The changing nature of the informal sector in Karachi as a result of global restructuring and liberalization

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SUMMARY: This paper describes how much of Karachi’s population has relied on informal settlements for housing, informal infrastructure for water and sanitation, informal services for health care and education and informal enterprises for employment. These have filled the gap between what large sections of the population needed and what neither government nor formal private enterprises provided. The paper then discusses the changes that global restructuring and liberalization have brought, which include inflation (as the rupee devalued) and the decline of light engineering industry (unable to compete with cheap imports), and carpets and textiles production (in part because of greatly increased electricity charges). It suggests that, while the communications revolution helps fuel aspirations, the informal organizations and the middlemen that manage them will no longer bridge the gap between needs and aspirations for most of the population. Since there is no sign of new private investment, the result is also growing unemployment and widening inequalities. As yet, there is no research on the long-term effects of liberalization on this city with some 10 million inhabitants.

I. INTRODUCTION

THIS PAPER IS not the result of scientific research on the effects of liberalization 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 and 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 which operates from Orangi township in Karachi. Settlement in Orangi began in 1965; it comprises a population of 1.2 million (about 12 per cent of the city) and is the largest informal settlement in Pakistan. The township is also the hub of much of the informal sector activity in the city and was created by middlemen through the illegal subdivision and sale of state land. (The word “middlemen” is used advisedly, since there are no “middlewomen” in Karachi.) The URC, on the other hand, analyzes government plans from the point of view of various community organizations, informal service providers and interest groups operating in Karachi. Its fora, supported by research, have created a space for interaction between interest lobbies and commu-
nities on the one hand and politicians and bureaucrats on the other. Statistics in this paper are given as footnotes and they are mostly derived from the research work of these two organizations.

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 hence in the local, economy. For the vast majority of Karachiites, the formal sector cannot service these needs as its products are unaffordable to them and its organizational culture far removed from theirs. In addition, these changes have redefined the relationship between the various actors in the informal sector drama. This paper is 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 of the emergence of the informal sector in Karachi and its scale and manner of operation.

II. INFORMAL SOLUTIONS TO GOVERNMENT INCAPACITY

THE REGIONS THAT constitute Pakistan today became independent in 1947 after just over 100 years of British rule. The elites, who took over from the British, were educated in Britain and their view on development, as in other matters, reflected that of their colonial masters. As such, the new state adopted the British postwar “welfare state model” as its model for development. According to this model, the state was responsible for providing subsidized 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 industrialization was to take place. The 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. Revenues to subsidize the planned social and physical infrastructure could not be generated. The organizational culture of the post-colonial establishment was one of controlling through the coercive force of the state rather than of dialogue, discussion and interaction with urban interest groups. It can even be argued effectively that such interest groups did not exist in an organized form until the late 1970s.

The failure of the state to provide was accompanied by an urban population explosion. There were three reasons for this. First, the migration from India at the time of partition of the sub-continent in 1947 more than doubled the population of a large number of towns in the Sindh and Punjab provinces. Second, the eradication of malaria, smallpox and cholera and the promotion of immunization programmes decreased infant and child mortality in a big way. And third, Green Revolution technologies and mechanization forced landless labourers and small-holders to migrate to the cities. Thus, the demand-supply gaps in housing, transport, health, education and jobs increased, and so did the state’s inability to service this demand. By the late 1970s, most state initiatives in these areas had declined and those that remained operative were being run with increasing subsidies that the state was unable to provide. The helplessness of the administration to provide, and hence to administer, fuelled corruption.

Traditionally, middlemen have always existed in Pakistani society and they have provided lower-income groups, at a considerable price, with

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1. Karachi’s population increased from 450,000 in 1947 to 1.137 million in 1951. According to the 1951 census, 48.6 per cent of Pakistan’s urban population originated in India.
finance in difficult times and with access to the corridors of power and hence to patronage. Historically, their activities had been small-scale when set in the larger social and economic context. Initially, it was these middlemen who came forward to bridge the housing and employment demand-supply gap in Karachi. Since the gap was considerable, they employed apprentices from various communities who, in turn, became the new informal-sector entrepreneurs. Today, it is the third generation of these entrepreneurs which is active in informal-sector activities in Karachi. The relationship that their predecessors established with government officials and agencies for support has long since been institutionalized, and the amount of under-the-table payments to be made to different government functionaries, through whom and at what time, has also been formalized.

The vast majority of Karachiites live in informal settlements. (2) These have been developed on government land illegally occupied by developers, with the support of government servants and protected through bribes to the police. Almost all of these settlements have residents’ organizations (created by the developers) who constantly lobby the 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 regularize tenure. Many of Karachi’s important link roads and commercial areas have been developed by these informal developers. Loans, materials and advice on the construction of homes are provided by small neighbourhood contractors who become the architects, housing banks and engineers for low-income households. (3) Similarly, over 72 per cent of Karachiites travel in individually owned minibuses that have been purchased with informal loans at high interest rates from moneylenders. Since the minibus owners have no terminals, depots or workshops for their vehicles, they use the roads for these purposes and informally pay the police and the local administration for permission to do so. (4) Another important sector relates to the recycling of solid waste. Instead of taking solid waste to landfill 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 landfill sites. Here again, large sums of money change hands illegally. (5)

As settlements consolidate, private schools are established within them. These far outnumber government schools and are affordable to the residents because educated women in the neighbourhood teach there at low salaries. (6) Most of these schools begin as one-classroom affairs in people’s homes and some expand to form large institutions. They are established by entrepreneurs, public-spirited individuals and/or neighbourhood community organizations, and remain unregistered and unrecognized until 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 and are not registered with any government agency or medical council. Entertainment and recreation also develop 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, relates to employment generation. 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, which takes place in

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

3. According to the author’s 1987 Yakoobabad case study, 93 per cent of Yakooobbad residents had taken materials and/or cash on credit from small contractors to build their homes.

4. Of the 13,200 minibuses in Karachi, 6,000 are unregistered since there is a ban on their registration. In addition, the minibus 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 turnover 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. OPP (1999), *79th Quarterly Progress Report*, September.
people's homes, on a contract basis. The manufactured items are then taken to factories, where they are labelled before being packed in alternative packaging. In this way, exporters and industrialists are able to reduce production costs, and prevent the unionization of labour and the application of labour laws and the minimum wage. Various parts for the light engineering and electronic industries, using lathes and rubber-moulding machines, are also produced in a similar manner in the informal settlements. Spare parts for machinery, cars, tractors and diesel engines are also manufactured in these settlements and their cost is about half that of industrially produced items. It is thanks to this spare-parts production that the agricultural machinery transport and services sector is affordable to the operators and hence to primary producers.

III. LIBERALIZATION AND STRUCTURAL ADJUSTMENT

THE SUCCESS OF the activities of the informal sector in Karachi as described above has a lot to do with the availability of cheap government land, the protection provided to local industry 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 the physical and social sectors' infrastructure. However, with liberalization and other related developments, all this has started to change.

Economic liberalization has been accompanied by structural readjustment, the communications revolution and major societal changes and its effects cannot be seen in isolation from these developments. Structural readjustment has meant a reduction in import duties on all manufactured goods. By the year 2003, these duties will cease to exist and it is already becoming clear that the Pakistani light engineering industry cannot compete with products from South-East Asian countries. Consequently, the machine operators in the informal settlements are not receiving enough orders, or are being asked by the contractors to lower the quality and prices of their products.(7) 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 at reduced profit rates or are closing down.(8) According to a recent newspaper report, the number of illegal electricity connections to informal workshops has increased, as has the bribery cost of acquiring these connections.(9)

One of the major objectives of the structural readjustment programme is to help Pakistan service its international debts more effectively. Thus, the devaluation of the Pakistani rupee, so as to increase exports, is an essential part of the structural readjustment plan. The rupee's constant devaluation has caused large-scale inflation and a search among the marginalized and lower-income groups for additional employment. It has increased the use of child labour and has forced a larger number of women into work and to have 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 services sector, in addition to their full-time jobs.

Under structural readjustment, Pakistan has also undertaken to privatize 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 into private ownership, it is protected. This deprives the informal sector developers of raw land for development in places appropriate for their clients. The government has also undertaken to privatize 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 it is as a result of these issues that Pakistan is suffering double-digit inflation and a recession.\(^{(10)}\)

Privatization has also meant employment on merit rather than through political patronage or quota systems, and a large number of government employees have been sacked. With the privatization of education, merit is conferred upon those who can afford education, thus marginalizing poor communities. An alternative source of education and skill acquisition from what is available therefore becomes necessary for them.

**IV. NEW URBAN ACTORS AND CORPORATE CULTURES**

PAKISTAN’S INFLATION AND recession are 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 and the younger generation living in them is overwhelmingly literate.\(^{(11)}\) Many have become doctors, engineers, college teachers, bank managers and white-collar workers. Many of the small workshops and looms that were established by the first generation of entrepreneurs and artisans, with support from middlemen, have now developed direct links with the formal-sector industries and exporters whom they service. Similarly, schools (which started out as informal ones) have developed links with NGO and government support agencies, and some health clinics have started to access government facilities for population planning and immunization. Interest groups have organized to present their claims and protect their gains. There now exist vocal transporters’ organizations, loom operators’ associations, neighbourhood groups, sports and cultural clubs (that manage to access government funds) and hawkers’ associations. Almost every informal activity sector now has an organization registered under the Societies Act and, increasingly, these organizations are being led by second- or third-generation city dwellers who have broken with their rural culture and background. They are better educated than their parents or grandparents and more comfortable dealing with those in positions of power. Instead of seeking access through middlemen and political-party touts, they approach the establishment through the power of their organizations which, increasingly, have yearly audits and elections.

As a result of the changes mentioned above, there has been a change in lifestyles, supported by the communications revolution. Nuclear families are replacing joint family systems. Clan and tribal organizations that the migrants brought with them have ceased to be effective and are being replaced by new community organizations or by a dependence on state institutions. The communications revolution has made television and video important entertainment tools. Television is the main source of information for the vast majority of Karachi households\(^{(12)}\) and more than 50 per cent of them have access to some form of cable television. Thus, video

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11. According to the 1998 census results, 74.04 per cent of Karachi’s 10 to 24-year-old age group is literate, compared to a total Karachi figure of 67.42 per cent. In the 1981 census, 61.10 per cent of the 10 to 24-year-old age group was literate.

12. According to the 1998 census, 79 per cent of Karachi households said that their main source of information was the television.
shops and cable operators, all too expensive in the formal sector for the lower- and lower-middle-income populations, have become a necessity. Informal enterprise has made *Santa Barbara*, *The Bold and The Beautiful*, MTV and all variety of news available now in homes in all low-income settlements in Karachi and in the tea shops and eating places located within them. This has 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.\(^{(13)}\) Vocabularies have also changed. Words of respect for elders or for those from a higher class have been substituted by “uncle” and “aunty”, and those too in the English-language equivalent. The whole feudal vocabulary, which the migrants had brought with them, has simply vanished with the new generation.

Liberalization and the communications revolution has also brought 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. Training for these professions is provided by both government and private institutions. In the case of 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 an affluent nature to the city that was previously unknown. Golf clubs and various recreational and cultural facilities have been developed which are sponsored by companies for their clients, employees and for advertising purposes. Unlike before, these activities take place in new locations, in elite areas or in 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 surround them are 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-liberalization period.

Liberalization has also meant the introduction of fast-food chain outlets and the popularization 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 postmodern buildings with smart interiors, belonging to the corporate sector, stand in sharp contrast to the sedate government buildings of the previous decades. Since a lot of young people from Karachi’s informal settlements work in this environment, ties, blue or white shirts and the “corporate haircut” are becoming common phenomena; also, everyone knows what a credit card is and wishes to acquire one.

V. BRIDGING THE GAP BETWEEN MEANS AND ASPIRATIONS

WHAT HAS BEEN described above is really the emergence of a First World economy and sociology, but with a Third World wage and politi-
cal structure. It is the emergence of new aspirations related to consumerism and the desire to belong to the “contemporary” world as portrayed by 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 is likely to continue to play for the foreseeable future, is helping to 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 people who seek to protect the joint family and clan systems. This is one of the major reasons, other than financial, why young Pakistanis wish to migrate abroad. Obtaining a visa and a job and establishing connections after migrating to a First World country are not easy for young Karachiites from low- or lower-middle-income settlements. Middlemen have emerged to cater to this need, to help acquire genuine and/or forged visas and arrange jobs abroad. Newspaper reports suggest that these operators have contacts in the visa sections of embassies and that large sums of money change hands in this trade. To acquire an American or a Japanese visa, young Pakistanis claim to have paid up to Rs 200,000 (US$ 3,333) to middlemen. An entire inner-city street in Karachi deals with arranging the necessary paperwork for migration and employment, and from observation one can see that the number of middlemen and clients is increasing daily.

All Karachi neighbourhoods, including low-income and even marginalized ones, have not one but many video shops, all of which rent out pirated videos. Video copies of Indian films arrive in Karachi even before they have been released in India; similarly, videos of American films arrive well before they have been released in Karachi. All attempts at curbing piracy have failed. If they were to succeed, the vast majority of Karachiites would not be able to hire video cassettes and the same holds true for the purchase of audio cassettes. More recently, cable television has 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. The 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 for an illegal one. At a modest estimate, there are over 150,000 people involved in video and cable-related trade.

All low-income settlements (formal or informal) have video halls. These are large asbestos-roofed shacks showing video films of all kinds. The films are advertised on notice boards outside the halls, along with the names of the stars, and are held at regular hours. During the interval, tea and chips are available. Under the law, this is an illegal activity but it provides entertainment to the male-only, day-wage labour that lives around the port and the wholesale markets. The video-hall operators consider this as 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. The number of neighbourhood beauty parlours is growing in low-income settlements and they advertise various

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14. According to a survey reported in the Daily Dawn, Karachi, November 2000, 38 per cent of Pakistanis wish to migrate. The figure for Karachi therefore must surely be higher.

15. Author’s interviews with persons wishing to migrate (unpublished).
hairstyles named after Indian film stars. Being well-groomed and able to speak English has become an added asset for a woman in the marriage “market” in Karachi’s older informal settlements. The pioneering beauticians have been trained informally by hairdressers in upper-middle-income beauty parlours. Now their apprentices, who are growing in number, are taking over in the informal settlements. This trade has become so important that popular radio programmes now give regular beauty tips for women and for 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 require no qualifications for admission and offer no qualifications either. Their trainees are employed after having been tested by prospective employers. If they are well trained, the employers prefer them to qualified persons since they can pay them a much lower salary for 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 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 per cent of its original value and, without this sector, information technology would 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 poorer sections of the population. They too wish to consume Seven-Up, Coca-Cola and beefburgers. They too are interested in designer shirts and brand-name perfumes. However, these are all unaffordable to them. But then fake Seven-Up and Coca-Cola, costing half the price of the original, are 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 beefburger is available in every Karachi locality.

These new informal-sector activities, which are the result of liberalization and related changes, really try to serve the better-off and the slightly upwardly mobile residents of old consolidated or consolidating informal settlements. At the same time, this process marginalizes large sections of these settlements and deprives them of employment and access to diminishing government subsidies and benefits. This division has caused an increase in crimes such as armed robberies, car theft 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 guards and security systems. However, they continue to occur and grow in number in the lower-income settlements. Hence, residents of many of these settlements are organizing informal neighbourhood policing systems and are trying to get government approval to operate 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.

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

VI. EMERGING TRENDS?

THE FUTURE OF the informal sector in Karachi is difficult to predict. However, some trends are clear. Links between the informal workshops and formal-sector industry are slowly being eroded, with the exception of those industries (such as garment manufacture) that have export potential. It is feared that these links will cease once formal-sector garment factories are set up with local and foreign investment. The process has begun and, since these industries have sophisticated machinery, they will be far less labour intensive. This will result in 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 a marginalization from the 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 be able to hand out favours and patronage, through which informal settlements were established and informal entrepreneurs were able to function. Favours and patronage are being replaced by cash payments for the protection of activities that are in defiance of state regulations. All this means the marginalization of those without merit or skills or access to expensive private education.

The above trends are creating unemployment and this will increase until such time that formal-sector private investment replaces the informal sector job market. This is nowhere in sight and, as a result, the rich-poor divide is growing, leading to crime and violence. 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 marginalization creates a new situation.

It is therefore understandable that the present situation of inflation, recession and increasing marginalization of these groups is being blamed on liberalization, the World Trade Organization (WTO), structural readjustment, 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, all participate in the debate and issue statements against globalization. Seminars, symposia and workshops are held on the subject and endorse these views. The protests in Seattle,
Melbourne, Chang Mai and Prague against the WTO, World Bank and IMF 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 important. So far, there has been no proper research into the long-term effects of liberalization on the city. There have only been observations and discussions, and this paper is yet another such attempt.