Trade and Compliance of Labour Standards in Global Supply Chains
A Case Study of Pakistan

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CLS+

Core Labour Standards Plus

Linking trade and decent work in global supply chains

FRIEDRICH EBERT STIFTUNG

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List of Abbreviations

AFWA	Asia Floor Wage Alliance
CAGR	Compound Annual Growth Rate
CIWCE	Centre for Improving Working Conditions & Environment
CMT	Cut, Make and Trim
CLS	Core Labour Standards
CLS+	Core Labour Standards Plus
CSOs	Civil Society Organizations
CY	Calendar Year (1 January–31 December)
DCs	Developing Countries
DVCs	District Vigilance Committees
DWE	Directorate of Workers Education
EATP	Emergency Autonomous Trade Preferences
EBA	Everything But Arms
EC	European Commission
EOBI	Employee Old Age Benefit Institution
EU	European Union
FY	Fiscal Year (1 July to 30 June)
GoP	Government of Pakistan
GOPs	Global Operating Procedures
GSCs	Global Supply Chains
GSP	Generalized Scheme of Preferences
GSP+	Generalized Scheme of Preferences Plus
GVCs	Global Value Chains
IIAs	International Investment Arrangements
ILO	International Labour Organizations
ILSU	International Labour Support Unit
IRA	Industrial Relations Act
IRI	Industrial Relation Institute
KPK	Khyber Pakhtunkhwa
LDCs	Least Development Countries
LFS	Labour Force Survey
NILAT	National Institute of Labour Administration and Training
NIRC	National Industrial Relations Commission
OPHRD	Overseas Pakistanis and Human Resource Development
OSH	Occupational Safety and Health
PBS	Pakistan Bureau of Statistics
PES	Pakistan Economic Survey
PESSI	Provincial Employees Social Security Institution
PIRC	Provincial Industrial Relations Commission
PKR	Pakistani Rupee
PTIC	Provincial Treaty Implementation Cell
PWF	Pakistan Workers Federation
ROAA	Return on Average Assets
SBP	State Bank of Pakistan
SPDC	Social Policy and Development Center
SOPs	Standard Operating Procedures
TIC	Treaty Implementation Cell
UNCTAD	United Nations Conference on Trade and Development
WEBCOP	Workers Employers Bilateral Council of Pakistan
WTO	World Trade Organization
WWF	Workers' Welfare Fund

Foreword

The integration into global supply chains was supposed to create new opportunities for developing countries. Leading global companies have moved large parts of their production to the global south where at least some local employers did profit nicely from their integration into global trade. Yet the workers in those southern supply chains did not benefit from the increase in trade. Rather the opposite, because the changing nature of international trade has led to downward pressure on local working conditions through the increased casualisation and informalisation of the economy. Fundamental rights at work, such as the right to organize and bargain collectively are not being upheld. Child labour is still being used and minimum wages, if paid at all, are not enough to maintain decent living standards. Most workers at the lower tiers of supply chains are women and migrants and this is where the risks of exploitation are the highest.

Pakistan provides just one example of this broken narrative of shared prosperity through globalization. With large parts of the labour force employed in the informal sector, most workers would not even know whom they are producing for—which company, which brand? All they know is that the daily pressure on the shop floor or in the, often home-based, power looms has been increasing, that subcontracting can bypass any labour law or measure of social protection.

Since 2014, Pakistan has been a partner of the European Union's under the GSP+ System, which conditions the granted trade preferences of the EU to the ratification and implementation 27 labour and human rights conventions. The results have so far been disappointing, be it for lack of political will on the government's and employers' side or for simple lack of administrative capacity after the devolvement of labour issues to the provincial level.

FES-Pakistan is proud to present this Pakistan case study produced by the reputed Social Policy Development Center (SPDC) in Karachi and written by its director, Professor Dr. Khalida Ghaus, with the two researchers Manzoor Hussain Memon and Muhammad Asif Iqbal. My thanks go to the authors and to FES-programme coordinator, Abdul Qadir, for their unflinching commitment during this challenging endeavour.

This comprehensive study explores the link between trade and labour standards in the Pakistan textile and garment sector. The difficulties of research the authors experienced—the problems of finding reliable data or people who would speak openly—point to a lack of transparency in these crucial export sectors which seems to be the result of increasing pressure by global supply chains and responding local practices; all too often ignoring the law of the land or the conditionalities of the GSP Plus-System.

We hope that the publication of the Pakistan country study will lend urgency to a debate between (local) government(s), employers' associations and trade unions about the need for progress in the implementation of binding labour standards at the national, and even more so, at the provincial level.

Pakistan will not be able to develop a growing and competitive export sector for the 21st century by tolerating working conditions from two centuries past. The analysis of this case study and its recommendations will also provide the EU authorities in Islamabad and Brussels with important analytical and on-the-ground-information for their continuous assessment of the GSP+ Scheme.

The Pakistan Country Report "Trade and Compliance of Labour Standards in Global Supply Chains" is one of the outputs of the regional project Core Labour Standards Plus (CLS+), which was launched by Friedrich-Ebert-Stiftung in Asia in 2016. This project aims to promote and develop binding labour standards in trade and global value chains. With growing consumer concern and strong criticism of free trade agreements in Europe, there is momentum to push for binding social clauses in international trade. If governments can show that trade agreements contribute to making the life of workers in Asia better, the growing scepticism in Europe towards such agreements could be reduced.

The scope of the CLS+ project is ambitious in the sense that it goes beyond the ILO core labour standards.

These core conventions are recognised as an important element of decent work and are used by the European Union in trade agreements, but they do not cover other important rights such as living wages, maximum working hours including overtime, and safe and healthy workplaces. A living wage is, for example, crucial to lift people out of poverty.

In the first phase of the project, four countries—Bangladesh, Cambodia, Pakistan, and Vietnam—were selected to explore the link between trade and labour standards in key industries characterized by global value chains, namely garments, footwear and electronics. These countries were chosen because they have experienced different schemes of trade preferences, notably with the European Union, but also with the United States.

Lastly, we would like to thank all those who have contributed to the project with their knowledge and insights, and helped shape this publication for Pakistan and its accompanying country studies and supporting analyses on the regional level.

Rolf Paasch
Resident Representative
FES Pakistan

Introduction

One of the prominent attributes of globalization and trade liberalization in recent decades has been the rise of global supply chain production which has had significant implications for trade and development. The changing nature of production and trade has shown both positive and negative repercussions for economies and people. It has provided opportunities to the developing countries to use their comparative advantage to increase their share in the global economic production and trade processes. Simultaneously, the opportunity has been exploited by producers to deprive workers of their due rights, to lower the cost of production in the wake of intense competition in the global market.

Plurilateral preferential tariff schemes and trade agreements have also contributed to foster trade between developing and developed countries. The integration of international labour standards into trade agreements and preferential schemes is becoming a common practice. However, the social clauses of the various trade regimes and preferential schemes, particularly those related to labour rights and the environment, have been difficult to enforce effectively for the developing countries for two fundamental reasons: a lack of political will on the part of the authorities concerned and poor and limited understanding of the 'required' governance structures. Also, the weak negotiating position of these economies often results in the violation of national and international standards particularly in the areas of minimum wages, working conditions and occupational safety and health.

Over the last four decades, Pakistan has entered into several plurilateral preferential schemes along with regional/multilateral and bilateral trade agreements. In 2014, Pakistan was given the status of GSP (Generalized System of Preferences) Plus by the European Union (EU), which provided free market access to almost 87 per cent of Pakistan's exports for a 10-year period. However, the international trade sector of Pakistan faces multifaceted challenges which continue to impede its competitiveness both within the region as well as globally.

The Core Labour Standards Plus (CLS+), a regional project initiated by the Friedrich-Ebert-Stiftung (FES), aims to promote and develop binding labour and social standards in trade agreements and preference systems. The first phase of the project focuses on the selected export-oriented industries of four countries comprising Pakistan, Cambodia, Bangladesh, and Vietnam. The goal of the CLS+ project is to go beyond the Core Labour Standards (CLS) approach set by the International Labour Organization (ILO), which is the framework of the minimum expectations of workers' rights at workplaces.

The CLS framework fundamentally focuses on the rights and protection of employees. The themes identified in the framework are: freedom of association, the right to organize and collective bargaining; elimination of all forms of forced or compulsory labour; minimum age for employment and effective abolition of the worst forms of child labour; and equal value and remuneration and elimination of discrimination in respect of employment and occupation. While these core standards are recognized as an important element of decent work, they do not cover additional rights such as living wages, maximum working hours including overtime, and safe and healthy workplaces. The CLS Plus approach includes these rights in addition to CLS.

As part of the CLS Plus initiative, the case study of Pakistan explores the labour and trade nexus in the country with specific focus on the status of compliance with international labour and social standards, the implications of non-compliance and the power relationships that exist within the global supply chains. The research will not only help in identifying the means to effectively implement the comprehensive labour and social standards, but will also facilitate in initiating an informed debate among the stakeholders besides opening avenues for more research.

The textile sector was selected for detailed analysis since it accounts for almost 60 per cent of Pakistan's exports, provides employment to 40 per cent of the industrial workforce, contributes nearly one-quarter of the total industrial output, and has the longest production chain.[1] Within the textile sector, the study focuses on the textile value-added sector, which includes home textiles (bedwear), towels, hosiery, knitwear and readymade garments (including fashion apparel). Textile value-added constitutes two-thirds of the textile exports of Pakistan.

The methodology of the study is based on a review of literature and secondary data and interviews with key informants and stakeholders including government officials from concerned departments and ministries, managers of industrial units, industrial workers/labourers, and representatives of labour unions/federations, the Pakistan Hosiery Manufacturers & Exporters Association hosiery, civil society and donors. These included one-on-one interviews as well as meetings/discussions with a group of people such as workers, managers, etc. Altogether, 56 interviews/meetings were held in Islamabad, Faisalabad, Lahore and Karachi. Interviews with industry and labour union representatives were mainly conducted in the later three cities where large clusters of textile industrial units are located. The fieldwork was carried out during the months of October and November 2016.

The report is divided into five chapters. Chapter 1 provides a brief overview of Pakistan's economy including the manufacturing sector, labour force and employment, and the international trade sector. Chapter 2 delineates the structure and performance of the textile industry and its power relationships along with the global supply chain. Chapter 3 is largely based on a review of trade agreements, with particular focus on GSP Plus, while Chapter 4 provides a situational analysis of the adherence of Pakistan's government to the international labour conventions. Chapter 5 offers conclusions and some policy recommendations. It is hoped that the research findings will contribute towards a systematic activism required for the effective implementation of ILO conventions and the sectoral organisation of workers and employers besides informing and influencing the policy formulation in the country.

1. Overview of the manufacturing sector, labour force and exports

During the last couple of decades, Pakistan's economy has experienced a significant structural shift from a traditional agriculture-based economy to a modern production and service economy. Currently, the services and industrial[2] sectors constitute 59 and 21 per cent of GDP, respectively. The corresponding share of agriculture is 20 per cent, which has gradually declined from 25 per cent in 1995. Despite the shift, the agricultural sector continues to be a major contributor to the country's economy. Sixty per cent of manufacturing is agro-based, 40 per cent of trade and transport is of agricultural products and some 90 per cent of export-oriented industries rely on agricultural produce such as the cotton and rice crops.[3]

The manufacturing sector mainly comprises the textile sector, chemicals, engineering and agro-based industries. Along with dependence on agricultural produce such as the cotton crop, the sector also has multidimensional backward and forward linkages, and has spillover effects on other sectors of the economy such as transport and communications, the wholesale and retail trade and banking and insurance. The share of the manufacturing sector as a percentage of GDP has remained almost stagnant at around 13.5 per cent over the last decade—it actually declined from 14.3 per cent in 2006-07 to 13.5 per cent in 2016-17. The reasons cited for the poor performance of the sector include internal deficiencies and challenges such as the energy shortage, human resource and capacity constraints, comparative technological disadvantages and governance issues besides the ever-challenging security situation. The sector largely consists of low-value-added and low-tech production facilities. According to the Census of Manufacturing Industries, resource-intensive and labour-intensive factors were found to be dominant (50 per cent) in the total manufacturing output during the period 2005-2006 (PBS, 2006).

Labour force and employment

Despite having the ninth[4] largest workforce in the world, the labour force participation rate in Pakistan is only 32 per cent[5]. As shown in Table 1, the labour force in the country was estimated to be 61 million in 2014-15. The non-agriculture component of the economy provides employment to almost 58 per cent of the labour force. It is important to note that most of the non-agricultural employment (over 72 per cent) is in the informal sector. Since the sector is unregulated, employers are less likely to provide decent working conditions to its labour in accordance with international labour standards.

The manufacturing sector accounted for 15.3 per cent of the total labour force in 2014-15. About one-quarter of the manufacturing labour force is employed in the informal segments of the sector (Table 2), which registered growth of almost 5.5 per cent per annum during 2007-08 and 2014-15. The gender gap also exists in the labour force. Despite a slight improvement witnessed in female labour force participation over the last decade, women still account for only 21.6 per cent of the total manufacturing labour force. The share of the female labour force is considerably higher in the informal segment (48 per cent) and has increased over time. Annual compound growth in the total female labour force was 5.9 per cent during 2003-04 and 2014-15 while that in the informal segment was 7.2 per cent. The reasons for the increase in female labour force

Table 1. Labour force in Pakistan – 2015-16

	Millions	Share (%)
Population [a]	189.2	–
Labour force [b]	61.0	100.0
Unemployed	3.6	5.9
Employed	57.4	94.1
Out of employed labour force		
Employed agriculture	24.3	42.3
Employed non-agriculture	33.1	57.7
Formal	9.1	27.5
Informal	24.1	72.8

[a] as of 1 January of Fiscal Year (FY); [b] 10 Years and Above

Source: Labour Force Survey (LFS) 2015-16, Pakistan Bureau of Statistics

Table 2. Manufacturing sector labour force *(Millions)*							
	FY04	**%**	**FY08**	**%**	**FY15**	**%**	**CAGR FY08-FY15 (%)**
Labour force[a]	**5.7**	**13.5[b]**	**6.4**	**13.0 [b]**	**8.8**	**15.3 [b]**	4.08
Male	4.7	81.8	5.2	81.3	6.9	78.4	3.65
Female	1.0	18.2	1.2	18.7	1.9	21.6	5.9
Informal	**1.2**	**20.6**	**1.3**	**20.9**	**2.0**	**23.2**	**5.44**
Male	*0.8*	56.5	*0.9*	56.3	*1.3*	52.0	*4.39*
Female	*0.6*	42.4	*0.7*	43.7	*1.2*	48.0	*7.22*

[a] 10 years and above

[b] % of the total employed persons in Pakistan

Source: LFS (various issues)

participation may be linked to high inflation, an increase in the cost of living, or even worsening employment opportunities for men. This has forced women to seek jobs primarily to supplement family incomes (Pasha, 2014).

Labour productivity

Labour productivity is an important indicator for analysing whether the economy is building the pre-conditions for a sustainable manufacturing sector. It is also a key factor of wage determination and can be used by social partners as a reference point in collective bargaining. The productivity is calculated as the value added per person employed in the respective sector. The sectoral labour productivity is higher in the service sector, followed by industry and agriculture (ILSU, 2016c).

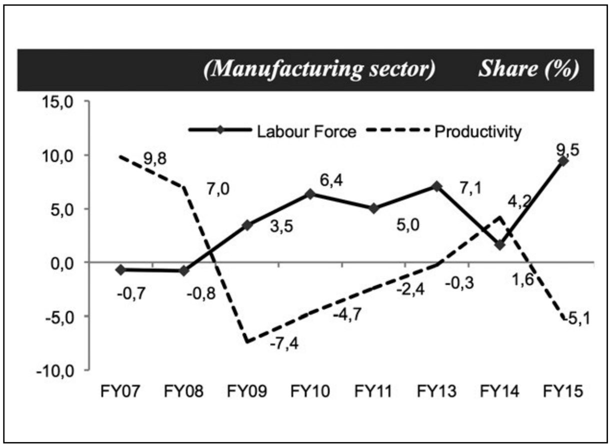


Figure 1. Labour force productivity growth.

Note: The growth rate for FY13 is calculated on the basis of FY11 data (Labour Force Data for FY12 is not available).

Source: Author's calculation | PES | LFS | (various issues).

The trend in the growth of labour force participation and productivity is exhibited in Figure 1. It is evident that since 2006-07 the productivity growth in the manufacturing sector has either declined or remained negative with the exception of 4.2 per cent growth in 2013-14. The recent decline is largely linked to the increase (10 per cent) in the influx of labour particularly in the manufacturing sector during 2014-15. Generally, the reasons for the low rate of labour productivity in Pakistan can be derived from the low rate of capital spending and the low rate of human resource development including the lack of education and training.

The export sector

International trade plays an important role in Pakistan's economy with a volume equivalent to about 30 per cent of GDP. The annual trade volume has increased twelvefold over the last two decades as a result of financial and trade liberalization reforms initiated by the government in 1988. The export sector is thus a major contributor to the country's GDP as well as an important economic agent for earning foreign exchange. Currently, exports of goods and services constitute about 7 per

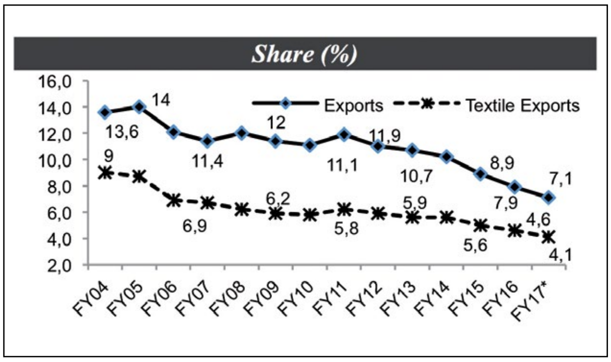


Figure 2. Export sector contribution to GDP.
** Provisional.*
Source: Author's calculation | SBP | PES (2016-17).

cent of GDP, which hovered around 11 per cent during the last decade.[6]

Pakistan's export sector has not performed well during the last decade or so. For instance, during the previous two decades, world exports grew at an average of 7 per cent, whereas the exports of Pakistan grew at an average rate of 5.6 per cent. As presented in Figure 2, the exports of Pakistan as a percentage of GDP reflect a declining trend over the last one and a half decades—the decline has been more rapid since 2011-12. Similarly, the share of Pakistan in world exports declined from 0.16 per cent in 2002-03 to 0.13 in 2014-15. The exports of Pakistan are largely concentrated in a few economies that include Afghanistan, China, Germany, the UAE, the UK and the USA—more than 50 per cent of exports are destined for these countries. Some details of major export destinations for the period 2011-2015 are provided in Annex B-1.

Table 3. Composition of exports by technological classification (%)

Technology level	Pakistan		World	
	1995	2016	1995	2016
Raw materials *(commodities)*	12.8	18.0	10.2	10.2
Resource based	4.1	9.2	16.5	15.8
Low technology	69.4	58.8	16.1	14.6
Medium technology	8.0	6.3	27.4	25.7
High technology	0.1	0.6	17.2	17.9
Others	5.6	7.1	12.5	15.8

Source: UNCTAD.

Composition of exports

Pakistan's exports are concentrated in raw commodities, resource-based and low-technology manufactured goods. These altogether account for more than 85 per cent of the total exports (Table 3). The composition of the Pakistani export sector is not aligned with the global trend which is characterized by technology-based exports. For instance, the share of low-technology products in global exports is only 14 per cent as compared to 59 per cent in Pakistan. On the other hand, exports of medium and high technology based products constitute only 6.9 per cent in Pakistan against the 43.6 per cent of world exports in the same categories. The share of the high-end technological products is less than 1 per cent in Pakistan.

As far as the sectoral composition is concerned, Pakistan's exports are highly concentrated in commodities having backward linkages with agricultural products such as the cotton crop and rice (Memon, Baig and Ali, 2008). Currently, a majority of exports originate from the textile sector, which accounts for almost 60 per cent of total foreign exchange earnings (Figure 3). This is followed by

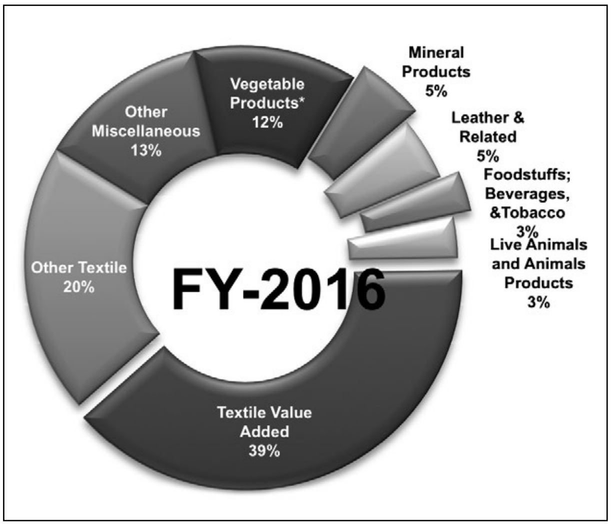


Figure 3. Composition of total exports (%).
Note: Estimates are different from other databases as SBP estimates include freight and insurance costs and are for the fiscal year (FY), not calendar year.
Source: SBP.

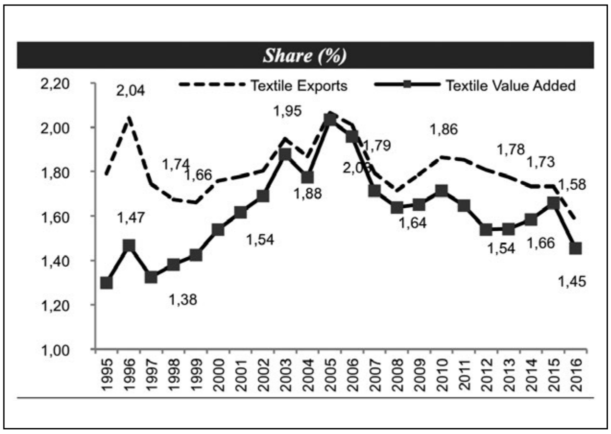


Figure 4. Trends of world export share (overall & textile).
Source: Author's calculation | UNCTAD.

exports of rice under vegetable products with a share of 12 per cent while leather and mineral products each account for a 5 per cent share.

Amid strong international competition, the exports sector of Pakistan is confronted with the major challenge of sustaining the pace of its growth. As mentioned earlier, Pakistan's share of global exports has been declining over the past decade. Since Pakistan's exports are largely concentrated in the textile sector, the main reason given for this decline is the reduction in the share of textile exports, particularly textile value-added products. As shown in Figure 4, Pakistan's share in global textile value-added exports declined from over 2 per cent in 2004-05 to 1.66 per cent in 2014-15 and further declined to 1.45 per cent in 2015-16. The reason cited is the low-tech product market at the global level where the price is the major competitive factor, whereas the production costs of Pakistani manufacturers continue to be relatively high due to energy costs, the security situation, low factor productivity including labour productivity, import barriers, multiple levies and taxation. Furthermore, strong international competition and a non-supportive domestic business environment exert pressure on domestic suppliers who tend to resort to non-compliance with labour standards to compete. Given this backdrop, the following chapter focuses on the textile industry and its power relationships along the global supply chain.

2. The textile industry and global supply chains

The textile industry has traditionally been the most important component of the manufacturing sector in Pakistan—a major source of export earnings, contributor to GDP and employer of skilled and unskilled workers. As mentioned earlier, about 60 per cent of Pakistan's exports consist of textile products while 40 per cent of the industrial workforce is employed in this sector. Currently, textile exports are almost evenly distributed among cloth, yarn, knitwear, bedwear and garments (Table 4). The industry consists of a large-scale organized sector and a highly fragmented small/medium-scale sector. In value-added terms, the sector can be divided into two segments: low-end value added and high-end value added (Box 1).

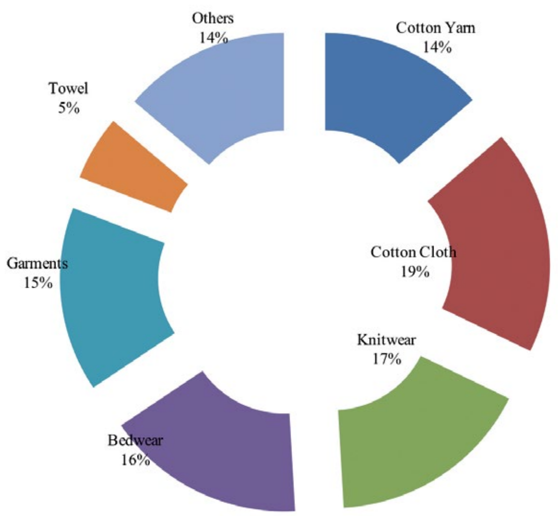
The high-end value segment constitutes almost two-thirds of the total exports of the textile sector, and its share has increased over time.[7] As shown in Table 4, the exports from the textile high-end value segment increased from 62.2 per cent in 2012-13 to 66.6 per cent in 2015-16. In contrast, there was a decline in the export share of the low-end value added textile segment from 34.1 per cent to 32.3 per cent during the same period.

However, the textile sector is also confronted with a set of challenges in order to survive in a highly competitive global market. Textile exports as a percentage of GDP declined from 6.3 to 4.1 per cent between 2012 and 2017. In addition to the overall challenges faced by the export sector (mentioned earlier in Chapter 1), some specific challenges include fluctuations in cotton production and a lack of R&D within the industry. On the international front, the highly competitive markets together with the 'monopsony' of international buyers and retailers are significantly affecting the margins of the industry. The structure of the textile industry and the nature of its power relations in global supply chains are briefly discussed below while a detailed account of these issues is provided in Annex-A.

Table 4. Composition of Pakistan's textile exports *(share %)*

Technology level	FY13	FY14	FY15	FY16
Raw cotton	***3.7***	***1.3***	***1.5***	***1.1***
Textile low end value addition	***34.1***	***37.1***	***35.5***	***32.3***
Cotton yarn	13.0	16.1	15.0	13.4
Cotton cloth	19.8	20.4	20.0	18.4
Cotton carded or combed	0.9	0.3	0.2	0.2
Yarn other than cotton yarn	0.5	0.3	0.3	0.3
Textile high end value addition	***62.2***	***61.6***	***63.0***	***66.6***
Knitwear	17.5	15.7	16.1	16.7
Bedwear	14.6	14.3	15.1	16.3
Towels	5.2	5.5	5.5	5.3
Tents, canvas & tarpaulin	0.7	1.0	0.8	1.0
Readymade garments	10.9	12.9	13.4	15.1
Art, silk and synthetic textiles	5.0	3.4	3.1	2.6
Made-up articles	3.1	3.4	4.2	4.9
Other textile materials	5.1	5.5	4.8	4.6

FY 2016



Source: SBP

Box 1. Classification of the textile sector in Pakistan

Sector Classification: The sector includes cotton spinning, cotton cloth, cotton yarn, cotton fabric, fabric processing, home textiles, towels, hosiery and knitwear and readymade garments. Over 75 per cent of the industry falls under small and medium enterprises (FBR, 2014). The study classifies the sector into two major segments:

1. Low-end value added segment (other textiles): includes raw cotton, cotton spinning, cotton cloth, cotton yarn, cotton fabric and fabric processing.
2. High-end value added segment (textile value added): includes made-ups in home textiles (bedwear), towels, hosiery, knitwear and readymade garments (including fashion apparel).

Source: FBR (2014), "Syndicate Report: Textile Sector", Federal Board of Revenue, Government of Pakistan.

Asymmetric power relationships

The textile industry of Pakistan follows a pyramidal structure in terms of the number of units and scope of production—a small number of large units at the top and a large number of small units at the bottom. For the sake of analysis, the textile manufacturing sector may be divided into three tiers (Figure 5 sketches the supply chain).

Tier 1 consists of large-scale manufacturing units that export directly or through buying houses to the international buyers (brands/retailers). The firms in this category generally follow the norms of international labour standards in their own production processes.

Tier 2 comprises medium-scale manufacturing units. Due to their limited capacity (financial and production), they take export orders from small international buyers. They also take the Cut, Make and Trim (CMT) orders from Tier 1. The hiring of production workers is done largely through subcontractors.

Tier 3 consists of a large number of small units[8] that mostly fall under the informal economy, implying that the firms are not documented and regulated by the relevant state authorities and workers' rights are not protected. This also applies to a large segment of Tier 2. For instance, more than 80 per cent of the readymade garment industry consists of small and medium-sized enterprises (SMEs), which are mostly informal enterprises.[9] They also cater to the domestic markets. Workers are hired directly and the compensation is either based on daily wages or piece rates.

The power relationship between buyers and producers is characterized by the price-setting behaviour of the upstream firms along the supply chain. It is mainly determined by the distribution of value chain activities including product design, production, marketing, distribution and support to final consumers. A small number of brand names and retailers govern the chain since high value added activities (such as design and marketing/distribution) are performed by them while production is carried out by local manufacturers. Most of the production material (such as yarn and fabric) is produced locally. The buyers provide specifications for design and the material to be used. They also have their own monitoring and quality control procedures both for the products as well as for the compliance with labour standards.

The interviewees (managers of textile firms) reported a number of pressures from the buyers that are making the local suppliers more vulnerable to the increasing

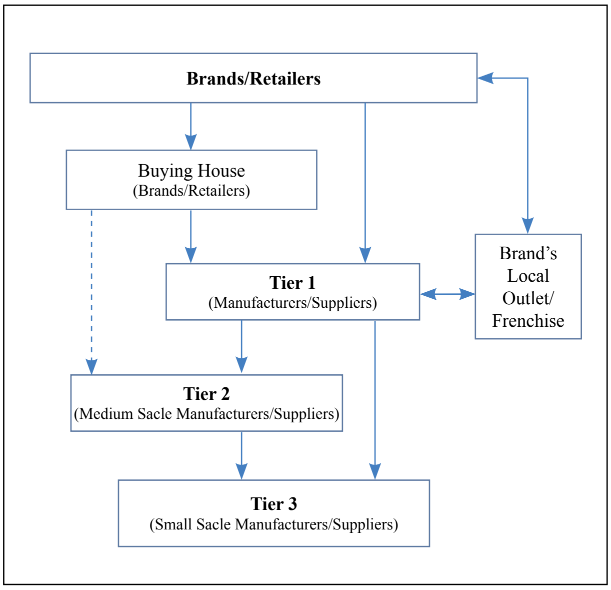


Figure 5. Supply chain of Pakistan's textile sector.

Note: Orders placed by buying houses to Tier 2 are largely for small buyers and not from big brands.

competition in the global market. These include low offered prices, tight delivery schedules, fluctuations in the business orders, and penalties in case the order is not delivered on time. Due to intense competition in the market, suppliers have limited bargaining power on the price side. Therefore, they have to look for cost-cutting options since the profit margins are already on the edge. According to the data provided by four textile units, the average gross margin of these firms declined from 18.4 per cent in 2013 to 11.6 per cent in 2015 while the net margin went down from 9.0 per cent to 2.8 per cent during the same period.

The major impediment to bringing down the production cost is the cost of material, which accounts for almost three-quarters of the total cost. Material is the only inelastic component of the manufacturing cost and is a major concern of a buyer from the quality perspective. Overheads and energy costs range between 7 and 10 per cent while the cost of labour is 5 to 7 per cent. In such a situation, cost-cutting becomes difficult for a supplier. In order to remain competitive, the firms use various organizational strategies by transferring the burden to the bottom of the chain. Subcontracting is the most common strategy adopted by the manufacturers in Pakistan. Although large firms generally abide by the labour laws for their own employees, they do not have any control over subcontractors. Workers are not provided with appropriate compensation and other legal rights and entitlements by the lower-tier enterprises. Thus, violation of labour standards is common, particularly when it comes to minimum wages, working conditions and occupational safety and health.

In addition to the subcontracting of manufacturing, Tier 1 firms keep their employment level at the minimum and hire production workers for a short period through a contractor. They employ staff up to the level of supervisor along with some 10 to 20 per cent of workers on a permanent basis. The rest of the bottom line workers are hired through contractors in order to reduce a firm's liabilities. These workers are brought inside the plant to perform various tasks related to production. They are not given contracts by the firm; instead they work for the contractor on the basis of daily wages or piece rate. This arrangement allows the contractor to deprive a worker of his/her legal rights and all other entitlements.

Table 5. Cost components of selected products (%)

	Denim Jeans	Polo Shirt	Duvet
Raw material	44.9	48.8	72.0
Trims	13.3	8.0	–
Labour	6.4	16.0	2.0
Lab test	9.8	1.2	2.0
Overhead	9.6	10.0	6.0
Freight	3.0	0.8	3.0
Gross margin	13.1	15.2	15.0
Cost of goods sold	$10.7	$2.0	$8.8
Tag Price	$52.0	$8.0	$40

Source: Author's calculations based on the data provided by factory managers

The nature of power relationships in the value chain allows the lead (international) firms to maximize their profits. For example, as shown in Table 5, the factory cost of a pair of jeans is estimated to be 11 US dollars as against the tag price of 52 US dollars. Similarly, a duvet with a tag price of 40 US dollars costs only 9 US dollars (all prices are stated in US dollars)[10].

However, from the buyers' perspective (provided by the representatives of buying houses during interviews), circumstances differ and vary across regions with different business models that include direct retail and through distribution networks. According to them, their margins are reduced with the cost of shelving, local taxes, direct and indirect overheads, transportation, and mid-season and off-season discounts/sales. Thus, the tag prices are not a true reflection of the margins and spreads of the lead firms.

With regard to the perspective of local manufacturers, serious concerns were raised about the high cost of doing business in an extremely competitive market with limited support from government machinery, which has resulted in the closure of a significant number of units over the last few years. For instance, a member of the hosiery association said that there were about 220 hosiery manufacturer exporters in the city of Lahore alone, a figure that has now fallen to 70 members. The establishments either closed down or moved to other countries due to a non-conducive business environment.

3. Review of trade agreements

During the last four decades, Pakistan has entered into several plurilateral preferential schemes along with concluding several multilateral and bilateral trade agreements to boost its trade and also to improve and strengthen its economy. Generally, the main objectives of trade agreements have been to increase economic and trade cooperation between states, encourage competition, and also help in addressing trade-barrier issues. In addition to a number of formal trade and investment agreements under plurilateral preferential schemes, Pakistan has also made several regional and bilateral arrangements both within the South Asia region and beyond. The multilateral/regional trade agreements mainly materialized through regional memberships under different cooperation schemes. The country is also a beneficiary of some 11 generalized systems of preferences (Table 6). Except for the GSP Plus arrangement with the European Union, none of the schemes has any explicit social or labour clause or any other side agreements.

The preferential and the bilateral trade agreements are a priority under the trade policy of Pakistan and the country is in negotiations for possible preferential trade agreements with several countries, blocs and associations including Thailand, Singapore, Turkey, Japan and with the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) and

Table 6. Preferential trade agreements / schemes

Plurilateral preference schemes	Regional schemes	Bilateral agreements
Generalized System of Preferences – Norway (Since October 1971)	Protocol on Trade Negotiations (since February 1973)	United States (Since 2003)
Generalized System of Preferences – Japan (Since August 1971)	Global System of Trade Preferences among Developing Countries (Since April 1989)*	Sri Lanka (Since June 2005)
Generalized System of Preferences - European Union (Since July 1971)	Economic Cooperation Organization (Since February 1992)*	Iran (Since August 2006)*
Generalized System of Preferences - New Zealand (Since January 1972)	South Asian Preferential Trade Arrangement (Since December 1995)	China, People's Republic of (July 2007)
Generalized System of Preferences – Switzerland (Since March 1972)	Preferential Tariff Scheme of OIC Member States (Since 2005)*	Mauritius (Since November 2007)
Australian System of Tariff Preferences (Since January 1974)	South Asian Free Trade Agreement (Since January 2006)	Malaysia (Since February 2008)
Generalized System of Preferences – Canada (Since July 1974)	Developing – 8 (Since 2006)**	Afghanistan (Since 2010)
Generalized System of Preferences - United States (Since January 1976)	Pakistan-MERCOSUR*** Preferential Trade Agreement (Since June 2009)	Indonesia (Since September 2013)
Generalized System of Preferences – Turkey (Since January 2002)		
Generalized System of Preferences – Kazakhstan (Since January 2010)		
Generalized System of Preferences - Russian Federation (Since January 2010)		

** Schemes not in force/ not implemented/ not in effect*

*** In effect from 25 August 2011*

**** MERCOSUR is a sub-regional bloc for free trade (its full members are Argentina, Brazil, Paraguay, Uruguay and Venezuela)*

Source: Commerce Division, Government of Pakistan | WTO | Asian Regional Integration Center, https://aric.adb.org/fta-country# (accessed August 2017) the Association of Southeast Asian Nations (Pakistan Secretariat, 2015; Mirza Qamar Baig, 2009).

Bilateral trade is one of the important indicators which helps in understanding the depth and the volume of the economic relationship that exists between trading partners. It not only ensures mutual economic benefits for the trading partners but also helps in creating economic and political leverage at the global level in the long run. Moreover, the impact of trade depends on the elasticity of imports and exports of a country which is also reflected in terms of growth in trade.

Pakistan has bilateral free trade agreements with a number of countries including Sri Lanka, China, Mauritius, Malaysia and Indonesia. Table 7 highlights the benefits brought to Pakistan's exports due to these agreements. Though there has been negative export growth to Mauritius and Indonesia, the overall gains in Pakistan's exports are obvious, particularly through exports to China.

In 2015, Pakistan and Thailand also agreed to negotiate the terms of a free trade agreement (FTA). Beside trade preferential schemes and agreements, Pakistan has concluded 48 bilateral investment treaties and 63 double taxation treaties. Pakistan is also a member of the Multilateral Investment Guarantee Agency (Pakistan Secretariat, 2015).

EU's GSP Plus arrangement

Pakistan entered into GSP Plus preferential access in January 2014. Prior to having GSP Plus status, Pakistan was a beneficiary of trade preferences given by the European Union under the Emergency Autonomous Trade Preferences (EATP). The preferences were to support the recovery of the economy from the consequences of the floods in 2010. The preferential scheme, which covered some 75 products, was effective for a 2-year period (January 2012 to December 2013). Out of these 75 products, about one-third (26) of the products were given duty-free access via the tariff quotas, while the remaining two-thirds of the products (49) were allowed with non-tariff quota duty-free access (Pakistan Secretariat, 2015). The preference scheme was not subject to any kind of social or economic provisions or side chapters.

The Generalized Scheme of Preferences (GSP) initiated in 1971 by the European Union is a grant of preferences initiated for developing countries. Ever since, it has been continuously improved to support developing nations in enhancing their global trade, and also to achieve overall growth and development. Whereas the GSP in its general arrangement has specific objectives for sustainable development and good governance, GSP Plus is an incentive-based mechanism.

In order to qualify for GSP Plus, the eligible countries must ratify the 27 core international conventions in the fields of human and labour rights, the environment and good governance. The eligibility of a country to make use of the preferential scheme status is strictly limited to vulnerable economies where a vulnerable country is defined as one[11]:

Table 7. Bilateral free trade agreements and Pakistani exports *(US$ million)*

Countries	Year	Exports in the year of implementation	Exports in 2015	CAGR implementation year – 2015 (%)
Sri Lanka	2005	154	260	4.9
China	2006	507	1,934	14.3
Mauritius	2007	36	22	(5.3)
Malaysia	2008	138	186	3.8
Indonesia	2013	144	140	(0.9)

Source: The Pakistan Business Council (2015)

- not classified by the World Bank as a high-income or upper-middle income country during three consecutive years;
- having a low level of imports to the EU market (the GSP-covered imports of the concerned beneficiary country should be less than 6.5 per cent of EU imports in value from all GSP-covered imports from beneficiaries); and
- having a lack of diversification due to a large concentration in a few product lines (the seven largest GSP-covered products must cover at least 75 per cent of the country's total GSP-covered exports to the EU).

However, even if a developing country meets the above criteria, its entry into the GSP Plus category is not automatic. The aspiring country, in addition to ratifying the 27 core conventions must give a 'binding undertaking' to ensure effective implementation and to accept without reservation the reporting requirements and monitoring mechanism imposed by these conventions including the acceptance of and cooperation with the EU monitoring procedure.

According to the World Bank classification, Pakistan is included in the lower-middle income economy category. It is a country which had a share of 1.6 per cent in the total GSP imports in the 2012 calendar year[12] and also lacks diversification (Pakistan's seven largest GSP sections accounted for 94.6 per cent of its total GSP-covered exports in the 2012 calendar year). Both of these factors made the country a sound case for inclusion in the preferential scheme under GSP Plus. The GSP Plus agreement was signed for a 10-year period effective from 1 January 2014, which thus provided selected products of Pakistan with duty free access to the EU market. The scheme covers almost 87 per cent of Pakistani products (around 6,000 of Pakistan's tariff lines—66 per cent of the EU's tariff lines) including textiles and clothing.

European market, GSP Plus and Pakistan's exports

Historically, Pakistan has faced immense competition in the EU market from developing and least developed economies having preferential access including Bangladesh, Sri Lanka, Turkey, Morocco, Tunisia and Mexico (Pasha, 2014). The preferential access has provided the developing/least developed countries with an edge against the countries having limited or no preferential access such as India and China.

The EU market is very important for Pakistan since it accounts for 34 per cent of the country's total exports. However, Pakistan has not been able to reap the potential benefits of GSP Plus. Table 8 provides the share of some major exporters to the EU. Among these, China was in the lead in 2016 with the highest share of 6.46 per cent in total exports to the EU, followed by Turkey (1.31 per cent) and India (0.87 per cent). Pakistan's share in the EU market also increased initially from 0.09 per cent in 2012 to 0.13 per cent in 2015 but declined to 0.11 per cent in 2016.

In textile exports, China again had the largest share of almost 20 per cent in 2016, followed by Bangladesh (6.55 per cent) and Turkey (5.96 per cent). Pakistan's share improved considerably from 1.67 per cent in 2012 to over 2 per cent in 2015, however, it declined to 1.78 per cent in 2016. The low share of Pakistan among the competing countries may be attributed to its low level of competitiveness in the global market.

Pakistan started receiving the benefits of GSP Plus from the very first year i.e. 2014. Pakistan's exports to the EU in 2014 amounted to 7.1 billion US dollars, depicting an increase of almost 17 per cent as compared to 2013 (6.0 billion US dollars). However, the increase in exports to the EU market overshadowed the negative growth of 2.4 per cent of Pakistani exports to the rest of the world in the same year, implying that the increase in exports to the EU was merely a shift in destinations instead of any substantial increase in total exports (Figure 6).

The year 2015 also showed a decline in exports both to the EU and the rest of the world. The decline is more visible in exports to the rest of world with negative growth of 7.2 per cent vis-à-vis a decline of almost 5 per cent in exports to EU markets. The fall in exports was entirely attributed to the decline in the exports of the low-end value added segment, which were curtailed by almost 10 per cent. On the other hand, the high-end value added segment registered a growth of 1.6 per cent. In 2016 again, overall exports to the EU increased by 2.3 per cent, while exports to the rest of the world registered negative

Table 8. Major exporters to the EU

Exports / countries /groups	Percentage share (%)					Growth rate (%)			
	2012	2013	2014	2015	2016	2013	2014	2015	2016
				Total Export to EU					
China	5.74	5.71	6.15	6.83	6.46	1.1	9.4	(3.9)	(5.1)
India	0.83	0.95	0.85	0.86	0.87	15.7	(8.4)	(13.3)	2.3
Pakistan	0.09	0.11	0.12	0.13	0.11	18.2	15.2	(8.1)	(10.1)
Turkey	1.03	1.08	1.14	1.23	1.31	6.2	6.8	(6.6)	6.8
GSP Plus Countries**	0.24	0.27	0.29	0.32	0.30	13.9	8.0	(2.8)	(5.5)
				Textile Exports to EU					
Bangladesh	4.84	5.35	5.33	6.18	6.55	20.1	7.9	3.6	8.4
China	18.94	19.08	20.08	20.19	19.92	9.1	13.5	(9.4)	0.9
India	3.37	3.73	3.51	3.53	3.41	19.5	1.4	(9.3)	(1.1)
Pakistan	1.67	1.82	1.95	2.08	1.78	17.8	15.3	(3.9)	(12.4)
Turkey	6.25	6.14	6.09	6.08	5.96	7.9	7.6	(11.7)	0.2
GSP Plus Countries**	1.50	1.63	1.76	1.85	1.59	18.1	16.4	(5.3)	(12.3)

** Excluding GSP Plus*

*** List of GSP plus countries[13]*

Source: Authors' estimates | UNCTAD

growth of 14.5 per cent. The overall decline of 6.5 per cent in Pakistan's exports was due to the 17.8-per-cent decline in the low-end value added segment.

The directional shift of exports mainly occurred from Asia and the Middle East to the EU as shown in Figure 7. Overall, the share of the EU in the total exports of Pakistan increased from 24.8 per cent in 2013 to 33.6 per cent in 2016. The share of Asia declined from 33 per cent to 27 per cent while that of the Middle East dropped from 10 per cent to 7 per cent.

Of Pakistan's total exports to the EU market, over 75 per cent are from the textile sector. Thus, the enhanced trade preferences under GSP Plus are of particular importance to Pakistan's textile sector. The sizeable consumer base in the EU provides Pakistan with opportunities to cater to the demand of EU markets with the comparative advantages of GSP Plus particularly in the textile value added sector. Some of the top export partners of Pakistan in the EU are Germany, Italy, the Netherlands, Spain, Belgium and France. Total exports of Pakistan to the top seven countries of the EU for the period 2012–2016 are provided in Annex B-2. These include Belgium with a share of 8.3 per cent, France 5.9 per cent, Germany 17.6 per cent, Italy 9.5 per cent, the Netherlands 8.7, Spain

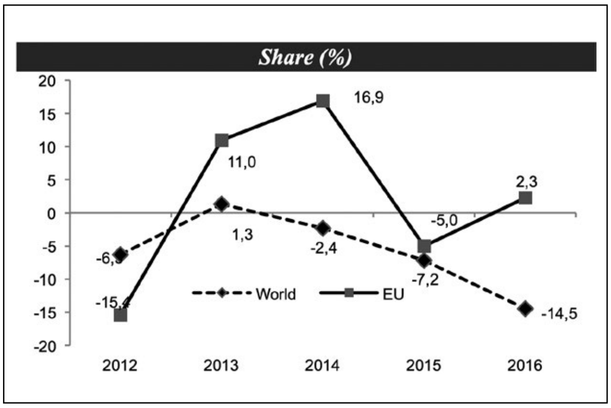


Figure 6. Growth in exports of Pakistan (European Union & rest of the world).

Note: The estimates are different from UNCOMTRADE because SBP estimates include freight and insurance costs and are for the financial year, not calendar year.

Source: SBP.

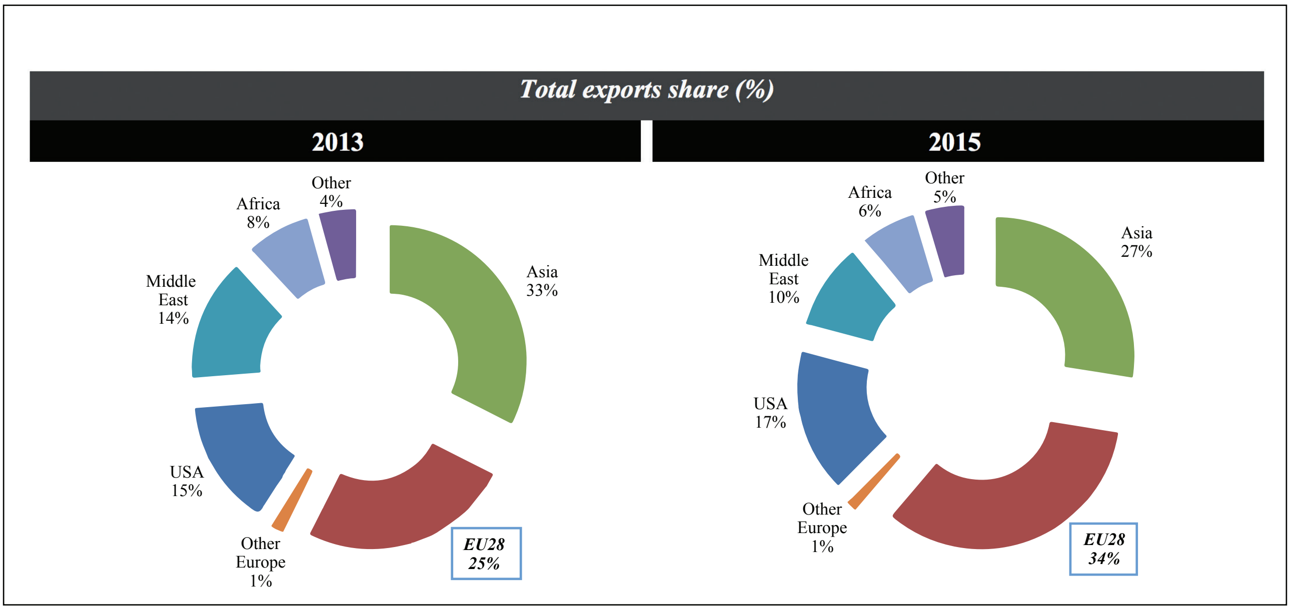


Figure 7. Comparison of Pakistan's exports by region.
Source: UNCOMTRADE (database accessed June 2017).

11.7 per cent and the United Kingdom 23.2 per cent. The top seven countries together account for almost 85 per cent of Pakistan's exports to the EU member countries. However, there is a need for government and stakeholders in the textile industry to aim for increasing the overall level of exports instead of moving the destinations of exports from one region to another.

GSP reporting mechanism and continuation

Besides ratification and ensuring effective implementation, the Government of Pakistan has also accepted the reporting requirements and monitoring mechanism imposed by the GSP Plus scheme. The European Commission will present a report every two years (previously every three years) to the European Parliament on the status of ratification and implementation of the conventions and their implementation. The non-compliance, if any, would lead to the withdrawal of the special incentive. There are few incidences of withdrawal of GSP and GSP Plus due to non-effective implementation and/or violation of conventions under the preferential schemes. In 2010, GSP Plus was taken away from Sri Lanka due to non-effective implementation of certain human rights conventions. Sri Lanka is now part of the GSP discount reduction scheme only. The duty reductions under GSP were taken away in 1997 from Myanmar/Burma due to violations of ILO conventions on forced labour. The EU reinstated the GSP preferences of Myanmar/Burma after almost 16 years in 2013. In 2006, Belarus was excluded from the GSP on the grounds of violation of labour rights. The decision was taken by the permanent European Union representatives following an inquiry and detailed investigation on a report submitted by an independent trade union from Belarus in 2003.

The reporting systems of the identified 27 conventions are enforced by respective international authorities. However, the EU monitoring and reporting mechanism is not limited to existing instruments. In addition to the existing reporting and monitoring mechanism, the EU commission also takes into account the perspectives of other relevant stakeholders such as civil society organizations, social partners, the European Parliament or the EU member states.

Steps taken for GSP Plus Continuation

The government of Pakistan, by signing the *binding undertaking*, committed to the effective implementation of the side chapters and labour provisions in the GSP Plus agreement. A number of steps have been taken by the government for the implementation of GSP Plus requirements, which are described below.

Pakistan is a beneficiary of the ILO's 'decent work country programme' and has entered into its 3rd Phase (2016-2020). A special unit International Labour Support Unit under this programme is established under the Ministry of Overseas Pakistanis and Human Resource Development (OPHRD). The technical support from the ILO includes the labour law reform, tripartism and social dialogue promotion in the country at federal and provincial level. At the domestic level, the tripartite model of integration and coordination involves stakeholders from the private sector, while on the external front a special mission of Pakistan is based in Brussels for the fostering closer ties with EU member countries.

There are several government institutions and departments that are directly or indirectly related to the implementation of the 'binding undertaking' for the GSP continuation. An effective mechanism of coordination among the institutions is essential for continuing the preferential trade scheme. According to a labour department representative:

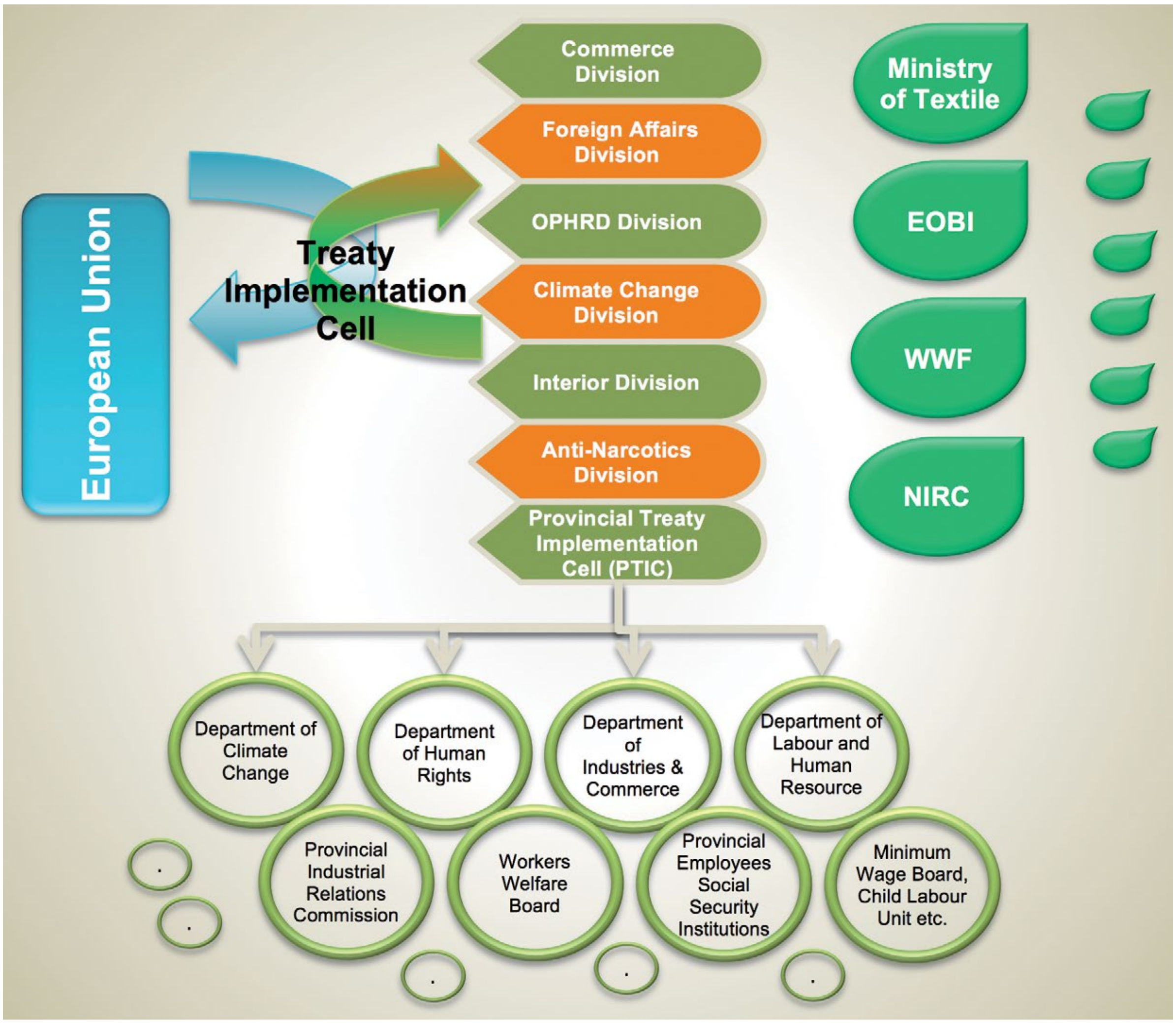


Figure 8. The treaty implementation cell framework.

> Law-making and implementation is a provincial subject, while reporting is a federal subject. Thus, there is a need to have greater coordination amongst provinces and the federation.

In this regard, the Government of Pakistan took an initiative to establish Treaty Implementation Cells (TICs) both at the federal and provincial levels with the mandate of coordination, monitoring and implementation. The TIC is based on a bottom-up mechanism which entails the relevant departments and institutions at various levels providing feedback and reporting on action plans and compliance with standards. The concerned ministries compile these reports from their respective departments and give briefings to the TIC. Similarly, hierarchy of reporting also exists in the Provincial Treaty Implementation Cells (PTICs). The PTIC is a reporting member in the TIC. Figure 8 shows the reporting hierarchy of federal and provincial authorities. In addition to the public authorities at federal and provincial level, non-profit and civil society organizations both domestic and international level are also part of the TIC including the Pakistan Workers Federation (PWF), the ILO and UN Women.

However, export industries are not represented in the TIC. Moreover, a CSO member interviewed was of the opinion that representation of CSOs needs to be expanded and coordination needs to be improved. He said:

> The main objective of the integration is not implemented by TIC. It seems that the government is working in isolation.

Furthermore, the capacity of the relevant departments appears to be another challenge to the effective implementation of labour standards. The efforts to strengthen the existing systems of implementation and monitoring are not in line with the increased responsibilities at provincial level after the devolution of powers to the provinces. For instance, there is no significant change in the budgetary allocations for the labour departments in the respective provinces. According to a labour officer:

> Look at our office. We are resource constrained, not only in terms of human resources but also other physical and technological resources. Despite the increase in the responsibilities, there is no such increase in the budgets of the labour department in the post-devolution period.

Given the backdrop of trade agreements and their requirements, the following chapter provides a situational analysis of the adherence of Pakistan's government to the international labour conventions.

4. Status of compliance with ILO core conventions and CLS Plus standards

Legislative framework in Pakistan

In 2010, Pakistan took a major step towards the devolution of legislative, fiscal and administrative powers from federal to provincial level by virtue of the 18th Constitutional Amendment. Almost all the subjects/ functions related to social sectors were brought under the provincial domain, which significantly enhanced the range of legislative and functional responsibilities of provincial governments. The subject of 'labour' was also devolved and the federal Ministry of Labour and Manpower was dissolved. A number of institutions under the labour ministry were also devolved.[14] However, some of the related institutions, such as the Employees Old Age Benefit Institutions (EOBI) and Workers Welfare Fund (WWF), were retained by the federal government.

The responsibility of coordination with leading international labour organizations such as the ILO also remains with the federal government and for this a new ministry of Overseas Pakistanis and Human Resource Development was established.[15] This particular ministry is also responsible for coordinating with the provinces for reporting on the international commitments made on labour issues, besides looking into the functional mechanism of the retained institutions of the EOBI and WWF.

As a consequence of the 18^{th} Amendment, more than 100 laws and 200 minor acts were either adopted, amended or replaced. In addition, a large number of pieces of subordinate legislation have been amended to bring them into line with the superior/main legislation. Even some of the major laws (along with their subordinate rules) had to be amended or repealed for the smooth functioning of devolved subjects and transfer of retained institutions to the provinces (SPDC, 2012). The amendment has significantly enhanced the range of legislative and functional responsibilities of the provincial governments. The existing federal labour laws are to remain in force across country until the process initiated for bringing the required changes in the laws, amendment or repeal by the provinces, is completed. Clause 270AA (6) of the 18^{th} amendment explicitly protects the status of existing federal laws and statutory bodies.

The provincial governments have started legislative work in the field of labour and the transition of law-making is at different stages (ILSU, 2016b). The devolution not only provided them with an opportunity to review and examine the existing labour laws in the specific provincial context but also helped in identifying the emerging issues concerning the labour laws. The adaption or the amendment process of federal laws into the existing provincial legislative framework also provided the space to initiate a social dialogue along with the tripartite consultation process across the country.

Ratification of ILO conventions

Pakistan, as a member of the ILO, has ratified 36 conventions comprising eight fundamental conventions, two governance-related conventions and 26 technical conventions.[16] Table 9 exhibits the ratification of the conventions by the four selected economies which are also competitors of Pakistan in export markets. Pakistan and Sri Lanka are the only two countries from the South Asia region that have ratified all the core fundamental conventions. However, ratification does not imply implementation of a convention. What is required is the domestic legal framework/laws supported by effective institutional arrangements for the necessary compliance. The remaining part of this chapter presents a situational analysis of the adherence of Pakistan's government to the international labour conventions.

Status of compliance—Core Labour Standards

Pakistan fulfills all the reporting obligations of ratified conventions. The level of compliance and implementation of international standards, however, varies across different sectors and appears to be problematic for some specific sectors. This section reviews the presence of relevant laws in accordance with the fundamental

Table 9. Ratification of conventions by selected economies

Conventions - → Country	Ratification of conventions			
	Core (Total 8)	Governance (Total 4)	Technical (Total 177)	Total
Bangladesh	7	2	26	**35**
China	4	2	20	**23**
India	4	3	38	**45**
Pakistan	**8**	**2**	**26**	**36**
Sri Lanka	8	3	30	**41**

Source: ILO

themes set by the ILO under core labour standards. Additionally, an assessment of effective implementation of labour law/rights is also made with regard to the respective conventions. Box 2 presents the key indicators identified for the adherence to the core and fundamental conventions of the ILO. Periodical analysis according to these indicators would help improve the understanding and effectiveness of the implementation of laws with respect to each standard or theme identified by the ILO under its fundamental conventions.

Freedom of association, the right to organize and collective bargaining (ILO Conventions 87 and 98)

The Constitution of Pakistan ensures the right to form associations or unions. Freedom of association and the right to form trade unions/associations is guaranteed under Article 17(1) of the Constitution, which states:

Box 2. Key indicators for adherence to core conventions

Freedom of association and the right to organize (C87, C98).

– Extent of trade unionization.

– Incidence of industrial disputes.

Forced and bonded labour (C29, C105).

– Prevalence of bonded and forced labour.

Child labour and worst forms of child labour (C38, C182).

– Prevalence / incidence of child labour.

Equal remuneration and employment discrimination (C100, C111).

– Occupational and labour force participation by gender.

– Wage Differentials.

"Every citizen shall have the right to form associations or union, subject to any reasonable restriction imposed by law."

The Constitution thus allows workers to form and join trade unions at their own choice. Pakistan has ratified the convention on Freedom of Association and Protection of the Right to Organize (C87) as well as the convention on the Right to Organize and Collective Bargaining Convention (C98). Convention 87 requires that workers and employers have the right to establish and join organizations of their own choice for furthering and defending their interests without previous authorization. While Convention 98 requires workers to be protected against the acts of anti-union discrimination with respect to their employment.

The Industrial Relations Act (IRA) of Pakistan 2012 deals with trade union by-laws. The main purpose of the act is to regulate the trade unions and formulate by-laws for the formation and functioning of trade unions both for industrial and commercial establishments. Section 3 of the IRA guarantees freedom to the workers to establish and join trade unions. However, the Act does not cover organizations such as the police or defence service; the armed forces; Pakistan Security Printing Corporation, Security Papers or Pakistan Mint; the railways, telegraph and telephone departments; and establishments for the care of the sick, except for those which are run on a commercial basis. The Act also prohibits persons engaged in a managerial or administrative capacity from forming or joining unions.

With the amendment of the Industrial Relations Act in 2012, the existing list of essential services was revised and the EOBI, Workers Welfare Fund, Social Security Institution, fire staff, oil refineries, airports and natural gas were removed from the list. In addition to the essential service list, the workers in export processing zones and special economic zones have also been excluded from the coverage of the IRA.

After the 18th Constitutional Amendment, industrial acts were adopted by all the provinces, and currently there are five IRAs, namely the Provincial Industrial Relations Act (four provinces) and the National Industrial Relations Act. Provincial IRAs have generally been amended in line with the national policy. For example, the federal law was amended in 2012 to promote gender equity in trade unions. Section 3 of the National IRA (2012) provided that "in the establishment where women are also employed, the trade union shall include the women in the executive body of the said trade union with the same proportion in which they are employed in the establishment". Subsequently, the clause related to women's participation was also incorporated by all the provinces in their respective IRAs. However, there also exist some differences among the provincial IRAs. For instance, the IRAs of Balochistan and Sindh provinces allow agricultural and fisheries workers to form and join unions while there is no such provision in the IRAs of Punjab and Khyber Pakhtunkhwa.

Despite the constitutional and legal provisions, the extent of trade unionization continues to remain low in the country—according to the ILO, the trade union density (union membership rate) was only 1.2 per cent in 2007.[17] Another indicator of exercising the right to form associations and the right to collective bargaining is the number of industrial disputes registered under the Industrial Relations Commission at national and provincial level. According to the Pakistan Bureau of Statistics, the number of disputes reported was not more than 25 in each year during the period 2000-2008.

A number of factors are cited for this state of affairs. Firstly, other than the non-coverage of various organisations/sectors (e.g. essential services and export processing zones), the IRAs lack the provision to form trade unions by occupational sector or general unions to participate in collective bargaining, implying that union formation and wage negotiations take place at the firm level.[18]

Secondly, the relevant laws[19] do not allow workers to become members of more than one trade union (if they are engaged in more than one sector or occupation). Specifically, there is a restriction on workers doing part-time jobs or limited-hours jobs at two different workplaces.[20] The law also restricts double employment of a worker.

Thirdly, the law potentially restricts the formation of multiple unions. The membership requirement for registration of the first two unions in an establishment is at least seven. However, for registration of the third union the applicant needs to ensure membership of 20 per cent of the total workers. Generally, the first two unions are pocket/yellow unions supported by the management. This makes the registration of a third union more difficult and complicated. According to the PWF (2015), about 59 per cent of the surveyed people reported the existence of unions in their respective organizations. However, 77 per cent of them described the unions in their organizations as 'pocket/yellow unions'. In the textile sector, only 38 per cent of interviewed people reported the existence of union, while 47 percent of these were described as 'pocket/yellow' unions.

Lastly, an important factor responsible for low unionization is the fact that the largest proportion of the labour force in the country is employed in the informal sector.

In addition to the above, the perspectives of industrial workers and trade unionists on the issues related to unionization are presented in Box 3.

Elimination of all forms of forced or compulsory labour (ILO Conventions 29 and 105)

Pakistan ratified the convention on forced labour (C29) in the late 1950s and the convention on the abolition of forced labour (C105) in the early 1960s. Article 3 of the Constitution of Pakistan requires the state to eliminate all forms of exploitation, while Article 11 prohibits all forms of slavery, forced labour and child labour. It also eliminates all services of a cruel nature which are incompatible with human dignity.

Box 3. Perspectives of industrial workers and trade unionists

The industrial workers and representatives of trade unions that were interviewed for the study provided their perspective on various issues related to the implementation of labour laws and standards, which are summarized here.

The role of trade unions in Pakistan is very limited due to the phenomenon of 'pocket unions'—workers are generally unaware of the existence of such unions. There are different ways and means applied by the employers to minimize the powers of the workers. at the policy of employing workers on a causal/contract basis hinders their right to unionize. This not only undermines their power to exercise their legal rights but also allows employers to avoid legal entitlements in terms of social security and other benefits. According to one trade unionist:

> *The working class is largely deprived in Pakistan. Under CSR these businesses are spending big amounts for charity but not interested in complying with minimum wages or interested in making the life of the vulnerable working class somewhat better.*

Workers participating in the activities related to labour rights are generally seen by the employers as their 'enemies' and are victimized as well. For example, a female worker who attended an awareness seminar organized by a trade union, shared her experience as:

> *The very next day after attending the seminar, I just asked about my payment factor of overtime. My supervisor looked at me in a suspicious manner as if I have joined some trade union. The very next day I had to look for a job in some other factory.*

The interviewees also stressed the need to make the registration process simple and swift along with the simplification of concerned labour laws. The Registrars, having the power of registering trade unions, often misuse, delay or deny registration in collusion with employers. This not only makes the system of empowering the trade unions ineffective but also provides undue power to employers to exploit the workers' rights. According to trade unions:

> *There is a need to simplify and consolidate labour policy and laws to avoid exploitation. The definitions of worker and wages also need revision with the expansion in the economy along with the consolidation of definitions in different laws.*

Moreover, for the proper implementation and regulation of IRA, workers are to be made aware of their rights to organize and engage in collective bargaining. There is a need to develop a proper database on the trade unions and union memberships, which is accessible to the stakeholders. Existing data collection practices such as the Labour Force Survey of Pakistan should include this in their data collection methodology. The Industrial Relation Commission should enforce the existing registered trade unions to submit the annual returns as required by the law. There is a need to integrate the database of registered unions under the National Industrial Relation Commission and the Provincial Industrial Relation Commission.

The national law prohibiting the bonded labour system has been in force since 1992.[21] The provinces of Khyber Pakhtunkhwa, Sindh and Punjab have got the bills/laws adopted on bonded labour from their respective provincial assemblies, whereas the province of Balochistan has not yet enacted. Thus, the federal Bonded Labour System (Abolition) Act, 1992 is in force in the two provinces under clause 270AA (6) of the 18th Constitutional Amendment. The newly promulgated laws have also increased the penalties and fines for employers found involved in any type of bonded labour.

In 2016, the Punjab Prohibition of Child Labour at Brick Kilns Ordinance was promulgated. It not only prohibits the engagement of a minor child (under the age 14 years) in the brick kilns but also addresses the issue of bonded labour in the sector. The law requires the employers to give a written contract to the worker specifically mentioning the wage, amount of advance (a major reason behind bonded labour in the sector) and the repayment schedule for the advance taken. The employer is also required to send a copy of the contract to the inspector of the respective area/jurisdiction. The provincial government has also approved the Punjab Domestic Workers Policy, 2015 and the finalization of legislation and rules under this policy are in progress.

For the implementation of the labour laws, District Vigilance Committees (DVCs) have been formed in each province under the supervision of District Commissioners (DCOs) to ensure the abolition of forced labour. For example, during 2015-16 the inspection exercise of 5,000 brick kilns in Punjab identified violations in some 650 worksites. Consequently, 270 worksites were sealed and some 717 brick kiln owners were arrested (ILSU, 2016c).

Unfortunately, bonded labour continues to exist in some form or another, and often it takes the form of debt bondage due to non-repayment of debts by workers. There are no reliable available statistics on the number of bonded workers, however, the prevalence of bonded labour is found largely in the rural economy. Pakistan

Box 4. Prevalence of bonded and forced labour in Pakistan

It is not difficult to imagine why workers are compelled into forced labour. Destitution, poverty, lack of the necessities of life (shelter, livelihood, and productive assets) and many other factors have contributed to forced labour in Pakistan (PWF, 2015). Bonded labour in Pakistan is mainly due to non-repayment of debt. The labour in lieu of non-payment is known as 'peshgi' (Pasha, 2014). Bonded labour is largely found in the rural economies where feudalism is more pronounced. These workers in the rural economies are mostly bonded for the purpose of agriculture. In fact, in the rural economy there are bonded families, and every member of the bonded family is associated with some kind of bonded labour including agricultural work, domestic work, etc. The bonded labour system also exists in other sectors of the economy such as brick kilns, carpet weaving, fisheries and mining. There are no reliable statistics on the number of bonded workers. However, the ILO estimates that the number of bonded workers in Pakistan exceeds 2 million (Pasha 2014). According to the Modern Slavery Index 2016, about 58 per cent of those living in slavery are from five countries: India China, Pakistan, Bangladesh and Uzbekistan.

ranked third (out of 167 countries) in the global slavery index 2016 (Box 4).[22]

Minimum age for employment and abolition of the worst forms of child labour (ILO Conventions 138 and 182)

The ILO convention on the Minimum Age for Employment (C138) aims at the total abolition of child labour below the age of 15 years. However, there is an exemption for developing countries to set the minimum age for employment as low as 12 years in the case of specific work that is not considered harmful for health. The Worst Forms of Child Labour Convention (C182) comprises all forms of slavery or practices similar to slavery: commercial sexual exploitation of children; the use, procuring or offering of a child by others for illegal activities; and work that (by its nature) is likely to harm the health, safety or morals of children. Pakistan ratified C182 in 2001 and C138 in 2006.

In Pakistan, a 'child' is defined as a person who has not completed his or her 14th year of age. The Constitution prohibits child labour[23] and a number of pieces of legislation are already in place. The legislative framework is compliant with the convention on the Minimum Age for Employment. The Employment of Children Act 1991 is the specific legislation which mainly deals with this particular convention. Underground mining, carpet weaving, stone crushing, and the building and construction industry are the four occupations where the employment of children is prohibited under this law. Moreover, several laws including the Shops and Establishment Ordinance 1969, Factories Act 1934, Mines Act 1923, the Road Transport Workers Ordinance 1961 and the Bonded Labour System (Abolition) Act 1992 are also in line with the minimum age convention (ILSU, 2016c).

The provinces of Khyber Pakhtunkhwa, Sindh and Punjab have adopted and approved the laws on child labour[24]. As mentioned earlier, the province of Punjab has also enacted specific legislation for child labour at brick kilns which is considered to be the first sector-specific independent legislation on child labour in Pakistan.

Regarding the worst forms of child labour, the current age for admission to employment in hazardous work is 14 years in Pakistan. It is, however, encouraging that Khyber Pakhtunkhwa has made the necessary amendment to the existing law and set 18 years as the minimum age for hazardous work which is in line with the provision of the ILO convention. The worst forms of child labour are also covered under different laws including the Pakistan Penal Code 1860 and the Prevention and Control of Human Trafficking Ordinance 2002. At the provincial level, the Punjab Destitute and Neglected Children Act 2004 and the Khyber Pakhtunkhwa Child Protection and Welfare Act 2010 are the specific laws that prohibit the worst forms of child labour.

The incidence of child labour continues to be high despite a substantial downward trend from 13.3 per cent of children aged 5 to 14 years in 2008 to 9.6 per cent in 2015. In absolute terms, the number of child workers declined from 2.9 million in 2007-08 to 2.4 million in 2014-15 (see Table 10). It is important to note that all forms of child labour are found either in the agricultural sector or in the informal sector. Unfortunately, no reliable data is available on the working conditions of child labourers employed in hazardous work operations or their presence in the worst forms of child labour.

Table 10. Incidence of child labour

Child labour	2007-08	2014-15
Population (10 – 14 Years)	**21.6**	**24.8**
Labour force participation rate (%)	13.3	9.6
No of child workers (million)	2.9	2.4

** % of the total population aged between 10 – 14 years*

Source: LFS (2008, 2015)

Given the situation of child labour in the country, it is important for the federal and provincial governments to enhance the implementation of laws and regulations. Some specific changes are also required for the prohibition of child labour. For instance, the current minimum age for employment in Pakistan is 14 years while the age for compulsory education is 16 years. The contradiction needs to be resolved and the government needs to amend the relevant law whereby the minimum age for the admission to full-time work is raised to 16 years. Similarly, with regard to hazardous work, there is a need to increase the current age for admission to employment to at least 16 years from 14 years besides revisiting the existing list of hazardous work, for example, the brick-making process is hazardous, which currently remains excluded from the list.

Equal value and remuneration and elimination of discrimination in respect of employment and occupation (Conventions 100 and 111)

Pakistan ratified the Elimination of Discrimination (Employment and Occupation) convention (C111) in 1961, while the Equal Value and Remuneration convention (C100) was ratified in 2001. The statutory framework addressing these conventions consists of Articles 18, 25, 27, 34, 37 and 38 of the Constitution.

There exists no discrimination whatsoever in the labour laws of Pakistan regarding male or female workers since the term ‘worker’ as defined under the laws includes both sexes. However, there is no specific legislative framework to address the conventions of equal remuneration and discrimination with respect to employment and occupation. To avoid discrimination in employment, the Government of Pakistan has fixed minimum quotas of employment for women (10 per cent), minorities (5 per cent), and disabled persons (2 per cent) in the public sector. The provincial governments have also allocated minimum quotas. The minimum quota for women employees is fixed at 15 per cent in Punjab, 7 per cent in Sindh and 5 per cent in Khyber Pakhtunkhwa and Balochistan provinces. The quota for disabled persons is same across the country, at a minimum of 5 per cent. The quota for disabled persons is 3 per cent in all the provinces except Khyber Pakhtunkhwa where the minimum quota for them is 1 per cent.

At the provincial level, amendments have been made by Khyber Pakhtunkhwa and Sindh provinces prohibiting discrimination (based on sex, sect, religion, colour, caste, creed and ethnic background) in the Minimum Wages Act. A specific piece of legislation by Sindh province—‘Sindh HIV and AIDS Control Treatment and Protection Act, 2013’—prohibits discrimination on the basis of actual, presumed, suspected or alleged HIV status in employment matters. Recently, the Federal Ministry of Overseas Pakistanis & Human Resource Development (OPHRD) drafted a model law on anti-discrimination to assist the provinces for the enactment of laws at provincial level to bring it into line with the relevant international conventions. In a similar fashion, the Federal Ministry of Human Rights has also worked on drafting a Model Women Empowerment Package which may be used by the provinces for possible adoption/adaptation (ILSU, 2016c).

A considerable gender gap, however, exists with regard to labour force participation in the country. Currently, the labour force participation rate for females is below 15 per cent as compared to over 46 per cent for males (Figure 9). Also, a majority of the female labour force remains engaged in unpaid domestic work and low-paid work, which indicates the presence of gender discrimination in the labour market. The trend, unfortunately, remains unchanged (SPDC, 2009; SPDC 2013).

The agriculture sector has a relatively greater presence of females (almost 75 per cent of the employed female labour force), which is mostly categorized as an informal sector. Within the non-agriculture sector, the sub-sectors with significant female employment include manufacturing (mostly informal industrial units) and community/social services, especially education and health. As far as distribution of gender by occupation is

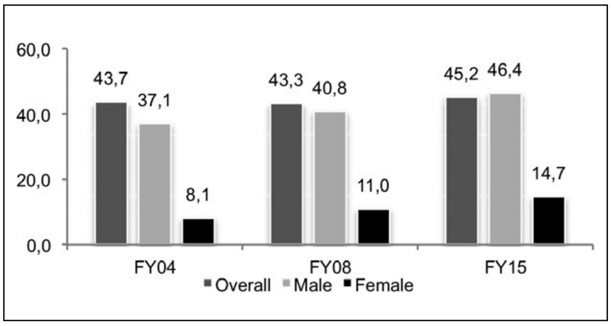


Figure 9. Labour force participation rate (%).
Source: LFS (various issues).

concerned, women have a limited presence in high-level occupations. In 2014-15, the employed female labour force in positions like senior officials, managers and legislators stood at less than 1 per cent (0.30 per cent) of the total female employed labour force. With regard to the textile industry, female labour force participation is considerably lower (10 per cent). Within this sector, participation of females in the value-added segments such as readymade garments and hosiery stands at 18 per cent and 12 per cent, respectively (PWF, 2015).

In Pakistan, considerable wage differentials exist between females and males (Table 11).[25] Over the years, the wage ratio (female to male) has improved significantly in agriculture and construction but worsened in sectors like education and finance & insurance. The gender wage gap is the largest in the manufacturing sector where women, on an average, earn 62 per cent less than their male counterparts.

A recent study by the PWF (2015) reported that only 66 per cent of female workers are getting equal remuneration in their respective organizations. Similar findings have also been reported for the textile industry where this ratio is 68 per cent.

Status of compliance—Core Labour Standards Plus

While the core labour standards discussed in the preceding section are accepted internationally as a key approach for achieving the goal of decent work, they do not cover rights such as living wages, maximum working hours including overtime, and safe and healthy work places. The CLS Plus approach embraces these rights in addition to CLS. Box 5 lists the ILO conventions relevant to CLS Plus along with key indicators for adherence to these standards. Among the CLS Plus conventions,

Table 11. Sector wise average wages & wage ratio*

Major industry / divisions	Wage ratios (%) (Female to male)		2014-15 Average wage	
	2008-09	2014-15	Male	Female
Agriculture	59	70	9,041	6,344
Manufacturing	39	38	14,465	5,434
Construction	77	89	12,040	10,705
Wholesale & trade	96	100	10,710	10,740
Finance & insurance	89	62	38,806	24,114
Public admin & defence	67	92	25,946	23,935
Education	75	62	28,408	17,644
Health	75	78	24,604	19,161
Other services	50	80	9,589	7,670
Domestic services	37	48	10,601	5,078

** Pakistani rupees, per month*
Source: LFS (2009, 2015)

Pakistan has ratified four technical and two governance conventions which comprise:

Technical: C001 – Hours of Work (Industry)
C014 – Weekly Rest (Industry)
C018 – Equality of Treatment (Social Security)
C019 – Equality of Treatment (Accident Compensation)

Governance: C081 – Labour Inspection
C144 – Tripartite

Some important conventions with significant implications for labour welfare are yet to be ratified by Pakistan—included are the conventions on occupational safety and health (OSH), social policy, employment policy, and the protection and fixing of wages. Some of these areas, however, are partially covered through other related conventions. In some cases, domestic laws already exist despite the fact that the relevant conventions have not been ratified i.e. protection and fixing of wages. The status of compliance of Pakistan for the various CLS Plus conventions is analysed below, particularly with reference to the indicators identified in Box 5.

Occupational safety and health

Pakistan is yet to ratify the conventions on Occupational Safety and Health (C155) and the convention on the Promotional Framework for Occupational Safety and Health (C187). There are about 17 ILO conventions and recommendations which deal directly or indirectly with work related occupational safety and health issues. Out of these, Pakistan has ratified 10 conventions relevant to occupational safety and health.

The existing legislative framework of Pakistan also addresses the issue of OSH in the Constitution and in various labour laws. There is a complete chapter (Chapter III) on health and safety in the Factories Act 1934, which has special regulations with respect to safety, health and hygiene at the workplace. Table 12 exhibits the list of conventions ratified by Pakistan along with the list of the legislative framework which has provisions for OSH.

The importance of independent laws on OSH has gained importance after a fire in a garment factory in Karachi in 2012 which killed some 250 workers (see Box 6). In response to this, the Government of Sindh came up with a Joint Action Plan for Promoting Workplace Safety and Health in 2013 and subsequently drafted the

Box 5. Key indicators for adherence to Core Labour Standard Plus conventions

Technical conventions	
Occupational safety & health (C155, C187) – Relevant independent laws – Incidence of work related injuries/disease	**Hours of work and weekly rest (C001, C014)** – Relevant independent laws – Average hours of work
Wage protection (C095, C026, C131) – Relevant independent laws – Real, minimum and living wages	**Social safety net (C102, C117, C118, C019)** – Relevant independent laws – Presence of social security system – Workers registered under social security
Governance conventions	
Employment policy (C122) – Relevant independent laws – Employment policy	**Labour inspection, administration and tripartite consultation (C081, C150, C144)** – Relevant independent laws – Labour inspection system – Resource capacities

Note: CLS Plus approach also include conventions on migrant workers (C097, C143) and labour inspection-agriculture (C129), which have not included in the analysis.

Table 12. OSH-related ratified conventions and provisions under the legislative framework

Ratified conventions	Legislative framework
Medical Examination of Young Persons (Sea) Convention, 1921 (C016) [Ratified 1922]	Constitution of the Islamic Republic of Pakistan, 1973 [Article 3; Article 37(e); Article 38 (a-d)]
Equality of Treatment (Accident Compensation) Convention, 1925 (C19) [Ratified 1927]	Mines Act, 1923 [Chapter 5 (Section 17-22)]
Workmen's Compensation (Occupational Diseases) Convention, 1925 (C18) [Ratified 1927]	Factories Act, 1934 [Chapter 3 (Sections 13-33Q)]
Marking of Weight (Packages Transported by Vessels) Convention, 1929 (C027) [Ratified 1931]	Road Transport Workers Ordinance, 1961 [Section 6 - 15]
Underground Work (Women) Convention, 1935 (C045) [Ratified 1938]	The Dock Workers (Regulation of Employment) Act, 1974 [Section 3]
Protection Against Accidents (Dockers) Convention (Revised), 1932 (C032) [Ratified 1947]	The Employment of Children Act, 1991[Section 14]
Labour Inspection Convention, 1947 (C81) [Ratified 1953]	Dock Labourers' Act, 1994 [Section 5]
Equality of Treatment (Social Security) Convention, 1962 (C118) [Ratified 1969]	
Vocational Rehabilitation and Employment (Disabled Persons) Convention, 1983 (C159) [Ratified 1994]	
Worst Forms of Child Labour Convention, 1999 (C182) [Ratified 2001]	

Source: ILSU, 2016b

Box 6. The fire in a textile factory

In September 2012, a garment factory in the industrial city of Karachi caught fire. Some 250 factory workers were killed. High fatalities were attributed to the absence of or sub-standard occupational safety measures inside the factory as well as the capacity constraints of the municipal fire department and other service agencies.

The factory was one of the textile value added export units, producing value added readymade garments for international retail brands. Being an export-oriented factory, it was required to comply with international standards—ensured by regular inspection from national inspection teams and international agencies for compliance. In Pakistan, it is mandatory for all industrial units to comply with the national labour, safety and environment standards. Any non-compliance is indicative of either the absence or ineffective inspection mechanism put in place by the relevant regulatory authorities. The factory was in non-compliance with the Factories Act and Provincial Employees Social Security Act. Of the total workforce, only 10 per cent of the workers (150 workers) were registered with the Provincial Employees Social Security Institution (Sindh Employees Social Security Institution). The provincial authorities also lack proper record management and information systems. At the time of the incident, the information system was manual and there was no record found with individual identities. The only record found was the number of workers registered by the factory with no further details of individual workers.

There were more than 1500 workers associated with the industrial unit who lost their jobs as the factory was shut down for an uncertain period.

Occupational Safety and Health Act in 2015. Recently, the Government of Punjab also drafted a law on occupational safety and health. Once the law is in force, this will be the first independent legislation concerning OSH in Pakistan.

In order to promote OSH, there are designated institutes in the provinces of Sindh and Punjab. Sindh's OSH centre is located in Karachi and works under the Sindh Labour and Human Resource Department. The Centre for Improving Working Conditions & Environment (CIWCE) is located in Lahore and works under the Punjab Department of Labour and Human Resource; other training institutes such as the National Institute of Labour Administration and Training (NILAT) in Sindh and the Industrial Relations

Table 13. Incidence of occupational injuries/diseases

Sectors / occupations	2007-08	2014-15
Total injuries/diseases (million)	**0.98**	**2.30**
As share of employed persons (%)	2.0	4.0
Share of injuries/diseases by sector		
Manufacturing sector	12.7	15.9
Unskilled worker	21.9	20.0
Agriculture and fisheries workers	40.6	42.8
Craft related trade and workers	21.5	19.8

** % of the total population age between 10 – 14 years*
Source: LFS (various issues)

Institute (IRI) in Punjab are also conducting trainings on the subject of OSH beside other training activities. The Directorate of Workers Education (DWE) in each province (Sindh, Punjab, Khyber Pakhtunkhwa and Balochistan) is responsible for the training and education of workers.

However, in the absence of an effective framework for the implementation of laws, workers are routinely exposed to job hazards. The incidence of occupational diseases/injuries is not only high, but this frequency has increased over time. As shown in Table 13, the number of workers which were reported as injured or affected with work-related diseases in 2014-15 was 2.3 million—representing 4 per cent of the employed workforce. The incidence clearly doubled when compared to 2007-08. There was also an increase in the manufacturing sector where the share of the sector in total injuries rose from 12.7 per cent to 15.9 per cent. Similarly, the share of agriculture and fisheries workers increased from 40.6 per cent to 42.8 per cent.

A detailed analysis of the labour force survey data (not shown in the table) suggests that more than 1 million workers in the informal segment of the non-agricultural sector (manufacturing, unskilled workers and craft-related trade) reported injuries/diseases, which account for almost 80 per cent of the injuries/diseases of the sector. Moreover, about 87 per cent of the workers with reported injuries/diseases did not have any employment contract. The incidence of injuries is high among the category of overworked workers—about 44 per cent of workers with reported injuries/diseases were working more than 49 hours in a week.

According to the PWF (2015), 33 per cent of workers reported experiencing some kind of accident in the past while 67 per cent of the workers reported the presence of health and safety equipment at the workplace. The PWF survey suggests a relatively high incidence of accidents (50 per cent) in the textile industry. The presence of health and safety equipment was reported by 68 per cent of workers of the textile industry.

Social policy and employment policy

Pakistan is yet to ratify the conventions on Social Security—Minimum Standards (C102), Social Policy—Basic Aims and Standards (C117) and Employment Policy (C122). The country, however, has ratified convention C118 which is on Equality of Treatment (Social Security). The Constitution guarantees the promotion of the social and economic well-being of its people—Article 38c is specifically about social security and compulsory social insurance. The social policy framework of the country supports the disadvantaged segment of its population through various income support programmes, and health and education support schemes.

The legislative framework provides social security to the workers in the private sector. For instance, the Workers Welfare Fund Ordinance 1971, the Workers' Children (Education) Ordinance 1971, the Employees Cost of Living (Relief) Act 1973 and the Employees Old Age Benefits Act 1976 cover the subject of social security of workers in different ways. Specific laws also exist for providing social protection to women. These include the Mines Maternity Benefits Act 1941 and the West Pakistan Maternity Benefit Ordinance 1958. At the provincial level, the Provincial Employees Social Security Ordinance 1965 and Special Allowance Act are the two major pieces of legislation that cover social security for the workers.

The coverage of social security schemes, however, is low mainly because the workforce in the informal sector remains outside the coverage. For instance, registration with the Employees Old-Age Benefits Institution (EOBI) is applicable to the commercial and industrial units employing five or more workers. As of

Table 14. Social security coverage by province *(numbers)*

Institution	Registration	Punjab	Sindh	KPK
PESSI	**Establishments registered**	**62,282**	**29,753**	**4,975**
	Workers registered	9,19,656	759,342	66,000

Note: data for Balochistan province was not available

Source: PWF (2015)

30 November 2016, the active registered employers under the EOBI across the country stood at 77,451 while the total registered workers (excluding current pension beneficiaries) numbered 6.52 million. Based on the number of employed people in the Labour Force Survey, the coverage appears lower than it should be. According to the PWF (2015), only 20 per cent of employees were covered under the EOBI.

The schemes of the Provincial Employees' Social Security Institutions (PESSIs) are also applicable to the commercial and industrial units employing five or more workers. According to the PWF (2015), only a small fraction (10-25 per cent) of formal sector employees are registered under PESSIs. Table 14 exhibits province-wise social security coverage as of 30 June 2015.

Accident compensation: Pakistan has ratified the ILO convention on Equality of Treatment—Accident Compensation (C019). The Constitution of Pakistan (Article 38d) ensures the basic necessities of life for the people who are either permanently or temporarily unable to earn their livelihood because of infirmity or sickness or unemployment.

The legislative framework of Pakistan covers compensation for injuries and death. The Fatal Accidents Act 1855, Employer Liability Act 1938 and Workmen's Compensation Act 1923 are the related laws that are in force for compensation in case of any injury. In addition to these, the insurance of permanent workers is mandatory for all industrial and commercial establishments with 50 or more employees as per the Standing Order Ordinance 1968. Similarly, other institutions like the EOBI and PESSIs also provide benefit coverage for fatal injuries. A complete list of benefits covered by different institutions by kind of injury is provided in Annex B-7.

According to the PWF (2015) survey, 56 per cent of the respondents reported the marriage and death grants being paid in their respective organizations. Reported provision of other benefits include: group insurance (42 per cent), maternity leave (37 per cent) and sick leave (69 per cent). However, the compensation and insurance are largely provided to permanent workers only.

Protection and fixing of wages

The fundamental purpose of setting minimum wages is to protect wage earners from low earnings which have negative consequences on the living standards of workers (ILO, 2016b). Pakistan has not yet ratified ILO conventions on minimum wages including the Minimum Wage Fixing Machinery Convention (C026), Minimum Wage Fixing Convention (C131) and Protection of Wages Convention (C095).

However, a number of national laws deal with the issue of minimum wages. The Minimum Wages Ordinance 1961 proposed the establishment of Minimum Wages Boards by federal and provincial governments, with representation both from employers and workers. The ordinance provides regulations for minimum wage rates for workers employed in certain industrial undertakings. Similarly, the Minimum Wage for Unskilled Workers Ordinance 1969 is for unskilled workers employed in commercial and industrial establishments. Furthermore, the Payment of Wages Act 1936 deals with the fixation and the procedure of determining wages and the Employees Cost of Living (Relief) Act 1973 focuses on the special allowance for the employees whose monthly income is not sufficient to cover the cost of living. All the provinces have enacted the law entitled Employees' Special Allowance (Payment) Act.

Table 15. Minimum wages for skilled workers (2015-16)			
Sectors	**Nomenclature**	**Minimum wage[26]**	
		PKR	**USD**
Cotton ginning & processing industry	Highly skilled (head fitter)	16,850	**160.8**
	Skilled (blacksmith)	15,821	**151.0**
	Semi skilled (ginning worker)	14,510	**138.5**
Embroidery & stitching industry	Highly skilled	16,850	**160.8**
	Skilled (machine operator)	15,681	**149.7**
	Semi skilled (clipper)	14,276	**136.2**
Readymade garment industry	Highly skilled (cutting master)	16,850	**160.8**
	Skilled (collar man)	15,821	**151.0**
	Semi skilled (machine stitcher)	14,790	**141.2**

Source: The Punjab Gazette (Extraordinary), 2016

Table 15 provides a brief overview of the minimum wages for different skills in the textile industry of Pakistan. The minimum wage for skilled workers is set in accordance with the sectors and industries and the level of skills. A Gazette document is issued by the federal and provincial governments every year to notify people of the wages. As exhibited in the table, the minimum wages for the skilled workers are not much different from those of the unskilled workers.

Since 2008, the statutory minimum wages for skilled and unskilled workers have been adjusted on an annual basis. The wage increase of the skilled workers has been fixed at 1,000 Pakistani rupees per annum during the last few years. Due to the fixed increase (regardless of the increase in prices), the growth rate of nominal wages has shown a declining trend as can be seen from Figure 10. Also, with the large increase in the cost of living over the last decade, the real increase is reduced by about half the increase in nominal wages.[27]

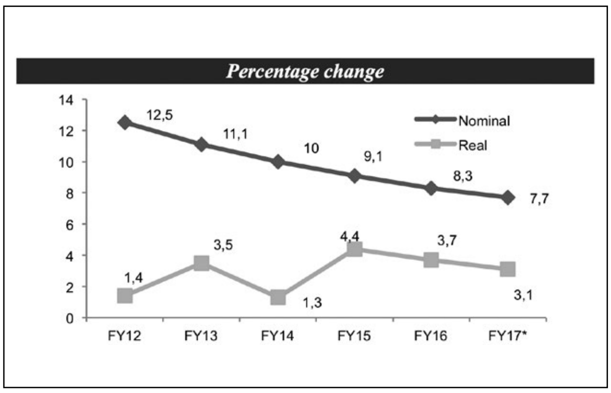


Figure 10. Trends in minimum wage.

Note: Real wage is calculated using FY08 as base year.

** For FY17, real wage growth is estimated at target inflation for the year.*

Source: PES (2015/16).

Despite regular increases in wages for several years, the existing nominal wages are not sufficient to maintain decent living standards. According to Asia Floor Wage Alliance (AFWA), the monthly minimum wage for a family of three adults with one earner is 31,197 Pakistani rupees for the year 2015. The existing statutory minimum wage for 2016 (14,000 Pakistani rupees) is less than half of the living wage calculated by the AFWA.

It is important to note that a significant proportion of workers are not getting even the low-floor minimum wage prevailing in the country. According to an ILO report on minimum wage compliance in the garment industry (ILO, 2016b), 37.5 per cent of the workers are paid below the minimum wage in Pakistan. There are wide variations in non-compliance with respect to gender; 26.5 per cent of males and 86.9 per cent of females are paid below the statutory minimum wages. The report further reveals that about 40 per cent of workers in the garment sector are paid less than the

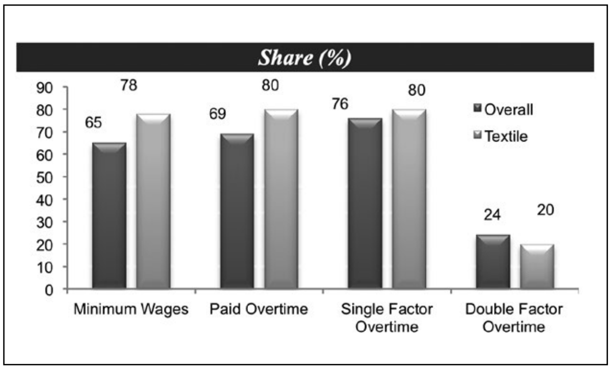


Figure 11. Minimum wages & overtime payments.
Source: Author's calculations | PWF (2015).

minimum wage and among them almost half are paid less than 80 per cent of the minimum wage threshold (far below the minimum wage).

The same issue has also been brought forward by the PWF survey (2015) where 35 per cent of the interviewed persons reported non-payment of minimum wages across sectors. Within the textile sector, the incidence of receiving wages less than the minimum wage is 22 per cent (Figure 11).

With regard to working hours and overtime, the legislative framework (the Factories Act 1934) sets the standard working hours at 8 hours per day, with a maximum limit of 2.5 working hours as overtime. The standard compensation for overtime is double the hourly wage. Overall, only 69 per cent of workers reported the payment of overtime work, while in the textile sector 80 per cent reported that overtime was paid to them. However, more than 75 per cent of workers reported that in contrast to the legally binding double time rate, overtime was paid at the same, single-time rate.

Hours of work and weekly rest

Pakistan has ratified the conventions on Hours of Work – Industry (C001) and Weekly Rest – Industry (C014). These conventions have been in force since independence. The Factories Act, 1934 mainly provides the legislative framework for the working hours and weekly rest in industry along with annual holidays and payments for holidays. The law allows a maximum of 48 hours of work per week (6 days). The limitation of daily working hours is 9 hours (including a one-hour break). The overall spread per day is limited to 10 and a half hours including overtime (excluding break).

However, the prevalence of overwork is alarming. The estimates based on the Pakistan Labour Force Survey (2014-15) reveal that 41 per cent of the employed labour force in Pakistan is engaged in work exceeding 48 hours per week. Similarly, according to the PWF (2015), almost 50 per cent of male and female workers do more than eight hours in a day. The trend is relatively worse in the textile industry where more than half of the workers do more than eight hours in a day. Both male and female workers in industry are almost equally 'overworked'. About 64 per cent of male workers and 62.2 per cent of female workers are working more than eight hours a day.

Labour inspection, administration and tripartite consultation

The convention on Labour Inspection (C081) has been in-force since 1953 in Pakistan while the convention on Tripartite Consultation (C144) was ratified in 1994. Both of these conventions are part of the ILO's governance conventions. However, Pakistan has not ratified the technical convention on Labour Administration (C150).

There is no independent legislation on labour inspection, administration and tripartite consultation in Pakistan. However, labour inspection is an integral part of almost all labour laws in the country. Thus, the system of labour inspection and administration is in place with respect to specific sectors/industries or specific types of workers. The social security institutions such PESSIs and the EOBI have their own inspection mechanisms and do not have any link with the inspections carried out by the Department of Labour in relation to the effective implementation of labour laws.

Provinces have the autonomy of developing their own inspection plans and strategies. For instance, labour inspection in Sindh and Punjab was put on hold for a period of almost 10 years from 2003. During the ban on inspection, there were no activities such as training of inspection staff, which resulted in the non-functioning of the occupational safety and health centre in Karachi. At the same time, there was non-compliance with labour

Table 16. Number of registered factories, shops & establishments

Key elements	Punjab	Sindh	KPK	Balochistan
Registered factories	14,013	8,572	895	503
Registered shops & establishments	337,308	17,311	74,286	88,920
Inspecting staff	130	120	39	45
Other staff authorized to inspect	90	70	16	36

Source: ILSU, 2016c | PWF (2015)

laws by employers which affected the workers in these provinces.

The Department of Labour and Human Resources in each province is responsible for dealing with the matters of labour inspection in their respective provinces. However, the limited capacity of these departments, both in terms of human and financial resources, appears to be major constraint on the effective implementation of laws. In particular, there is a substantial shortage of inspection staff in all the provinces in proportion to the number of workplaces (both formal and informal) that need to be inspected. A recent study indicated that there is one labour inspector for every 25,000 employed workers in Pakistan (ILSU, 2016b). Table 16 provides the details of labour inspection staff, registered establishments and workers under respective provincial labour departments (as of December 2014).

The authorities under the labour department also lack various capacities including record management and information systems. The fire in the textile factory (Box 6) demonstrates the ineffective record management, as only 10 per cent of the workers were found registered but without any details on each registered individual. Despite such low capacity, the role of the labour authorities in conducting inspections cannot be undermined. The existing staff, according to their capacities and resources, are doing their jobs of inspection, convicting and penalizing the industrial establishments for violations of labour laws. Table 17 exhibits province-wise inspection details of factories during 2014.

The province of Khyber Pakhtunkhwa has recently increased the number of inspectors by 88 new inductions of labour inspectors (including 10 female inspectors). Similar steps are under consideration by the governments of Sindh and Punjab.

Tripartite consultation: Tripartism is ingrained in labour laws in Pakistan and there are various tripartite institutions established under labour legislation (ILSU, 2016b). These include tripartite consultative committees at federal and provincial level, the governing bodies of the EOBI, PESSIs and WWF, vigilance committees on bonded labour, and provincial councils on occupational safety and health (see Annex B-9 for a list of such bodies).

In addition to the above, the National Tripartite Consultative Committee on International Labour Standards was formed in 2014 specifically for the requirement of consultation as stipulated under C144 on

Table 17. Province-wise inspection details of factories in 2014

Province	Inspections	Convictions	Prosecutions	Total penalties (PKR)
Balochistan	381	30	44	17,100
Khyber Pakhtunkhwa	3,404	2,290	2,290	1,524,660
Punjab	9,237	4,732	4,732	2,762,391
Sindh	1,760	12	12	4,000

Source: Cited in Assessing Labour Inspection and OSH in Pakistan (data from provincial authorities) international labour standards. The committee consists of representatives from the Provincial Departments of Labour, the Employers' Federation of Pakistan and the Pakistan Workers Federation. A similar committee was also formed at the provincial level.

Over the last few years, the federations of trade unions have been actively participating in tripartite consultations at national and provincial level. In the words of a trade unionist:

> Workers Employers Bilateral Council of Pakistan (WEBCOP) is a good tripartite initiative for creating harmony and understanding between the workers and employers for industrial growth and prosperity. It is the only resource that is largely accessible and effective for destitute workers.

The most significant aspect of the involvement of trade unions in the tripartite consultative process is to make the policymakers aware of the issues confronted by workers. Unfortunately, there is a dearth of unions in the textile industry. In particular, trade unions are non-existent in the high-end value added export segment (in Tier 2 and Tier 3 categories), mainly because a large proportion of the textile high-end value added segment is in the informal sector. The unions that exist in the Tier 1 segment are few and are largely described as 'pocket or yellow unions' by the concerned workers.

In summary, Pakistan has ratified 36 conventions—eight fundamental, two governance related, and 26 technical conventions—while various conventions related to CLS Plus are yet to be ratified including those on occupational safety and health, protection of wages and social/employment policy. Nevertheless, ratification of 36 conventions indicates political willingness on the part of the government, but the identification of the legislative framework needs to be followed by the required institutional arrangements for compliance with the relevant laws. The compliance with labour standards and recognition of workers' rights are crucial for the improvement of working conditions and healthy labour and industrial relations. The two factors are considered essential for higher labour productivity. Thus, any violation of labour standards and the existence of any inhuman working environment has a negative impact on the productivity of any business. Though Pakistan fulfils all the reporting obligations of the ratified conventions, it is the compliance and implementation of international standards that varies across different sectors and is more problematic for specific labour-intensive sectors such as agriculture and textiles.

5. Conclusion and policy recommendations

International trade plays an important role in Pakistan's economy with a volume equivalent to about 30 per cent of GDP. The exports of goods and services constitute about 9 per cent of GDP, which hovered around 11 per cent during the last decade. Overall, the country's exports lack diversification and are largely based on raw commodities and low-technology manufactured goods. The major export sector is the textile industry, which accounts for about 60 per cent of total exports and provides employment to 40 per cent of the industrial workforce.

The textile industry in Pakistan consists of a large-scale organized sector and a highly fragmented small/medium-sized sector—the latter being the larger in terms of employment. Large-scale enterprises export directly or through buying houses to international buyers while small/medium-sized manufacturers mostly work for the large manufacturers as subcontractors. The small/medium-sized manufacturers constitute the major segment of the industry and mostly fall under the category of the informal economy where workers' rights are generally not protected.

The power relationship between international buyers and producers is characterized by the price-setting behaviour of the upstream firms along the supply chain. High value-added activities are performed by the international buyers while low value-added production is carried out by local manufacturers. Local suppliers are vulnerable to ever increasing competition in the global market and face various pressures from upstream including low offered prices, tight delivery schedules and fluctuations in orders. Unfortunately, to remain competitive, firms transfer the burden to the bottom of the chain—subcontracting of production and labour being the most common strategy. Under this arrangement, industrial workers are deprived of their rights by employers. Therefore, the benefits of trade are not shared equally among the various actors along the global supply chain.

Over the years, Pakistan has entered into several plurilateral preferential schemes along with multilateral and bilateral trade agreements. In 2014, Pakistan became a beneficiary of the European Union's GSP Plus Arrangement. Under this scheme, a majority of Pakistani products have been given duty-free access to the EU market for a period of 10 years. However, the preferential scheme requires the beneficiary countries to ensure the effective implementation of 27 core international conventions in the fields of human and labour rights, the environment and good governance.

As far the compliance with international labour standards is concerned, Pakistan rates fairly high on ratification of conventions and enactment of domestic legislation, though some significant legislative gaps regarding labour standards remain for example, conformity with ratified conventions, laws on anti-discrimination, and occupational safety and health. However, it is mainly the implementation of laws which is more problematic. A major reason for the ineffective implementation of laws is that the bulk of the industrial units operate as part of the informal economy.

In the context of GSP+ there have been some initial signs of a positive response from the government on the legislation related to social clauses. Yet, almost four years into the scheme concrete improvements in the implementation of the required reforms and regulations are still missing. Thus, budgets for the understaffed and under-resourced labour departments remain low and training programmes for provincial staff are still few and far between. The lack of political will at the federal level seems to beget the lack of capacity at the provincial level. And the trilateral bodies are often hampered by lack of trust when government and employer representatives collude in defending the status quo at the cost of violating workers' rights—the implementation of which is a constituent part of the agreed system of trade preferences.

Recommendations

Ratification of CLS Plus conventions

- The CLS Plus approach supports social dimensions in international trade. It is important for Pakistan to ratify the conventions that have significant implications for labour welfare. These, in particular, include conventions on occupational safety & health

(C155, C187), wage protection (C095, C026, C131), employment policy (C122), social security – minimum standards (C102), social policy – basic aims and standards (C117) and labour administration (C150).

Revisiting the legislative framework

- There is a need for a serious review of labour laws, particularly in the aftermath of the18th Constitutional Amendment and emerging requirements of trade liberalization. The review of the legislative framework needs to be in the form of a continuous process embedded in the changing social, political and economic conditions both in the domestic and international arena. It is also important that the course of action should be inclusive of all stakeholders under the tripartite consultative process to address the emerging issues of export businesses specifically:
    - bringing labour laws and practices into line with international commitments;
    - translating laws into local/regional languages for the benefit of workers;
    - disseminating labour laws through trainings; and
    - incorporating labour laws as a compulsory part of the curriculum at undergraduate levels of education and skill development.
- The minimum age limit should be raised for full-time employment to 16 years and for employment in hazardous work to 18 years. There is also a need for revisiting the existing list of hazardous work.
- Laws on anti-discrimination.

Strengthening regulatory institutions

- The strengthening of the enforcement machinery of relevant government departments, with special focus on labour administration and social security, by way of enhancing human, financial and infrastructural resources, is essential for the effective implementation of labour laws. In view of the increased compliance responsibilities, and the implementation of an increased number of laws and international conventions, it is suggested to undertake an in-depth institutional assessment of relevant departments/organisations focusing on the following aspects:
    - capacity enhancement in accordance with a changing business environment;
    - training personnel to use technology;
    - bringing labour courts into the mainstream judicial system;
    - digitization and computerization of records; and
    - coordination among the various regulatory authorities and centralization of the industrial database.

Integrating labour inspection

- Labour inspections by different authorities in the provinces are carried out in isolation. There is a need to integrate the inspection system with 'one general inspector' performing inspections in all work areas of an enterprise. For this purpose, a separate labour inspection authority may be established representing all the relevant departments/institutions.
- A separate piece of legislation on the subject of labour inspections is required for an integrated inspection system.
- The Government of Punjab has been supported by the ILO in developing a web portal for online registration of factories, shops and establishments while development of an online inspection reporting system is under way. Such initiatives need to be replicated by other provinces.

Formalizing the informal sector

A single, simplified and comprehensive framework needs to be designed for a gradual but steady move towards formalization of the small-scale informal establishments.

- As a first step, the coverage of social security institutions should be expanded to the informal sector including home-based workers. Currently, initiatives like the EOBI cover the formal sector only while a majority of the poor workers are engaged in the informal sector and have unstable sources of income. Therefore, interventions related to social security and old-age benefits for temporary and daily-wage employment need to be developed and implemented.

Promotion of trade unions

To be able to protect and promote the interests of their members in freedom, trade unions as well as workers' representative bodies (such as the Governing Body of the Workers Welfare Fund, Workers Welfare Boards, etc.) need to be recognized and engaged as key partners for ensuring the improvement of labour governance in the country. This requires removing the obstacles to the realization of the fundamental rights of workers to organize, so that their representative bodies can contribute to the effective compliance with GSP Plus objectives.

- The federal and provincial industrial relations acts need to be reformed to bring them into conformity with the relevant ILO standards, such as amending the requirements for the registration of unions. The pre-condition of having 20 per cent of total workers on board for registration of a third trade union in an establishment should be removed.
- There is a need to establish representative offices of the National Industrial Relations Commission (NIRC) in all the provinces so that the stakeholders do not have to travel to the federal capital for matters related to disputes.

Tripartite consultative framework

- Industrial promotion is not only limited to putting policies in place within a specific domain; it is also profoundly related to other policies including trade, human resources, the environment, labour and infrastructure. Thus, there is a need for an integrated tripartite consultative framework. This study proposed a model of tripartite consultation which has been developed by taking into consideration the common interest identified by the stakeholders interviewed during this study (see Annex B-10).
- Effective coordination among different stakeholders is important within the public authorities as well with relevant stakeholders of the private sector. To ensure effective implementation of industrial policy, the government should push a tripartite consultative process, as well as the promotion of intra-government coordination. A sample tripartite illustration of involving the private sector is presented in Annex B-11, which based on the discussions with relevant stakeholders. In a nutshell, coordination among all the relevant actors is key for the effective implementation of the law and compliance with international labour standards.

Notes

1. See *Pakistan Economic Survey 2015-2016*.
2. Within the industrial sector, the share of manufacturing is 13.5 per cent of GDP.
3. See *Pakistan Economic Survey 2015-16*, by the Ministry of Finance, Government of Pakistan, 2016, http://www.finance.gov.pk/survey_1516.html.
4. Estimated by the ILO (PWF, 2015).
5. Participation rates for males and females are 48.1 per cent and 15.8 per cent, respectively.
6. See *Statistical Supplement, Pakistan Economic Survey 2015-16*, by the Ministry of Finance, Government of Pakistan, 2016, http://www.finance.gov.pk, p.116.
7. For instance, the share of cotton yarn exports declined from 30 per cent in 1991 to 13 per cent in 2016 while the share of high-end value products increased from 33 per cent to 67 per cent.
8. There are more than 5,000 textile value added units under the low-scale manufacturing (Tier 3) in Pakistan (SMEDA, 2006).
9. See Small and Medium Enterprises Development Authority (SMEDA), "Garments and Made-ups," (Ministry of Industries and Production, Government of Pakistan, 2006).
10. Detailed calculations are provided in Annex-A.
11. The EU's Generalised Scheme of Preference (GSP), *Factsheets, http://ec.europa.eu/trade/policy/countries-and-regions/development/generalised-scheme-of-preferences/*.
12. as of 31 October 2012.
13. GSP Plus Countries as of 1 January 2017 (Armenia, Bolivia, Cape Verde, Kyrgyzstan, Mongolia, Pakistan, Paraguay and the Philippines). (Data Source: http://trade.ec.europa.eu/doclib/docs/2017/january/tradoc_155235.pdf, accessed 15 June 2017).
14. Such as the Federal Labour Conference, Pakistan Tripartite Labour Conference, Standing Labour Committee and Bonus Commission.
15. Initially, it was the Ministry of Human Resource Development, which was subsequently merged with the Ministry of Overseas Pakistanis and was renamed the Ministry of Overseas Pakistanis and Human Resource Development.
16. Details of ratified conventions under each theme are provided in Annexes B-3 to B-5.
17. *Status of Labour Rights in Pakistan: The Year 2014*, by the Pakistan Institute of Labour Education and Research, 2015.
18. Pakistan Workers Federation, "European Union GSP Plus and Challenges of Labour Standards Compliance in Pakistan," (PWF, 2015), p. 4.
19. See Industrial Relations Act 2012; Factory Act 1934.
20. See Government of Pakistan, "GSP-Plus and Compliance with Core Labour Standards: Pakistan's Case," (2016), p. 27.
21. The Bonded Labour System (Abolition) Act, 1992, Government of Pakistan.
22. See *The Global Slavery Index* 2016, by The Minderoo Foundation, https://assets.globalslaveryindex.org/downloads/GSI-2016-Full-Report.pdf.
23. Articles 11, 35, and 37(e), Constitution of Pakistan.

24. Khyber Pakhtunkhwa Prohibition of Employment of Children Act 2015; Sindh Prohibition of Employment of Children Act 2017; and Punjab Restriction on Employment of Children Act 2016.
25. While Table 10 provides the sectoral position of gender wage differentials, the same for different occupations is provided in Annex B-6.
26. USD 1 = 104.7 Pakistani rupees (as of 25 November 2016).
27. Similar trends are observed for the growth in wages (in real terms) for different economic sectors (see Annex B-8).
28. *SMEDA 2006 (700 knitwear units, 670 knitwear finishing units, 4,000 garment units were reported as of 2006).*

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Annex – A
Doing business within global supply chains

The manufacturers and suppliers in developing economies are 'price takers' rather than 'price setters' in the global supply chain, with Pakistan being no exception. In such situations, the suppliers have only enough control to influence the cost factors. Pricing and sourcing not only affect the middle and lower scale manufacturers (Tier 2 and Tier 3), but also impact growth and sustainability of the large-scale manufacturers and suppliers.

Due to intense competition in the market, suppliers have limited bargaining power on the price side. Therefore, for reducing the cost of production, price and margin are the two factors which are considered to be the principal cause of the violation of workers' rights in the textile industry.

From the employers' perspective or interest, industrial units are still unable to maintain feasible margins which results in the violation of and / or non-compliance with labour and environmental standards under *'cost minimization'* options. Table A18 shows the margin of the textile export oriented industries at Tier 1 level. Material is the major component of the cost of goods manufactured/sold and accounts for around three-quarters of the total cost, followed by overheads and energy costs. The component of labour (mainly wages) comprises almost 7 per cent of the total cost. The material is the only inelastic component in the cost of goods manufactured and is the major concern of buyers from the quality perspective. Because of intense competition, the industry is operating efficiently in terms of the cost of other factors of production. Thus, it is quite difficult to minimize the cost without any subsidy or incentives from the government.

Most of the Tier 2 and almost all Tier 3 level establishments resort to illegal practices for cost minimization. In particular, the informal sector uses illegal means and sources of energy and fuels that is reflected in high rates of electricity theft from the government authorities. They also exploit illiterate labour and workers through non-compliance with minimum wages and other laws. Although Tier 1 largely abides by the rule of law, they use indirect means to minimize their costs. The indirect ways include the hiring of workers through a contractor or subcontracting the order to Tier 2 and Tier 3 establishments at lower cost. Despite all these practices to minimize the cost of production, the increased

Table A1. Financials & margins in textile sector

Key elements / factors of production	FY13	FY14	FY15	FY16*
Material	75.4	73.4	68.8	76.4
Labour	5.5	5.5	6.9	6.1
Foreign agent commission	0.7	1.5	1.2	n.a.
Factory overhead	10.6	9.2	10.0	n.a.
Fuel & energy	6.2	7.1	7.8	8.4
Margins				
Gross	18.4	13.3	11.6	6.2
Operating	13.0	8.2	7.0	3.0
Net	9.0	4.5	2.8	0.5
ROAA	14.4	6.0	2.8	n.a.
ROAE	26.8	12.4	7.0	n.a.

*** based on single factory data; n. a. Not Available*

Source: Author's calculation

Box A1. The apprehension of GSCs

As shown in the table, the tag price of each of the products is at least four times higher than the cost of production. For instance, the cost of a pair of jeans sold to an international buyer is 10.7 US dollars as compared to its tag price of 52 US dollars. The low cost of goods sold by Pakistani Tier 1 suppliers is largely due to low labour costs, low administrative expenses and low margins.

The 'monopsony' of retailers / buyers is consistently criticized by the developing economies due to large spreads and margins. However, from the buyers' perspective (provided by the representatives of buying houses during interviews), circumstances differ and vary across regions with different business models that include direct retail and through a distribution network.

From the viewpoint of retailers and buyers, the spread is reduced with the cost of shelving, local taxes, direct and indirect overheads, transportation, and mid-season and off-season discounts/sales. In addition to this, there are other administrative expenses that include maintaining regional offices and monitoring and inspection costs associated with the compliance for particular products. In their opinion, there is a need to create awareness that the tag prices are not a true reflection of the margins and spreads of GSCs. Thus, the impression of high margins of buyers needs re-evaluation. There is also a need to work out a sustainable model which can take care of the apprehensions of the GSCs and factual positions of the buyers. In this connection, a set of operating and business procedures can be designed and adopted at global level.

		% Share of	
Product line	**Cost heads**	**Cost[e]**	**Sale**
Denim jeans	Raw Material	44.9	9.2
	Trims [a]	13.3	2.7
	Labour	6.4	1.3
	Lab test [b]	9.8	2.0
	Overhead [c]	9.6	2.0
	Freight	3.0	0.6
	Gross Margin	13.1	2.7
Tag price USD 52	**Cost of goods sold USD**		**10.7**
Polo Shirt	Raw Material	48.8	12.2
	Trims [a]	8.0	2.0
	Labour	16.0	4.0
	Lab test [b]	1.2	0.3
	Overhead [c]	10.0	2.5
	Freight	0.8	0.2
	Gross Margin	15.2	3.8
Tag price USD 8	**Cost of goods sold USD**		**2.0**
Duvet	Raw Material	72	16
	Trims [a]	–	–
	Labour	2	0.5
	Lab test [b]	2	1
	Overhead [c]	6	1.4
	Freight	3	0.5
	Gross Margin	15	3.3
Tag price USD 40	**Cost of goods sold USD**		**8.8**

[a] *includes 2 per cent rejection*
[b] *includes packaging, labelling, hanger, security alarm, etc*
[c] *includes production (variable) and administrative (fixed) cost*
[d] *Tag price is the minimum price*
[e] *Cost of goods sold*

competition is largely reflected in the declining gross margins, while the increased cost of doing business over the years is reflected in the decline in operating and net margins of the textile industry of Pakistan. On the other hand, the nature of power relationships in the value chain allows the lead global firms to maximize their profits. As shown in Box A1, the costs of goods sold are much lower than their retail prices.

There are more than 5,000[28] textile value added units under the low-scale manufacturing (Tier 3) in Pakistan. These units are largely designated as informal units. As the share of the informal economy in Pakistan is quite high, a large part of the labour force works in the informal sector. The conditions of 'decent work' are generally violated in the informal sector. The firms at Tier 2 and Tier 3 levels represent more than 75 per cent of the textile sector. These small and medium-scale firms do not have to fulfil the occupational safety and health measures, and thus remain non-compliant with labour laws and environmental standards. In fact, Tier 2 is directly associated and actively engaged with export business in the global supply chain. Box A2 shows the business scenarios and elasticity with respect to margins in different tiers of the textile high end value added export sector.

Although there are compliance standards which are required by leading clothing retailers (buyers) in the GSCs, the enforcement is limited to Tier 1 industrial units. The Tier 1 suppliers have also acquired local and international certifications. A code of conduct is a part of the agreement between the retailers/buyers and suppliers. The code is a mandatory requirement and is subject to audit, monitoring and inspections. The code of conduct incorporates the United Nations Charter, Chapter IX, Article 55. These also include core and technical conventions of the ILO. However, despite all these requirements, there appears to be complete ignorance about checking and fulfilling the mandatory requirement to qualify for the import of clothing products.

Box A2. Business scenarios at different levels of the high-end value added textile export industry

Tier 1: The industrial units in this category are directly exporting to distributors and brands. The bottom line profitability ranges between 6 per cent and 15 per cent, however, during the off-peak season, they also get orders below this range or sometimes at breakeven to cover at least the fixed overhead cost of the operations. The main advantage of Tier 1 industry is the economies of scale, which allow them to take orders at low margins. The Tier 1 industry also takes orders during the off-peak season at breakeven. However, they convert this breakeven to profitability by hiring workers through subcontractors at minimal wages due to unemployment scenarios in the season.

Tier 2: The industrial unit in this category at a minimum requires a 10 per cent margin to remain sustainable due to diseconomies of scale in the category. Over the last decade, a major shutdown of industry has been observed in this category mainly due to the increased cost of doing business, limited access to foreign markets, and law and order conditions.

Tier 3: The industrial units in the Tier 3 category are the main suppliers to the large industrial units (Tier 1 and Tier 2). CMT orders are received with the profit margin starting from 8 per cent in the peak season, with a minimum 30 per cent of overhead charges to a maximum of 80 per cent. The progressive charges in the overhead category are directly linked with the order size, time duration and the seasonal conditions (peak season) of the industry.

"The industrial units in the Tier 2 and Tier 3 category are largely blamed for non-compliance on trade regimes and preferential schemes."

There is a lack of vigilance and monitoring mechanism. The enforcement, monitoring and implementation mechanism is quite weak, and largely depends on the middleman or local agents/agency. According to a member of the All Pakistan Textile Mills Association:

> Buyers have their own monitoring system; by and large, they are compliant with international quality and social standards.

The subcontracting of export orders is not allowed under the agreement between the suppliers and international buyers. However, in order to minimize the cost of production, the Tier 1 units sub-contract the orders to Tier 2 industrial units—this subcontracting is only for CMT. All the material, accessories and designs are provided in the CMT contract. The textile high end value added export business is largely considered seasonal. In peak seasons, the CMT orders are also given to Tier 3 industrial units.

The subcontracting of workers is also a norm in the textile export industry and widely practiced by almost all tiers of the high-end textile value added export sector. The amendment in the Factories Act, 1934 by Sindh province addresses the issue as it states that "….. *no worker shall be employed through an agency or contractor or subcontractor or middleman or agent, to perform production related work"*.

The Tier 1 units employ permanent workers up to the level of supervisor, while the rest of the bottom line workers are hired through subcontractors in order to reduce liabilities. The Tier 1 units also keep some 10 per cent to 20 per cent of workers on a permanent basis. On the other hand, Tier 2 establishments wholly subcontract their workers except supervisory and administrative staff. The Tier 3 units either work as subcontractors themselves or wholly hire labour through subcontractors. Using workers via subcontracting allows the contractors to deny the workers their legal rights, protection and entitlements, thus reducing the industrial cost of production:

> Workers' themselves prefer to work on piece rate; by this, they believe, they earn more. [An employer – Tier 2]

The hiring practice of contractors and subcontractors is largely based on piece rate or a contract basis for specific orders. It allows a contractor to take advantage of illiterate, uninformed and naive workers by means of getting them to work for more than the maximum hours allowed by law. The rates for piece work are designed in such a way that a worker can achieve minimum wages only by working for at least 12 hours a day with one rest day i.e. 6 days a week. Another benefit of hiring workers on a contract or piece rate basis is the avoidance of job contracts, so as to avoid the social entitlements.

As exhibited in Table A2, most of the workers are unable to get the minimum wages despite working more than 12 hours. There is a dire need to standardize the piece rates for job assignments in the high-end value textile export sector so that workers can achieve the minimum

Table A2. Job order costing (small arts) & earnings *(Pakistani rupees, per month)*

Process	Output per hour (pieces)	Rate per piece (PKR)	Monthly earning	
			8 hours	12 hours
Back yoke check & cut	150	**0.25**	7800	11,700
Front rise (over lock)	125	**0.30**	7,800	11,700
Fly attach + edge stitch	87.5	**0.44**	8,008	12,012
Fly over lock stitch	250	**0.17**	8,840	13,260
Care n size label attach	112.5	**0.44**	10,296	15,444
Back pocket second stitch	62.5	**0.88**	11,440	17,160
Back pocket press + embro match	100	**0.55**	11,440	17,160

The minimum wage for the reporting period is 13,000 Pakistani rupees

Note: Selective Process Setup for Denim Jeans

Source: Author's calculation | UNCTAD All Pakistan Workers Ittehad Federation

Box A3. The quandary of Tier 2 textile exporters

No rebate, no sales tax refund, no R&D support. I am small garment sector exporter. My almost 5 million Pakistani rupees are stuck in all these reimbursement claims with the government machinery. I have considered these as debt to the government. Being a small garment exporter, this is a huge amount for me, and I always keep my record files with me to track the reimbursement and claims. Since the last 7 years, I have not received a single rupee for my R& D claims. In fact, I have been offered several times by some agents for the clearance of my claims and refunds with commission of 10 to 15 per cent. I am very much disappointed with all that is happening, just not closing down the business as so many families have bread and butter associated with my business.

I gave the quotation to the buyer with only 10 per cent margin while the buyer is demanding to reduce the cost by 25 per cent. Believe me, he will get a supplier who is using the illegal means of production and will easily supply at the given price.

I am not using any government facility illegally. That is the main reason that my cost of doing business is high as against those who are using illegal means of doing business. About 10 years back, my factory was running for 24 hours with eight-hour shifts. Now due to limited business opportunities and high competition with those who are in the informal sector, I am unable to operate for at least 8 hours a day and 26 days in a month. I am associated with the textile export business since last 25 years. Believe me, if I could find any other opportunity, I will overnight switch from this business. Business environment for textile business is not feasible, particularly for medium and small-scale manufacturers.

income which is determined according to their skills and according to the normal working hours set by the legislative framework.

Under the law (Factories Act, 1934), the standard working hours are eight hours per day, with a maximum limit of 2.5 working hours as overtime. The standard compensation for overtime is double the actual wage per hour. However, industry norms are single factor payment for additional working hours, in violation of the law. In addition, the overtime on an average is four hours, against the maximum limit of 2.5 hours. There is a considerable lack of awareness among the workers with regard to these rights. They are also unaware of the minimum wages with respect to their skills.

On the other hand, manufacturers are concerned about the high cost of doing business in an extremely competitive market with limited support from government machinery, which has resulted in the closure of a significant number of units over the last few years. A member of a hosiery association said:

> There were about 220 members of hosiery manufacturer exporters in the city of Lahore only; now the number reduced to 70 only. The establishments were either closed down or shifted to other countries due to a non-conducive business environment.

Some of other responses are presented in Box A3.

Annex – B

Annex B-1. Major export destinations *(US$ million)*

Countries	2011	2012	2013	2014	2015	2016	CCGR 2013-16
All countries	25,733	23,533	24,368	24,956	23,324	21,074	-3.6
Afghanistan	1,939	1,158	995	1,516	1,569	1,116	2.9
% Share in total exports	7.5	4.9	4.1	6.1	6.7	5.3	–
China	1,832	2,561	2,822	2,385	2,218	1,648	-12.6
% Share in total exports	7.1	10.9	11.6	9.6	9.5	7.8	–
Germany	1,332	1,009	1,094	1,221	1,231	1,204	2.4
% Share in total exports	5.2	4.3	4.5	4.9	5.3	5.7	–
United Arab Emirates	1,914	1,957	1,869	1,497	1,201	1,013	-14.2
% Share in total exports	7.4	8.3	7.7	6.0	5.1	4.8	–
United Kingdom	1,324	1,312	1,432	1,700	1,624	1,591	2.7
% Share in total exports	5.1	5.6	5.9	6.8	7.0	7.5	–
United States of America	4,115	3,882	3,931	3,910	3,918	3,599	-2.2
% Share in total exports	16.0	16.5	16.1	15.7	16.8	17.1	–
Top countries share in total exports	48.4	50.5	49.8	49.0	50.4	48.3	–

Note: Estimates are different from other databases as SBP estimates include freight and insurance costs

Source: SBP

Annex B-2. Exports to major EU destinations & growth *(US$ million)*

Countries	2012	2013	2014	2015	2016	CAGR 2013-2016
Belgium	420,169	423,468	515,353	486,491	568,561	7.64
France	441,240	482,134	542,653	459,959	406,888	(4.15)
Germany	1,008,782	1,093,837	1,220,664	1,230,760	1,204,046	2.43
Italy	550,831	609,514	745,077	644,245	652,023	1.70
Netherlands	392,564	505,094	570,979	521,834	597,479	4.29
Spain	505,937	570,438	726,365	776,891	800,859	8.85
United Kingdom	1,311,633	1,432,062	1,700,122	1,623,694	1,591,009	2.67
Top seven countries' share (%)	5,439,564	6,035,657	7,054,655	6,702,414	6,856,120	3.24
European Union % growth	–	11.0%	16.9%	-5.0%	2.3%	–

Note: Estimates are different from other databases as SBP estimates include freight and insurance costs

Source: SBP

Annex B-3. Ratification of fundamental labour conventions

S. #	Labour conventions	Ratification Status
1.	C87 – Freedom of Association and Protection of the Right to Organise Convention	In force since. 14 February 1951
2.	C98 – Right to Organise and Collective Bargaining Convention	In force since. 26 May 1952
3.	C29 – Forced Labour Convention	In force since. 23 December 1957
4.	C105 –Abolition of Forced Labour Convention	In force since. 15 February 1960
5.	C138 – Minimum Age Convention	In force since. 6 July 2006
6.	C182 – Worst Forms of Child Labour	In force since. 11 October 2001
7.	C100 – Equal Remuneration Convention	In force since. 11 October 2001
8.	C111 – Discrimination (Employment and Occupation) Convention	In force since. 6 January 1961

Note: Total fundamental conventions set by ILO are eight (8)

Source: ILO

Annex B-4. Ratification of technical conventions (CLS Plus conventions)

S. #	Labour conventions	Ratification Status
1.	C155 – Occupational Safety and Health Convention	Not ratified
2.	C187 – Promotional Framework for Occupational Safety and Health Convention	Not ratified
3.	C095 – Protection of Wages Convention	Not ratified
4.	C026 & C131– Minimum Wage-Fixing Machinery Convention & Minimum Wage Fixing Convention	Not ratified
5.	C001 – Hours of Work (Industry) Convention	In force since. 14 July 1921
6.	C014 – Weekly Rest (Industry) Convention	In force since. 11 May 1923
7.	C097 – Migration for Employment Convention (Revised)	Not ratified
8.	C143 – Migrant Workers (Supplementary Provisions) Convention	Not ratified
9.	C102 – Social Security (Minimum Standards) Convention	Not ratified
10.	C117 – Social Policy (Basic Aims and Standards) Convention	Not ratified
11.	C122 – Employment Policy Convention	Not ratified
12.	C150 – Labour Administration Convention	Not ratified
13.	C118 – Equality of Treatment (Social Security) Convention	In force since. 27 March 1969
14.	C019 – Equality of Treatment (Accident Compensation) Convention	In force since. 30 September 1927

Note: Total fundamental conventions set by ILO are 177

Source: ILO

Annex B-5. Ratification of governance conventions

S. #	Labour conventions	Ratification Status
1.	C081 – Labour Inspection Convention	In force since. 10 October 1953
2.	C144 – Tripartite Consultation	In force since. 25 October 1994
3.	C122 - Employment Policy Convention, 1964	Not ratified
4.	C129 - Labour Inspection (Agriculture) Convention, 1969	Not ratified

Note: Total fundamental conventions set by ILO are four (4)

Source: ILO

Annex B-6. Occupation wise average wages & wage ratio by gender *(Pakistani rupees, per month, 2014-15)*

Major occupation / professions	Wage ratios (female to male)		2014-15 - average wage		
	2008-09	2014-15	Over All	Male	Female
Managers	96%	88%	51,572	51,855	45,409
Professionals	102%	69%	26,876	30,933	18,664
Technical and associate professionals	69%	60%	23,106	24,130	13,784
Clerks	86%	90%	21,765	21,825	19,522
Service workers and sales workers	84%	94%	12,866	12,884	12,055
Skilled agriculture workers	55%	33%	11,554	11,579	3,800
Craft and related trade workers	36%	37%	13,342	14,449	4,886
Plant & machine operators & assemblers	81%	54%	13,308	13,162	7,180
Elementary (unskilled occupations)	54%	66%	9,473	10,391	6,280

Source: LFS (2009, 2015)

Annex B-7. Benefits covered under Pakistani laws

Disease / injury	Benefit	Covering law	Federal and provincial benefits				
			Federal	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan
Sickness	Insurance / percentage of worker's monthly earnings (121 days) And 365 days for tuberculosis and cancer	Provincial Employees Social Security Ordinance, 1965	75%	75%	75%	50%	50%
Injury	Insurance / percentage of worker's monthly earnings (180 days)	Provincial Employees Social Security Ordinance, 1965	60%	100%	100%	60%	60%
Disablement	Gratuity depending on degree of disablement	Provincial Employees Social Security Ordinance, 1965	Lump sum	Lump sum	Lump sum	Lump sum	Lump sum
Permanent total disability	Pension as percentage of workers' monthly earnings	Provincial Employees Social Security Ordinance, 1965	75%	100%	75%	75%	75%
Death	Pension to survivors	Provincial Employees Social Security Ordinance, 1965	Max 100 % of Permanent Total Disability Pension				
Death	Grant Percentage of last drawn 30-day wage	Provincial Employees Social Security Ordinance, 1965	100%	100%*	100%	100%	100%
Temporary disablement	Insurance / percentage of worker's monthly earnings (For lung disease 33%)	The Workmen's Compensation Act, 1923	50%	50%	50%	50%	50%
Fatal accident / death	Lump sum (PKR)	The Workmen's Compensation Act, 1923	200,000	400,000	500,000	300,000	200,000
Permanent total disablement	Lump sum (PKR)	The Workmen's Compensation Act, 1923	200,000	400,000	500,000	300,000	200,000
Natural death / injury	Group insurance	The Industrial & Commercial Employment (Standing Orders) Ordinance, 1968	Only if not covered under any other law				

Note: Estimates are different from other databases as SBP estimates include freight and insurance costs

Source: SBP

Annex B-8. Growth in wages by sector *(Pakistani rupees, per month)*

Sectors	Average wages			CAGR FY09-FY15 (%)	
	2008-09	2012-13	2014-15	Nominal	Real
Agriculture	4,349	6,221	7,804	8.7	0.8
Manufacturing	6,768	11,022	13,477	10.34	2.3
Wholesale & retail trade	5,619	8.656	10,710	9.65	1.7
Public administration and defence	20,279	21,549	38,695	9.67	4.5
Education	11,207	18,703	25,906	12.72	4.7
Health & social services	10,424	17,412	24,428	12.94	4.7
Other services	9,889	8,197	23,062	12.86	-1.2
Domestic services	6,254	6,517	9,704	6.48	2.4

Note: Real wage is calculated using FY08 as base year

Source: LFS (2009, 2013, 2014, 2015)

Annex B-9. List of tripartite bodies and institutions in Pakistan

– Federal Tripartite Consultative Committee

– Provincial Tripartite Consultative Committees

– Governing Body of Workers Welfare Fund (GB-WWF)

– Board of Trusties of Employees' Old Age Benefits Institution (BOT-EOBI)

– National Steering Committee on the Bonded Labour (NSCBL)

– Four Governing Bodies of the provincial Social Security Institutions (GB-ESSI)

– Workers Welfare Boards (WWB)

– Four Provincial Tripartite Advisory Committees under the Apprenticeship Ordinance, 1962

– Miners Welfare Board (MWB)

– Provincial Occupational, Safety & Health (OSH) Councils

– Provincial Committees on the Elimination of Bonded Labour (PCEBL)

– Vigilance Committees under the Bonded Labour System (Abolition) Act, 1992 (VC-BLS)

Source: ILSU, 2016c

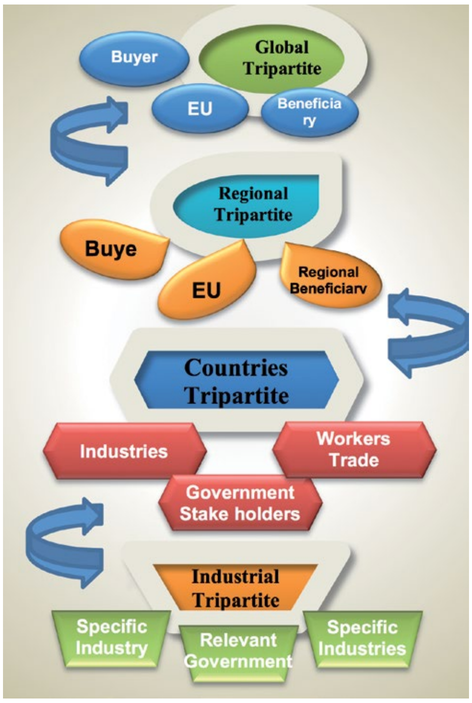
Annex B-10. Tripartite model (bi-directional approach)

There is a need to develop a certain kind of model/system that is based on the realities of social, political and economic conditions, simultaneously taking into account norms required for sustainable economic growth by including various stakeholders at different levels, such as, global, regional, country, provincial, local and industry/sectoral level. A tripartite model is proposed to establish the linkage and network at different levels between various stakeholders in international trade. They may be practiced at the following levels:

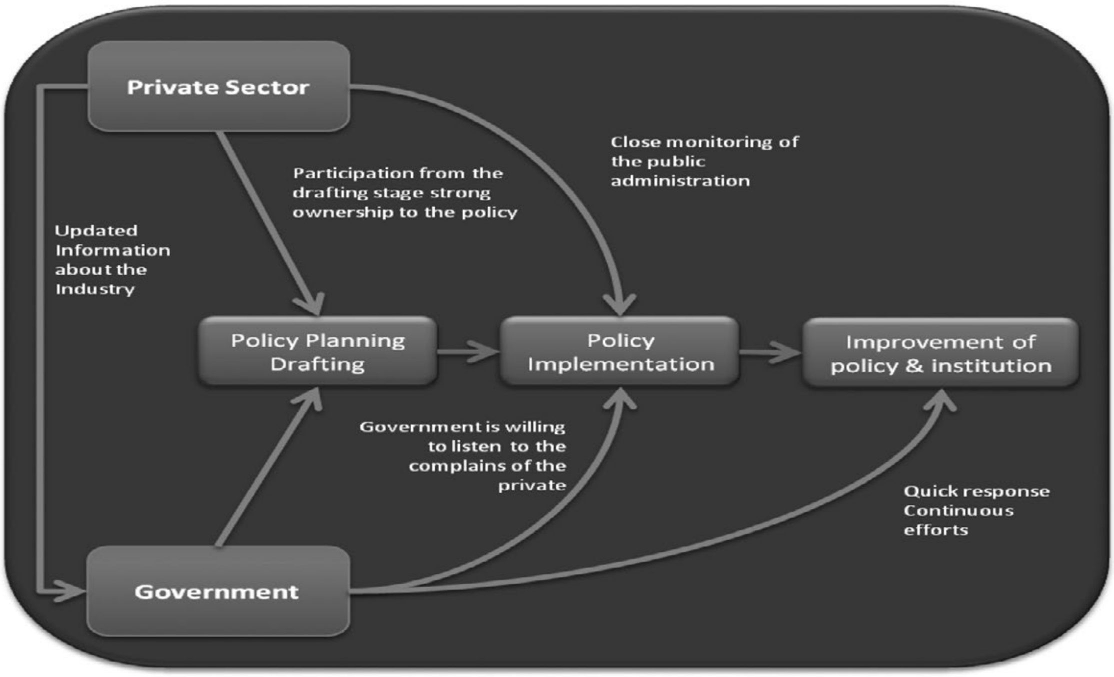
a. Global level
b. Regional level
c. Country level
d. Sectoral/industrial/business Level

Each level should have pre-defined Standard Operating Procedures (SOPs) which need to be developed by considering top-down as well as bottom-up approach. For instance, SOPs at global level can be described as GOPs and so on. The concept of tripartite consultation is both bottom-up and top-down with the idea of feedback on a continuous basis to address the changing needs in the emerging economies.

The global tripartite consultation will specifically help developing economies to better negotiate, implement, adapt to and benefit from international trade and investment agreements.



Annex B-11. Tripartite illustration at country/industrial level



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