and in fact marginally declined in the 1980s. The construction sector significantly increased its share in the 1960s and in the 1980s. The services sector also increased its share in the 1980s after a decline in the 1960s.

To gain a feel of how the employment absorptive capacity of different sectors have behaved in relation to growth of output, estimates of elasticity of employment with respect to value added are presented in table 3.6 for the

Table 3.5. *Sectorial Distribution of Employed Labour Force*
(percent)

<i>Sector</i>	<i>1951</i>	<i>1961</i>	<i>1971-72</i>	<i>1982-83</i>	<i>1990-91</i>
Agriculture	66.4	60.8	58.0	55.4	51.2
Manufacturing and mining	9.9	13.8	13.5	13.8	12.8
Transport, storage and communication	1.7	2.9	5.0	4.8	4.9
Electricity, gas and water	1.8	0.2	0.8	0.5	0.6
Construction	— ^a	2.1	4.3	4.2	6.4
Commerce	7.0	7.1	10.1	11.0	11.9
Services	1.4	12.4	8.4	10.3	12.2
Total	100.0	100.0	100.0	100.0	100.0

a. Included in electricity, gas and water sector.

Source: Ahmed and Amjad (1984) for all years except 1990-91 which is based on 1987-88 Labour Force Survey as given in Government of Pakistan 1991.

major sectors. Given the fact that elasticity of employment estimates are extremely sensitive to growth rates of output, it is advisable to compare elasticities during similar periods of output growth. This is best done by comparing the 1960s with the late 1970s and early 1980s period. The decline in elasticities for the overall economy as well as for the major sectors, is a cause of concern in view of the high growth rate of the labour force and the required pace of economic growth to absorb the new entrants into the labour market.

Since in traditional development theory the "modern" manufacturing sector is viewed as the main engine of economic growth which also serves as the primary source of labour absorption from the "traditional", mainly

Table 3.6. *Elasticity of Employment with respect to Value Added in Pakistan*

<i>Sector</i>	<i>1961 to 1971-72</i>	<i>1971-72 to 1977-78^a</i>	<i>1977-78 to 1986-87</i>
Agriculture	0.48	0.91 ^a	0.41
Manufacturing	0.28	1.10 ^a	0.21
Construction	0.47	0.81	0.61
Transport and communication	1.26	0.45	0.48
Commerce	0.92	0.51	0.45
All Sectors	0.45	0.64	0.36

a. Years of low growth rate of output. Figures reflect increasing underemployment and low productivity.

Source: Government of Pakistan 1990 p.18.

agriculture sector, the stagnation of manufacturing employment is of considerable concern.

Tables 3.7 and 3.8 try to build up a picture of what has been happening to employment in the manufacturing sector in this period. While the figures must be treated with caution, given the poor nature of the data, a number of important trends emerge. First, is the extremely low labour absorptive capacity of the large-scale manufacturing sector. Second, is the dynamism and high rate of growth displayed by the small-scale sector in the 1970s and 1980s in sharp contrast to a much lower rate of growth in the 1960s. Third, within the small-scale sector, is the significant difference between the growth of the urban and rural small-scale manufacturing, with the growth rate of the latter being only half of the former.

It is important to emphasise that the idea is not to run down or build up a case against large-scale manufacturing purely on grounds of its very low direct employment generating capacity. Its indirect impact on employment

Table 3.7. *Employment in the Manufacturing Sector*

	1960-61	1971-72	1977-78	1982-83	1987-88
Large-scale manufacturing	337,000	480,000	580,000	690,000	720,000
Small-scale manufacturing ^a	1,501,000	1,806,150	2,398,928	2,699,044	3,423,900
Total manufacturing	1,838,000	2,286,150	2,978,928	3,389,044	4,143,900
Total labour force	13,517,000	18,270,000	21,840,000	25,220,000	29,600,000

a. Residual of total and large-scale manufacturing sector.

b. Domestic employed labour force.

c. For 1987-88 based on CMI and NMC survey of large-scale manufacturing.

Source: Government of Pakistan 1990 p.27.

Table 3.8. *Employment in Manufacturing—Urban/Rural*

	1971-72	1977-78	1987-88
Total manufacturing	2,286,150	2,978,928	4,143,900
Large-scale ^a	480,000	580,000	720,000
Small-scale ^b			
Rural	1,295,814	1,501,452	1,950,275
Urban	510,366	897,476	1,473,625

a. All large-scale assumed in urban areas.

b. Breakdown of small-scale between urban and rural based on Labour Force Surveys.

Source: Government of Pakistan 1990 p. 27.

through linkages with the small-scale sector as well as other sectors especially trade and services can be substantial. What the overall picture does show is that distortions in the incentive structure, especially fiscal concessions and over valued exchange rate in the 1960s, not only constrained growth of employment in large-scale manufacturing but also meant that linkages with and opportunities for growth of the small-scale manufacturing sector were severely constrained. In sharp contrast is the performance of this sector in the 1970s, when some of the economic reforms introduced had a very favourable impact on employment generation in small-scale manufacturing. Most important of these were the removal of market distortions especially the over valued exchange rate and biased credit policies towards a few industrial groups. These measures led to high growth in small-scale manufacturing.

Recent investigative studies (Hamid 1983; Burki 1990; Nadvi 1990,; and Aftab 1990) have greatly increased our understanding of the small-scale manufacturing sector, its characteristics and the factors influencing its overall growth. At the macro level not only the removal of factor price distortions, but also remittances and the export market have been major factors responsible for the high growth rate of this sector. About 25 percent of total export earnings are generated from industries where most production takes place in small-scale units. The studies also bring out the major constraints to the future growth of this sector in terms of lack of credit, marketing facilities, outdated technology and skilled manpower. This results in low incomes and low productivity. Nadvi (1990) comes up with the startling finding, based on a sample survey of small-scale manufacturing units in Karachi and Gujranwala, that 46 percent of all household units within the small-scale sector and 45 percent of all wage workers were found to have per capita household incomes that places them below the poverty line.

Within the rural economy, with the capacity of the farm sector to generate additional employment fast declining, the need to create jobs in the non-farm rural economy must take high priority. As can be seen from table 3.9 the rising share of non-agricultural employment over time has been accompanied by a significant change in its industrial composition. Of major concern is the decline in rural manufacturing whose share in non-agricultural employment decreased substantially from 39 percent in 1969-70 to 26 percent in 1986-87. Employment in the construction and services sectors recorded an above average growth which has resulted in increases in their relative shares. Remittances have played an important part in stimulating the growth of these sectors.

Indeed, overseas migration has had a far reaching impact on the functioning of the labour market in Pakistan. Again due to a number of recent studies conducted our understanding of this phenomenon has increased substantially (see Gilani 1979, ILO/ARTEP 1987, Kazi 1989, Amjad 1989, and Farooq-e-Azam 1991). On the positive side remittances played an important part in reducing poverty levels, although it is difficult to clearly demarcate

Table 3.9. *Distribution of Rural Non-Agricultural Employment by Industry (percent)*

	1969-70	1974-75	1978-79	1986-87
Mining and quarrying	0.46	0.47	0.67	0.63
Manufacturing	39.86	33.38	31.72	26.03
Electricity and gas	0.53	0.82	1.45	1.10
Construction	10.90	12.21	14.19	16.90
Trade	19.12	20.18	20.94	20.90
Transport	10.16	10.57	8.81	10.21
Services	18.26	20.74	19.80	24.00
Undefined	0.71	1.04	2.74	0.54

Source: Irfan 1990.

the impact of remittances from other favourable developments in the 1980s (see Irfan and Amjad 1983 and Malik 1988). Expenditure from remittances also contributed significantly to the growth of the labour intensive sectors especially small-scale manufacturing, construction and trade and services. On the negative side, the temporary relief or the safety valve which migration provided, detracted from the long-term task of adopting a development path suited to the economic structure of a labour surplus economy. The speed of agricultural mechanisation and introduction of labour saving devices in manufacturing and construction are related to this overall phenomenon.

How have these overall developments affected wage rates in the major sectors in the economy? Table 3.10 provides some evidence for the 1970s and 1980s for agriculture construction and large-scale manufacturing sectors. Earlier studies on wages for the 1950s and 1960s had come to the conclusion that there had been little increase in real wages in agriculture till about the mid-1960s and there may have been a decline in real wages in large-scale manufacturing during this period (Khan and Bose 1968; Eckert 1972; and Hussain 1988). Two important developments changed this situation in the post-1970 period. Labour reforms and increasing political consciousness of the working classes in the late 1960s and early 1970s led to increases in money wages in the 1970s. However, the high inflation rate did not allow these to be translated into significant real wage increases. More significant was the large-scale exodus to the Middle East when almost a quarter of the increase in the labour force left the country during the late 1970s and early 1980s.⁷ The impact of this migration and resulting skill-shortages increased wages especially in the construction sector but also in agriculture and large-scale manufacturing. Subsequently, this growth rate of real

7. In some sense the impact of migration on the labour market is a variant of the 'Dutch Disease'. The supply curve of labour begins to rise prematurely due to higher wage expectations and skill shortages and this makes domestic industry less competitive.

Table 3.10. Trends in Indices of Real Wages in Selected Sectors

	Agriculture		Construction			Large-scale manufacturing
	Casual	All unskilled	Unskilled	Carpenters	Masons	
1970-71	100	—	100	100	100	100
1971-72	105	—	94	102	102	—
1972-73	151	—	91	95	97	—
1973-74	160	100	106	95	94	—
1974-75	127	75	114	102	98	—
1975-76	121	68	129	110	105	114
1976-77	129	76	143	124	123	—
1977-78	134	76	160	142	140	140
1978-79	138	—	160	143	139	147
1979-80	145	85	154	152	145	—
1980-81	191	109	149	142	141	154
1981-82	186	101	146	143	138	160
1982-83	215	119	143	136	135	168
1983-84	220	124	135	128	126	—
1984-85	200	135	149	121	120	—
1985-86	226	139	162	124	123	—
1986-87	234	143	177	133	134	—
1987-88	—	—	192	140	144	—
1988-89	—	—	185	137	141	—
1989-90	—	—	180	134	135	—

Source: Till 1983-84, Government of Pakistan 1990. After 1983-84 for construction workers, Government of Pakistan 1991 and for Agriculture, Irfan 1990.

wages slowed down but the high growth rate in agriculture and the construction sector has meant that real wages have continued to show some increase during the 1980s. This suggests that the high rate of economic growth helped to create employment at a sufficiently high rate to absorb a large part of the additions to the labour force. Decline in participation rates from 30.2 per cent in 1982-83 to 29.4 per cent in 1986-87 also may have reduced pressures on the labour market. One reason for this may be that workers on return from overseas tend not to enter the labour market immediately and live off past earnings.

The other important development in the labour market is the increased casualisation of the work force employed in the organised sector. Unfortunately these developments have not yet been subjected to detailed investigative studies. A recent Asian Regional Team for Employment Promotion (ARTEP) survey (Systems 1990) showed that almost 30 per cent of workers in the organised manufacturing sector were working as casual labour and that a large portion of the increase in employment took this form. While casualisation as a phenomenon appears to be sensitive to protective labour leg-

isolation it is not clear just how sensitive it really is. The tendency towards casualisation and sub-contracting which is increasingly noticeable in Pakistan is in evidence also in countries which have very few regulations on hiring and firing. ARTEP studies in Philippines and Malaysia also show the increasing use of casual sub-contracted labour (see Edgren and Amjad 1990). In Philippines, for example, in general manufacturing only 35 per cent of the labour force are permanent employees. This would suggest that trends towards casualisation and sub-contracting are not driven primarily by restrictions on hiring and firing but by technological factors as well as by attempts by employers to reduce their burden by shifting more of the adjustment burden to the workers.

III. MAIN ELEMENTS OF A STRATEGY FOR HUMAN RESOURCES DEVELOPMENT WITH AN EMPLOYMENT PERSPECTIVE

To break out of the "low-level HRD trap" Pakistan will have to move simultaneously on two fronts. The country has to plan for human resources development including development of employment opportunities for the large labour force which will be expanding at a growth rate of over 3 percent per annum over the next decade. At the same time, top priority must be assigned to bringing down the rate of population increase with maximum speed. As the National Manpower Commission (1990) report forcefully states, "we feel constrained to add our concern that the suggestions developed in this report and the efforts made by the government to deal with the employment and manpower situation would meet with limited success in the absence of a comprehensive socio-demographic policy with determined measures to bring down the rate of population increase urgently. We therefore consider it necessary to urge upon the government to consider an effective and forceful population policy a pre-requisite for any meaningful manpower development and employment program."

The main elements of an employment generation and manpower development strategy as outlined in the National Manpower Commission Report are:

- Accelerating output growth and introducing structural adjustments which improve the overall economic environment for efficient labour utilisation.
- Employment generation in rural areas and small towns through development of physical and social infrastructure, and rural industries as the leading sector to attack rural underemployment and low incomes and reduce rural-urban migration.
- Accelerating development and increasing productivity in small-scale and informal sector enterprises.
- Special measures to reduce unemployment among the educated, not through unproductive public sector employment in administrative jobs, but through meeting the real needs of the economy especially in the social and private sectors.

- Increased opportunities for self-employment especially through better access to credit facilities.
- Development of a well trained skilled labour force to help achieve significant gains in productivity and efficiency primarily through the efforts of the private sector.
- A concerted effort to radically improve the participation of females in income generating economic activities.
- Full support to Pakistanis seeking employment opportunities abroad and assistance in productive re-absorption of return migrants.
- A comprehensive program to meet high-level manpower needs in science and technology to take Pakistan into the twenty-first century.
- Strengthening the institutional machinery for effective monitoring and implementation of policies for human resource development.

There is an obvious and strong relationship between growth and productive employment. With faster growth, labour absorption becomes easier, wages and working conditions can improve, more resources can be devoted to anti-poverty programs and more room can be found for implementing redistributive policies. Yet, it has to be recognised that the benefits of the earlier decade of growth in the 1960s were both slow in trickling down to the poor, and their impact on employment generation was minimal. In contrast, the 1970s were a period of very low growth, but it witnessed both substantial increases in employment in a number of labour intensive sectors as well as significant reduction in poverty levels. Of course, developments in the domestic economy in the late 1970s and early 1980s cannot be separated from the dramatic increase in Middle East migration, leading to labour market shortages and gaps which generated pressures on wages in both rural and urban low-skill occupations. In turn, the heavy flow of remittances by migrants created a buoyancy in the domestic economy which allowed for further labour absorption, as a major portion of these remittances flowed in labour intensive housing and services sectors.

There is little doubt that the attainment of a high growth rate of the economy will be an essential pre-requisite for creating conditions for labour absorption for the fast growing labour force in the 1990s. The recent trends of declining labour absorptive capacity of the economy suggest that the continuation of the historical growth rate at around 6 percent would not be adequate to generate employment for a work force growing at 3.3 percent per annum. A growth rate in the range of 8 to 8.5 percent would be required for averting a further worsening of the employment situation in the 1990s.

The new economic reforms introduced by the present government with its emphasis on deregulation and privatisation should create a favourable situation for making faster growth possible with increased private domestic and foreign investment. Also macroeconomic reforms especially as regards foreign exchange rate policy and tariff reductions should have a favourable impact on the growth of agriculture and the small-scale manufacturing sector as previous experience bears out.

However, this does not imply that the promotion of *laissez faire* policies and an undistorted policy environment will necessarily be sufficient for achieving the right pattern of labour intensive growth. This is because there are structural inequalities and non-policy induced distortions which can prevent the attainment of this required pattern of growth. The highly unequal distribution of land ownership, labour market segmentation and barriers to access of asset ownership by the poor can prevent the attainment of the desired pattern of growth and the benefits of growth.

It is important therefore to ensure that the government economic reform package does not result in a "neo-trickle down" strategy of economic development. What then must the government do to ensure that this does not happen?

First and foremost is to ensure access to credit for the small-scale micro-enterprises and the informal sector. In this context it is important to emphasise that nationalisation of banking and insurance in the 1970s played an important role in breaking up the monopoly hold of a few industrial groups over finance capital and made possible the emergence of a new class of entrepreneurs which now dominate the national economy. It may be important to also study the sectoral pattern and size distribution of loans in the pre- and post-nationalisation periods. There is of course considerable evidence that over time the banking sector became inefficient, mainly due to a lack of competition, and was increasingly subject to political influence of whosoever was in power. In this context denationalisation may well help improve the functioning of this sector. However, it carries with it the danger of large-scale industrial capital utilising loan capital mainly for themselves. How maturely the new class of industrial entrepreneurs behave, only time will tell. Pakistani industrial capital has always shown signs of being short-sighted. One hopes that the mistakes committed earlier will not be repeated.

What will be extremely important would be to ensure firm and strong supervision by the State Bank of Pakistan (SBP) of the functioning of the private banks and other financial institutions. They will have to ensure a healthy balance between the needs of different sectors and size-classes of borrowers.

To meet, however, the credit needs of the household manufacturing units and the rural poor there is a need to experiment with the setting up of specialised financial institutions concentrating on raising incomes of target groups by development of their asset base. These could be run with the assistance of NGOs and other local groups. Second, is the allotment of physical space and provision of infrastructure facilities in urban areas and especially in urban expansion schemes for setting up small-scale industry. In this context not only space would need to be especially reserved for the informal sector but also changes in municipal and local bodies laws may be required to allow the informal sector to operate in certain areas. To illustrate, in Bangkok almost all hotels are surrounded by small shops, hawkers and vendors selling goods mainly to tourists. One rarely sees this phe-

nomenon in Pakistan. The strength of the informal sector has been that it is free of government interference. However, it still is subject to considerable constraints in its operations by rules imposed by local bodies. It may be important to review these rules and regulations.

Third, there is considerable need and scope for technology upgradation of the small-scale sector. To achieve this the promotional role of the Provincial Small-Scale Industrial Corporations (SSICs) should be strengthened. They should also assist in the identification of new projects especially for the export market.

Fourth, and perhaps most important of all, there is a real need for this sector to be given an effective representation in the decision making process, as at present there is no real voice in either the private sector or the government which can represent its interest. The recommendations of the National Manpower Commission that business chambers for small-scale industry should be set up as well as a separate unit (in either Ministry of Industries or Planning Division) to protect its interest in important fiscal, tariff and credit policy decision making forums, need to be actively pursued.

Indeed, the real issues and problems faced by the bulk of the small-scale informal sector units can only be solved at the local level. It is important to point out that Nadvi's (1990) survey showed that the vast majority of the small-scale household units had not heard of any of the government promotional or financial institutions set up for their assistance. These bodies are mainly catering for the upper echelons of the small-scale sector. There is a real need to make local government bodies more development oriented. For example, local bodies could play a major role in setting up basic infrastructure facilities where farm-to-market roads join for setting up small shops, distribution depots, repair/service facilities and development of small sized commercial/industrial plots.

The other major challenge Pakistan will face in the 1990s is to increase overall efficiency and productivity of its manufacturing sector, for as the economy is opened up to international competition (as part of the IMF-World Bank structural adjustment package) there is a real need for action to be initiated on removing negative influences on competitive strength that arise from an inadequately trained work force. It has been stated by the National Manpower Commission and in our view correctly, that the need for trained manpower may not always be manifest or explicitly recorded in the job market, as employers make do with sub-optimum skills or use sub-optimum processes. Absence of sufficient skilled labour results in market adjustments which involve acceptance of less efficient methods and lower quality. Protection of an industry against international competition also provides effective protection for low technical competence.

At present three-quarters of Pakistan's labour force is illiterate. The numbers of those who have had schooling for ten years is low and those having technical/vocational education is negligible. The formal apprenticeship system turns out only 1500 trainees every year.

In these conditions there is a special need to align the vocational education system to the needs of industry. The main policy thrust should be to achieve relevance and flexibility in training and to make the training system more employer driven. This is especially important in a changing environment as the ability to adapt is the essence of competitiveness in today's dynamic world environment. There is not only need to train workers but to retrain them as competitive industries and activities wax and wane.

Achieving this objective is not going to be an easy task. The present performance of vocational training institutions in the public sector have been by and large disappointing. The costs of training are high and more than half of vocational training graduates find it difficult to find employment. The industrialists, especially in the medium- and small-scale sector have been voicing their dissatisfaction with the quality of graduates from these training institutes.

On the basis of past experience it is quite clear that the private sector would need to take the lead in vocational/technical training, with the government playing an active support role in developing a coordinated national system of vocational training. The private sector should be encouraged to organise intensive in-plant training and to actively participate in the establishment and management of vocational training institutes. The National Training Board (NTB) should be reconstituted with a larger representation of the private sector. A special fund should be placed at the disposal of NTB to provide a matching grant for any vocational training institute to be set up by the Chamber of Commerce and Industry, trade associations like All Pakistan Textile Mills Association (APTMA) or other non-government organisations. The government should concentrate on supervising the adherence of standards for training.

The key element which this paper emphasised in the beginning for breaking away from the "low level HRD trap" is increasing female education and encouraging female participation in the market economy. As the World Bank (1989) report pointed out, any proposed strategy must exploit the "virtuous circle" between women's human resource development, income earning capacity, health and welfare of children interacting with lower population growth.

Creation of a favourable overall environment and provision of support services are a pre-requisite for raising the status of women and increasing their chances for entering new cash earning opportunities. The National Manpower Commission Report and a number of recent studies including Kazi (1990), Bilquees and Mahmood (1989), Shaheed (1987) and World Bank (1989) include many proposals for increasing access of women to skill-training, extension services and credit. To increase attendance and reduce drop-out rates, especially at the primary level, a suggestion of providing a hot midday meal, free or at subsidised rates, has also been made. However, most important of all would be a change in attitudes, and for this not only all forms of overt discrimination against women should be removed in line with the constitution, but campaigns should be launched in the mass media

to raise the general consciousness about the importance of female education and the role of women in development. Not only the government but NGOs and other organisations should be closely involved in this effort.

For this, more than any other factor, will break Pakistan out of the "low level HRD trap" and prepare it for moving into the 21st Century.

ANNEX

Table 3-A-1. *Open Unemployment and Underemployment for Selected Years*

(percentage of labour force)

Years	Open unemployment			Working less than 35 hours/week		
	All areas	Rural	Urban	All areas	Rural	Urban
1963-64	0.98	0.82	1.59	NA	NA	NA
1969-70	1.75	1.75	2.90	8.30	9.50	4.13
1974-75	1.69	1.30	2.70	4.80	5.50	2.80
1978-79	3.55	3.00	5.20	13.01	5.60	4.60
1982-83	3.90	3.30	5.80	14.00	16.20	7.00
1984-85	3.72	3.00	5.80	9.60	11.60	4.00
1986-87	3.05	2.50	4.50	10.40	12.70	4.40
1987-88	3.13	2.60	4.60	11.00	13.30	4.80

Source: Labour Force Survey (various years).

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