

The Changing Nature of the Informal Sector in Karachi due to Global Restructuring and Liberalisation

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Abstract

This paper is not the result of scientific research on the effects of liberalisation on the informal sectors and settlements of Karachi. It is more the result of observation and dialogue with informal sector operators and residents of informal settlements. This interaction between the actors in the informal sector drama and myself has been made possible by my association with the Orangi Pilot Project-Research & Training Institute (OPP-RTI), its replication in seven Pakistani cities, and the work of the Urban Resource Centre (URC) in Karachi. The OPP-RTI is a community financed and managed settlement upgrading project and operates from Orangi Township in Karachi. The Township has a population of 1.2 million (about 12 per cent of the city) and is the largest informal settlement in Pakistan. Settlement in Orangi began in 1965. The Township is also the hub of much of informal sector activity in the city and was created by middlemen through the illegal subdivision and sale of state land. The URC, on the other hand, analyses government plans from the point of view of various community organisations, informal service providers and interest groups operating in Karachi. Its forums, supported by research, have created a space for interaction between interest lobbies and communities on the one hand and politicians and bureaucrats on the other. Statistics in this paper are given as footnotes and most of them are derived from the research work of these two organisations.



The informal sector in Karachi, as in other Pakistani cities, has served the physical and social infrastructure needs of low and lower middle income communities and settlements. In the last decade, new needs have surfaced and they have been accompanied by major changes in the global, and thus in the local, economy. For the vast majority of Karachi population the formal sector cannot service these needs as its products are unaffordable to them and its organisational culture far removed from their own. In addition, these changes have redefined the relationship between the various actors in the informal sector drama. This paper represents an attempt to understand these changes and to identify the directions they are likely to take. However, before attempting this, it is important to understand the causes for the emergence of the informal sector in Karachi and its scale and manner of operation.

The regions that were brought together to form the state of Pakistan after independence in 1947 had endured just over one hundred years of British rule. The elite, who took over from the British, were educated in Britain and their view of development, as in other matters, reflected that of their colonial masters. As such, the new state adopted the British post-war “welfare state model” as its model for development. According to this model, the state was responsible for providing subsidised housing, health and education and jobs to its citizens. In addition, it was to determine the parameters within which private enterprise was to function and industrialisation was to take place. This model was not successful in the Pakistani context for a variety of reasons. The necessary institutional framework for its planning and implementation did not exist in fact. Revenues to subsidise the planned social and physical

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infrastructure could not be generated. The organisational culture of the post-colonial establishment was one of control through the coercive force of the state rather than of dialogue, discussion and interaction with urban interest groups. One could argue quite effectively that such interest groups were not even constituted in any organised form until the late 1970s.

The failure of the state to provide proper housing, health and education and jobs for its citizens was accompanied by an urban population explosion. Three reasons account for this. Firstly, the migration from India at the time of the partition of the Sub-Continent in 1947 more than doubled the population of a large number of towns in the Sindh and Punjab provinces (Government of Pakistan, 1951)¹. Secondly, the eradication of malaria, small pox and cholera and the promotion of immunisation programmes decreased infant and child mortality in a big way. Thirdly, green revolution technologies and mechanisation forced landless labour and small peasants to migrate to the cities. Thus, the demand-supply gaps in housing, transport, health, education and jobs increased, and with these the state's inability to service this demand. By the late 1970s most state initiatives in these fields had declined and those that remained operative were being run at an increasing subsidy which the state was unable to provide. The helplessness of the administration to provide, and hence administer, these basic services came to fuel corruption.

Traditionally, middlemen have always existed in Pakistani society and they have provided lower income groups, at a considerable price, with finance during difficult times and with access to the corridors of power and hence to patronage. Historically, their activities have been small in scale as compared to the larger social and economic context. It was initially these middlemen who came forward to bridge the housing and employment demand-supply gaps in Karachi. Since the gaps were considerable, they employed apprentices from various communities, and these in turn became the new informal sector entrepreneurs. Today, it is the third generation of these entrepreneurs that are active in informal sector activities in Karachi. The relationship that their predecessors established with government officials and agencies for support has long since been institutionalised. The size of under-the-table payments to be made to different government functionaries, through whom and at what time, has also been formalised.

The vast majority of Karachi people live in informal settlements (Sindh Katchi Abadi Authority, 1996)². These have been developed on government land, illegally occupied by developers with the support of government servants and protected through bribes by the police. Almost all these settlements have residents' organisations (created by the developers) that constantly lobby government agencies for infrastructure and security of tenure. The developers hire journalists to write about the "terrible conditions" in their settlements and engage lawyers to help regularise tenure. These informal developers have developed many of Karachi's important link roads and commercial areas. Loans, material and advice for the construction of homes are provided by small neighbourhood contractors who become the

¹Karachi's population increased from 450 thousand in 1947 to 1.137 million in 1951. According to the 1951 census 48.6 per cent of Pakistan's urban population had originated in India.

²According to the Sindh Katchi Abadi (squatter settlement) Authority, over 50 per cent of Karachiites live in 716 informal settlements which grow at twice the annual urban growth rate of Karachi.

architects, housing banks and engineers to low income households (Hasan, 2001)³. Similarly, over 72% of Karachi's population travel in individually owned mini-buses which have been purchased using informal loans with large interest rates from money lenders. Since these buses have no terminals, depots or workshops, they use the roads for these purposes and informally pay the police and the local administration for permission to do so (Hasan, 2000)⁴. Another important sector is related to the recycling of solid waste. Instead of taking solid waste to land fill sites, municipal waste collectors, in defiance of rules and regulations, take the solid waste to informal recycling factories spread all over the city. In the process even organic waste, which cannot be recycled, does not reach the land fill sites. Here again large sums of money exchange hands illegally (Urban Resource Centre, 2001)⁵.

As settlements consolidate, private schools are established within them. They far outnumber government schools and are affordable to the residents because neighbourhood-educated women teach in them on low salaries (OPP, 1999)⁶. Most of these schools begin as one-classroom affairs in people's homes and some of them expand to become large institutions. They are established by entrepreneurs, public-spirited individuals and/or neighbourhood community organisations and remain unregistered and unrecognised till attempts at their registration are made long after their establishment. Private medical practitioners (qualified, unqualified and/or traditional), establish health clinics in the informal settlements, despite being unregistered with any government agency or medical council. Entertainment and recreation also develops in informal settlements. Video machines, table football and carom and card game tables are set up by entrepreneurs without permission. The profits from these activities are shared between the entrepreneurs and the law enforcing agencies.

The most important informal sector activity, however, is related to generation of employment. Garments, leather goods and carpets are all produced in the informal settlements. Middlemen provide training, materials, equipment and cash for the production of these items. The production takes place in people's homes, on a contract basis. The manufactured items are taken to the factories where a label is placed on them before they are packed in alternative packets. In this way, exporters and industrialists are able to reduce production costs and prevent the unionisation of labour and the application of labour laws and minimum wage. Various parts for the light engineering and the electronics industries are also produced in a similar manner on lathe and rubber moulding machines in informal settlements. Spare parts for machinery, cars, tractors, and diesel engines are also manufactured in these settlements and their price is about half that of industrially produced products. It is because of these spare parts that the transport and services sector to agricultural machinery is affordable to the operators and hence to primary producers.

³According to the 1987 "Yakoobabad Case Study" by the author, 93 per cent of Yakoobabad residents had taken materials and or cash on credit from small contractors to build their homes.

⁴ Of the 13,200 mini-buses in Karachi, 6,000 are unregistered since there is a ban on the registration of mini-buses. In addition, the mini-bus operators pay Rs 780 million (US\$ 13 million) a year as bribes to the city administration to use the roads as bus terminals, depots and workshops.

⁵ According to Urban Resource Centre (URC) figures, the solid waste recycling industry's annual turn over is Rs 1.2 billion (US\$ 20 million). It pays about Rs 220 million (US\$ 3.6 million) informally every year to various government agencies to permit it to function.

⁶ In Orangi Township, there are 72 government schools and 682 private schools most of which began as informal one class affairs.

The success of the activities of the informal sector in Karachi described above, has much to do with the availability of cheap government land, protection to local industry provided by high import duties, the pioneering spirit of the first generation of migrants and entrepreneurs and the helplessness of state institutions in the face of an increasing demand-supply gap in physical and social sector infrastructure. However, with liberalisation and other related developments all this has started to change.

Economic liberalisation has been accompanied by structural readjustment, the communications revolution and major sociological changes in society and, as such, its effects cannot be seen in isolation from these developments. Structural adjustment has meant reduction in import duties on all manufactured goods. By 2003, these duties will cease to exist. It is already becoming apparent that the Pakistani light engineering industry cannot compete with products from South East Asian countries. Consequently, lathe machine operators in the informal settlements are not receiving sufficient orders or are being asked by the contractors to lower the quality and prices of their products (Alimuddin *et al.*, 1999). Structural readjustment has also meant a huge increase in utility charges, especially electricity. As a result, carpet and textile power looms, most of which function through contractor funded orders in informal settlements, are working on reduced profits or closing down (Ibid). According to a recent newspaper report, illegal electrical connections to informal workshops have increased alongside the cost of the bribe to acquire these connections (Daily Jung, 2000).

One of the major objectives of the structural adjustment programme is to help Pakistan service its international debts more effectively. Thus, the devaluation of the Pakistan rupee, so as to increase imports, is an essential part of the structural adjustment plan. The rupees constant devaluation has caused large-scale inflation and a search among the marginalised and lower income groups for additional employment. It has increased the use of child labour and forced a larger number of women out to work so that their incomes considered as more than a "bonus". Most working men now have more than one job. Teachers give tuition in the evenings, government servants drive taxis, policemen fleece shopkeepers and motorcyclists and white-collar workers work evening shifts as part-time employees in the service sector in addition to their full time jobs.

Under structural adjustment, Pakistan has also undertaken to privatise profitable government institutions and utilities and to sell state assets, mainly related to land, real estate and industries. As a result, land that was not considered valuable has now become an important commodity. It can no longer be easily encroached upon and, where it is transferred to private ownership, it is protected. This deprives informal sector developers of raw land for development at places appropriate for their clients. The government has also undertaken to privatise health and higher education. All this is adversely affecting low-income groups, especially those who had an element of upward mobility. Many non-establishment development experts believe that Pakistan, as a result of these issues, has double digit inflation and recession (Khan, 1998).

Privatisation has also meant employment on merit rather than through political patronage or quota systems. It has also meant the dismissal of many government employees. With privatisation of education, merit means those who can afford education and this marginalises poor communities still further. For these people, an alternative source of education and skill despite limited means and circumstances, becomes a necessary for survival.

This inflation and recession is taking place at a time when the older squatter colonies have been consolidating and such colonies constitute the majority of informal settlements. These are no longer purely working class settlements. The younger generation in them is overwhelmingly literate (Government of Pakistan, 1998)¹¹. Many of them have become doctors, engineers, college teachers, bank managers and white-collar workers. Many of the small workshops and looms established by the first generation of entrepreneurs and artisans through middlemen support, have now developed direct links with the formal sector industries and exporters whom they service. Similarly, schools (begun as informal ones) have developed links with NGO and government support agencies and some health clinics have started to access government facilities in population planning and immunisation. Interest groups have organised themselves to present their claims and protect their gains. So there are now vocal transporters' organisations, loom operators' associations, neighbourhood groups, sports and cultural clubs (that manage to access government funds), and hawkers associations. Almost every sector of informal activity now has an organisation registered under the Societies Act. Increasingly these organisations are being led by second or third generation of city dwellers who have broken with their rural culture and background. They are better educated than their parents or grandparents and more comfortable than them in dealing with those in power. Instead of seeking access through middlemen and touts of political parties they approach the establishment through the power of their organisations who increasingly have yearly audits and elections.

Due to the changes mentioned above, there has been great change in people's lifestyle, supported by the communications revolution. Nuclear families are replacing joint family systems. Clan and tribal organisations, that the migrants had brought with them have ceased to be effective and are being replaced by new community organisations or by a dependence on state institutions. The communications revolution has made the television and video an important entertainment tool. The television is the main source of information for the vast majority of Karachi households, (Ibid)¹² more than 50 per cent of whom have access to some form of cable. Thus, video shops and cable operators, all too expensive in the formal sector for the lower and lower middle income population, have become a necessity. Santa Barbara, The Bold and The Beautiful, MTV and a variety of news is now available in homes in all low-income settlements of Karachi and in the teashops and eating places located within them. These have brought about a clash of values and cultural confusion. It has also brought about a generation gap, which seems unbridgeable and is one of the major reasons for an increase in honour killings of women in first generation urban families. Vocabularies have also changed. Words of respect for elders or for those of a higher class have been substituted by "uncle" and "auntie" and that too in the English language equivalent. The whole feudal vocabulary, which the migrants had brought with them, has simply vanished with the new generation.

Liberalisation and the communications revolution has also introduced the corporate culture to Karachi. There is a great demand for information technology professionals, operators and technicians not only for the local market but also for employment abroad. The training for these professions is provided both by government and private institutions. In the case of

¹¹ According to the 1998 census results, 74.04 per cent of the Karachi age group of between 10 and 24 is literate as compared to a total Karachi figure of 67.42 per cent. In the 1981 census, 61.10 per cent of the age groups of between 10 and 24 was literate.

¹² According to the 1998 census, 79 per cent of Karachi households said that their main source of information was the television.

government institutions, this training is affordable to low income groups but is on too small a scale to service the demand. As such, only those who are exceptional students can get into government institutions. Private institutions are far too expensive and only the rich can afford them. Thus, a large gap has been created between demand and formal sector supply.

The corporate culture has introduced a feel of affluence in the city, which was unknown before. Golf clubs and various recreational and cultural facilities have been developed and are sponsored by companies for their clients, employees and for advertisement purposes. Unlike previously, these activities are performed in new locations in elite areas or five star hotels and not in municipal or public buildings in the inner city. As a result, the inner city as a space for multi-class entertainment is dead. These corporate sector promoted activities and the glamour and pomp that surrounds them is in sharp contrast to the physical and social conditions in lower and lower middle income settlements. There is an increasing feeling of insecurity among the promoters of these activities and so they and the corporate sector employees and clients are surrounded by security systems and armed guards. This is in sharp contrast to the Karachi of the pre-liberalisation period.

Liberalisation has also meant the introduction of fast food chain stores and the popularisation of various consumer items. McDonalds, Pizza Hut, and others have opened branches all over the city. Huge advertisements, colourful and well lit, dominate the urban landscape and dwarf badly constructed, badly lit businesses and homes. New post-modern buildings of the corporate sector, with posh interiors, contrast sharply with the sedate government buildings of earlier decades. Since many young people from Karachi's informal settlements work in this environment, ties, white or blue shirts and the "corporate hair cut" are becoming common phenomena and everyone knows what a credit card is and wishes to acquire one.

What has been described above is really the emergence of a First World economy and sociology with a Third World wage and political structure. It is the emergence of new aspirations related to consumerism and the desire to belong to the "contemporary" world as portrayed in the media, but without the means of achieving these aspirations and desires through formal institutions and processes. Thus the most important role (and it is a new one) that the informal sector is trying to play today and probably in the foreseeable future, is to help bridge this aspirations-means gap. In Karachi a whole new world has emerged to do just this.

Although the younger generation has new aspirations, state culture and family pressures prevent or hinder them from pursuing their desires. There is a major conflict between the individualism of the young, and the conservative social values of the older generation that seek to protect the joint family and clan systems. This is one of the major reasons, apart from the financial ones, why many young Pakistanis wish to emigrate. (Daily Dawn, 2000)¹³ Getting a visa, a job and establishing connections after one migrates to a First World country is not an easy job for young Karachi people from low or lower middle income settlements. Middlemen have emerged to cater for this need, helping to acquire genuine and or forged visas and arranging jobs abroad. Newspaper reports suggest that these operators have contacts in visa sections in embassies and that large sums of money exchange hands in this trade. To acquire an American or Japanese visa, young Pakistanis are reported as paying up to Rs 200,000 (US\$ 3,333) to middlemen.¹⁴ An entire street in the inner city of Karachi deals with arranging the necessary emigration and employment papers and, from observation, one can see that the number of middlemen and clients involved is increasing every day.

All Karachi neighbourhoods, including low income and even marginalised ones, have not one but many video shops in them. All these shops rent out pirated videos. Video copies of Indian films arrive in Karachi even before their official release in India, videos of American films arrive well before release in Karachi. All attempts at curbing this piracy have failed. If they were to succeed, most people in Karachi would never be able to hire videocassettes, and similarly for audio cassettes. More recently, cable television has also made a big appearance in Karachi. Most of the cable companies are illegal and informally use the telephone network for providing home connections. They service all areas of Karachi irrespective of class. Telephone department officials and the police are informally paid by the cable companies to let this happen. The cost of a cable connection varies from Rs 450 per month for a connection from a legal company to Rs 150 from an illegal one. At a modest estimate there are over 150,000 people involved in the video and cable-related trade.

All low-income settlements (formal or informal) have video halls in them. These are large asbestos roofed shacks which show video films of all types. The films are advertised on the notice board outside along with the names of the stars and are held at regular hours. In the interval tea and chips are available. Under the law this is an illegal activity but it provides to the male-only day wage labour that lives around the port and wholesale markets with their entertainment. The video hall operators consider this a “joint venture” between them, the police and the excise department officials.

New aspirations and exposure through the media to a new and glamorous world has led to the opening of a number of “beauty parlours” and tuition centres for spoken English. Neighbourhood beauty parlours are multiplying in the low-income settlements and they advertise various hairstyles that are named after Indian film stars. Being well groomed and speaking English has become an added asset for a woman in the marriage “market” in Karachi’s older informal settlements. The pioneering beauticians are trained informally through existing hairdressers in upper middle income beauty parlours. Now their apprentices, themselves multiplying in number, are taking over the informal settlements. This trade has become so important that popular radio programmes now give regular beauty tips for women and the trade operators.

The most important informal sector activity today is related to information technology. Training schools, actually no more than tuition centres, have opened up informally in all low and lower middle income areas. These centres have no admission requirements in terms of qualifications for admission and offer no exit qualifications either. Their trainees are employed having been tested by the prospective employers. If they are well trained the employers prefer them to qualified persons since they can pay them a much lower salary for doing the same work. Similarly, there is a whole sector that deals with pirating computer software and marketing it to both informal and formal outlets. All attempts at curbing this activity have also failed and, as a result, both international companies and the government have simply given up. The cost of such software can be as little as 5% of its original value. Without this sector information technology would also be unaffordable to the lower or even middle-income groups in Karachi.

New lifestyles promoted by the media and the corporate sector have also had an influence on the lifestyles of the poorer sections of the population. They consume *Seven-Up*, *Coca-Cola* and beef-burgers and are interested in designer shirts and brand name perfumes. However, these are all unaffordable to them. So fake *Seven-Up* and *Coca-Cola*, costing half the price of the real one, is manufactured in informal factories and marketed in a big way in the original

bottles. Fake brand name perfumes and fake designer shirts are also manufactured and marketed. A cheap alternative to the beef burger is available in every Karachi locality.

This new informal sector activity, the result of liberalisation and related changes, really tries to serve the better off and the slightly upwardly mobile residents of old consolidated or consolidating informal settlements. At the same time, this process also marginalises a large section of these settlements and deprives them of employment and access to diminishing government subsidies and benefits. This division has increased crime such as armed robberies and car and purse snatching in Karachi. These “criminal” activities are not easy to carry out in Karachi’s affluent areas due to the presence of the police and private sector guards and security systems. However, they continue to happen and grow in the lower income settlements. So residents of many of these settlements organise informal neighbourhood policing systems and try to get approval from the government for operating them. So far such approval has not been forthcoming and these neighbourhood policing systems continue to operate and grow in defiance of state rules and regulations.

Apart from the emergence of these new informal sector activities, the old ones have also undergone a change. Informal developers are now forced to develop their settlements very far from the centre of the city because land in the centre has become an important asset to its owners. The diminishing purchasing power of the new migrants to the city means smaller lots of land, narrower lanes and less open space. Health and education institutions established by the informal sector in the older settlements have come of age and struggle to become formal institutions and try increasingly successfully to access government poverty alleviation funds (also a by-product of structural adjustment policies) and related programmes. However, they find it difficult to establish themselves in the new settlements. This is because these settlements, unlike the older ones when they were first established, do not dominate the politics or the economy of the city. They also contain a smaller percentage of the city population and so politicians are less interested in them. They are also far away from the city to be ignored more easily by local government and entrepreneurs. Given inflation and recession, their buying power is also limited.

The future of the informal sector in Karachi is difficult to predict. However, some trends are clear. The links between the informal workshops and the formal sectors of industry are slowly being eroded except in the case of those industries (such as garments) which have an export potential. It is feared that even these links will cease when formal sector garment factories are established through local and foreign investment programmes. The process has begun. Since these industries have much more sophisticated machinery, they will be far less labour intensive and cause further unemployment.

The informal sector is now moving into producing cheap consumer goods for the poorer sections of the population. This means less profit and marginalisation from formal sector processes and economy. At the same time, the state sector is rapidly shrinking, especially in the provision of physical development and social services. This means that politicians will not continue to offer favours and patronage. It was through the system of favours and patronage that informal settlements were established and informal entrepreneurs were able to function. Favours and patronage are being replaced by cash payments for protection of activities that are in defiance of state regulations. All this means the marginalisation of all those without merit or skills or access to expensive private sector education.

The above trends are creating unemployment which will increase until formal sector private investment finally replaces the informal sector job market. This is nowhere in sight yet and as a result, the rich-poor divide continues to increase, leading to violence and crime. The worst affected are those sections of the new generation of consolidated lower and lower middle income settlements whose aspirations to belong to this new world cannot be fulfilled. Also, badly affected are those entrepreneurs and contractors who had established a working relationship with formal sector businesses and industries. It is important to note that these groups are potentially the most powerful in political terms. Their marginalisation is creating a new situation.

It is therefore understandable that the present situation of inflation, recession and increasing marginalisation of these groups, is being blamed on liberalisation, the WTO, structural adjustment, and World Bank and IMF policies. The press (especially the populist newspapers), politicians of various shades, NGOs and now even transporters and solid waste recyclers' associations, backed by academia, are all participating in this debate and issuing statements against globalisation. Seminars, symposia and workshops are regularly held on the subject and they endorse these views. The anti-WTO, World Bank and IMF protests in Seattle, Melbourne, Chang Mai and Prague, electrified the residents of lower middle income settlements in Karachi and various interest groups operating in the city. The informal sector and the frustrated potentially-upwardly-mobile sections of Karachi, look forward to joining this movement against the "New World order". How all this will resolve itself is an important issue for the future of Pakistan. So far there has been no proper research into the long-term effects of liberalisation on the city. So far, there has only been observation and discussion. This paper is another contribution to this debate.

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