

# **Comments of Mr. Humayun Akhtar Khan, Chair, and CEO IPR at the ILO Conference**

## **Wages, Work, and Trade: The Future for Pakistan**

Session 4

### **The way forward for wage policy, economy, and trade in Pakistan**

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It is a pleasure for me to take part in this important conference on wage reforms in Pakistan. I congratulate the organizers for holding this event.

This conference touches on a key issue in development. Living wages, labour standards, and institutions are linked with the larger goal of creating jobs. And, in turn, more jobs are central to economic growth and development. Job creation relates to all parts of economic policy, such as the macroeconomic environment, trade openness, incentives, and skills development. Indeed, labour reforms is one of the core elements of an integrated development strategy.

My discussion will follow the sequence below:

- What is Pakistan's economic situation and what strategy it must follow to strengthen it.
- What is the country's commercial situation and the key drivers of export.
- Importance of manufacturing and of the textile and garment sector in Pakistan's economy and exports
- Dwell on the link among several economic variables, including: wages, labour standards, labour institutions, productivity, economic growth, and exports for a sustainable way forward.

Pakistan has a history of leaders with a vision for building a humane society. In 1925, many years before Pakistan came into existence, Mohammad Ali Jinnah was elected to head the All India Postal Staff Union. Later, he carried his social democratic values to the new country. A most charismatic leader of the last half century, Mr. Zulfikar Ali Bhutto (whose Pakistan Peoples Party's I have often opposed), won the 1970 elections on the soundbite of economic growth with social justice. That message set the country in a new direction. That he was unable to deliver on his promise is more an evidence of the lack of his government's institutional capacity than a flaw in the concept. Also, Pakistan's leading economist, Dr. Mahbub ul Haque repeatedly expressed regret that employment was usually a secondary goal of Pakistan's economic plans. He wanted jobs to be central to the country's plans.

In its essence, development is about increasing productivity of workers and industry. It is also about raising aggregate demand. As many East Asian economies show, this is the sustainable route to economic growth and poverty reduction. Wage reforms is not just a concern for equality. Research confirms the importance of inclusive growth as a driver of long-term economic development. As was famously said by development economist Hans Singer "Employment and labour market problems are at the crucial intersection between growth and poverty."

For higher growth rate, Pakistan would do well to focus on the factors that stimulate productivity. Pakistan is the 25th largest economy in the world, but in terms of GDP per capita it is 137th in the world (both Purchasing Power Parity). With a growing and young population, it is critical that the country work for higher and sustainable economic growth that integrates the young into the economic mainstream. While overall unemployment in Pakistan is about 6%, youth unemployment is 11% (below 25 years).

Many human indicators are troubling. Indicators for literacy, healthcare, and nutrition all are well behind many countries at the same income level. We spend 0.9% of GDP on public health. Forty-five percent of our children have some form of stunting by age five and 32% are born with low birth weight. At 4.7 years, we have one of the lowest average for years of schooling anywhere. Just 2.3% of the aged population receive pension. 63% workers are classified as vulnerable. Clearly, we have not equipped well our people to enter the job market. It is no surprise that forty-four percent of the country's workforce is in low productivity farm sector.

For the last twenty-five years, Pakistan's economic growth rate has been moderate at best. The growth rate crossed 6% in four of the twenty-five years. It touched 7% in three of those years and 8% in one year. In thirteen of 25 years, the economy grew at a rate below 4%. Contrast this with some of the high growth economies that grew annually at 7% or more for twenty-five years.

It is important also to analyze the quality of economic growth. Most high growth economies have flourished with increase in manufacturing, and with progressively higher value addition and processing. Their share of manufacturing in GDP is high. For example, compared to a share of 14% for manufacturing in Pakistan, last year, the share for China was 43%, Vietnam 37%, and India 30%. More important, Pakistan's manufacturing has not increased in sophistication or complexity. There is very little change between 1990 and the present in the products manufactured by us. Data also shows that except for the year 2005, there is low correlation between share of manufacturing in GDP and economic growth rates.

Often, Pakistan's economic growth is caused by high levels of foreign financial aid. Without manufacturing and increased agriculture productivity as the base, it seems improbable for our economy to have long-term sustained growth.

In this context, it is unclear what to make of the frequent claims about increase in economic growth in Pakistan. One time investment (such as from CPEC) will not sustain long-term growth. The economy needs a fundamental shift towards higher processed production based on domestic knowledge inputs.

This discussion is important in the context of this conference as economic and institutional factors affect job growth and the labour environment. Growth in manufacturing creates jobs as well as exports. It is clear, also, that growth in productivity raises living standards and increases employment.

In Pakistan, textile and garments have the largest share in manufacturing. As most people here know, the textile and garments sector employs over 15 million workers with over 3.6 million in the garment industry. Its continued growth is vital for workers. Garments also offer jobs to women workers.

Textile and garments have a share of about 60% in total exports. They contribute one-fourth of industrial value-added and give employment to 38% of industrial labour force. The sector uses about 40% of

banking credit to the manufacturing sector and accounts for 8.5% of GDP. With marginal increase in value addition, our exports seem to have hit a ceiling.

Exports have been vital for high growth economies. Their industries grew indefinitely by meeting world demand for goods. Also, international competition forces exporters to produce better quality goods and to have higher labour standards.

At 8% of GDP, Pakistan's export ratio compares poorly with other countries. The same number is 13% for India and 21% for China. Vietnam and Malaysia that are effective members of the global supply chain have ratios of 87% and 69%.

In addition to productivity, labour standards are also a driver of exports, especially as countries and brands are forced to satisfy their customers demand for responsible treatment of workers.

GoP's Textile Policy 2014-2019, says that government "is in the process of reviewing the legislative framework which governs the textiles value chain, including compliance with International Protocols and Core Labour Conventions The textiles sector will be made domestically and internationally compliant". But it is not clear how much of this has been implemented.

The issue of implementation is central in Pakistan. There is a large gap between laws, policies, and their enforcement. Effectiveness of labour institutions is an issue. Improvement will come from raising awareness together of employers, workers, government, and civil society. Labour market institutions will improve also if top level leadership shows concern. Civil society oversight is also key. They can hold responsible government organizations and private employers.

For example, a major fire in a Karachi garment factory killed 295 workers in 2013. While the discussion on the fire has focused on political motives, an equally meaningful debate would call attention to the lack of equipment and systems that were in place to control the fire, and allow workers to escape. There was responsibility on government inspectors to have checked these and on the media to have stressed also on the failures.

There are other important areas for civil society to raise awareness. The garment industry offers jobs to women workers. This is good for female participation. However, it is important to ensure that they are not discriminated.

It is important also to raise awareness of firms about the benefits of higher labour standards. In addition, employers must also be shown how they can meet these standards. A significant part of China's textile and garment manufacturing is being moved to other countries. Our level of competitiveness will decide the scale to which we can move them to Pakistan.

Pakistan has availed limited benefit from duty free access to the EU market under the GSP plus trade program. At the time this facility was granted, government had predicted a jump in exports to \$8.5 billion by 2015 from \$5.3 billion. Actual exports stood at \$6.6 billion, and is in line with the forecast made by our Institute – the Institute for Policy Reforms. Action on our proposals for customs tariff reforms, tax incentives for value-added products, deepening of trade relations with our neighbors, and increased trade facilitation, may have yielded higher benefits from the programme.

Exports from Pakistan overall have fallen in the last two years. While this is partly because of slow growth in world trade, it is also caused by a weak industrial structure, low productivity, that in turn suffers from poor infrastructure and governance. Pakistan has one of the lowest governance indicators in the world. It inhibits rather than supports economic activity.

There are no detailed studies about the number or the nature of new jobs from CPEC projects. Estimates vary from 700,000 jobs (as forecast by Deloitte) to over 3 million, over the period 2015-2030. So far, the 18 under-construction projects have generated 13,000 jobs for our workers.

Skills relevant to CPEC projects are in short supply in Pakistan. Most Chinese companies have met the bulk of their requirements from China. We need to train our work force to meet CPEC needs. We must urgently set-up polytechnics in all parts of the country. For now, existing engineering colleges and universities should impart training relevant to CPEC projects.

One likely benefit from CPEC is sharing of Chinese policies and practices. They have been key drivers of China's development. China has had unprecedented success with SEZs, training of workers, and poverty reduction, which Pakistan should emulate.

Pakistan has yet to make jobs and labour standards central to economic policy making. We do not see employment the main focus in Vision 2025, the current five-year plan, or other government strategies. Part of the reason is that frequent structural adjustment programmes has kept our eyes on short-term survival.

I recommend now measures to improve implementation and enforcement of labour standards in Pakistan:

1. Enforcement of laws is key. I have already discussed the issue of safety inspection in the context of the garment factory fire. This gap in inspection is important not just for fire safety, but all hazards that workers face on the shop floor. Workers safety has a role in their performance. Employers must also be made aware of the benefits of labour standards and how they can meet them.
2. Findings are mixed about the benefits of minimum wages for workers in the informal sector, though mostly positive for the organized sector. Setting of minimum wages must be a consultative process with government, employers, and workers.
3. Skills training is a critical part of any growth strategy. Government must take lead in cooperation with industry and trade associations.
4. An active media and civil society must have effective oversight on infringement of workers' rights and breach of laws. They must especially keep an eye on treatment of women workers.
5. We need a special spotlight on informal organizations. They stay largely outside the laws and their enforcement. Yet they employ a major part of workers in Pakistan. Estimates are as high as 70 and 80%. For example, in the textile and garment sectors power looms and small production units employ workers in large numbers. Government may pay special attention to practices there.

At this stage, I must also raise a red flag. Too high a bar for labour standards force employers to circumvent laws. An obvious example is resort to contract labour. Government must optimize between what is possible and what is desirable.

I now move briefly to a strategy for economic growth with which the goals of employment and decent work are closely associated.

1. There is need to strengthen the macroeconomic framework to give stability and certainty to decision making, so that decision makers also focus on long term development issues. This will increase savings and investment and underpin growth.
2. Pakistan must improve competitiveness of the economy through continued deregulation, open trade, and improved performance of government organizations. Corruption and delays increase cost of doing business and create uncertainty for the investor.
3. A major skills development programme is needed for workers supported by equally high investment in education and knowledge.

ILO has made path breaking contribution to labour standards and creation of decent work. Over time, you have brought on board other development organizations, including some ardent advocates of the Washington Consensus. I am sure that your efforts in Pakistan will meet with success. Thank you.