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More and Better Jobs for Pakistan: Can the Manufacturing Sector Play a Greater Role?

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INSTITUTE FOR HUMAN DEVELOPMENT
SARNET South Asia Research Network
Employment and Social Protection for Inclusive Growth

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Abstract

In the context of creating more and better jobs in Pakistan for a labour force that is growing at over 3 per cent per year the central issue the paper addresses is why the manufacturing sector has not served as a major engine of economic growth and what can be done so that it can effectively discharge this role. The paper traces from the 1960s the employment and labour market changes and the factors that explain major sectoral and structural shifts including the declining bargaining position of workers in the face of diminishing trade union membership and moves to increase labour market flexibility. A detailed decomposition exercise is carried out (using the World Bank Job Generation and Decomposition Tool) to explain the sectoral patterns of employment growth during 2000-2015. Based on these results and a case study of the automotive and garment sector the paper identifies a number of policy measures that could lead to more productive and remunerative employment generation in manufacturing especially creating good quality and decent jobs in large scale manufacturing.

I. INTRODUCTION

With a labour force growing at between 3 and 3.5 per cent and an economy mired in stagflation—with growth averaging just over 3 per cent in recent years, together with double-digit inflation—Pakistan faces a daunting challenge in providing not just more but better jobs to its young entrants into the labour force. While reviving economic growth and restoring macroeconomic stability remain the top priority of the government and policymakers in the immediate future, the real medium- to long-term challenge is to move the economy onto a trajectory of not just high, but also inclusive and sustainable growth.

The central issue that this paper analyses is the role the manufacturing sector can play in reviving and sustaining growth while generating more and better job opportunities as it has done in the fast-growing East and Southeast Asian economies. Indeed, it is believed that employment in manufacturing—relative to other sectors and forms of employment—can generate not just better but more decent employment opportunities in terms of wages, degree of social protection, a voice at work, and protection of workers' fundamental rights.

An area of concern is that, while manufacturing has served as a major driver of Pakistan's economic growth in the past, this role is now showing distinct signs of slowing down. Its contribution to employment generation has, after a rapid increase, also slowed down as reflected in the sector's share of the total labour force, which has been stagnating at around 12 to 15 per cent over the past few decades. Within manufacturing, the formal or large-scale manufacturing sector—the harbinger of the creation of better employment opportunities—has contributed a very small portion of the jobs generated, despite accounting for over 80 per cent (in 2005-06) of the value added generated in this sector. With a further slowing down in manufacturing, especially large-scale manufacturing, even this limited capacity will be curtailed.

This paper analyses both these important issues in some depth. It reviews the evidence to show that the contribution of the manufacturing sector to economic growth and employment generation has slowed down and identifies the major factors responsible. It then examines whether these obstacles can be overcome and proposes policy measures that will help revive the role of manufacturing—especially large-scale manufacturing—in driving economic growth and generating jobs.

A basic premise of this paper is that, while a macro or sectoral approach does provide us with some broad indications of the growth and job generation capacity of the manufacturing sector, only an in-depth analysis of its changing structure and dynamics can allow us to capture more realistically the forces that currently drive the sector. This analysis leads us to conclude that it is somewhat premature to signal the demise of manufacturing in propelling future economic growth or its potential to generate more and better jobs for the growing work force.

Indeed, our findings suggest that the high growth rate of population and the labour force in Pakistan, together with the declining trend in economic growth in the last two decades (which has decelerated sharply in the last five years) is primarily responsible for the lack of

creation of remunerative and decent employment in Pakistan. As regards manufacturing, the duality between the large, mainly formal and documented part of the economy and the small and household, mainly informal and undocumented economy has been accentuated. The much faster growth of the latter has been driven by the ready availability of unskilled labour, resulting in the creation of low-quality and low-productivity jobs in poor working conditions. The declining writ of the state together with increasing corruption and lack of transparency has also drawn in firms that claim to be informal but for all practical purposes would fall in the legal preview of being recognised as formal. The employment-generating capacity of the large-scale manufacturing sector has been seriously curtailed by the high and increasing capital intensity of production, driven mainly by the adoption of modern technology. However, even for the relatively limited number of jobs created, the sector's potential to generate better and decent jobs has been seriously impaired. The declining bargaining position of workers, widespread hiring of contract workers in place of regular employees, governments' indifference to upholding existing labour laws, the absence of labour inspection, and low social protection coverage have all contributed to poor-quality jobs being created even in the organised sector. The presence of a small-scale, mainly informal and undocumented sector and the large pool of available unskilled labour at low wages acts as a dampener on the creation of better and decent jobs in the large-scale manufacturing sector. In this sense, Pakistan may have reverted to the Lewisian stage of economic development.

The major challenge is to reverse this trend. This will require not just the revival of high economic growth but strong and vibrant labour market institutions to translate this growth into decent jobs.

The study is organised as follows:

In Part I, we start by analysing the structure and functioning of the labour market in Pakistan, and recent employment and labour market developments in the last decade (2000-2012) to bring out the major challenges, especially in creating more and better job opportunities and overcoming the discrimination and social exclusion faced by women and vulnerable groups.

In Part II, we review some of the important studies conducted to analyse employment and labour market developments as they have unfolded, including the role of the manufacturing sector in job generation.

In Part III, we analyse the major drivers of economic growth and employment generation in the last three decades (1980-2010) in terms of sectors and trends in total factor productivity (TFP). We conduct a separate decomposition exercise covering the more recent period 2000-2010 to explain the sectoral pattern of growth and its employment and productivity intensity. We also examine profitability trends for these years to determine whether demand constraints have hindered investment.

Part IV concentrates on the role of the manufacturing sector in generating jobs in the economy; we review the sector's performance since the 1960s including that of large- and small-scale manufacturing. The reasons for the very limited role of large-scale manufacturing in contributing to the creation of more and better jobs are then critically analysed.

In Part V, we identify two sub-sectors of manufacturing—engineering and within it the automotive sector and garments—that have considerable potential for generating both output growth and decent employment opportunities if appropriate support policies were to be put in place through social dialogue and tripartite discussions.

In Part VI, we identify policies that we deem essential to reviving growth in manufacturing as well as generating decent jobs: these cover macro, trade, and sectoral policies and labour market reforms, including the critical role of well-functioning representative labour market institutions that can foster a political commitment to social justice.

II. THE STRUCTURE AND FUNCTIONING OF THE LABOUR MARKET IN PAKISTAN

In analysing labour market developments in Pakistan, a number of key demand, supply, structural, and institutional factors need to be kept in mind—these have an important impact on labour market outcomes as reflected in key labour market indicators.

Table 1: Sectoral Composition of GDP and Labour Force (Per Cent)

Sector	GDP			Labour Force (10 Years and Above)		
	1990-91	1999-00	2009-10	1990-91	1999-00	2009-10
Agriculture	25.7	25.9	21.2	47.5	48.4	45.0
Industry	25.8	23.3	26.4	19.8	18.0	20.9
Manufacturing	17.5	14.7	18.6	12.2	11.5	13.2
Services	48.6	50.7	52.4	32.8	33.6	34.1

Source: Pakistan Economic Survey and Labour Force Survey (various issues).

The first is that, at the time of independence in 1947, the country was primarily agricultural and most industry in adjoining regions that were dependent on its raw materials were located in India. When, just a few years after independence, trade between the two countries almost came to a halt due to rising tensions, Pakistan embarked on a process of rapid import-substitution industrialisation behind protective barriers. This resulted in a major shift in labour from agriculture to industry, mainly manufacturing, together with rapid urbanisation. This structural transformation of the economy continued during the 1950s and 1960s but subsequently the labour absorption capacity of the manufacturing sector decreased; in subsequent decades, its share fluctuated but did not rise significantly. In 2009-10, it accounted for 13.2 per cent of the total labour force while industry as a whole accounted for around 21 per cent (Table 1). There has been a corresponding increase in the share of services, which now accounts for 35 per cent of the labour force while agriculture is still the largest employer at 40 per cent.

The second factor has been the very high growth rate of population at almost 3 per cent a year from the 1960s till the 1980s, when it started to slow down but remained high and a presently at an estimated 2.1 per cent. This has led to a high growth rate of the labour force at over 3 per cent in the last three decades. The demographic transition that started in the 1990s with a decline in the dependency ratio and corresponding youth bulge is expected to continue till 2030.

The high growth rate of the labour force and low incomes, and the fact that there is no wide-scale effective social protection available means that almost all entrants into the labour force have to work for a living. This means that the supply of labour is adjusted in the labour market. Only a severe shock or a sudden and sustained decline in the economy will lead to a significant rise in unemployment rates. Estimates of employment elasticity, much used in

the literature, which show the ratio of the growth of employment to growth in output or value added can, therefore, be very misleading.

Third, the growth of the Pakistan economy is characterised by a stop-go cycle with periods of high economic growth being followed by periods of low economic growth. The movements of key employment, poverty, and labour market indicators have not always moved in line with these indicators, which has resulted in considerable controversy, especially on poverty movements over the economic cycle.

The fourth has been the very low female participation rate, as conventionally measured, and though there has been some improvement in recent years—partly due to increasing female educational levels, albeit from a very low base—the rate is still very low.

Fifth, a very large proportion of the non-agricultural labour force, estimated to be as high as 70 per cent, is employed in the so-called informal sector of the economy, which is characterised by low wages, low productivity, and very poor and hazardous working conditions.

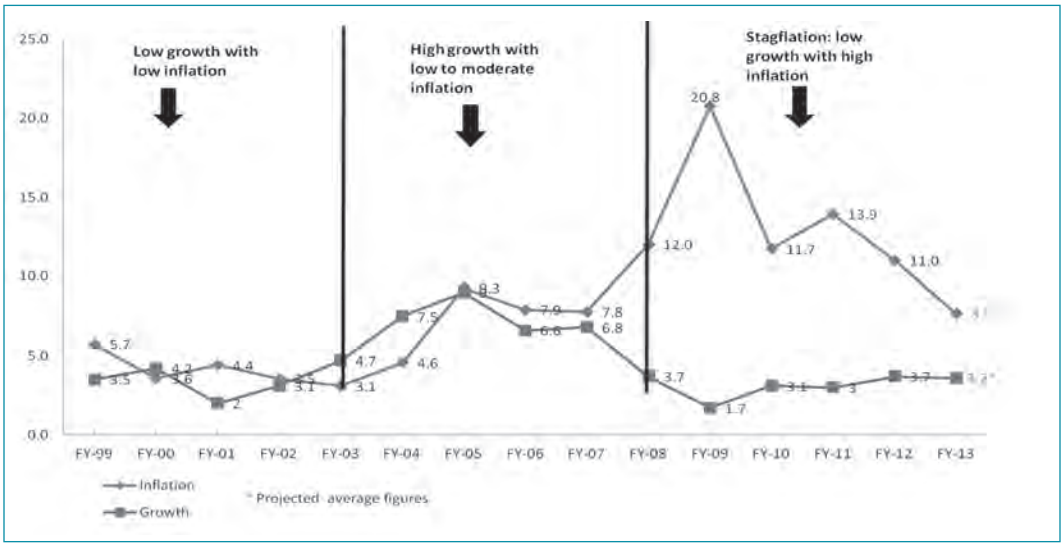
Sixth, labour market institutions, including those representing workers, have weakened considerably—a reflection of the strong pro-market private sector-led policies adopted by successive governments since the 1990s ('de-regulation-privatisation-liberalisation') as well as the fact that Pakistan has been under an IMF programme with strong conditionalities to restore macro-stability and revive private sector-led growth. These have all contributed to a strong bias against organised labour for the last 25 years.

Finally, most of the official data on labour and employment are of uneven quality and need to be handled with considerable caution. Indeed, any analysis of the employment and labour market situation needs to be crafted with considerable finesse using wherever possible data from a number of sources to capture labour market developments. This also means that one has to be very cautious in interpreting results from sophisticated economic models and econometric exercises based on this data.

2.1 Recent Labour Market Developments and Major Challenges 2000-2013

In analysing recent labour market developments, we cover the period 2000-13, which also coincides with the period of Musharraf's military rule (2000-2008) followed by the democratic Pakistan's People's Party (PPP) coalition government rule (2008-2013). The period saw the Pakistan economy moving through a classical boom-bust cycle with an impressive burst of economic growth in 2002-2007 followed by a sharp decline in economic growth and stagflation for the rest of the period.

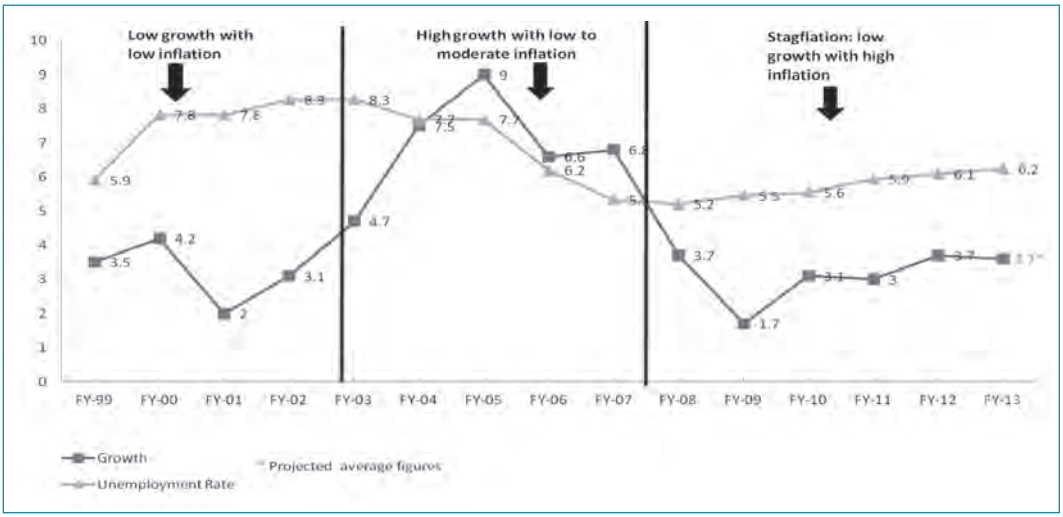
Figure 1



Source: Pakistan Economic Survey (2011-12) for FY 2000-FY 2012; State Bank of Pakistan, Annual Report (2012) for FY 2013.

The strong growth revival under Musharraf's rule that saw unemployment levels fall from a peak of 8.3 per cent FY 2002 to 5.2 per cent in FY 2008 was also accompanied by a fall in poverty as measured by the population living below the national poverty line based on a caloric intake of 2,350 calories. This proportion fell from 34.5 per cent in FY 2001 to 22.3 per cent in FY 2006 and further to 17.2 per cent in FY 2008. Real wages, as measured for construction workers, also increased by around 50 per cent in this period (Amjad, 2012).

Figure 2



Source: Pakistan Economic Survey (2011-12) for FY 2000-FY 2012; State Bank of Pakistan: Labour Force Survey (2012-13) for figure on unemployment rate for FY 2013.

What happened to these key socio-economic indicators during the period of deep stagflation that followed? The available evidence suggests that they were not as adversely affected as might have been expected. The unemployment rate rose from 5.2 per cent in FY 2008 to 6.2 per cent in FY 2013 and, surprisingly, poverty levels fell further to 12.4 per cent in FY 2011 as measured by the earlier indicators and surveys. Other evidence (e.g., the PIDE PHSS (2012)), though not fully comparable, also shows that there was no major increase during the period of low growth and double-digit inflation. Real wages of agricultural workers increased though those of construction workers fell during this period.

As expected, these results, especially the decline in poverty, have led to considerable controversy. Amjad (2012) has tried to address this issue by arguing that, despite the economic slowdown and high inflation, poverty and the labour market were favourably impacted by the almost twelve-fold increase in remittances, from just over US $ 1.5 billion FY 2001 to around US $ 12 billion in FY 2012 (or to around 5 per cent of GDP in the latter year), improved terms of trade in favour of agriculture as the PPP doubled the procurement price of wheat the major agricultural crop and other support prices, and a significantly large and vibrant undocumented economy. That this 'resilience' of the Pakistan economy resulted in poverty levels not falling or only marginally declining is, however, strongly contested, although a recent study by the World Bank (2013) tends to back the view that poverty levels did not increase, at least based on the data for Punjab (60 per cent of the population), which is seen to be as more reliable than for the other three provinces (Newman, 2013).

2.2 Why Has Pakistan Not Reaped the Demographic Dividend?

A major thrust of this paper is that Pakistan's continuing high growth rate of population at around 2.1 per cent and a labour force variously estimated as growing between 3.0 to 3.5 per cent acts as a strong headwind against the country building up any real momentum towards high, sustainable, and inclusive growth.

Against this somewhat depressing scenario has been the welcome news that Pakistan is now passing through a demographic transition with much hope of an accompanying 'demographic dividend'. Almost 20 years have passed since the advent of this demographic transition in the early or mid-1990s, and the question now is why Pakistan has not reaped the demographic dividend. Amjad (2013) has argued that, to benefit from such a dividend, the economy must grow at a fast enough rate to find productive employment for the youth bulge, i.e., the growing number of young people in the total population. Unfortunately, the overall growth trend has been declining in the last 25 years. The second factor standing in the way of reaping the demographic dividend is the low level of education and skills of the labour force (see Table 2).

Table 2: Distribution of Labour Force by Level of Education (Among those Aged 15-24)

Years	Illiterate	< Primary	Primary	Middle	Matric	Intermediate	BA+	Total
1990-91	53.0	5.0	16.7	10.9	9.6	3.0	1.7	100.0
2001-02	36.7	5.4	20.3	15.9	14.6	4.7	2.3	100.0
2010-11	35.3	4.6	21.4	16.4	13.8	5.3	3.3	100.0

Source: Labour Force Survey (various issues)

Does not the youth bulge and declining dependency ratio in itself propel economic growth as earlier authors have argued and studies on India seem to suggest?i While Pakistan's economic performance does not support such causation, it could be argued that its economic resilience may well be because of its young entrants into the labour force and their growing share in the population as well as the labour force. Amjad (2013) suggests that Pakistan, in view of its continuing low economic growth and lack of employment opportunities, may be reaping the demographic dividend through the manifold increase in remittances, which is partly caused by increasing overseas migration, mainly by young migrants, as well as increase in their skill levels, including that of many professionals, engineers, and business managers. Such an explanation, however, needs more rigorous analysis.

Even if true it should not distract from the real challenge of taking advantage of this window of opportunity that the demographic transition has opened up and reap the demographic dividend for the national economy. Amjad (2013) details policies essential for this to happen both on the demand side, primarily the revival of economic growth and in the medium and long-term perspective increasing enrolment in primary and secondary education especially for females and instituting a demand driven skill training system.

2.3 Growth in the Informal and Undocumented Economy

That a large part of the urban economy is characterised as informal is well recognised in Pakistan as it is for most developing countries. Official data sources estimate that its share of non-agricultural employment has increased in recent years from an estimated 65 per cent in 1999-2000 to 73.5 per cent in 2010-11 (Pakistan Bureau of Statistics, 2012). While it has never been easy to define the informal economy, despite attempts including by the ILO, in the case of Pakistan, the definition used for estimating the size and number employed in the informal sector as enterprises employing fewer than ten workers together with all household enterprises owned and operated by own-account workers irrespective of the size, makes it somewhat even more difficult to come-up with precise estimates. Clearly, there could be firms employing fewer than ten workers that could be registered and fall in the bracket of the organised sector. That said there is little doubt that the majority of workers in the non-agricultural economy are in the informal economy and that it has been growing in recent years.

Essentially informality showed be viewed as a continuum as different enterprises have different characteristics of informality as well as the extent to which they deviate from the criteria of a formally registered firm. The question then is why do enterprises prefer to remain

informal? Manes (2013) suggests, based on findings of the World Bank enterprise surveys conducted in 2002 and 2007, that this is because regulations impose such high costs that "firms find it profitable to remain informal to avoid them" and that, "basic business costs, such as that for taxes, labour and safety are just too high" (ibid, pp. 476). He goes on to argue that the costs to the firm of registering and be part of the formal structure is just not attractive enough (in terms of access to finance, contracts, land, etc.) and that unless this happens such firms will have no incentive to conduct their business in the formal economy.

This interpretation is perhaps too generous to firms that take the guise of informality in order to avoid labour laws and regulations including those related to safety and conditions of work, avoid taxes and in many cases are also involved in theft or underpayment of bills for electricity, gas and other utilities. It will always be 'more profitable' to indulge in such activities and these activities cannot be simply condoned. The economic and social costs especially for workers are far too high. That said it must also be kept in mind that firms prefer to remain informal not only to save costs and earn higher profits but to avoid harassment by corrupt government officials. Based on the World Bank 2007 enterprise survey Manes states that, "senior management in large firms spent on average 13 per cent of their time dealing with regulations – almost three times what smaller firms spent (5 per cent). Large firms met or were inspected by tax officials almost seven times a year compared to three times for small firms..... . Only 6 per cent of small firms noted that labour market regulations affected their decisions to hire and fire permanent workers compared to over four times that share of large firms.....Consequently, the informal sector has been estimated to be as large as 35-40 per cent of the official economy" (Ibid, pp. 457).

It should also be kept in mind that as the security and law and order situation has deteriorated in the country the 'writ of the state' has considerably eroded and that also creates conditions for enterprises to avoid rules and regulations on the one hand under the guise of staying informal and also leads to increase in corruption and harassment by government functionaries.

It is also important to differentiate between enterprises that operate in the informal economy and those that are undocumented. The undocumented economy (also known as the 'shadow' economy) covers those economic activity that is not reflected in the officially recorded national income accounts and this may include formal as well as informal enterprises. Also economic activity being undertaken in the undocumented part of economy must not be confused with the illegal economy, which is not in any case included or covered in the official statistics. As the undocumented economy grows for a number of reasons including underreporting of sales as well as poor coverage by the official data gathering agencies (or just that many firms choose to ignore or not provide the required information even though they are legally bound to do so) it becomes more difficult to capture the size and dynamics of the national economy. For the purpose of this study, this is especially true of the manufacturing sector, both large-scale and small-scale, as its contribution to GDP is significantly underestimated.ii We take this issue up in greater detail in our analysis of the manufacturing sector.

2.4 Female Participation in the Labour Market

A positive development in recent years has been the significant rise in the female labour force participation rate. However, the very low level from which it has risen and the fact that the absolute low level remains dismal also needs to be put into perspective.

The ratio of female employment to the working-age population increased from around 11 per cent in 1990-91 to 21 per cent in 2010-11. The major part of this increase took place during 2001-02 to 2005-06—the years of economic recovery and high growth—after which the rate of increase has slowed down. A reason for this increase is that males moved from agriculture to higher-wage non-agriculture employment and the female members of the household, mainly young women, replaced them primarily in the raising of livestock. This also explains the increase in female employment in the category of unpaid family workers and the declining share of female salaried workers in total female employment from 33.1 per cent in 1999-2000 to 14.5 per cent in 2009-10, after which it increased marginally to 16.6 per cent.

The low participation rate of females in the labour market in Pakistan has been an area of considerable research and debate, ranging from arguments that women's participation in activities such as household work is not measured and other farm and related work is not sufficiently captured, to the argument that cultural and other factors prevent them from seeking work outside the household. A study conducted jointly by the ILO and the Ministry of Labour and Manpower (2009) in Faisalabad district, a prosperous region in Punjab, provides some interesting insights. The major reason given by females aged 15-29 for not entering the labour market was family or personal responsibilities (67 per cent). Of those not working, only 28 per cent were enrolled in education or formal training compared to 91 per cent of males who were not working in this age group. This reflects the high gender gap in secondary and tertiary education. The lack of employment opportunities is, therefore, not the major reason for females not entering the labour market as much as it is the broader issue of 'family or personal' responsibilities, which clearly covers a wide range of socio-cultural-economic issues besides just household work and raising a family.

Is the increasing share of females in higher and secondary education going to make some difference to female participation in the labour market? There are growing signs of women working in the retail sector in major cities as well as starting their own businesses, mostly run from their homes, to cater to the increasing demand of a rising middle class for readymade garments and food items. Also, women are far more visible in government and public sector offices and departments as well as in managerial positions. Trained female nurses are also finding employment in the Gulf and neighbouring Middle East countries. However, this issue has not yet been empirically investigated.

An important implication of the low participation rate of females in the labour market, as reflected in the overall low ratio of employment to working-age population, is that each working man and woman still had to provide for nearly two nonworking persons in 2010. This dependency ratio is much higher than the South Asian average and will remain high in the absence of a substantial increase in female participation rates. It also strengthens the argument that the demographic dividend cannot be reaped if those of the working-age population do not enter it besides the lack of job opportunities for those who do.

2.5 Labour Market Institutions: The Weakening Bargaining Strength of Workers

Sustained productivity growth allows the living conditions of the population to improve over time. But for this to happen two further conditions need to be met. The first that growth in productivity is accompanied with an increase in employment given the rapid growth of the labour force otherwise it would result in higher unemployment and poverty. Second that while productivity growth may be a necessary condition for improvements in living conditions it is not in itself a sufficient one. To ensure that the gains in productivity translate into higher wages and better living conditions depends critically on the bargaining position of workers especially as regards the manufacturing sector which is the focus of this paper. There is, however, an important balance that needs to be maintained between the creation of more jobs and better jobs in an economy with a high growth rate of the labour force. This brings into focus the need for well-functioning labour market and labour market institutions that ensure both efficient and equitable labour market outcomes.

This section briefly reviews the evidence on the behaviour of real wages in the large-scale manufacturing sector, wage differentials between the formal and informal economy, the coverage of social protection, and the membership of registered trade unions in Pakistan.

Table 3: Average Daily Employment and Yearly Real Wages (at 2000-01 prices)—Large-Scale Manufacturing—All Industrial Categories

	1990-91	1995-96	2000-01	2005-06
No. of reporting establishments	4,792	4,474	4,528	6,417
Average daily employment (all employees)	622,234	561,821	689,692	941,285
Average daily employment (production workers)	492,301	440,276	560,905	751,586
Nonproduction workers	129,933	121,645	128,787	185,677
Average real wages per year (all employees)	98,760	102,070	99,190	106,861
Average real wages per year (production worker)	87,670	91,430	86,920	93,535
Average real wages per year (nonproduction workers)	140,770	140,500	152,610	143,352

Source: Census of Manufacturing Industries (CMI) as reported in Irfan (2008) till 2000-01 and CMI 2005-06 for that year.

Table 3 shows that average real wages in the large-scale manufacturing sector barely increased during the 1990s and rose by about 7 per cent during the boom years between FY 2003 and 2007. Data are not available for recent years but given the very high food inflation rate—around 80 per cent between FY 2008 and FY 2011—average real wages in large-scale manufacturing probably declined.

Unfortunately, data are not available on the large majority of workers engaged in manufacturing in the small-scale and informal economy. However, at least during the 1990s, with little or no increase in large-scale manufacturing employment, average real wages in the small-scale and informal economy probably declined. Also in all probability after the short-lived

resurgence in economic growth FY 2003-FY 2007 real wages in all probability declined post-2008 in small-scale and informal economy.

Table 4: Monthly Wages of Regular and All Wage Employees by Type of Enterprise and Sex— 2003-04

Type of Enterprise by Sex		Monthly Wages (Rs.)		Wage Ratio (Reg/All)	% Distribution of Employees		% Regular Employees	Wage Ratio All/ Regular	
		All Employees	Regular Employees		Regular	All		Rural	Urban
Both Sexes	Government	6585	6656	1.01	40.40	21.0	96.70	0.75	0.75
	Formal	4501	5596	1.24	28.92	23.8	61.10	0.51	0.52
	Informal	2875	3027	1.05	30.92	55.2	28.70	0.82	0.82
	Total	4045	5237	1.29	100.00	100.0	52.05	0.69	0.72
Male	Government	6719	6794	1.01	39.50	21.4	96.40	0.77	0.71
	Formal	4939	5868	1.18	29.30	23.4	65.30	0.55	0.51
	Informal	3055	3187	1.04	31.00	55.2	29.20	0.84	0.82
	Total	4278	5401	1.26	100.00	100.0	39.90	0.52	0.50
Fe-male	Government	5663	5722	1.01	47.40	19.3	98.00	0.59	0.61
	Formal	2111	3022	1.43	25.40	26.6	38.00	0.49	0.54
	Informal	1737	1540	0.89	27.10	54.1	20.00	0.73	0.59
	Total	2595	3900	1.50	100.00	100.0			

Source: Irfan (2008): Tabulations based on Labour Force Survey data.

Table 4 reflects the poor bargaining position of workers in the informal economy and discrimination in the labour market against females. Data for 2003-04 (Irfan, 2008) show that monthly wages for regular employees were 65 per cent higher than for those in the informal economy. Monthly wages for female regular employees were almost 100 per cent less than that of their male counterparts in the formal economy, with a similar differential in the informal economy. Even in the case of government regular employees, females' monthly wages were, on average, less than 20 per cent that of males. This shows that there were far fewer women in higher grades/positions, reflecting their lower average wage.

What of the trends in social protection? Post-2008 there has been a substantial almost five-fold increase in expenditures on social protection and social safety nets during the Peoples' Party government, from 0.16 per cent of GDP in 2008-9 to 0.79 per cent of GDP in 2012-13 yet it is difficult to gauge on existing data if this increase also benefited workers in the manufacturing sector (Malik and Pop, 2013).

In large-scale manufacturing an estimated two-thirds of the labour force serve as contract labour and therefore enjoy no social protection (Jamal, 2010). The total number of workers covered by different social protection schemes is around 6.1 million or around 10 per cent of the labour force. The Employers Old Age Benefit Insurance (EOBI) in July 2013 covered

just over 3 million workers in both industrial and commercial enterprises (EOBI website). This is around 5 per cent of the total labour force. The total number of beneficiaries during July 2012 to December 2012 was 373,433 which was 25 per cent higher as compared to the corresponding period last year (Pakistan Economic Survey 2012-13).

It is possible, however, that those in small-scale and household manufacturing may be benefitting from social assistance including under the direct income Benazir Income Support Program (BISP) which was launched in 2008 to cover 7 million households and provided a stipend for the female head of qualifying households (identified through a score card) the sum of Rs. 1000 per month. It is, however, not possible to identify households and workers in manufacturing benefitting from this scheme.

We can therefore conclude on the evidence that is available that a small part of those who work in manufacturing are covered by social security or social assistance programmes.

Table 5: Trade Union Membership and Industrial Disputes 1990-2008

Years	Union Membership			Industrial Disputes		
	Total Registered Trade Unions	Total No. of Registered Trade Unions Reporting	Membership of the Reporting Unions	Number of Disputes	Number of Workers Involved	Number of Man-Days Lost
1990	7,080	1,763	359,633	99	65,918	186,726
1991	7,027	1,441	288,803	94	116,306	582,694
1992	7,185	1,834	415,768	40	73,357	398,128
1993	NA	1,685	374,731	28	17,133	404,564
1994	7,273	1,718	325,677	25	15,434	341,196
1995	7,426	1,718	337,617	24	10,919	63,626
1996	7,349	1,594	293,530	30	18,566	203,323
1997	7,355	1,534	296,257	30	7,865	283,342
1998	7,356	1,478	305,340	20	6,097	122,519
1999	7,382	1,493	301,164	6	3,937	182,151
2000	NA	1,376	301,332	4	225	667
2001	NA	1,260	275,646	4	711	7,078
2002	NA	1,201	247,539	4	516	12,160
2003	7,183	2,493	455,304	18	8,189	47,719
2004	7104	2,422	444,795	15	8,724	95,124
2005	7,129	2,428	431,542	19	10,177	102,932
2006	7,029	2,405	NA	17	7,988	85,751
2007	7,051	2,404	NA	21	11,245	102,149
2008	6,793	1,209	NA	17	5,924	26,668

NA: not available in original sources

Source: Pakistan Statistical Year Book (various issues) as cited in Irfan (2008) till 2006 and for subsequent years based on the same source.

The number of workers that are members of trade unions could be one measure of workers' bargaining strength in negotiating with employers and government for improved wages and better conditions of work. It is difficult to get reliable figures as it is possible that many registered trade unions claim a higher number of workers as their members than actually exist and more importantly in terms of those who are active members who participate in trade union activities.

Table 5 from official sources suggest that the number have fluctuated since 1990 but in 2005 they were an estimated 450,000 workers registered as members of trade unions in 2005. This may be on the high side but is still only one per cent of the labour force and around 4 per cent of the non-agricultural labour force.

But it is not just in terms of numbers that the bargaining position of workers has declined. Since the 1990s there has been a marked shift towards pro-market private sector-led growth with a strong bias against organised labour. Even though the Labour Policy 2002 which severely curtailed workers' fundamental rights of association and collective bargaining has been replaced by a more balanced Labour Policy 2010 committed to upholding international labour standards in actual practice the state institutions are indifferent to upholding existing labour laws.

What about the impact of minimum wages which the government has announced at different intervals and especially during the last ten years? Again recent data are not available but Irfan (2008) had estimated that in 2003-04 that around 25 per cent of all wage earners were paid less than the minimum wage and that the number was much higher for non-regular workers at 39.2 per cent as compared to 14.1 per cent of regular workers. Given that two-thirds of workers in large –scale manufacturing are contract workers and therefore in the category of non-regular workers a very high proportion of these worked below the minimum wage.

III. REVIEW OF THE LITERATURE

We start with the seminal study conducted by the ILO's Asian Regional Team for Employment Promotion entitled "Employment and Structural Change in Pakistan: Issues for the Eighties" (ILO/ARTEP, 1983) which was jointly written by a team comprising ILO specialists as well as leading economists from the academia in Pakistan.i It was also perhaps the first study of its kind that was done specifically at the request of the Planning Commission to serve as an input to the formulation of Pakistan's Sixth Five Year Plan (1983-88).ii

The important contribution of the report was that it analysed important structural changes which had taken place in the agriculture and manufacturing sector during the 1960s and 1970s and which directly impacted on the labour absorption and employment relations in these two sectors. After reviewing the overall employment and labour market situation it separately analysed: (i) the changes in the agrarian structure and its implication for the demand for labour; (ii) the impact of past and existing industrial policies on employment generation for the large and small-scale manufacturing sector; and (iii) overseas migration and its impact on the domestic labour market. Based on this analysis and projections of labour supply over the Sixth Plan period 1983-88 it made specific policy recommendations as follows:

- In the sixties far reaching changes had taken place in the agrarian structure as a result of the 'green revolution' and large increases in crop productivity which had led to the resumption by large landowners of land from tenant farmers. As a result the size structure of land holdings had further polarised between the large and small farms together with a significant increase in landless labour. It was therefore important to ensure that labour absorption in agriculture was not further eroded. It recommended that priority should be given to increasing cropping intensity, productivity and cropping patterns that are more labour-intensive through increased inputs especially of fertiliser and water and move to global prices as basis of setting domestic prices as they favoured labour-intensive crops such as cotton and rice. It also strongly argued against labour displacing mechanisation and therefore recommended that subsidised credit should not be provided for such machinery and a realistic foreign exchange rate should be adopted instead of an overvalued exchange rate which favoured the import of capital-intensive machinery since most agricultural machinery at that time was imported.
- After analysing the extremely disappointing performance of t large-scale manufacturing in generating additional employment which it attributed mainly to economic policies that subsidised the use of imported machinery as well as the high capital intensity of imported capital goods the report set-out a number of policies that would remove the existing policy bias against small-scale manufacturing especially the exchange rate, credit and tariff regime given its potential of creating low-costs jobs in relation to the much higher costs in large-scale manufacturing as well as being an efficient user of capital in terms of high value added.
- The report based on a cost-benefit analysis of labour migration which had taken place in large numbers, mainly to the Middle East in the 1970s, recommended that Pakistan's comparative advantage lay in the sending abroad of semi- and unskilled workers

rather than highly skilled or professionals on which substantial public resources had been invested and which was also resulting in domestic shortages. It recommended, somewhat optimistically, that professionals going abroad should be asked to pay back part of their subsidised professional studies especially those who had studied on scholarships abroad funded by the government.

- The report by analysing in-depth the most recent surveys of SHMI (Small and Household Manufacturing Industries) showed that the small-scale sector had grown at a very fast pace of over 8 per cent per annum in the 1970s and that growth of some industries such as engineering goods and plastics had been driven by remittances, especially in rural areas, which had led to new and rising demand for consumer durables such as washing machines and refrigerators as well as other consumer goods such as plastic containers and utensils.
- Given the large numbers of skilled and semi-skilled workers going abroad the report recommended a number of measures to increase supply of skills including through encouraging formal sector firms to hire apprentices as well setting up of skill training institutions in the public sector.

The thrust of the report was that the highest priority should be given to employment generation during the Sixth Plan 1983-88 period given the projected high growth of the labour force at over three per cent during the plan period as well as to reduce the existing high levels of poverty with nearly one-third of all households being below the poverty line. It warned that the government should not to be lulled into inaction by the temporary easing of the labour market situation resulting from the large migration overseas mainly to the Middle East.

As a follow-up to this report the ILO/ARTEP undertook another study (ILO/ARTEP,1986), again at the request of the Planning Commission, as a mid-term review of the employment and labour market situation to evaluate the extent to which recommended policies had been implemented and what further measures were needed on the basis of this review. In addition to the earlier sectors covered including overseas migration the report also analysed employment trends in the public sector as well as the role of the construction sector in stimulating employment given its forward and backward linkages with the rest of the economy. The report also analysed the functioning of the urban and rural labour market especially wages and incomes as well as trends in poverty levels and placed special emphasis on policies for overcoming skill constraint and reducing skill mismatches in the economy. The report also made a strong case for strengthening the institutional machinery for employment and manpower planning and monitoring including in the Planning Commission as well as a strong plea for improving collection of data on the labour market indicators and setting up a comprehensive labour market information system.

The review of the first two years of the Sixth Plan showed a dramatic slowing down in overseas migration to the Middle East and therefore accentuating pressures on the labour market. The new government of Prime Minister Junejo realising the gravity of the situation set up in August 1987 a Manpower Commission which included senior government planners as well as representatives of the private sector and educational institutions. The Commission was tasked to prepare a comprehensive plan for manpower development in the country and

initially provide inputs for the Seventh Five Year Plan (1988-93). Its terms of reference included: (i) determining the size and dimensions of the problem of unemployment and recommend both short and long-term policies to deal with it; (ii) to examine the imbalance between general education and vocational training and education to help minimise wastage of resources and to effectively respond to employment and skills demand in a cost-effective manner; (iii) to suggest measures to provide employment to professionals including doctors and engineers; (iv) to consider the special problems arising from emigration of Pakistani workers abroad as well as of return migrants and to suggest measures for promoting migration overseas as well as those for returning workers; and (v) to examine the special problems of women and suggest measures including training and services for enlarging and strengthening the participation of women in economic and other national activities. As many as seven technical committees were set up to analyse these issues. At the same time in 2008 an ILO/UNDP/Planning Division project was started to support the work of the National Manpower Commission as well as to provide inputs to the formulation of the Seventh Five Year Plan. This project published a total of 14 reports including based on these studies a proposed strategy for employment and human resource development in Pakistan (Cameroon and Irfan, 1990).

Given the importance the government was giving to employment issues in the late 1980s the World Bank (1989) also undertook a study to examine the employment issues and prospects faced by Pakistan and its report was published in April1989. The World Bank (1989) took as its point of departure the two ILO reports (ILO/ARTEP, 1983 and ILO/ARTEP, 1986) as well as a seven volume report by the ILO/ARTEP (1987) on the impact of out and return migration on domestic employment in Pakistan.

The World Bank (1989) played down somewhat the concerns of the government that stemmed from the fear of return migration from the Middle East as well as rising unemployment among professionals especially doctors and engineers. It argued that return migrants would at best add to about five per cent of the increase in the labour force and that they were in any case economically better off than the rest of the population as well as in most cases better skilled. Also doctors and engineers came from middle-class family backgrounds though the report admitted that they could pose socio-economic and even political problems for the government if they resorted to street unrest. The report while recognising that major structural changes had taken place in the rural economy following the green revolution and resumption of land from tenants by middle and large sized landowners argued that this was not necessarily a negative development if it resulted in a rising average productivity of labour. The major concerns that the report pointed towards was the continuing high growth of the population that resulted in a high growth of labour force at over 3 per cent and a high growth of youth in the labour force. The report also showed that large-scale manufacturing employment had been stagnant at half a million since the early 1970s and most of the growth in employment in manufacturing had taken place in the small-scale informal and household manufacturing.

An important contribution of the report was that as distinct from the earlier reports it analysed how different sizes of firms were impacted by existing government regulations and labour laws. The very large firms and government enterprises they argued were subject to very stringent labour legislation. Medium as well as small enterprises on the other hand while being subject to labour regulations managed to circumvent most labour laws while at the

same time benefit from protective legislation (e.g., tax holidays and tariff protection). The third category at the extreme consisted of wholly unregulated enterprises which operated outside the preview of labour laws and which by and large did not receive any benefits from the government but could be affected to varying extent by government policies especially as related to the tariff and exchange rate regime. It also pointed out that these small-scale manufacturing firms and household enterprises had surpassed the large-scale formal enterprises (as the ILO/ARTEP (1983) study had also shown) in both labour absorption and output growth. As a result of the increased demand for labour rather than wage erosion in this sector real wages had in fact increased.

These findings as well as their analysis of the rural labour market led the World Bank (1989) to conclude that given the general wage flexibility in response to changes in supply and demand for labour as well as correspondences in wage movements between sectors that labour markets in Pakistan were competitive and linked. They went on to state that "there is no distinct or parallel labour market in Pakistan, one for the formal and the other for the informal sector but a continuum of markets" (ibid, pp. v). The World Bank, however, did seriously contend that extending labour laws to the small-scale and informal enterprises would adversely impact on their growth which had been extremely high, at over 8 per cent, between the late seventies and the mid-eighties.

Overall the studies conducted in the 1980s by the ILO and the World Bank agreed that in the medium and long-term Pakistan faced a serious challenge of finding employment for its fast-growing work force. These reports laid emphasis on the supply side in improving the dismal education and skill levels of the work force and on the demand side on measures that would encourage the growth of the small-scale and informal manufacturing as well as farm and off-farm employment. The ILO also placed emphasis on sectors which could stimulate employment growth in the short term especially construction and within it housing given the high forward and backward linkages of these sectors with the rest of the economy. A study by Godfrey ( ) for the ILO made a strong case for the housing sector as well as for encouraging labour-intensive exports as a major driver of employment generation by dismantling of anti-export bias in government policies together with investment in skills development.

3.1 Employment-based Poverty Reduction Strategy for Decent Work in Pakistan

In order to encourage national ownership of developments plans and policies and to help erase the general impression that these were dictated by major donors the World Bank launched the framing of PRSPs (Poverty Reduction Strategy Papers) as a pre-requisite for developing countries for receiving grants and loans and apply for debt rescheduling. At around the same time the ILO under a new Director-General who took over in 1999 the focus of attention shifted from not just the creation of more jobs but decent work which entailed rights at work, remunerative and productive employment, social protection and a voice at work. The emphasis as regards employment and jobs shifted from the creation of just more to better and decent work the creation of which would also result in reducing poverty and overcoming discrimination and social exclusion.

The ILO working closely with the Planning Commission and the UNDP undertook a number of studies starting in 2001 (ILO/Planning Commission/UNDP, 2004) to develop policies for poverty reduction through the generation of employment opportunities that would result in decent work. An important objective of these studies was to help incorporate decent work in the PRSP-I then in preparation by the Ministry of Finance as well as the Medium-Term Budgetary Framework (MTBF), as the development plan was renamed, being prepared by the Planning Commission for the period 2005-10. The initiative was also timely as the economy had been in the last three years under a severe IMF stabilisation programme to restore macroeconomic stability which had resulted in rising poverty and unemployment.

The major studies undertaken related to policies for employment generation for poverty reduction, the relationship between the functioning of the labour market and poverty, overseas migration, and social protection.

An important contribution to this work was the study by Gazdar (2004) who argued that in framing anti-poverty policies it was necessary to analyse structural factors which mediate poor peoples' access to labour markets and job opportunities. To quote, "Anti-poverty policy ought to pay greater attention to structural changes which may lead to improved market conditions of the poor. In other words, a poverty reduction policy might be concerned not only with overall growth and employment generation, but also with institutional change" (Ibid, pp. 169).

More specifically in the context of the organised sector he questioned the prevalent orthodoxy that the main source of labour market friction lies with public sector over-employment, rigid labour regulation, or restrictive practices on the part of unions. His argument was that an analysis of labour market functioning would show that there are 'socially-driven' labour market frictions which are as harmful, if not more, as any rigidities imposed by government regulations or trade unions. "In other words, even in the absence of public regulation and union activity, the labour market is likely to be uncompetitive, 'unfree', and unequal" (Ibid, pp. 169).

As regards the organised manufacturing sector he analysed the increasing shift towards contract-work both within and outside the factory premises. This contractor or thekedar system result in there being no direct contract between the worker and the management and all transactions relating to work, pay, or other conditions are mediated through the thekedar. The system reduces costs for enterprises by circumventing labour regulations, social security obligations, wage policy and the possibility of collective bargaining and by allowing it to shift fluctuations in economic activity could be seen to make labour markets more flexible and reduce labour rigidness. This advantages of course had to be weighed against the advantages of having a regular long-term factory employee that would ensure a reliable and skilled work force. He therefore concluded, though he did point out the need for more in-depth study on these institutional arrangements that, "Rather than resembling competitive market conditions is premised on monopsonistic market conditions for employers, whereas workers are unable to realize the premium on their skills, knowledge of the sector, and reputation. ….. Moreover, the institutionalisation of the thekedar system leads to a particular form of work organization that may not be conducive to firm expansion and technological innovation" (Ibid, 180).

3.2 Pakistan Labour Market Study: Regulation, Job Creation, and Skills Formation in the Manufacturing Sector

An opposite view arguing for much greater labour market flexibility to encourage faster job creation and skills formation in manufacturing was not long in coming. As the Musharraf government pressed on with a strong pro-private sector-led growth strategy and started what became known as the second-generation reforms, the World Bank (2006) undertook a detailed study of the manufacturing sector to improve the investment climate and make it more conducive to business by suggesting reforms in labour law and institutions, the vocational training system, and social security and welfare programmes. The study which was undertaken for the Ministry of Industries and Production and Special Initiatives and the Ministry of Labour and Manpower was to examine two critical constraints to the investment climate-labour regulation and the skills gap—so as to lead to an improvement in both employment outcomes and industrial productivity.

The study drawing on results from an Investment Climate Survey of nearly one thousand mainly manufacturing businesses in eight industries during 2002 came to the conclusion that labour regulation in Pakistan was excessive by international standards and the existing labour laws and regulations had raised the cost of long-term employment relations so high that the private sector was not creating good-quality jobs as it should nor was it helping in financing training that was needed to train the industrial workforce to compete in global markets. The basis of international comparison of excessive labour market regulation was 'ironically' as it put it, "that the share of temporary workers in Pakistan businesses is one of the highest by any international standard, standing at 36 per cent against, for example, 15 per cent in India and 3 per cent in Bangladesh" (Ibid, pp. iv). This excessive labour regulation had led to very low employment generation, i.e., output elasticity of employment and that had it not been for the recourse to hiring contract labour the elasticity would have been even lower. The study recognised that temporary employment undermined the incentives workers and forms would have to participate in or sponsor on-the-job skill formation and this was one reason while firms reported skill shortages only 15 per cent sponsored such training.

To 'fully capitalise" on the impressive on-going labour reform process the report therefore recommended reforms in labour regulation that would reduce firing and hiring costs as well as the costs of complying with such legislation. It proposed redundancy as a legitimate ground for dismissal as well as removing time limits on labour contracts (as they were higher in Pakistan as compared to other South Asian countries) and to reduce compliance costs by simplifying inspection schemes, working condition reforms and mechanisms for the collection of social security contracts.

On reforms in the vocational training system it pointed out that the existing system suffered from excessive fragmentation, quality, scale, and lack of private sector ownership. It rightly stressed that given resource constraints Pakistan needed to concentrate attention on access to primary and intermediate general education and reduce drop-outs. It also argued against earlier attempts to introduce vocational education in intermediate schools as well as a matriculation tech-stream at the secondary level. Its major recommendation related to improving the working of the newly set up NAVTEC (National Vocational and Technical

Education Commission) as well as on-the-job training and expansion of the current very restricted internship programmes offered by large enterprises.

On social security besides recommending meaningful representation of workers and employers providing external control on the allocation of funds and the type of services offered to help improve governance it argued for expanding coverage but only after undertaking reforms that ensured high –quality services for covered workers but at a reasonable cost to employers.

It is important to mention that the World Bank (1986) report made no mention of international labour standards or the fact that the IRO (2002) which had been adopted without tripartite consensus and had been subject to strictures by the independent Committee of Experts set up by the ILO as it curtailed workers' rights of freedom of association and collective bargaining nor the strictures on labour inspection policies being followed by the government. It also made no mention of trade unions even as labour market institutions.

It would need some investigation to see if any of its recommendations on increasing labour market flexibility were indeed seriously considered or incorporated in existing labour market regulations. Suffice it is to say that most studies and most important of all most employers did not find the existing labour legislation as a major, leave aside binding constraint, on either the investment climate or increasing output. Indeed more recent surveys conducted by the World Bank (see Manes, 2013) confirmed that this was indeed the case. The labour market was already sufficiently flexible and the fact that most large enterprises were relying on contract workers showed not so much that the labour regulatory framework was restrictive but that it was neither effective nor being seriously implemented. In this sense the earlier World Bank (1989) report had captured much better the reality of the functioning of the labour market as had done the earlier ILO reports which had concentrated on embedding employment into the government development plans and strategies and identifying sectors and investments which could result in more productive and higher levels of employment.

3.3 Pakistan: Finding the Path to Job-Enhancing Growth

The World Bank must be given credit that (including through constant prodding by the ILO) it has realised in recent years that the real issue is not of increasing labour market flexibility in developing countries where labour markets, except for a few sectors mainly public enterprises, are flexible in terms of employment practices, and that the real challenge is to create not just more but better jobs. At the global level its flagship World Development Report 2013 was on jobs and its regional report on South Asia (World Bank, 2012) was on more and better jobs in South Asia. These reports also suggest a much greater convergence of views between the World Bank and the ILO on the role of well-functioning labour market institutions (see for example, Amjad, 2013c).

It is therefore not very surprising that the most recent World Bank Country Economic Memorandum submitted to the newly elected government that took over in June 2013 is on finding the path to job-enhancing growth (World Bank, 2013).

The central tenet of the recent World Bank report on Pakistan is that the country has the potential to recover high growth and creating formal and informal jobs. The real challenge is not in creating low-productivity jobs but better jobs as well in order to sustain growth acceleration in the medium-term. This the report argues would not result from just reviving high growth but to ensure that growth is accompanied "by a shift from low-skilled to high skilled jobs. From farming and self-employment to wage employment. And—to some extent—from informal to formal employment. This process is called job-enhancing growth" (Ibid, pp. 5).

The report outlines a number measures of reviving growth to at least 7 per cent to absorb the expected growth in the labour force both in the short term (overcoming energy shortages and regaining macroeconomic stability) as well as in the medium and long-term through an improvement in the law and order situation and undertaking economic reforms to increase productivity, efficiency, and global competitiveness including trade and banking reforms.

While the report makes a number of important recommendations for both fostering high growth which would result in a faster rate of job generation it is less clear on the measures needed that would result in the creation of better jobs. In this sense while it does not argue that lack of labour market flexibility stands in the way of the creation of more and better jobs it at the same time does not seriously examine the positive role that labour market institutions can play especially through guaranteeing rights at work and voice at work through their elected representatives in the creation of better jobs. In this sense the World Bank has still some hurdles to overcome in making its case for the creation of better jobs.

In this study we also critically examine some of the World Bank (2013) analysis especially as they relate to the central theme of our analysis on the role of the manufacturing sector as a major driver of employment growth in Pakistan.

IV. THE MAJOR SOURCES OF ECONOMIC AND EMPLOYMENT GROWTH IN PAKISTAN

It is important to analyse the changing role of different sectors in driving economic growth as well as their past contribution to job generation to be able to gauge the role they can play in the future development of the economy and their potential for creating productive and decent employment opportunities.

4.1 Recent Studies on Sources and Patterns of Economic Growth and Employment in Pakistan

Not only has economic growth taken place in spurts in Pakistan, but the overall trend growth rate has also declined since the 1990s. Both these cyclical fluctuations and the contribution of different sectors to the slowing down of economic growth have been the subject of close enquiry. We review the latter as this is more relevant to our analysis.

A recent study by the World Bank (Lopez-Calix et al., 2013) explores Pakistan's growth patterns during the period 1980-2010 through a growth accounting framework applied to four factors of production—capital, labour, human capital (measured by years of schooling) and land (measured by arable land)—for the overall economy as well as for the three major sectors, agriculture, industry, and services. The study separates the individual contributions of labour productivity (output per worker) and labour accumulation (employment) to real output growth and then estimates the contribution of capital, human capital, land, and TFP to labour productivity. TFP is measured by the residual term and taken to represent the contribution of changes in technology and changes in efficiency with which inputs are used. The results of this exercise are shown in Table 6 below.

Table 6: Pakistan Sources of Annual Growth in Labour Productivity, FY 81-FY 11

Average Annual Percentage Rate of Change									
	Period	Real Output Growth	Investment as % of GDP (Constant Prices 2000)	Employment Growth	Output Per Worker Growth	Output per worker: % Contribution of			
						Physical Capital	Human Capital	Arable Land	TFP
Total economy	FY 81-FY 90	6.1	18.18	1.8	4.3	1.2	0.9	-0.2	2.4
	FY 91-FY 00	4.4	18.79	2.4	1.9	0.8	-0.2	-0.3	1.5
	FY 01-FY 10	4.8	16.56	3.8	0.9	0.1	0.6	-0.4	0.6
	FY 81-FY 11	5.0	17.69	2.7	2.2	0.7	0.4	-0.3	1.4
Agriculture	FY 81-FY 90	4.0	1.95	1.8	2.2	1.4	0.4	-0.7	1.2
	FY 91-FY 00	4.4	2.11	1.6	2.8	1.0	-0.1	-0.6	2.4
	FY 01-FY 10	2.7	1.64	3.2	-0.5	0.0	0.1	-1.8	1.2
	FY 81-FY 11	3.6	1.88	2.3	1.3	0.8	0.1	-1.1	1.5

Average Annual Percentage Rate of Change									
	Period	Real Output Growth	Investment as % of GDP (Constant Prices 2000)	Employment Growth	Output Per Worker Growth	Output per worker: % Contribution of			
						Physical Capital	Human Capital	Arable Land	TFP
Industry	FY 81-FY 90	7.7	5.77	2.0	5.6	1.7	0.7	0.0	2.1
	FY 91-FY 00	4.2	6.87	1.0	3.2	2.7	-0.1	0.0	0.6
	FY 01-FY 10	6.1	5.26	5.0	1.0	-0.9	0.5	0.0	1.5
	FY 81-FY 11	5.8	5.87	2.7	3.0	1.0	0.3	0.0	1.6
Services	FY 81-FY 90	6.6	10.47	2.8	3.7	0.6	1.2	0.0	1.8
	FY 91-FY 00	4.5	9.81	3.7	0.8	0.2	-0.3	0.0	0.8
	FY 01-FY 10	5.1	9.66	4.1	1.0	0.2	0.7	0.0	0.1
	FY 81-FY 11	5.4	9.94	3.5	1.8	0.3	0.5	0.0	0.9

Source: Lopez-Calix et al. (2013).

The main empirical findings of this study and its major conclusions are as follows:

- To a large extent, Pakistan's growth is still driven by agriculture with a high correlation between real GDP and real agricultural growth. With the economy slowing down, this role has, since the 2000s, shifted to services.
- The last 30 years' growth in Pakistan has been driven mainly by labour and capital accumulation rather than by productivity gains as measured by TFP and this has declined in the 2000s to a quarter of its level in the 1980s.
- The contribution of TFP to economic growth has declined in all sectors since the 1980s, including in industry where it was particularly strong in the earlier period.
- The main reason for the decline in TFP is that structural reforms have been growth-reducing rather than growth-enhancing. Since the 1990s and 2000s also witnessed considerable efforts at economic reforms, these did not have the desired results because structural reforms were fragmented, badly sequenced or truncated.

4.2 Job Generation and Growth Decomposition: Understanding the Sectoral Pattern of Growth and its Employment and Productivity Intensity in Pakistan

We have carried out a broadly similar exercise using a World Bank-developed model to generate results, but one that has the advantage of bringing out somewhat more sharply the sectoral contributions to employment and productivity growth in the economy. However, we concentrate our analysis on the last period, i.e., 2000-2010, so as to highlight what has happened more recently and to bring out the differences in the two sets of results and their policy implications.

Our analysis draws attention to Pakistan's growth decomposition, using the World Bank Job Generation and Growth Decomposition Tool, during the overall period of our analysis and its two sub-periods; Period 1 for 2000-01 to 2006-07; Period 2 for 2005-06 to 2010-11. Period 3

defines the overall 10-year time period from 2000-01 to 2010-11. The Shapely decomposition methodology is used to gauge the importance of each component of the decomposition exercise.

Pakistan registered a growth of 27.6 per cent in per capita GDP (value added) for the overall period 2000-01 to 2010-11. Table 7 illustrates the results of the decomposition of aggregate per capita growth into its main components.

Table 7: Decomposition of Growth in Per Capita Value Added, Pakistan, 2000-01 to 2010-11

	1999 Rupees			Per Cent of Total Change in Per Capita Value Added Growth		
	Period 1	Period 2	Period 3	Period 1	Period 2	Period 3
Total growth in per capita GDP (value added)	6,522.8	2,359.7	7,181.0	100.0	100.0	100.0
Growth linked to output per worker	3,614.6	65.3	3,255.0	55.4	2.8	45.3
Growth linked to changes employment rate	2,487.5	2,254.8	2,638.9	38.1	95.6	36.8
Growth linked to changes in the share of the working-age population	420.7	39.6	1,287.1	6.5	1.7	17.9

Source: World Bank JoGGs Decomposition tool with data from the Pakistan Economic Survey 2006-07 and 2011-12 and World Bank growth calculations for Pakistan.

Of the actual growth in GDP per capita of 25.1 per cent between FY 2001-FY 2007, 55.4 per cent is linked to growth in output per worker. In other words, more than half the growth in per capita GDP value added (13.9 per cent of the actual growth of 25.1 per cent), is linked to this component. The employment rate contributes to 38.1 per cent of the actual growth in per capita GDP value added (i.e., 9.5 per cent). Moreover, growth linked to changes in the share of the working-age population is calculated to be 6.5 per cent, or 1.6 per cent of the actual growth of 25.1 per cent.

In the period of economic slowdown (FY 2006-FY 2011), growth linked to productivity (output per worker) experienced a sharp decline to 2.8 per cent. The change in the employment rate had a much larger impact of 95.6 per cent. The demographic component (as reflected in change in the share of working-age population) also registered a weak linkage with growth. For the overall period FY 2001-FY 2011, growth linked to output per worker, changes in employment rate, and the population of working-age fairly moderate but still significant.

Table 8 presents data on employment by sector. In the period FY 2001-FY 2007, the aggregate percentage increase in total employment was 27.5 per cent. High employment growth observed in the industrial sector contributed 47.5 per cent to the increase in total employment. Overall the employment rate increased by 8.9 per cent, as a consequence of the simultaneous growth in the working-age population, with industry contributing 26.1 per cent, the highest share in the total percentage increase.

Table 8: Employment by Sectors of Economic Activity, Pakistan 2000-01 to 2010-11

	Total Employment			Employment/Pop. of Working Age		
	% Change			% Change		
	Period 1	Period 2	Period 3	Period 1	Period 2	Period 3
Agriculture	14.5	24.4	33.3	-2.2	11.8	1.7
Industry	47.5	22.5	67.4	26.1	10.1	27.8
Services	35.4	11.7	44.9	15.7	0.4	10.6
Total	27.5	19.4	43.3	8.9	7.3	9.4

Source: World Bank JoGGs Decomposition tool with data from the Pakistan Economic Survey 2006-07 and 2011-12 & the World Bank growth calculations for Pakistan

During FY 2006-FY 2011, a decline from 27.5 per cent to 19.4 per cent was observed in the total employment by sectors of economic activity, whereas employment as a percentage of population of working-age remained relatively stable, with the share of industry falling by more than half as compared to the previous period. Overall, during the 10 years, industry is observed to be absorbing most of the labour force.

Table 9 shows the decomposition of output per worker, capital stocks, capital labour ratio, and the change in the share of capital in total income. Here, we have used data compiled by Lopez-Calix et al. (2012), who have constructed capital series on Pakistan giving us capital stock figures for the time periods under consideration. We report the results for a constant share of capital in total income of 30 per cent. The table illustrates the role of capital and total factor productivity as well as the inter-sectoral shifts. Between FY 2001-FY 2007, total output per worker increased by 13.2 per cent. Of this increase, inter-sectoral employment shifts exerted a positive effect on total output per worker, contributing with Rs. 4451of total productivity growth in absolute terms. The capital labour ratio fell down slightly by 0.2 per cent. Period 2 shows an extremely low productivity growth. The capital stock during the period experienced a relative decline, but an increasing capital labour ratio is observed. Overall, the decade saw a rise in capital stock, capital labour ratio, and total factor productivity net of inter-sectoral shifts.

Table 9: Data Used for Decomposition of Output per Worker, Capital Stocks, Capital Labour Ratio, and Share of Capital in Total Income. Pakistan 2000-01 to 2010-11

	% Change		
	Period 1	Period 2	Period 3
Share of capital in total income (%)	0.0	0.0	0.0
Capital	27.2	22.9	47.7
Total output per worker	13.2	0.2	11.7
Output per worker net of inter-sectoral shifts	8.6	2.2	8.8
Capital labour ratio	-0.2	2.9	3.1
TFP residual net of inter-sectoral shifts	8.7	1.3	7.8

Source: World Bank JoGGs Decomposition tool with data from the Pakistan Economic Survey 2006-07 and 2011-12 and the World Bank growth and capital stock calculations for Pakistan (2012).

Table 10 illustrates the results for growth decomposition in terms of the percentage contribution to total growth in GDP value added per capita for Pakistan during FY 2001-FY 2011. In Period 1, between FY 2001-FY 2007, total percentage change in value added per capita of 25.1 is attributed to the following sectoral contribution aggregates: contribution of within sector changes in output per worker of 36 per cent, the contribution of changes in employment of 38.1 per cent, and the contribution of inter-sectoral shifts of 19.4 per cent. Overall, services contributed the most towards the total growth in per capita value added, followed closely by industry during the period. The population of working-age added a 6.5 per cent increase to the total growth per capita within the period, owing to the youth bulge that Pakistan is currently facing.

Table 10: Growth Decomposition Per Cent Contribution to Total Growth in GDP (Value Added) Per Capita, Pakistan 2000-01 to 2010-11

	Contribution of within Sector Changes in Output Per Worker (%)			Contribution of Changes in Employment (%)			Contributions of Inter-sectoral Shifts (%)			Total (%)		
	Period 1	Period 2	Period 3	Period 1	Period 2	Period 3	Period 1	Period 2	Period 3	Period 1	Period 2	Period 3
Sectoral contributions												
Agriculture	5.9	-29.2	2.1	-4.5	66.7	3.2	11.1	-12.4	7.1	12.5	25.1	12.4
Industry	6.5	-13.5	2.2	20.1	27.1	19.6	3.5	1.7	3.3	30.1	15.2	25.1
Services	23.6	72.0	29.8	22.5	1.8	14.0	4.8	-15.8	0.9	50.9	58.0	44.6
Subtotals	36.0	29.3	34.1	38.1	95.6	36.8	19.4	-26.5	11.2	93.6	98.3	82.8
Demographic Component										6.5	1.7	17.9
Total										100.0	100.0	100.0
Total % change in value added per capita										25.1	7.7	27.6

Source: World Bank JoGGs Decomposition tool with data from the Pakistan Economic Survey 2006-07 and 2011-12 and the World Bank growth calculations for Pakistan.

Period 2, depicting low growth in Pakistan, contributes the lowest towards total growth in GDP value added per capita among the three periods. Overall during the 10 years, industry is still seen to be one of the major driving forces in its contribution towards changes in employment, including the inter-sectoral employment shifts, even though it has experienced declining productivity over time. The services sector did well on all the three decomposed sectoral contributions during the decade.

Some other results of the exercise are consolidated in Appendix A. We further carried out growth decompositions using the same tool for the three time periods in our analysis above, this time presenting data on the industrial sector as a sub-division into its manufacturing and non-manufacturing components. The results were broadly similar for the industrial sector either way.

Our analysis suggests that the labour absorption capacity of industry and services increased during the ten-year period, where employment was generated most in industry and service sector, even after taking into account the simultaneous increase in population of working-age. The inter-sectoral shifts in employment did contribute towards the overall growth of the economy, albeit not to a large extent. Total factor productivity figures for the different time periods were crucial in determining how individual sectors were behaving. The services sector played a more important role than industry and agriculture in the overall growth of GDP value added. Even though agriculture recorded growth in output, services took the lead during the decade.

4.3 Some Important Conclusions from the Two Studies

We have gone into considerable detail to analyse the contribution of industry as well as services and agriculture to both productivity, employment and TFP over the period FY 2001-FY 2010 to show not only the contributing role of the industry sector but to bring out also some fundamental differences in our analysis as compared to the Lopez-Calix et.al. (2013) study. These differences are not just in terms of results but in the terms of the main policy conclusions between our two studies. Also substituting manufacturing for the industry does not make any real difference to the findings. These can be spelt out as follows:

It is misleading to treat the overall period FY 2001-FY 2011 as a whole and draw from it analytical findings on key variables and policy conclusions.

The main message that emerges from our analysis by breaking down this period into the high growth phase and that of low growth is that it is primarily economic growth that derives productivity, employment, and TFP growth. This is as much true for the 2000s as it is for the 1980s and 1990s.

The important conclusion that emerges from our analysis is that while undertaking economic reforms is important and they can facilitate growth they are not in themselves the major drivers of economic growth. The major driver is investment primarily in response to growth of demand and profitability. During period of high investment and resulting high growth labour productivity as well as TFP goes up because investment embodies the latest knowledge as well as new technology as postulated by Kaldor (1966) many decades earlier and more

recently by Ocampo. Pakistan's problem stems from very low investment in both physical and human capital.

The policy focus therefore must shift from a sole emphasis on of economic reforms which are primarily structural and medium to long-term in their impact to reviving investment and growth in the short- to medium-term the Pakistan economy. Pakistan's current downturn primarily reflects lack of business confidence due to the security situation arising from the conflict on its western borders.

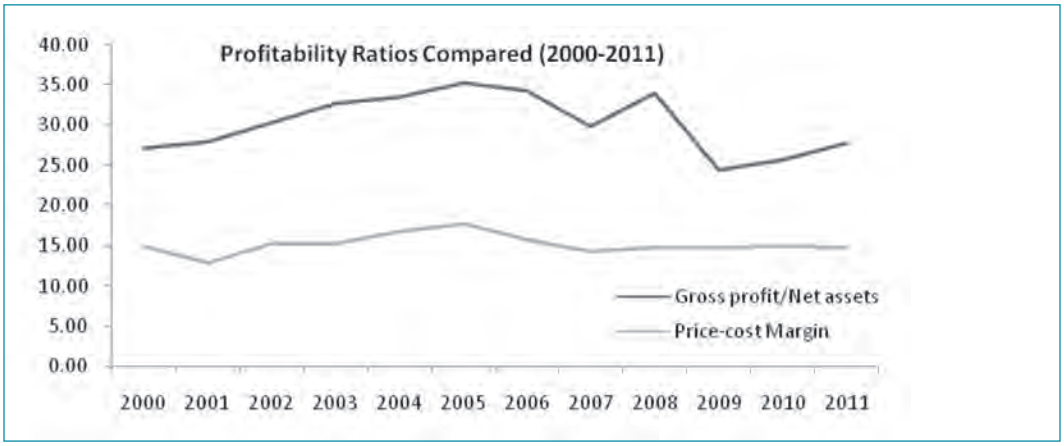
The two key areas besides the security situation where reforms need to be immediately taken relate to overcoming severe energy shortages which are a major hindrance to new investment and higher capacity utilisation of the current capital stock. The second relate to macroeconomic measures to restore macroeconomic stability, primarily raising tax to GDP ratio (which remains at an abysmally low level of less than 9 per cent).

4.4 Profitability of Manufacturing Firms Quoted on the Karachi Stock Exchange

To further build-up the argument that the economy was not demand constrained in the 2000s we examine the movement in profitability as represented by the rate of return on net assets and price-cost margins for non-financial mainly manufacturing companies quoted on the Karachi Stock Exchange over this period.

As Figure 3 shows both profitability and price-cost margins increased during the period of high growth FY 2001-FY 2007. The global slowdown and compression of domestic demand to restore macroeconomic stability under an IMF programme led to a sharp decline in the next two years. But profitability again picks-up and has been gradually rising in the next two years.

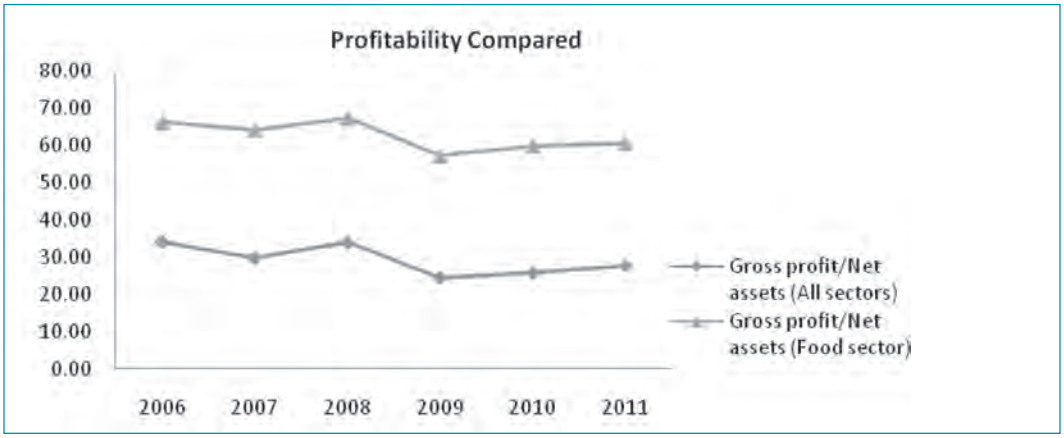
Figure 3



Source: Authors' own calculations based on consolidated balance sheet data from the State Bank of Pakistan for non-financial companies.

The behaviour of profitability in the food sector (Figure 4) also brings out rising consumption demand during the period FY 2006-FY 2011 and the consistent and much higher profitability in the food sector testifies that consumption demand kept increasing throughout this period.

Figure 4



Source: Authors' own calculations based on consolidated balance sheet data from the State Bank of Pakistan for non-financial companies.

V. CAN MANUFACTURING SERVE AS AN ENGINE OF ECONOMIC GROWTH AND CREATE MORE AND BETTER JOBS?

Keeping in mind the main results that emerged from the growth accounting exercises in Part III, we carry out a more in-depth analysis of the manufacturing sector to determine the extent to which their main findings are substantiated and the important qualifications and modifications that need to be made when interpreting these results.

We start by breaking down the manufacturing sector into its two major components: the large-scale, and the small-scale, and household sector.

5.1 Large-scale Manufacturing

The high capital intensity of large-scale manufacturing, as reflected in the high capital-output ratio and lack of employment generation in this sector, has been an area of considerable concern since the 1960s. An important study by Khan (1970) found that, not only was capital intensity extremely high compared to small-scale manufacturing and other sectors, but also that the capital intensities for a number of Pakistani industries was higher than that of Japan. A major reason associated with this high capital intensity was the prevalence of price distortions in the economy, which included an overvalued exchange rate (which, since most industrial machinery had to be imported, grossly underestimated the scarcity price of capital) subsidised financial costs, accelerated depreciation, and tax holidays (see Guisinger, 1981).

It was hoped that the devaluation of the Pakistan currency in 1972 to a more realistic exchange rate would help reduce this distortion and thus lead to a more optimal choice of technology in the import of industrial machinery and, in turn, to greater job generation. This immediate expected impact was considered to have been considerably compromised by the significant decline in private investment in large-scale manufacturing due to the earlier nationalisation policies of the government. Most public sector investment in this sector was in heavy industries, namely steel and heavy engineering, and mainly in the manufacture of machinery and machine tools, which, again generated fewer jobs.

The ILO (1983), which reviews the data for the 1960s and 1970s, concludes the following:

- In Pakistan, the process of structural transformation from a predominantly agrarian economy to one with a significant manufacturing sector began soon after independence. Despite the slowdown in the 1970s, the share of manufacturing output in GDP increased from 8 per cent of GDP in 1949-50 to 17 per cent in 1981-82 (see Table Annexe 1).
- Within manufacturing, the share of large-scale manufacturing in GDP increased from 2.2 per cent in 1949-50 to 12.5 per cent in 1969-70; due to the slowdown in the 1970s, it was still at this level in 1981-82 (see Table Annexe 2).
- The process of structural change in the economy in the 1960s and 1970s was not

proportionally reflected in the share of employment in the manufacturing sector in total employment. Its share reached 13.4 per cent of the labour force in 1961 from 13,1 per cent in 1951, and was at the same level of 13.4 per cent in 1982-83.

- The share of large-scale manufacturing employment in the total labour force was 2.5 per cent in 1960-61 and increased only marginally to 2.7 per cent in 1982-83.
- Of the total employment in manufacturing, the relative share of large-scale manufacturing was 18.3 per cent in 1960-61, which increased only marginally to 21 per cent in 1971-72 and remained at this level till 1977-78. In contrast, the share of large-scale manufacturing in total manufacturing was 30 per cent in 1949-50, which increased to almost 80 per cent in 1969-70 but declined to 73 per cent in 1981-82.
- The study also revealed the fragility of using employment elasticity as an indicator of the labour absorption capacity of the large-scale manufacturing sector, which increased almost three-fold in the 1970s compared to the 1960s from around 0.27 to 0.75. This reflected more the drastic slowdown in growth (from over 10 per cent to around 5 per cent) than a capacity to generate greater employment (which increased only marginally from 3.1 to 3.3 per cent).

There was little change in the low employment-generating capacity of the large-scale manufacturing sector in the next two decades as a detailed ILO (2000) study on employment, output, and productivity shows. In response to the question why the sector's employment absorptive capacity had continued to decline in the 1980s and 1990s, the study argued that, in the 1980s, large-scale manufacturing followed an "internationally established pattern of capital-augmenting, labour-substituting growth, increasing profit shares and reducing the wage share" (Ibid, pp. 6). For the 1990s, it added deflationary policies as a result of the structural adjustment programmes entered into by the government, which dampened recovery in manufacturing and further constrained capacity utilisation and employment.

For the decade 2000-2010, any analysis of the large-scale manufacturing sector is constrained by the fact that the last Census of Manufacturing Industry (CMI) for which data are available is 2005-06. However, there is no major change even in the first half of this decade in terms of the employment-generating capacity of the large-scale manufacturing sector.

To try to adjust for non-responding firms as well as the fact that the CMI overall frame does not cover all the large-scale manufacturing firms we have tried to make a rough estimate of the possible employment in the large-scale manufacturing sector. This works out at around one and a half million employed in large-scale manufacturing and increases its share to about 25 per cent of total employment in the manufacturing sector. However, only the results of the 2011-12 census will give us a better idea of the actual numbers.

Table 11: Employment in the Manufacturing Sector

	1960-61	1971-72	1977-78	1982-83	2001-02	2005-06	2011-12
Large-Scale Manufacturing	337,000	480,000	580,000	690,000	690,122	941,283	1,500,000[c]
Small-Scale[a] Manufacturing	1,501,000	1,806,150	2,398,928	2,699,044	4,264,878	4,838817	4,632,090
Total Manufacturing	1,838,000	2,2286,150	2,978,928	3,389,044	4,955,000	5,780,000	6,132,090
Total Labour Force[b]	13,517,000	18,270,000	21,840,000	25,220,000	40,865,000	50,640,000	59,740,000

Note: [a] *Residual of total and large-scale manufacturing sector*
[b] *Derived from Labour Force Survey*
[c] *Guestimate (corrected for underestimation) as a result of which estimate for small-scale for 2011-12 not comparable*
Source: *ILO/ARTEP (1983) and Labour Force Survey (various issues)*

5.2 Small-Scale and Household Manufacturing

It is best not to get into any precise definition of the small-scale manufacturing sector as these vary widely. In national accounts the small-scale sector is the residual of what is not covered by the formal organised large-scale manufacturing, i.e., it consists of firms that employ less than ten workers. In the detailed census periodically conducted by the statistical authorities firms employing more than ten workers are covered but these are only a small position of the total sample. The small sector also includes households mostly in the rural areas which engage in manufacturing activity mainly, artisans self-employed, but may employ more than one person. These are around 20 per cent of the total firms covered.

It is important also to note that official estimates of growth of the small-scale (including households) is done through an indirect method. For the 1950s and 1960s it was taken as equal to the growth rate of population. Subsequently it is derived from the Census of Small-Scale Manufacturing Industries (SSHMI) in terms of the recorded growth in the inter-censal period. When the Census does not take place the previous inter-censual estimates are used which can be misleading and then subsequently revised (which can create havoc with national income accounts!). Also estimates of investment in the small-scale manufacturing are indirectly derived and related to the growth of output assuming a constant capital-output ratio.

Keeping these statistical anomalies in mind we now try to decipher the growth and structural change that has taken place in the sector which is generally believed in recent years to driving economic growth and responsible for the so-called resilience of the economy.

It is now generally accepted that the growth of small-scale manufacturing was low in the 1950s and 1960s mainly because the incentive structure i.e. trade and exchange rate regime and credit was in favour of large-scale manufacturing. The devaluation in 1972 that did

away the overvalued exchange rate, de-controls on imports, nationalisation of the banking sector all made the environment more friendly to the small-scale sector. But what really spurred growth was the increase in agricultural incomes and the inflow of large remittances especially into small towns and rural areas (see Hamid, 1984). This boom continued in the 1980s as remittances rose further in the earlier years and the overall economy driven by increases in foreign inflows (resulting from the Afghan war) led to overall high economic growth and growth in manufacturing.

It is also important to keep in mind the strong linkages for many industries [(e.g. light engineering (tube wells)] and later automotive industries (cars, tractors, motorcycles) that have developed between the large and small-scale. In addition there are major sectors, for example, sports goods and surgical instruments which manly cater for the export market and mainly in the small-scale sector.

The best example of the vibrant growth is the so-called 'Golden Triangle' in central Punjab linking Sialkot, Gujranwala and Gujarat which is hub of light engineering fans, and some of the specialised exports of Pakistan. The triangle in fact extents southwards and is estimated to cover around 75 per cent of the engineering sector in Pakistan (with the rest 25 per cent located in and around Karachi).

Unfortunately earlier studies (some of which were undertaken by the ILO) which carried out detailed analysis of the growth and structural change in this sector (e.g., ILO, 1983, Nadvi, 1990) have not been done for the recent periods. Most of the studies have been on individual industries (e.g., fans/garments/ automotive etc.) But a number of conclusions derived from these studies remain valid today. These include:

- very low cost of job creation and economically efficient of use of capital and labour resources.
- large divergence in economic efficiency productivity and technology use by firms in this sector which represent a continuum from the lowest to the highest in terms of productivity—hence average estimates may be misleading.
- low level of skills and skill shortages identified in all the studies as major constraints to growth.
- lack of credit availability and poor marketing responsible for slow growth of majority of the firms.
- rampant consumption and high handedness of officials especially the tax authorities and labour inspectors.
- in recent years lack of energy identified as the binding constraint on output and new investment.

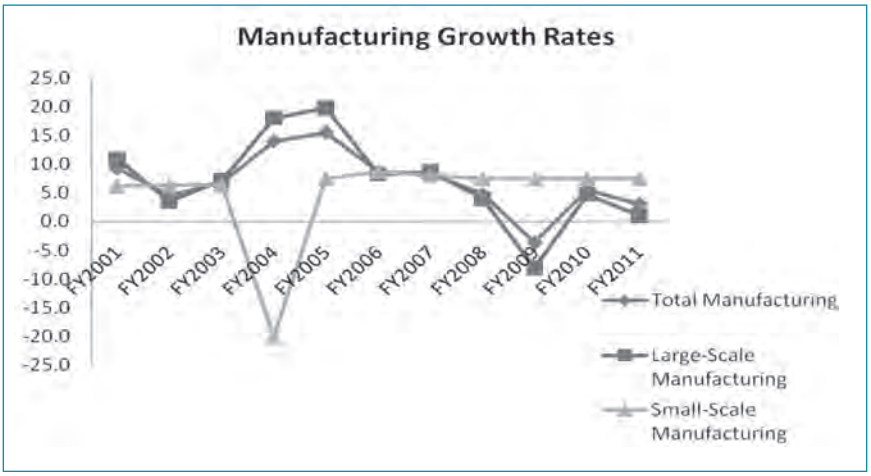
The question which needs to be addressed is why many of the firms in this sector continue to remain informal and unregistered? Some of surveys come-up with the following reasons:

- avoid labour laws including the minimum wage,
- avoid harassment by government/local bodies officials,
- avoid payment of taxes and in some cases not paying for electricity, gas, and other charges.

It is difficult to give weight to these reasons but it is clear that a large part of the small-scale sector remains unregistered and also undocumented.

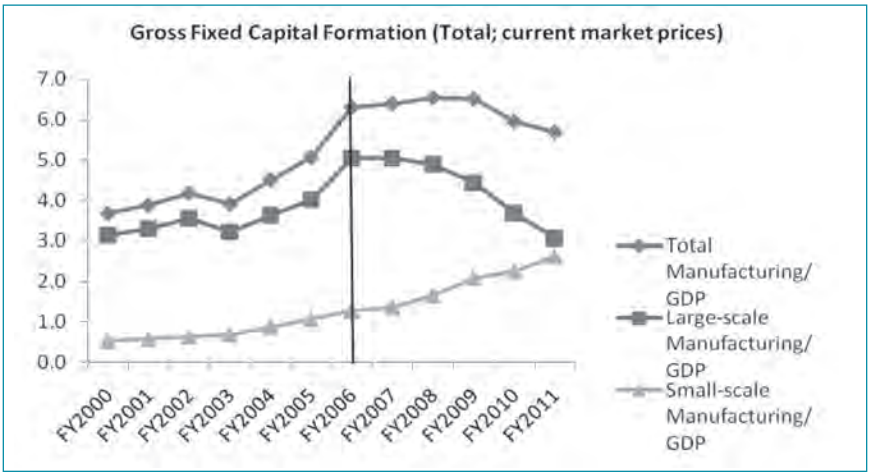
5.3 Manufacturing: Strengths and Weaknesses

Figure 5



Source: Pakistan Economic Survey (various issues)

Figure 6



Source: Authors' own calculation based on data taken from Pakistan Economic Survey (various issues).

Figures 5 and 6 show growth and investment in manufacturing overall, as well as separately for the large and small-scale sector. Since growth and investment in small-scale manufacturing is worked out indirectly based on inter-censual estimates and constant capital-output ratios they do not reflect year to year fluctuations as well as accurately overall trends.

Large-scale manufacturing, even though its size may be considerably underestimated, clearly show the growth in output and investment in the boom years FY 2000-FY 2007 and the collapse in the subsequent period. Trends in private investment in large-scale manufacturing follow the same movements as the total and account for most of the investment in this sector.

These movements further reinforce our earlier arguments that the manufacturing sector is not running out of steam even in the period 2000-2010 as the earlier World Bank study seemed to suggest. It is also important to keep in mind that the slowdown in manufacturing was not across industries. While those which were mainly export oriented, especially textiles, were badly hit by the financial crisis and global recession that followed post-2008 other sub-sectors especially food products and consumer durables (e.g., motor cycles) showed displayed high growth and high profitability as shown earlier in Figures 4 and 5.

The real weakness of the manufacturing sector has been its failure to move to higher value added products (Table 12) and not diversify exports into more technologically advanced sectors (Table 13). This has meant that it has not been able to take advantage of the growing sectors in world trade and hence not been able to benefit as it certainly could have during the period of rapid growth in global trade.

Table 12: Average Product Shares in Manufacturing, Pakistan, 1970-99 (In Percentage)

Product	1970-79	1980-89	1990-99
Food and beverages	30.45	30.94	22.89
Textiles	27.78	18.14	25.06
Industrial chemicals	11.20	14.29	15.50
Metals and non-metals	9.10	14.20	13.20
Petroleum and coal	5.27	6.01	3.26
Electrical machinery	3.31	3.26	5.43
Transport equipment	2.99	2.89	3.05
Apparel, leather, and textiles	2.04	2.37	2.80
Nonelectrical machinery	1.84	2.14	2.09
Rubber and plastic	1.80	1.80	1.42

Source: World Bank (2013)

Table 13: Technological Level of Exports, Pakistan and the World, 1998-2008 (In Percentage)

Sector	Growth 1998-2008	Share 1998-2000	Share 2006-2008	Growth 1998-2008	Share 2008
Primary	0.1	12.3	12.7	11.2	11.4
Resource-based	23.9	3.5	10.9	10.5	14.8
Low-technology	8.2	74.7	66.7	9.2	16.2
Medium-technology	8.7	8.6	8.1	10.1	35.5
High-technology	17.5	0.8	1.4	9.3	22.1
Total	9.6			10.1	

Source: World Bank (2013)

VI. CASE STUDIES OF AUTOMOTIVE AND GARMENTS SECTOR AS DRIVERS OF MORE AND BETTER JOBS

Picking winners in terms of targeting sectors or sub-sectors in the economy as future drivers of economic growth and employment generation has always been a hazardous task. More failures than successes have tended to emerge, based on the experience of the Southeast and East Asian economies, although the line in defining successes and failures remains somewhat 'grey' and controversial. The rise and fall from economic grace of devising industrial policies to stimulate sustainable and high growth in industry with a concentration on specific sectors is also very much part of the economic history of planning in Pakistan—shelves full of studies gathering dust line the corridors of the Ministry of Industries and the Planning Commission.

Yet the fact remains that, even after 65 years, the country's industrial structure, and manufacturing exports remain concentrated in a few industries. There has been little success in bringing out any major structural shift to higher value added sectors within manufacturing or in the composition of Pakistan's manufacturing exports to more knowledge-based and technologically advanced products.

There is no dearth of explanations for why this structural shift remains elusive and the two major causes that have dominated as standard explanations include (i) the lack of economic reforms, which has allowed an inefficient industrial structure to persist free from global and domestic competition, and (ii) the lack of an educated and skilled work force, which has acted as a major constraint to investment in more knowledge-technological skill-intensive industries in the manufacturing sector.

The problem with these explanations is that, over the years, a number of economic reforms have indeed been undertaken and investment in human capital has increased. Though far from adequate, especially as regards tariff reforms and investment in human capital, it is still difficult to explain this stubbornness of the structure of the manufacturing sector to respond to policy reforms and the somewhat better availability of an educated and skilled labour force.

Our study of the automotive and garments sub-sectors meant to illustrate what has gone wrong so far in the development of the former, how some of these policy failures can be rectified, and how some of these past mistakes can be avoided to galvanise growth in the garments sector. This is important given that the garments sector is now a major policy thrust area under the current Nawaz Sharif government, specifically in its decision to open up a 'Garments City' to attract both foreign and domestic investment outside Lahore.

In proposing support for the growth of these two industries, it should be made clear that the idea is not to encourage through protection or other support measures the growth of an inefficient and uncompetitive manufacturing sector, but one which, within a realistic but time-bound framework, can become internationally competitive and foster the generation of productive, remunerative, and decent employment.

6.1 Automotive Sector

The auto-vending industry, which provides auto-parts and contributes around 42 per cent of value added to the automotive sector, has attained a medium level of technological sophistication and developed strong capabilities in casting, forging machinery, plastic injection moulding, rubber die casting, and rubber extrusion. It has managed to localise a large number of automotive parts and has significant export potential and opportunity to become part of the global supply chain. Already, 24 auto-parts manufacturers are exporters with total exports at US $ 20 million in 2010-11.

i. Sales, Value added and Employment

The automotive sector covers the assembly of cars, motorcycles/rickshaws, tractors, trucks/buses, and part manufactures, mostly vendors in the unorganised sector (mostly ISIC 34 and 35 but also tractors under ISIC 29).

The different estimates of the value of production, value added, and employment in the sector is shown for different years in Table 14. While clearly the CMI 2005-06 underestimates value added and especially employment this sector has clearly witnessed a very rapid growth over the last ten years or so. (See Appendix for some more data on this sector including details of increase in production of cars, motorcycles, etc. over this period)

Table 14: Sales, Value added, and Employment in the Automotive Sector for 2005-06

	CMI 2005-06	Pasha and Ismail. (2012)	SMEDA (2005)
Sales (value of production)	Rs. 212 billion	Rs. 401 billion	NA
Value Added	Rs. 61 billion	Rs. 108 billion	Rs. 153 billion
Employment	28,269	209,234	500,000

Source: CMI (2005-06), Pasha and Ismail. (2012), and SMEDA (2005)

ii. Encouraging the growth of the automotive sector

The growth of the automotive sector in Pakistan has taken place primarily under high tariff rates and an earlier deletion programme which resulted in a proliferation of a large number of vendors. Growth has been driven by a high growth rate in demand over the last decade with a newly emerging middle class that is the main buyer of motorcycles the production of which has now reached 1.7 million annually in 2013 compared to only around 815,000 in 2005-06. The level of locally produced inputs ranges from a low of 5 per cent in the case of some makes of cars to almost 100 per cent in the production of tractors, motorcycles, and three-wheelers.

The essential challenge facing this industry is to make it competitive through a phased rationalisation and reduction in its tariff structure, increasing domestic competition and

improving the quality and standards of production. Domestic demand has fluctuated with economic growth cycles as in 2002-2007; it slowed down with the economy's very low growth in the subsequent period. The jump starting of the economy in 2002-03—with low rates of interest and the availability of leasing facilities at low cost—was a major factor in demand over the next few years, which led to high growth rates of sales in cars and motorcycles.

Tariff Rationalisation

In July 2006, the deletion programme for the automotive industry was replaced by a tariff-based scheme to ensure compliance with the Agreement on Trade-Related Investment Measures (TRIMs). However, the increasing subsequent use of SROs (Standard Regulatory Orders) has replaced tariffs under the guise of encouraging indigenisation by giving concessions to individual producers in response to industry pressure and vested interests.

The current regulatory framework allows considerable discretionary powers to the EDB (Engineering Development Board) in restricting imports of competing goods and raw materials and in effect thereby creates a non-tariff barrier to imports. This amounts for all practical purposes to a de facto continuation of the old 'Import Licence Raj' and has led to allegations of considerable corruption in the EDB and the Ministry of Industries, which oversees the EDB.

As a result of this regulatory regime, effective protection is higher and governed by non-tariff barriers in addition to high rates of duty. Pasha and Ismail (2012) had proposed a number of measures to rationalise the tariff regime including halving the current tariffs on vehicles to 35 per cent over a period of five years from the current effective rate of protection (ERP), which ranges from 98 per cent for small cars (800cc) to as high as 375 per cent for large cars (above 1500cc). They also proposed that the dispersion of tariffs should not exceed 15 per cent and the same tariffs should apply to cars of different sizes (with excise duty applied to discourage conspicuous consumption). Moreover, they recommended that the EDB's discretionary powers should be considerably reduced by removing the distinction between localised and non-localised parts.

Increased Domestic Competition

While there is virtually cutthroat competition in the market for motorcycles, there is still a high degree of concentration in car manufacturing and the market shares of individual producers have not changed considerably. Despite measures to ease the entry of new investors, a number of conditions have also been set that restrict entry. The import of used and reconditioned vehicles has been allowed in some cases but the policy regime changes from year to year with significant pressure from local manufacturers. There is a need for a study and investigation by the Competition Commission of Pakistan (CCP) to increase competition and encourage entrants.

Increasing Exports and Impact of Trade with India

Pakistan's share in world exports in automobile products is almost negligible. The industry still has a long way to go to become globally competitive though motorcycle

producers are beginning to increase their sales to Afghanistan and Bangladesh. Most car manufacturers feel that giving most favoured nation (MFN) status to India could damage domestic production, though again, producers of motorcycles and spare parts are fairly confident of being able to compete against Indian imports and of their ability to penetrate the Indian market. In case MFN status is given to India, the process of tariff reduction and rationalisation in the case of car manufacturers may need to be slightly extended.

iii. Creating More and Better Jobs in the Automotive Industry

With the sector already employing 200,000 to 500,000 workers (as given by different estimates), the high elasticity of income demand, and the capacity for exports in selected products and parts, there is considerable potential for this sector to generate significant employment in the future especially as the size and numbers of the middle class further expand with the picking up of economic growth.

The share of the organised sector in total employment is very small—at best between 10 and 15 per cent even if we take into account the gross underestimation in the CMI figures. The overwhelming number of vendors producing auto-parts is in the informal small-scale sector. There are, however, associations of manufacturers that are quite active—mainly members from the formal sector but also some producers from the informal economy.

While challenging, it may be possible to start a dialogue between the three major associations representing the automotive sector and representatives of national trade unions together with the government to explore ways of gradually formalising the large informal part of the sector, investing in skills development for the sector as a whole, and improving conditions of work, especially in those sub-sectors where workers are subject to hazardous working conditions. This would encourage both productivity growth and competitiveness in this sector.

6.2 Garments Industry

As the epitome of 'sweat shops in the sun' and after having been vilified (including by the ILO) following major fire incidents in Bangladesh and Pakistan that killed hundreds of people, it may seem inappropriate to identify the garments industry as a potentially leading sector for the creation of more and better jobs in Pakistan. Yet there are important grounds for supporting its development.

First and foremost, the garments industry is in the process of major structural changes resulting both from increasing global competition as well as an increase in specialisation and the development of 'niche' markets (e.g., 'technical' and 'green' garments) to cater for changing consumer tastes. Firms relying on cheap labour and low-technology unskilled workers will find it increasingly difficult to survive. To remain active in global value-chains, firms will need to invest in skills and technological upgrades, and take advantage of working in clusters, thus increasing their share of value added products through design and brand development.

Second, Pakistan, as the world's eighth largest producer of raw cotton, has traditionally depended on textiles as its leading sector in bringing about early industrialisation. Even

today, the dominance of this sector has led to Pakistan being characterised as a 'cottonomics' economy. The manufacturing of textiles accounted for 53.2 per cent of employment in large-scale manufacturing (about 500,000 workers) and 28.6 per cent of value added in 2005-06, of which apparel accounted for 6.6 per cent of employment and 4.3 per cent of value added. However, garments are concentrated in the small-scale sector. Textiles contributed about half of Pakistan's total exports (US $ 13.6 billion in 2011-12), of which garments account for around a quarter or US $.3.72 billion. Yet the textiles sector remains at the lowest end of the value-chain, producing and exporting yarn and low value added garments after almost 60 years.

Third, China's planned movement out of the garments sector opens up a huge export market of US $ 130 billion (plus more as China becomes a net importer of garments) for which Pakistan can compete. The total global market for garments is valued at US $ 350 billion and is growing at around 5 per cent per annum. Currently, Pakistan has a miniscule share of this market in which China is the leading exporter, followed by the EU, Hong Kong, Bangladesh, Turkey, and India.

Fourth, with Pakistan being granted GSP-Plus status from the EU starting in January 2014, this could lead to an increase in garments exports of between US $ 580 and US $ 700 million a year of a total estimated increase valued at US $ 2 billion annually. This boost could serve as an important impetus to the garments industry and help regain some of the ground lost following the end of the MFN regime in 2005 as other countries, especially Bangladesh, benefit in the MFN round.

Fifth, the new Nawaz Sharif government is targeting the garments sector to attract foreign investment, increase exports, and generate employment, especially for women. A garments 'city' is being set up near Lahore (in Sheikhupura) to produce specialised garments utilising manufacturing structures that respond to the requirements of fast-changing fashions and designer lines. The project is being run as a private-public partnership with the majority of the Board of Directors drawn from the private sector. The Punjab government aims to provide housing and technical training to workers onsite by setting up an industrial training institute and specialised training programmes through the Technical Education and Vocational Training Authority (TEVTA), which operates under the provincial government.

Finally, in a sad but important way, the recent tragic fires in the garments industry and considerable loss of life has—as a result of international pressure and the possible boycott of imports by major buyers—led to considerable pressure on garment producers to improve working conditions, including by working closely with the ILO. The expected grant of MFN-plus status by the EU has also made producers aware of the ratification and regular monitory of 27 international conventions, of which 16 relate to human rights and 11 to labour rights.

6.3 Case Studies of Firms

Two important studies undertaken recently (Nabi and Hamid, 2013; and Hussain, et al., 2013) on the garments industry in Pakistan include surveys of garment firms and interviews with proprietors and managers in an attempt to identify the major challenges that firms face in breaking into higher value added products and competing in the global market.

Some of the major findings of these studies are as follows:

- While successful companies in the global market have moved up from captive and contractual arrangements to relational (with leading brand manufacturers) and modular arrangements (with local and international buying houses), Pakistani firms appear to be 'trapped' in a low equilibrium—producing low-price items for mass retail.
- With technological advancements and the introduction of micro-electronics at all stages of garment production—increasing the need to upgrade equipment and the demand for skilled labour—Pakistani firms have lagged behind, especially in computer-aided design (CAD) and computer-numerical-control (CNC) cutting and computer-aided manufacturing.
- Few Pakistani garment firms have become own-design manufacturers and cluster formation through globalisation has been limited.
- Pakistani firms need to upgrade their technological capability, gain access to skilled labour and training institutes, anticipate changing demand patterns, and invest in machinery and IT hardware/software to sustain growth.
- As far as the entire manufacturing sector and the garments industry is concerned, the growing duration of power outages has emerged as the major binding constraint, followed by corruption, and lack of available skills. As regards skills, there is a dearth of female salaried operators in knitwear, who are generally hired in countries such as Bangladesh and China.

The ILO is already working with the Pakistan Readymade Garments Manufacturers and Exporters Association (PRCMEA) in providing training through fire safety workshops. There is a need to build on this relationship and take advantage of the growing awareness among producers and the government of the need to respect basic workers' rights of association and collective bargaining and improving conditions of work. This applies all the more with the granting of GSP-Plus status granted to Pakistani exports by the EU.

It is encouraging that even at the planning stage of the garments city near Lahore considerable attention is being given to working conditions and that the garment industry and employers are themselves pushing forward these initiatives.

VII. MAJOR CONCLUSIONS AND POLICY RECOMMENDATIONS

The major conclusions and policy recommendations that emerge from this study are put together under the following main titles:

Reigniting economic growth under an IMF programme

More and especially better jobs can only be generated in a growing economy. Sustained economic growth has, however, remained elusive due to recurring foreign exchange crisis resulting from unsustainable fiscal and balance of trade deficits. Pakistan has had to resort to IMF support to avoid default and been under 11 different IMF programmes for more than half of the last 25 years. The new Nawaz Sharif government entered into an EFF (Extended Fund Facility) programme soon after coming into power in September, 2013. Before that the PPP government had entered into a Standby Agreement with the IMF in October 2008 which it had abandoned in June 2011.

A key question is whether economic growth can be ignited under a strong stabilisation programme that the IMF conditionalities as well as current macroeconomic imbalances dictate? And secondly will economic reforms being undertaken under this programme succeed in leading to higher and sustainable growth?

At least on the performance of the economy in the last 25 years the answer to both these questions appears on balance to be negative. Except for the short-spurt in growth FY 2003–FY 2007 economic growth has failed to pick-up and even this spurt can be traced largely to increases in foreign aid inflows post-9/11, manifold increases in remittances and the global trade boom rather than the reform programme undertaken in the preceding three years as part of an IMF programme, as some economists have argued (Husain, 2003). In fact the series of reforms undertaken in the last two decades as part of different agreements entered into with the IMF have not resulted in generating sustainable growth. Nor have they resulted in bringing about needed structural changes, which would among others have made the economy less vulnerable to external shocks. Pakistan's economy faltered in the face of rising global prices of oil and food grains in 2007 even before the financial crisis unfolded in 2008. India and other South Asian economies were able to much better deflect the global financial crisis, even if more recently the Indian economy has slowed down (see Amjad and Din, 2010).

The international financial institutions (IFIs) (see World Bank, 2013) view is that reforms were not fully-implemented and when undertaken wrongly sequenced. This criticism is to some extent justified as Pakistan except for the one instance in the early years of the Musharraf government has never fully gone through the cycle and completed any of the other ten IMF programmes. However, many economic reforms have been initiated as part of these programmes.

The view expressed in this paper take a somewhat different approach. It does not argue against economic reforms that will make the economy more efficient by relying more on market driven forces and make it more globally competitive. Indeed it supports many of the suggested reforms. This paper argues that economic reforms in themselves are not sufficient to ignite growth in the economy. The binding constraint on Pakistan's growth is the collapse in investment and policy makers need to concentrate attention on reviving investment which can be the basis for reigniting growth and leading to sustainable and higher economic growth.

This would require:

- giving the highest priority to attaining peace on the western borders and through this improving the security and law and order situation which is being negatively impacted as a result of this conflict;
- restoring domestic and foreign investors' confidence as a result of the above as well as through opening up fully trade and investment flows with India by granting it MFN status while putting in place safeguards that put to rest fears that India will not use non-tariff barriers against Pakistan's major competitive exports.
- maintaining a high level of public sector investment, primarily the PSDP (Public Sector Development Programme) and not drastically reducing it as stipulated in the IMF programme given the high PSDP multiplier impact on the economyi– with cuts made through reducing non-development expenditure including subsidies on fuel and support for highly loss making SOEs (state owned enterprises);
- reduce interest rates from the current double-digit level (at 10 per cent)—not increase them as recently done in November 2013 under the current IMF programme, keeping in mind the ineffectiveness of monetary policy in containing inflation in the face of unsustainable and extremely high fiscal deficits being financed by State Bank borrowing (i.e. printing money);
- overcoming the energy gap through adjusting prices and reducing theft and other leakages;
- providing better economic management and reducing corruption which has become rampant over recent years.

Resurrecting the Manufacturing Sector

The emphasis in this paper is on the manufacturing sector and this study has clearly shown that it has the potential to both serve as a major driver of economic growth and create more and better jobs. But this will require concerted action in a number of areas including:

i. Tap the Growing Forces of Demand for Manufacturers

The domestic market is growing driven by rapid urbanisation, remittances, an emerging middle class estimated in 2010 at around 25-30 per cent of the population (Nayab, 2011), and growing rural incomes. The recent granting of GSP-Plus status by the EU to Pakistan

imports effective from January 2014 and new export market opportunities especially in garments as China moves into higher value added goods will further boost demand for the manufacturing sector. There is also considerable potential by exploiting economies of agglomeration and connectivity through the spread and better use of information and communication technology (ICT) which has been relatively neglected in the past.

ii. Overcoming the Skills Constraint

Investing in education and skills still remain the two most neglected areas of Pakistan's economic development. The only improvements are in higher education, where enrolment has increased almost five-fold in the last ten years, especially female enrolment (now almost half of the total 1.4 million enrolled) together with a number of initiatives taken in skills development in the recent past by the provincial government in the Punjab though their overall coverage of the total labour force is still limited.

Our analysis of the market for skills and the factors leading to skill mismatches in the labour market lead us to the conclusion that the problem emanates not just from the supply side as it is normally diagnosed. The demand for skills is considerably constrained by both the low returns on investment in skills and the current widespread labour hiring arrangements (covering almost 70 per cent of organised manufacturing) which encourages the use of contract workers especially in the organised large-scale manufacturing sector. Employers are reluctant to pay for higher skills as well as invest in skills development given that the large part of their labour force consists of contract workers hired through contractors.

iii. Tariff Reforms

Will increased foreign competition in the domestic market and search for new higher value added products in the export market result in an increase in investment in skills by employers and thus also lead to moving away from contract labour to the hiring of permanent employees? While theoretically this should happen unfortunately despite considerable tariff reforms progress remains slow and disappointing. The structure of Pakistan's manufacturing sector still remains heavily biased towards lower value added mainly consumer goods and exports in low-technology products.

It is true that far reaching tariff reforms introduced post-1997 have to some extent been reversed post-2008 in the face of an unsustainable balance of payments situation. Under the current IMF programme some of these measures are to be taken back and there is a commitment by the government to reduce and rationalise the revised tariffs as well as remove SRO's (statutory regulatory orders) which act as a major restriction on imports and favour specific importers cum producers.

The results are yet to be seen. But the fact remains that there is little agreement among policy makers on the adoption of a suitable tariff and exchange rate regime which would foster a 'desirable' structure of industrial growth. A powerful lobby believes that such a desirable structure means giving preference to the growth of industries that produce high value added engineering and related machinery through high tariff barriers and cloaked quantitative

restrictions (under SROs). This is in sharp contrast to whom we may broadly term as 'free trade' advocates (which includes the IFIs) who believe in 'uniform and low tariffs' to result in an efficient and competitive industrial structure.

Given the strong vested interests that have been built up an easy solution to this conundrum may not be possible at least in the foreseeable future. In these circumstances this paper would recommend a second-best solution on the lines that have been suggested by Pursell et.al. (2011) in their study on tariff policy for the Planning Commission.

These measures include:

- where SROs are becoming permanent they should replace the statutory tariffs;
- unify tariffs in the zero to 10 per cent range and where custom duties concessions are given they should be available to everyone including traders and importers;
- reduce tariffs in the 10 to 20 per cent range so that most raw materials are available in the 10 per cent range.

In addition the following guidelines should be agreed upon:

- when growth of higher value added sectors are targeted (e.g. engineering including automotives) and protection afforded, it should be done through tariff adjustments and not SRO's and this protection should be time-bound and target dates set strictly enforced;
- government organisations or bodies set up to foster growth of specific industries e.g. EDB (Engineering Development Board) should be gradually wound up as the chambers and associations of producers in these sectors are now very well developed and can directly deal with the Ministries of Industries and Commerce. This would help reduce corruption and micro-management which results from the current arrangements;
- eventually government policies should concentrate on the development of human capital rather than on targeting specific industries and take form of giving much higher priority to education and skills development in terms of investment and supporting services;
- it is extremely important to include workers representatives on skill development bodies at the Federal and Provincial level as well as at the local or district level as most of the current bodies (e.g. National Vocational and Technical Training Commission (NAVTEC) at the federal level or Technical Education and Skills Development Authority(TESDA in the Punjab) have no formal representation of workers.

iv. Raising Productivity in Small-scale Manufacturing

There are currently around four and a half million workers in small-scale and household manufacturing, or around 75 per cent of the labour force in manufacturing producing less than 20 per cent of the value added in this sector. This for a large part of the enterprises operating in the small-scale and informal economy is reflected in very low productivity per worker which in many cases is well below the minimum wage and indeed many of the workers employed live below the poverty line.

In no other sector of the economy will investment in building an educated and skilled workforce have a higher return. The resulting growth in output and productivity, the latter further boosted through concerted effort and incentives at skill upgradation, will create jobs and as productivity increases better jobs in this sector. This sector can then serve as a major driver of economic growth as well as manufactured exports including producing and exporting new products in new global markets.

But how is this to be achieved? The major thrust must be in increasing enrolment in primary and secondary education and improving quality of education imparted. The second on skills development as proposed earlier but with a specific focus on the small-scale and unorganised enterprises.

Also the focus of government support for this sector including of government supported organisations e.g. SMEDA (Small and Medium Enterprises Development Authority) and other provincial bodies' needs to change. There is far too much focus on targeting particular industries including for exports and here too the focus is mainly on large enterprises.

There is clearly a justification for such interventions and these have resulted in encouraging growth and productivity in particular industries and specialised products. Where the focus needs to shift is to working towards creating a better and more conducive environment for this sector and removing obstacles which hinder the growth of all enterprises i.e. the relatively larger as well as small and micro enterprises in this sector.

This mean specifically reducing the anti-small-scale bias in tariff policy which results in high costs of raw materials, provision of infrastructure facilities including space for firms to operate as well as provision of transportation and connectivity services and most important access to finance which is for most small firms the binding constraint on their expansion. From just a micro interventionist vision policies in favour of this sector should analyse the macro environment in which they operate and then suggest, support and help implement specific policy changes and interventions which would support the growth of the small-scale sector.

Creating More and Better Jobs

For the creation of more jobs in manufacturing there is a need for a two pronged strategy ('walking on two legs') by encouraging at the same time the growth of labour-intensive manufacturing as well as moving up the value added ladder. A number of measures on how to achieve this have been spelt out in the report including specifically for two sub-sectors, namely garments and automotives.

The aim, however, is not just the creation of any jobs but more productive, remunerative and decent employment which results in an adequate income to cover basic needs, a degree of social protection, a voice at work through democratically elected representatives and respect for workers' fundamental rights. Even though this may not be possible for some time to come for the vast majority of the work force the real challenge is how do we move in this direction.

First and foremost is the revival of economic growth including in the manufacturing sector which as our study shows still has considerable potential for higher growth and job creation.

With the labour force growing at between 3 to 3.5 per cent the economy must grow at around 8 per cent to absorb productively the new entrants into the labour force and even higher to increase incomes and living conditions of those who are unemployed and those living just above or below the poverty line.

Second, there is need for a concerted effort at reducing the high growth rate of population which still remains among the highest in the region at around 2.1 per cent and could turn out to be even higher once the Population Census is held which has not been done since 1998.

Third, as distinct from other studies (e.g. World Bank, 2013) which mainly argue that higher economic growth will result in jobs this paper argues that while economic growth is a necessary condition it is by no means a sufficient one. For productivity growth in the economy to translate itself into higher wages and incomes and improved living conditions there is need to build strong and well-functioning labour market institutions as well as for the elected governments to overtly protect workers' rights as well as make good their commitment to social justice through the provision of basic education, health, and adequate and affordable social protection to the workers. In this context some of the specific measures which this paper supports include:

- strengthening of workers' organisations which allow workers through their democratically elected representatives to effectively bargain with employers to ensure fair and liveable wages and better and safe conditions of work;
- reintroduce labour inspection so as to ensure safe conditions of work while putting in place measures that prevent harassment of employers by factory inspectors;
- fixing of minimum wages through tripartite dialogue and agreement and strict enforcement of minimum wages in the organised sector which may gradually be extended to the small-scale and eventually the informal economy;
- extend social protection to all workers in large-scale manufacturing including finding ways of covering contract workers and extending it gradually to firms in the small-scale sector; and
- induce informal sector firms to register and enter the formal/documented economy.

This paper also shows that if Pakistan is to be an effective player in global markets for manufactured goods it would be a great advantage if it carries with itself the credentials that its goods are produced in an environment in which human rights are respected and basic workers' rights are protected. On a positive note there are already signs that employers are becoming much more conscious and actively working towards creating such an environment as is the case in the setting up of the Garment City near Lahore so as to attract buyers as well as investors who are moving away from destinations of cheaper goods produced at very low wages and in very poor and hazardous working conditions. This move by employers also reflects the importance they are giving to taking full advantage of the GSP-Plus status granted by the EU for Pakistani imports that is to become effective from January 2014 for they are fully aware of conditions related to respect for human rights and workers' basic rights that need to be met to ensure that this status is regularly extended.

This may therefore well be an opportune time in Pakistan to raise the pillar of 'more and better jobs' as an integral part of national economic policy.

VIII. APPENDIX A

Some other consolidated results of the World Bank growth decomposition exercise:

Table 1: Contribution of Employment Changes to Overall Change in Employment Rate, Pakistan 2000-01 to 2010-11

	Contribution to Change in Total Employment Rate (Per Cent Points)			Per Cent Contribution of the Sector to Total Employment Rate Growth		
	Period 1	Period 2	Period 3	Period 1	Period 2	Period 3
Agriculture	-0.4	2.1	0.3	-11.8	69.8	8.7
Industry	1.9	0.8	2.0	52.7	28.3	53.4
Services	2.1	0.1	1.4	59.1	1.9	38.0
Total employment rate	3.5	2.9	3.7	100.0	100.0	100.0

Source: World Bank JoGGs Decomposition tool with data from the Pakistan Economic Survey 2006-07 and 2011-12 and World Bank growth calculations for Pakistan.

Table 2: Contribution of Employment Changes to Overall Change in Per Capita GDP (Value Added), Pakistan 2000-01 to 2010-11

	Contribution to Change in Per Capita GDP (Value Added)			Per Cent of Total Change in Per Capita GDP (Value Added)		
	Period 1	Period 2	Period 3	Period 1	Period 2	Period 3
Agriculture	-293.3	1573.9	229.5	-4.5	66.7	3.2
Industry	1310.5	638.6	1407.9	20.1	27.1	19.6
Services	1470.3	42.3	1001.5	22.5	1.8	13.9
Total contribution	2487.5	2254.8	2638.9	38.1	95.6	36.7

Source: World Bank JoGGs Decomposition tool with data from the Pakistan Economic Survey 2006-07 and 2011-12 and World Bank growth calculations for Pakistan.

Table 3: Changes in Output per Worker by Sectors, Pakistan 2000-01 to 2010-11

	% Change in Output Per Worker by Sectors			Contribution to Change in Total Output Per Worker		
	Period 1	Period 2	Period 3	Period 1	Period 2	Period 3
Agriculture	5.9	-9.4	2.3	10.6	-1054.1	4.6
Industry	6.1	-3.8	2.2	11.8	-488.4	4.9
Services	10.7	10.6	14.9	42.6	2601.4	65.7
Inter-sectoral shift				35.0	-958.9	24.8
Total	13.2	0.2	11.7	100.0	100.0	100.0

Source: World Bank JoGGs Decomposition tool with data from the Pakistan Economic Survey 2006-07 and 2011-12 and World Bank growth calculations for Pakistan.

Table 4: Contribution of within Sector Changes in Output per Worker and Inter-sectoral Shifts to Change in GDP (Value Added) Per Capita, Pakistan 2000-01 to 2010-11

	Contribution to Change in GDP (Value Added) Per Capita			Per Cent of Total Change in GDP (Value Added) Per Capita		
	Period 1	Period 2	Period 3	Period 1	Period 2	Period 3
Agriculture	383.1	-688.5	150.1	5.9	-29.2	2.1
Industry	426.1	-318.9	159.7	6.5	-13.5	2.2
Services	1540.9	1699.0	2138.8	23.6	72.0	29.8
Inter-sectoral shift	1264.4	-626.3	806.4	19.4	-26.5	11.2
Total contribution to change in per capita GDP (value added)	3614.6	65.3	3255.0	55.4	2.8	45.3

Source: World Bank JoGGs Decomposition tool with data from the Pakistan Economic Survey 2006-07 and 2011-12 and World Bank growth calculations for Pakistan.

IX. APPENDIX B

Table A: Estimated Value Added by Automotive Sector, 2009-10

	Value Added to Value of Production Ratio*	Value of Sales (Rs. Million)	Value Added (Rs. Million)
Motor Cars	(0.277)	120,843	33,474
Motorcycles and rickshaws	(0.285)	57,848	16,486
Buses/trucks	(0.176)	16,979	2,988
Tractors	(0.247)	38,157	9,425
Auto-parts	(0.272)	167,802	45,642
Total			108,015 ($ 1,3 billion)
Total Value Added in Manufacturing			2,259,400
% Share of Manufacturing			4.8%
% of GDP			0.7%

Sources: Pasha and Ismail (2012)

Table B: Estimated Levels of Production of Different Types of Vehicles, 2000-01 to 2010-11

Type of Vehicle	2000-01	2005-06	2009-10	2010-11
Cars	41,556	170,487	121,647	133,972
1300-1800cc	17,664	69,283	60,360	62,111
1000cc	14,716	47,459	23,330	25,287
800cc	9,176	53,745	37,957	46,574
Jeeps, Pickups, LCVs	5,441	21,624	16,940	20,025
Motorcycles, Rickshaws				
Motorcycles Rickshaws	117,858	817,387 2,166	1,481,111 14,676	1,710,841 17,259
Tractors	32,533	50,257	73,844	72,303
Buses		1,073	661	526
Trucks		4,593	3,691	2,932

Sources: Pasha and Ismail. (2012)

Table C: Estimated Employment in the Automotive Sector, 2009-10

	Employment (No.)
OEMs (Original equipment manufacturers)	22,254
Motor cars, etc.	5,440
Motorcycles	12,220
Buses/trucks	1,453
Tractors	3,141
Domestic parts manufacturers	187,070
Total sectoral employment	231,578

Sources: Pasha and Ismail (2012); authors' calculations using numbers from PAMA, EDB, PAAPAM, SBP, and CMI

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