

Economic Reform and Urban Development: Karachi's Informal Textile Industry

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ABSTRACT

Cities in developing countries, like Pakistan, have a complex array of economic, demographic, governance and geopolitical challenges that require collective action. Urban policy and planning being the domain of political, economic, and capital seeking players, socio-spatial disparities caused by socioeconomic friction need careful investigation. Karachi's informal industrial economy is an important case for analysis and learning about future planning of Special Economic Zones (SEZs) under the Belt and Road Initiative (BRI), and their local as well as regional geographical implications. Being a major industrial player in the textile sector, this study investigates Karachi's informal textile garment industry and its sectors to understand the impact of current structural adjustment and urban development projects on local economic activity and influence on the spatial configuration of the city. This paper also examines linkages between the formal textile SMEs of Karachi and the emergence of informal activities through labour, production, and spatial placement.

Keywords: Economic Development, Informal Economy, Urban Development, Informalisation, Globalisation.

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1. INTRODUCTION

This research is an attempt to understand the relationship between economic reform and urban development of Karachi city while it undergoes the long-term political project of substantive socioeconomic transformation. The study of textile industry and its emergent activities in Karachi, amidst the current structural adjustment and urban development projects, can help contemplate the challenges of formulating urban policy responses to economic problems shaped simultaneously by local, regional and global pressures.

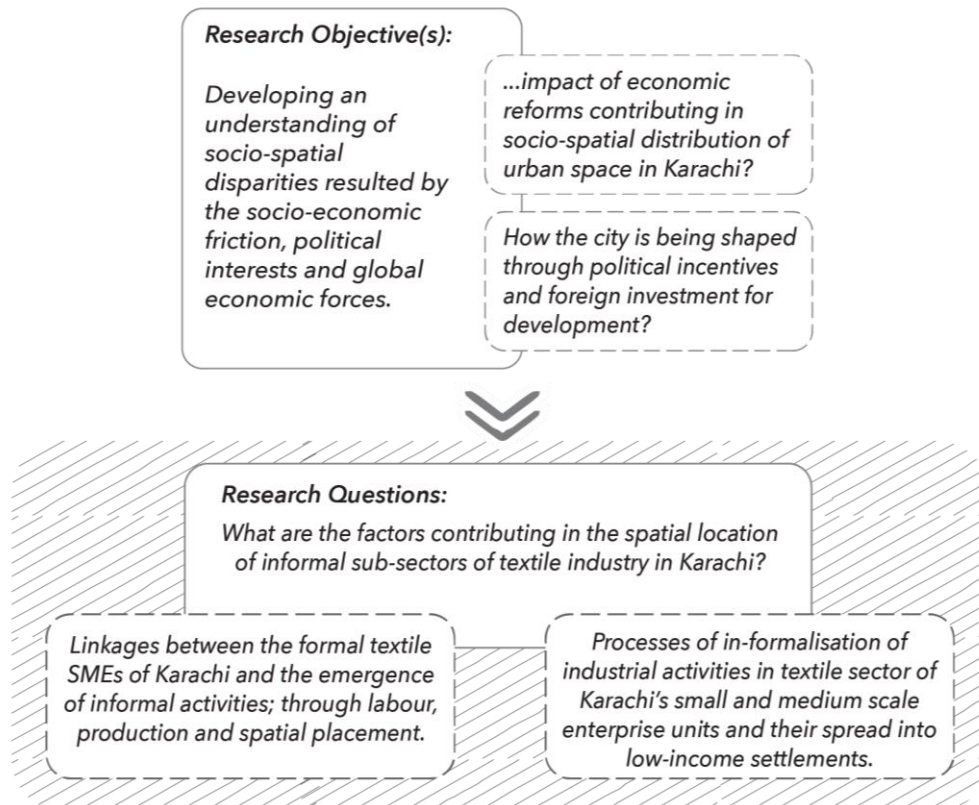
According to the World Bank's press release on Pakistan's Structural Adjustment Programme (SAP) in 2019, it was reported that across South Asia, imports grew more than exports in 2018 and 2017, reversing the region's export dynamics of the early 2000s. Pakistan is reported to be the 8th largest exporter of textile products in Asia. The textile industry contributes approximately 8.5% of the country's Gross Domestic Product (GDP), providing employment to 38% of the workforce in the country (Khan and Khan 2010), although Pakistan's total share in global textile trade is 2.3% (WTO 2020). As one of Pakistan's most productive economic sectors, the textile industry is being impacted with repercussions on its sub-sectors' shift and spread into the informal sector. This, along with other undocumented issues, can be tracked to Pakistan's evolving political landscape and its major influence on industries, businesses and people's livelihood and property values.

The country's socialist regime of 1970 led the nationalisation of large industrial units and trade unionism. To overcome the resulting economic repercussions and fear of nationalism, a lot of large industrial units were broken up into smaller units by the local owners/entrepreneurs and relocated from formal industrial zones to low-income residential settlements or commercial areas (not meant for industry). Despite the availability of cottage industry estates by the government, they were not taken up by the local entrepreneurs because working from low-income settlements and through informal arrangements of production enabled lower production costs. This also made any development of trade unionism difficult, along fears of being nationalised.

Pakistan has an estimated 360,000 textile power looms, out of which 30,000 small and medium size textile units are located in Karachi (Hasan and Raza 2015). With Karachi, having the biggest designated industrial zones in Pakistan, it is worthwhile to study the cause and effect of the spread of the formal textile industry's activities into the informal sub-sector, the shift to low-income settlements, and how this informal sub-sector is coping with the current economic crisis. Additionally, to help formulate strategic policies and manage reforms better for sustainable development, it is vital to study the local impacts of developmental reforms during a crisis.

The first part of the research plots the terrain of economic development and urban development and its relevance to developing countries' urban areas. It draws on learnings from global contexts, including North and South, in an attempt to provide a theoretical context for this study on Karachi's endeavour of entering the global market and the layers of its development. The second part situates Karachi both theoretically and historically, in reference to the local, regional, and global political economy. Following, a case study of the informal textile garment industry and its sectors is taken up to understand the impact of structural adjustment/ economic reforms on a local economic activity and their influence on the spatial configuration of the city.

Figure 1: Relationship of Research Objectives and Questions



Source: Author's own.

2. METHODOLOGY

The main learning objective for this research is to highlight and develop a clear understanding of impacts of economic reforms on socioeconomic and spatial configuration of the city. This was done using the case study approach of the area which is most relevant and directly impacted by the economic reforms, and the ramifications of these reforms and developments on the spatial configuration of the urban space. For this purpose, the research methodology taken up was mixed and included primary data collection from Key Informant Interviews (KIIs) along with local actors working in the informal sector of the textile industry in case study SITE (see Appendix 1 for the list of interviewees). In this case, Karachi was chosen being Pakistan's economic centre and the most populous city. As the biggest industrial sector of Pakistan, the textile industry is used as a case study to understand how the interplay of state and capital generation are shaping development processes in the country.

Data collection was done over one-and-half-month-long field work in one of the main industrial zones of Karachi city - Sindh Industrial Trading Estate (SITE). The area was specifically chosen to map out the buffer zones between the industrial and residential areas in order to identify the major threshold of informal industrial activities spilling into the adjoining residential areas, especially of the textile garments sector. Due to the global pandemic and spread of COVID-19 in the country, the city of Karachi went into a full lockdown with no activity and ban on unnecessary movement for almost seven weeks, from 24 March-9 May 2020, leaving factory works halted and forcing migrant labour to return to their hometowns in rural areas of the country.

The case study area for the research is divided in two spatial locations: one is SITE and its adjoining residential area, Metroville. Here, mainly two groups are established, one from a small-medium enterprise (SME) textile garments manufacturing unit; and the second from a small home-based informal ready-made garments (RMG) production unit. SITE was a natural choice for the fieldwork as it is Karachi's first planned industrial zone and currently caters to 29.3% of the textile industry.¹ Metroville was chosen as it borders the industrial zone, and the spread of informal industrial activity is identified on the threshold of this residential area. Its history is also linked to the SITE area.

¹According to SITE Association website, SITE has total of 3001 industrial units, out of which 550 are textile manufacturing factories, 80 units of garments factories, and 250 allied textile factories, <<https://www.site-association.org/introduction>>.

This neighbourhood was developed during 1974-85 under the Karachi Development Plan (KDP) as a mixed income settlement for middle to lower income working class.²

Freireian dialogical methodology from his 1970 'Pedagogy of the Oppressed' was adopted for the field research and data collection. It details Marxist class analysis in the exploration of coloniser and colonised and tries to break down the hierarchical teacher and student. This study tried to extend this idea into researcher-subject interaction and reflections on both action and reflection of the multiple variables, mostly interviewees working in the textile sub-sectors. This process of mutual discovery and critical reflection helped develop a genuine relationship of humility of the researcher with the subject. The former adopted the role of a peripheral member researcher from the three types of 'membership roles' as described by Adler and Adler (1987). The data analysis is also qualitative and narrated in the final chapter accordingly.

During the fieldwork, there were informal discussions with workers as well about everyday politics, workplace and living conditions. With regards to setting up an informal industrial unit and the process of choosing its location, questions for the entrepreneurs and owners attempted to ascertain their strategy during initial settling down in Karachi (in case of migrants) and the means of provision of space. The role of ethnicity, law enforcement agents such as police, political parties, and identification of other institutions involved was also enquired. The process of getting production contracts for local and sub-contracts from the international market was traced to link the operations between informal and formal sectors of the textile industry. Semi-structured interviews were conducted with the labour in Urdu language, and the responses were voice-recorded. Whereas structured narrative interviews were conducted from the entrepreneurs and upper management of the SME textile factory, and that of the informal units.

2.1. Research Question

'What are the factors contributing to the spatial location of informal sub-sectors of the textile industry in Karachi?'

2.1.2. Secondary Research Questions

The research question is divided into two inter-related problems. First, what are the linkages between the formal textile SMEs of Karachi and emergence of informal practices through which Karachi's informal working class organise to form the labour market, manufacturing of goods, and space configuration in order to negotiate spatial placement

² The Karachi Development Plan (KDP) 1974-1985 was developed with support from the United Nations Development Program (UNDP). According to Wakely and Aliani (1996), under the Plan, existing squatter settlements on government land were to be upgraded. Sites and services schemes were to be developed for those whose settlements could not be upgraded. From 1974-1980, 90,891 serviced plots were developed.

in the city? Secondly, when it comes to the spread of the informal industry into low-income residential areas, what are the processes and obstacles faced by the informal working class, when trying to set-up their informal production activities in these residential zones?

3. LITERATURE REVIEW

3.1. Capital and Space

Both Marx and Engels touched upon the effects of - and links between - capital accumulation and urban space, especially in relation to the discussions of the origin of cities, deficit and surplus, modernity and urban phenomena, social order, spatial order, increase in city size, population, density and cultural impacts of agglomeration and heterogeneity. Engels (1891) discerned the expansion of urban areas as closely linked to the growth of capitalism via industrialisation and increase in working class sector as a result. Whereas Marx himself did not write about cities or urban areas, he fleetingly touched upon the role of capital accumulation which created enormous cities, greatly increasing the urban population in comparison to rural (Marx and Engels 1848). Marx also briefly touched upon concomitant exclusion and disparity by internal ordering of urban space through capital as restructuring and redevelopment in the name of ‘improvements of urban areas [towns]... such as the demolition of the badly built districts, the erections of places to house banks, warehouses etc., the widening of streets for business traffic... [which] obviously drive the poor away into even worse and more crowded corners’ (Marx 1867, p. 452). Such modifications, with intense ferocity, of urban space can be seen in the latest phase of global capitalism in cities as different as New York, Mumbai, Cairo, or Karachi.

Moreover, the planning and order of urban space, fundamentally produced by capital, as studied by many urbanists (mostly Marxist, e.g., Lefebvre, Harvey, Castells, Smith, Brenner, etc.) is argued as the foundation for the production, circulation, and consumption of commodities, and their evolving internal socio-spatial organisation and governance systems. Therefore, patterns of sociopolitical conflict must be understood in relation to this role (Brenner, Marcuse, and Mayer 2011). This is further argued by scholars that these not only have spatial implications but are linked along gendered and racial lines, with the worst sufferers being already marginalised groups.

Urban space is not just a centre for capital accumulation but also seen as the maturing ground for and of capital, as seen by Henri Lefebvre during the 1968 Paris uprising. He saw the expansion of capital and its accumulation as intimately linked to the expansion of urban space. He also talked about the blurring lines between urban and rural [form] caused by the over-flowing of capital, foremost in the phase of post-industrialisation

where capitalism is not confined anymore in the ‘historical’ city. This is very certainly noticeable in ‘developing countries’ like India and Pakistan in the form of urban sprawl of their cities on peri-urban agricultural land, and development of semi-rural estates in the form of Special Economic Zones (SEZs). Similarly, Harvey (2008) gave the notion of ‘spatial fix’ which is a general term he coined to address different forms of spatial re-organisation and geographical restructuring to overcome crisis of capital accumulation in a space or under-consumption by spreading its contradictions spatially. This can be explained by taking the example of a city’s built environment (e.g., roads, residential, and leisure areas, etc.) as an integral part of the spatial fix by providing a long-term ‘sink’ for capital through investment in the city’s infrastructure and real-estate development. Taking into consideration the metropolitan dialect of Merrifield (2002), these very spaces of temporal relief to capital’s contradiction also result in agglomeration of agents and means of resistance (such as production of labour, technologies of transport and communication).

3.2. Globalisation as an Economic Process and Urban Development

Critical urban theorists (such as J. Friedmann, Eric Swyngedouw and Sharon Zukin) have further developed the discourse of urban areas in analyses of globalisation and restructuring and scaling-up of capital in the post-1970s era. In spite of its projected ‘human face’, many have identified it as, essentially, a post-modern expression of the historical process of capitalist expansion for which there arises a need for trenchant understanding of the process as a circular framework, and its political, economic and cultural implications with the given spatial attributes (Banerjee 2010). At the core of the idea of globalisation is the notion of the enhanced importance of trans-state processes (Taylor 2000). While there have long been cross-border economic processes – flows of capital, labour, goods, raw materials, travellers – in the last hundred years, it was the inter-state system which was the dominant organisational form for cross-border flows (Sassen 2002). In the last decade, this condition has changed dramatically as a result of privatisation, de-regulation, opening up of national economies to foreign firms and growing participation of national economic actors in global markets (Qutub 2005).

4. SITUATING KARACHI AND PAKISTAN

4.1. Urbanisation and Pakistan

Urbanisation has always been a class phenomenon of some sort since surplus has been extracted from somewhere via somebody, while control over its disbursement typically lay in a few hands (Harvey 2012). Moreover, the process of urbanisation in the developing world’s milieu is decided by a rapid growth of urban population in countries contextually distinct like Mexico, Egypt, and Pakistan. This behaviour is observed in the

growth of cities which did not have a synchronised process of modernisation and industrialisation, rather allowed changes in structural systems and adjustment programmes, for example agricultural reforms, land acquisition acts and deregulation. While the Nineteenth and Twentieth Century colonial empire forced dependency and underdevelopment of their colonies through ‘brutal engines for the extraction of rents, crops and minerals from tropical country sides’ (Davis 2004). This character has arguably taken the form of post-1970s capitalist imperialism - formation of SEZs and transfer of manufacturing to the Global South which has restated their position as capital accumulation of imperial states. For the viability of situating Karachi in the global market, and from previously discussed theories, definition of globalisation is seen in terms of Foreign Direct Investment (FDI), economic migration, SAPs, liberalisation of trade, global communication, and international terror along with organised crime. This is all part of the informalisation of labour markets in Karachi.

4.2. Situating Karachi Geographically

Pakistan is a federation state of four provinces, two autonomous territories, and one federal territory (capital city). Karachi is a port city, located in the south-eastern province of Sindh and is the economic hub of the country. This city was a small fisheries village which later became a trading centre in the early British colonisation of India. Karachi gained its geographic importance when the British sought agricultural productivity in the province of Punjab (in undivided India) and made Karachi a trading hub and commercial town. Karachi’s geographic location in the region on the Arabian Sea, its position after the American Civil War in 1861 and the scarcity of American cotton, increased the rise in demand for Indian cotton in the world market; this along with the opening of Suez Canal in 1869 significantly increased the status of Karachi’s port (Gadgil 1972). Karachi developed as a port city and a commerce hub in the coming years. Moreover, its role as a strategic outpost and channel of imperial military campaigns played an integral part in its development.

4.3. A Case of Urban Reforms: Karachi

Pakistan signed its first international credit agreement with the United States (US) on 25 May 1948. A loan of USD 10 million was given from the funds of the US War Assets Administration and was designated for Pakistan to buy military equipment from the US (Rashid and Gardezi 1983). Subsequent years witnessed Pakistan’s dependency on American generosity, especially for military aid and equipment. Pakistan signed a Mutual Defense Assistance Agreement in May 1954 and joined US-backed regional alliances such as Southeast Asia Treaty Organisation (SEATO) in September 1954, and the Central Treaty Organisation (CENTO) in 1955. This dependency can be seen in the anti-Soviet US and Western backed *Jihadi* movement in the 1980s; the 1990s Afghan civil war, and

post- 9/11 security mission by NATO. These situations in the neighbouring country played a part in destabilising peace in Karachi in the form of Afghan migrants coming to the city in 1980 and settling in the already existing informal settlements, but mostly in the periphery. Another group of migrants who found refuge in Karachi have been the Internally Displaced Pakhtuns from the north-western province of Khyber Pakhtunkhwa during the same period. They started their own businesses but mostly worked for state-backed informal service provision sectors. This started as temporary jobs for temporary needs, for example truck driving to transfer supplies from Karachi Port to the Afghan border and have now been established into robust businesses. This ethnic population controls the inter-city, intra-city, along with aforementioned cargo transport activities. They also have a strong hold on the informal provision of water through tankers, and openly steal water from the state which creates a supply deficit and consumers are forced to buy water through such informal means.

Consequently, power struggle and turf dispersion among diverse ethnic groups and political parties, has led to ethnic violence, target killings of leaders of informal services providers (mafias), and organised crime groups - all fighting to take control of the city. In all this, the city's infrastructure development and economic activities have been badly affected. This power struggle among local and as well external actors has led to restructuring of the urban space, especially in early 2000 when Karachi's urban planning discourse was shifted to make it a world class, investment friendly city. The country was under military rule and changes were made in the administrative structure of the city to make way for fast-track infrastructure development and bring in foreign and private investment. One example of such urban development was a project of redeveloping Karachi's coastline and building luxury apartments, business centres, and private beaches, given to Emaar, a Dubai-based real-estate firm. The respective land is a military cantonment, but the land around it and the seafront itself is a mangrove forest with indigenous fishermen communities. Rapid deforestation has reclaimed the land and the fishing community living around this projected redevelopment is under threat of relocation.

State-led infrastructure projects, thus, face resistance and delay as they threaten the informal sector. Another example - Karachi with a population of 20 million does not have a public transportation system. Previous governments have tried to provide public buses but during any violent riots, these buses were the first to get burned. Hence, the city has no efficient transport system. In 2014, the Federal Government started a Bus Rapid Transit (BRT) Project, after its success in Islamabad and Lahore, but in 2018, it was slowed down due lack of budget.

City beautification projects were put forward by the new-elected administration of 2018 and an anti-encroachment drive was led, with funding provided by the World Bank under

public spaces clean-up projects. An anti-encroachment drive was commenced to clear up the land around railway tracks in the city to revive the Karachi Circular Railway connecting the seaport to the inner city and the industrial towns. It stopped working in 1999. Since 2008, multiple attempts were made to revive it. In one instance with partnership of a Japanese transport company but the project was shelved due to a massive budget. Now, the project is to be revived again with Chinese financial and technical assistance under the China-Pakistan Economic Corridor (CPEC). This circular railway system is crucial for the city and can help reduce time and energy consumption of transport goods as well as reduce heavy vehicular traffic from the city roads.

During the 1970s, Pakistan established around 100 industrial estates. Presently, under the CPEC umbrella around 37 new zones are proposed as SEZs all over Pakistan. Out of these, nine are prioritised to be completed in first phase, two of which are in Sindh. ‘SEZ Dhabeji’ is approximately 60 km from Karachi. Currently, several agro-based industries such as rice and flour mills are working in this proximity. It is speculated to be attractive for manufacturing and automobile industries due to its ideal location and less distance from the seaport. The second SEZ is the ‘Industrial Park’ on Pakistan Steel Mills township in Port Qasim. Port Qasim has the largest oil terminal among other multi-purpose terminal facilities along with the availability of basic utilities like water, power, gas, telecommunications, banking and other facilities, including capacity to include infrastructure for trans-shipment and transit trade facilities with Afghanistan and Central Asian Republics (CARs).

5. FINDINGS AND ANALYSIS³

5.1. Informalisation of Textile Industry in Karachi: Of Labour and Spatial Dispersion of Production

In 1973, nationalisation of a number of industries in Pakistan did not affect the textile industry as it was exempt. However, to save taxes and fearing nationalisation, many industrialists, especially entrepreneurs of small textile enterprises, sold their properties in the SITE town and set up businesses in low-income settlements as cottage industry, most of which did not require registration. This gave them an advantage of operating their businesses outside the tax net and also to hire cheaper labour on contract basis, away from the eyes of centralised trade associations and labour unions. The commercial plots of these lower income settlements were turned into workshops for textile machinery maintenance and repair, and small textile power loom units, and ready-made garment manufacturing units. Initially, the owner of the unit managed the whole production

³ Based on KIIs.

process, from acquiring the yarn, to the finished product, and then taking it to the wholesale market. There were no middlemen of any sort identified in the process.

During the liberalisation period (1992-93), the SME textile industry began to face a number of problems due to an influx of Chinese and Indian silk into the Pakistani market. Later, after the Afghan war of 2002 and regional conflicts disrupted exports of Pakistani products to Iran and Central Asia, which were previously big clients. As a consequence, the manufacturers and traders began to incur losses. The security situation in Karachi due to political unrest and ethnic violence during those times also increased insecurity among the textile unit owners, especially due to demand of extortion money and threats to life and liabilities from criminal outfits if their demands were not met and payments delayed. However, there was general consensus among the interviewees that extortion was limited in the informal industry units of Metroville as compared to the other parts of the city, whereas the entrepreneurs from SITE area did recount giving extortion money to political party goons and bribes they had to give to government officials to keep things running smoothly.

The informal textile industry in Metroville faced huge losses in production due to the subsequent increase in power outages in 2004. The cost of energy also increased in 2004 and was doubled within six years afterwards. Many interviewees recalled seeing units shutting down due to increased cost of electricity and subsequent load shedding of 6-8 hours per day. However, it should be noted that the SITE area and other officially designated industrial towns are exempted from power outages due to their formal status. This does not apply to the small cottage industries in the residential areas.

Some of the entrepreneurs returned to SITE in 2016 to set up their manufacturing units after the then-government started security operations with the help of Rangers in 2013, famously known as the 'Karachi Operation.'⁴ The entrepreneurs invested and rented out a place in the SITE area to avoid power outages, lower property taxes, and 'only in name' labour and trade unions. The labour hired in these enterprises are a mix of residents of Karachi and migrant workers.

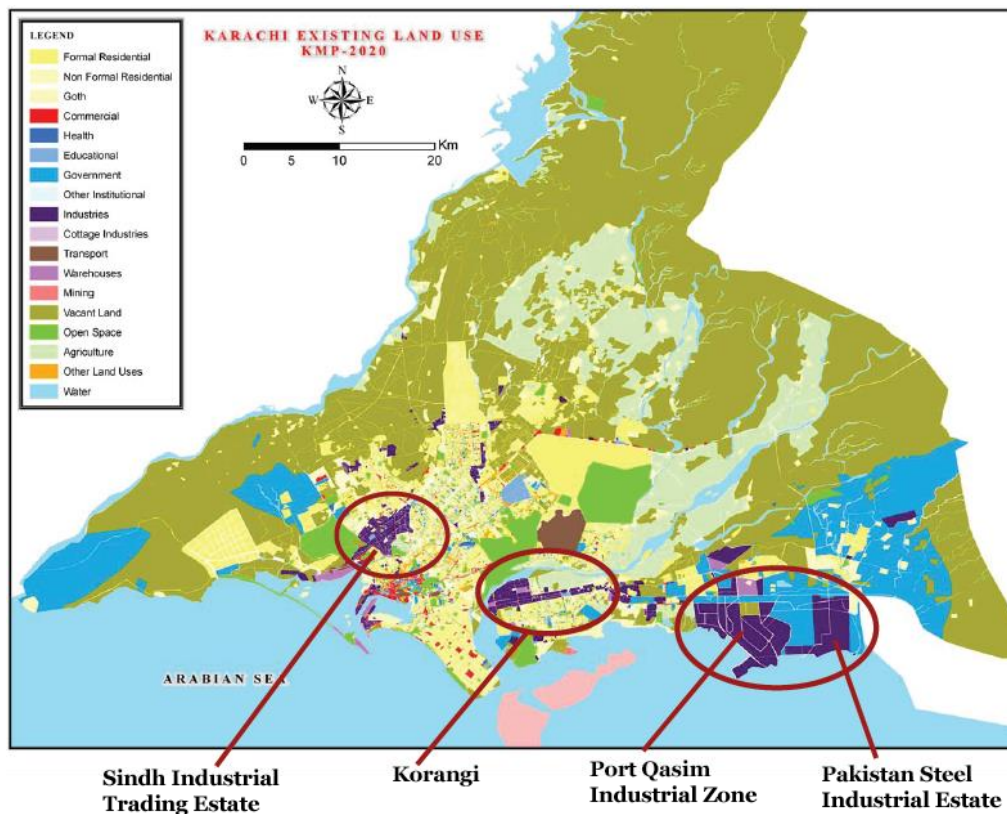
5.2. Shifting Sites of Production and Changing Land Use

The problems noted above resulted in the change of ownership of SMEs and their spread in more informal practice. The small cottage industry-based units were sold by the owners and bought by new entrepreneurs - the former skilled labourers - who put in all their life savings to start up a business. These new owners shifted the textile units from commercial plots to the residential area, often setting up the units on the ground floor of their houses

⁴ In 2014, Karachi was listed 6th on the International Crime Index. Numbeo Crime Index by City, <<https://www.numbeo.com/crime/rankings.jsp?title=2014>>. In 2020, it was ranked 103.

or renting out a floor in a residential unit. They found the rents to be much cheaper, electricity cost was low because it was charged under residential billing, and plots under 80 sq.yards were exempt from property tax in Metroville due to its status as a low-middle income settlement. This lowered the overall production cost.

Figure 2: Map of Karachi



Source: Adapted from ‘Karachi Strategic Development Plan’, 2020.

Most industrial areas in Karachi were planned to be located far away from the city centre. The general pattern of industrial land use is that they are close to lower to middle-income settlement areas, and the city has also sprawled over time with emerging settlement around these industrial areas. Most of these industrial towns were developed in the suburbs or the outskirts of the city, with the capacity of mix residential plots in it, but they are now surrounded by the organic growth of residential settlements.

5.3. Case Study Area: SITE and Metroville

Sindh Industrial Trading Estate (SITE) was developed in 1963 as the first designated and planned industrial zone in Karachi, with an area of over 4460 acres, along the west side of

Lyari River. This estate was well connected by rail and, at present by only road to the seaport of Karachi and also roads linking to the rest of the city. Currently, it has an area of 9000 acres approximately with 2,400 factory units. This estate also has planned residential zoning, which have now sprawled. According to the 1998 Census, the town had a population of approximately 327, 639 which in the 2017 Census rose to 403, 574.⁵ The case study neighbourhood Metroville Scheme 3, now known as Metroville 9, Sector 4 of SITE⁶ was previously administrated under the SITE township, which was disbanded in 2011, when town administrations of Karachi were dissolved into districts. It was one of the nine councils of SITE (Figure 4). It began as a planned settlement in 1972 for the factory workers and refugees living in the inner city. Most plot sizes range from 80 sq. yards to 120 sq. yards, with incremental building of floors, according to need. According to the building byelaws and zoning regulations of Karachi, no industrial activities are permitted in the residential and commercial areas.

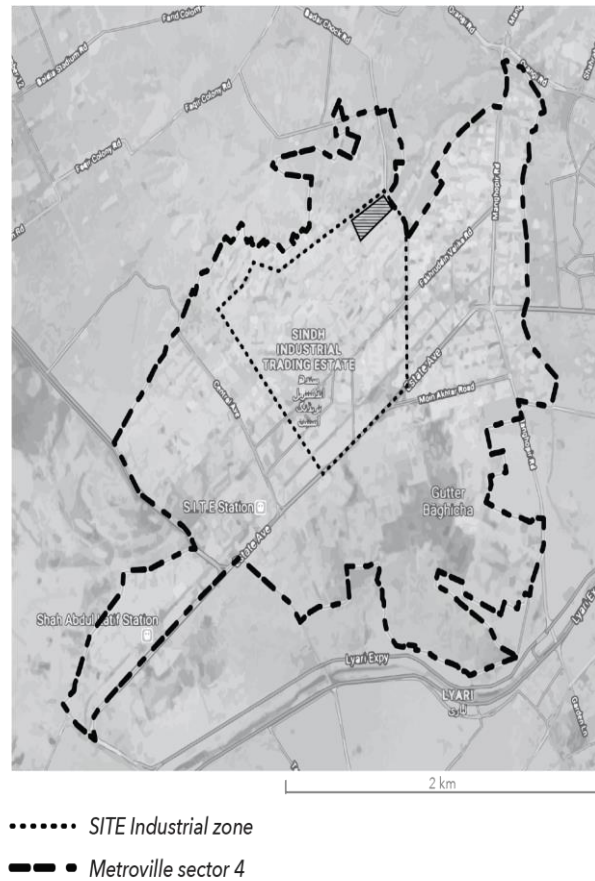
According to the research findings and data collected, manufacturing units are established illegally on the residential and commercial plots, mostly sized 80-120 sq. yards. This activity is happening mainly on the fringe of Metroville adjacent to SITE (Figure 3). The state tolerated and let the informal industrial activities thrive outside the regulated zones and failed to recognise their existence under the cottage industry sector because of lack of governance and poor policies to support small businesses. However, these informal industries situated in the residential neighbourhoods ideally benefit the people working and living in the same locality, saving them time and cost of commute. Also, it is more lucrative to find orders from the textile SMEs located in the SITE estate. Since these informal industries are self-reliant and also depend on the informal provision of utilities, for example water, health, maintenance of state provided infrastructure, and even security, therefore, this reduces the burden on the city government and state to provide proper infrastructure. However, the local planners and urban practitioners advocate for a policy revision for mixed use areas, with inclusion of these informal industries and their recognition. This will also bring these activities into the tax net making it profitable for both state and the people (owners and workers). Not being able to register with the Federal Board of Revenue (FBR) and being out of the tax net, is curtailing the growth of these manufacturing units and their businesses. They are unable to reach the international market because they cannot get the licences and permits to export their products/goods as an exclusive manufacturer. The Karachi Strategic Development Plan or Karachi Master Plan 2020 does not have any section/provision that recognises the existence or growth of

⁵ City Population n.d. <<https://www.citypopulation.de/en/pakistan/karachi/admin/>> [Accessed 28 Oct. 2021].

⁶ Referred to as Metroville in the study.

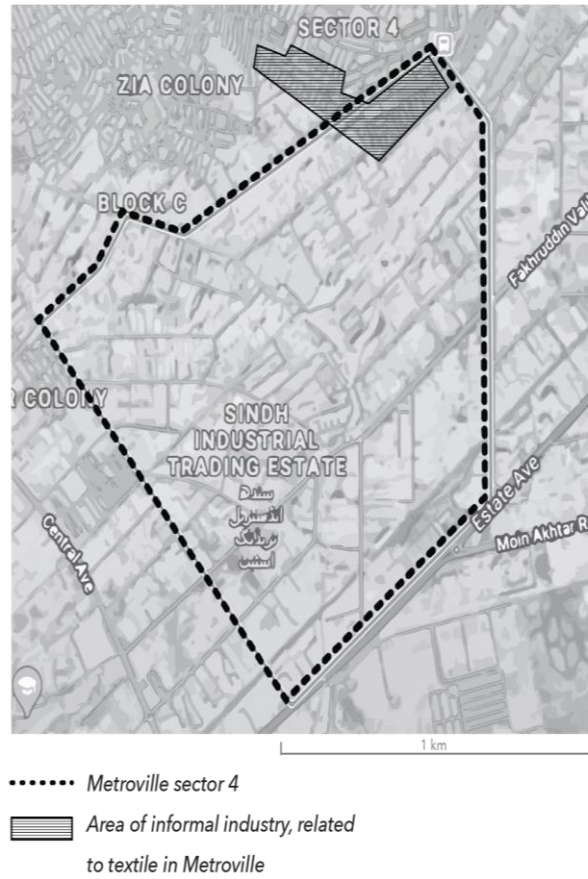
informal industries in the city, let alone its contribution in the urban economy and jobs provision.

Figure 3: Location and Boundary of SITE Industrial Estate Zone and Metroville Sector 4



Source: Marked by author on a GoogleMap satellite image of Karachi.

Figure 4: Location of Informal Industry in Metroville



Source: Marked by author on a Google Map satellite image of Karachi.

Figure 5: Location of Informal RMG Unit and Textile SME (Khalid Garments)



Source: Marked by author on a Google Map satellite image of Karachi.

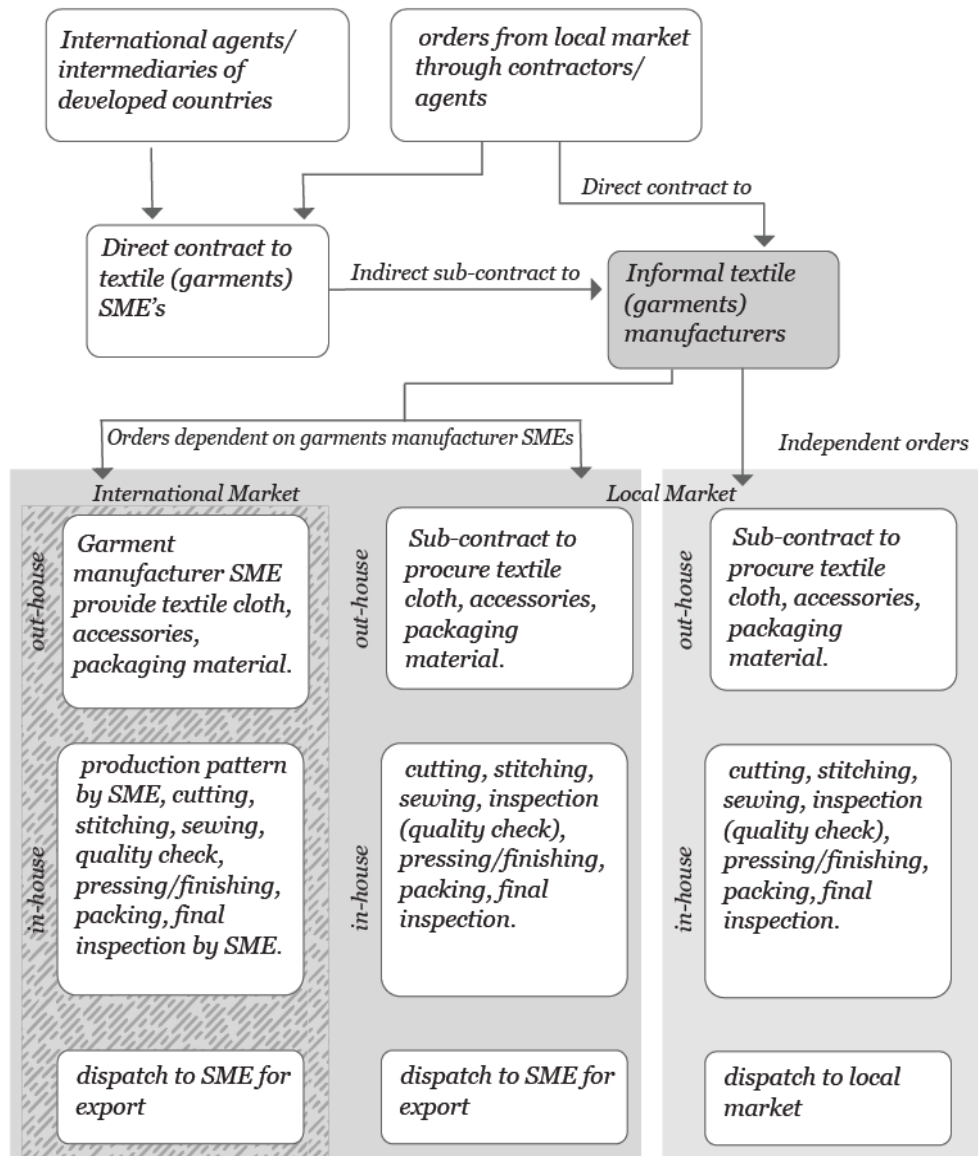
5.4. Change in Production Systems: Manufacturing Systems, Labour and Spatial Production

The complications noted above have resulted in a number of repercussions for textile SMEs of Karachi, primarily its spill into the informal sectors. In the subsequent sections, these problems are divided into three areas: manufacturing systems, labour production, and spatial production.

5.4.1. Informalisation of Manufacturing Systems

The new entrepreneurs, former skilled labourers, did not have the knowledge and experience of reaching the markets. This gave way to a new kind of an entrepreneur working as a middleman known as ‘contractor’ or a ‘broker’. The textile SMEs and informal manufacturing units in Karachi have a middleman for almost all operations from hiring labour to acquiring orders for production. A textile SME gets its order from either a broker sitting in the local market, or one connected to the international market. These brokers have agents who connect the local trader to the formal SME or an informal manufacturing unit, based on the clients’ demand, accordingly to the expertise and production capacity of the factory. If an SME gets excess orders from an international or local client directly or through a broker, they then contact the middleman to sub-contract to the informal manufacturing units. This process seems complex, but it cuts down the cost of production for the SMEs since they don’t have to hire permanent labour, neither invest in machinery or equipment. The client pays the SME directly, the broker is paid both by the SME and the client. The middleman who contracts out the sub-orders also gets his ‘cut’ from the SME and informal manufacturing unit.

On the other hand, the informal manufacturing unit also gets orders from international clients through brokers directly, without involvement of an SME. The brokers facilitate these informal businesses in getting connected to another middleman who looks after the export of goods. This ‘export facilitator’ middleman takes the product of an unregistered business and ships it under the name of a registered enterprise. This way, the registered business also makes money without working just by lending out its permit to export. The informal or unregistered business can reach the local market through a middleman, or directly if the business has an already established reputation in the market or personal relations with the client. Most of these operations happen through personal contacts or through word-of-mouth in the local market. There is no database available to locate these middlemen (see Figure 6). However, the brokers catering for the international market have databases and registrations.

Figure 6: Linkages between Formal and Informal Industries' System of Production and Manufacturing

Source: Author's own.

5.4.2. Labour Production

The labour in both SMEs and informal manufacturing units are also hired through middlemen known as 'labour contractors.' An SME usually has 50-100 workers on the floor, including administrative staff. The majority workers are contract-based according

to production demand at the factory floor. The administrative staff gets a permanent contract and have job security, but usually these are family members of the owner, because most of these businesses are family owned. The factory floor workers are hired on daily wages and their salaries vary depending on the type of work and skills, as shared by one of the respondents:

Madiha lives at Disco Mor and travels everyday an approximate distance of 14 km to come to work in SITE town. She has been working in Abdul Majeed's factory for the last three years. She found this work through a labour contractor - a friend of her husband. She works in the 'checking' department of garments, quality and control before final packaging of the product. Her work hours are from 9 am till 6 pm and she is paid PKR 600 (USD 3.5) per day. Sometimes, she has to work overtime and is given an hourly wage accordingly. She recalled a time when she fell sick during a workday and the factory owner took care of the situation and made sure she received proper medical treatment. The factory owner also lends his personal car and chauffeur to drop the female workers off, if they get off late from work at night or the security situation in the city is tense. She also informed that if she takes a day off from work due to dire reasons, for example sickness, and she communicates it to the contractor, he does not cut her day's wage. This all depends on the mood of the contractor and also the amount of work based on the consignment. During two months of lockdown due to COVID-19 when the factory was closed, she was not paid and made ends meet by getting some work from a contractor to sew buttons on garments at home. She was relieved to come back on the factory floor since the work gave her a sense of job security.

The workers are paid by the labour contractor on weekly basis. The contractor stays on the factory floor most hours of the day managing work among the workers. He/she may also be assigned a job in the production line. The workers are not given any written contracts or even worker identification cards. They work 12 hours a day, with half an hour lunch break, which is extended to one-and-a-half hour on Fridays, for Friday prayers. They are not provided with any insurance, neither health nor accident, nor are they given holidays, except Sunday. The owner, however, claimed to take care of any finances due to mishap or an accident on the factory floor. The SME does not have to share individual workers identity or registration with any state office. Only a head count is required on official papers for a factory's registration with FBR and Karachi Chamber of Commerce and Industry (KCCI).

The study also found that majority workers in one of the owner's factory⁷ production line were migrants from rural areas, hired by the contractor. They were being provided with accommodation by the factory owner at a walking distance from the factory. The monthly salary of these workers was approx. PKR 15,000 (USD 90). For example:

Laxman, the labour contractor, also working in the sewing department of the factory, came to Karachi from a small village called Mitthi ten years ago looking for work. He was hired by an informal cottage textile industry in Orangi Town, where he learnt to sew. He then found a job in a textile SME in SITE. He later got a few of his villagers hired in the same factory. He is now working with Abdul Majeed in his factory and is responsible for bringing labour from the rural areas of Sindh. He recruits them according to their skills and is in charge of looking after their basic livelihood needs, including accommodation, health, and security. For example, he was responsible for taking the workers back to their home village safely during the COVID-19 pandemic, and also to bring them back when the factory re-opened in June.

The process of contracting labour in an informal manufacturing unit is very similar to that in a formal SME. The owner is himself responsible for hiring the labour force, training them and providing them with accommodation in the city. They usually do so through personal connections in the rural areas; and with the help of a labour contractor when there is a big order or a consignment to deliver in a short period of time (see Figure 7). A few more respondent cases are shared below:

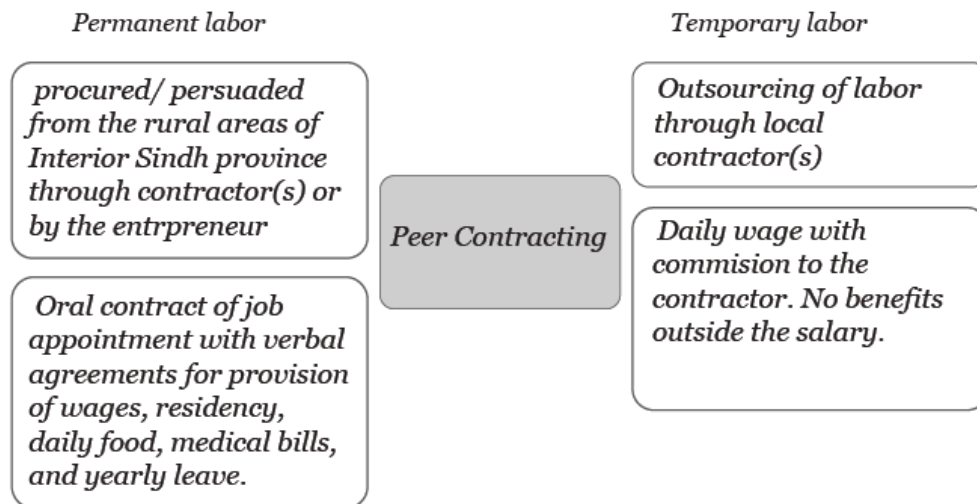
1: Naru had been working in Abid Ali's informal manufacturing unit for the last two- and-a-half-years. He is from a small village Khwaja Stop near Mirpurkhas. He was brought to the unit through the personal connections of Abid Ali, whose second wife is also from the Mirpurkhas city. He was living on the mezzanine floor of the manufacturing unit and provided food by Abid Ali. He was satisfied with his job and the sense of security that comes with it. He informed that he was treated as a family member by Abid Ali. Although he does not have any written contract, he is not worried about his job. He can get a day off in the week, which is usually Sunday. He informed that he was not worried about the police or any security agency questioning them about his purpose in the city because he carried a copy of Abid Ali's National Identity Card. Any medical or health expenses were also taken care of by his boss.

2: Abid Ali is the owner of a small garments manufacturing unit, set up on the ground and mezzanine floor of his triple story 80 sq. yards house. He got into the textile business at the age of 16, working as a helper in the sewing department of

⁷ Abdul Majeed.

a textile factory in SITE. He later worked as a contractor and supplier of garments from factories to the local market. These small jobs gave him enough experience and reputation in the local market to get orders and start his own manufacturing unit 'Khalid Garments'. Initially, he only hired one labourer for sewing, and used to do the cloth cutting himself or would outsource it. His two wives also work with him in the production line of his manufacturing unit. After the COVID-19, his school and college going children (two daughters and one son) also started helping in the production line because educational institutes were shut down till mid-September 2020, and Abid Ali had received a huge order of winter clothes from the local market and also a sub-order from an SME. Apart from the local market, he also got work from SMEs and produced export quality garments for them. He aspires to expand his business to reach the international market directly, but this requires him to set up his unit in an industrial zone, and for that a large investment is needed. Also, there is lack of incentive by the state to provide these informal businesses easy ways to register their businesses and file tax returns.

Figure 7: System of Procuring Labour Force for the Formal Textile SMES and Informal Textile Industries



Source: Author's own.

5.4.3. Spatial Production

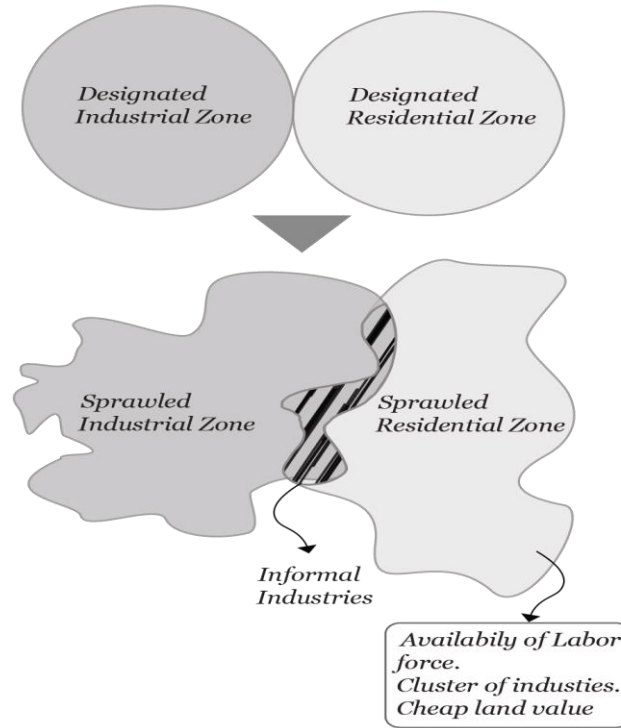
The SMEs in SITE are mostly on rented-out floor spaces, in large factory buildings, shared by different tenants. The SME studied for this research paper 'Khalid Garments' owned by Abdul Majeed is on the First Floor of a ground plus two-storey building and

occupies half the floor - an area of 1000 sq. yards. All other activities and industrial units in the building are also textile related, manufacturing garments and also warehouse for the same. SITE is exempt from power-cuts or load shedding of electricity, gas and water supply. Also, the tariff for these utilities is less than that of the commercial or residential zones. The area is well connected to the port and the city by roads. However, road condition is very poor which increases the time of commute, especially for heavy vehicular traffic carrying goods. The lack of streetlights and security also makes it difficult for women workers to commute after the sunset. Bus stops are non-existent in the area and buses stop wherever they find a passenger or where the passenger needs to get off. Most SME workers reside in the neighbouring residential settlements, saving travel time. On the other hand, the informal manufacturing unit studied for this research paper, is located in Metroville. This manufacturing unit is at a distance of 1.5 kms from the SME Khalid Garments (Figure 5). This informal unit gets most of its production sub-orders from Khalid Garments owned by Abdul Majeed.

Most residential buildings on the fringes of Metroville adjacent to SITE have a textile manufacturing unit, warehouse, or a textile workshop on one or two-storey. Many ground floors are rented to mechanical workshops catering to repair of textile industry machinery. Since this area falls under a residential zone, the electricity charges are higher, and even more for commercial enterprises. For example, Abid Ali's house has two electricity meters, the ground and mezzanine floor come under commercial metering, whereas the upper three floors are connected with the residential meter. This neighbourhood has frequent electricity power-cuts, and there is scarcity of water as well, which makes them rely on an electricity generator, and for water they depend on private and informal water tankers (PKR 5,000 or USD 30 for 1000 gallons of water).

The designated residential area of Metroville is rapidly converting into an informal cottage industry, and the buffer zone between industrial and residential area is diminishing, posing environmental and social threats. The lack of infrastructure provision is making the situation worse because of high pressure on existing infrastructure which is already not well-maintained. Since the area is developed along the west side of River Lyari, which is seasonal river and carries rainwater to the sea, most of the industrial waste, from both informal and regularised industries, goes into this river directly, causing contamination. However, SITE and Metroville were envisioned as ideal towns for work and living for the working class, albeit their condition is worsening with each passing year due to negligence of state planners and policymakers. This area needs attention and further study to understand its multidimensional purposes for better planning of SEZs. It also needs to be included in any future economic and developmental reforms in the city of Karachi.

Figure 8: Sprawl of Industrial Activity from Regulated Industrial Zone into the Residential Settlement



Source: Author's own.

6. CONCLUSION AND RECOMMENDATIONS

Reasons behind the ongoing decline in urban infrastructure and increasing informalisation of textile industry in the city of Karachi are primarily linked to liberalisation, regional and local conflicts, declining law and order situation and power outages. If unaddressed, these factors can create more distress and further informalisation, especially of the textile industry.

This study indicates that there is clear need for reforming the zoning byelaws to allow mixed uses for low-income groups to work and live in the same area. This will help in supporting broader city planning as well as reduce traffic congestion. Structural reform is also needed in the energy sector to exempt these areas from power outages. More than anything, documentation of the informal industry is needed to understand and analyse the multi-layered patterns of urban informal economic processes. Macroeconomic factors at play and what can be achieved by taking into consideration local impacts of any reforms is also important.

CPEC is promising to bring in FDI, especially in the industrial sector. Rather than building new economic zones far away from the cities, which will require a huge amount of investment in infrastructure building, existing industrial zones should be given first priority for urban development. This will also help to bring private foreign investment to these zones where machinery and labour are already available.

Regarding the current situation of textile SMEs and their decline, there is also a lack of a trade policy that is incentive-driven and reduces administrative costs for local small players to enter the international market. This is playing a huge role in discouraging potential exporters. What is clear is that the informalisation of industrial activities and their spread into low-income settlements is likely to continue representing a clear priority area for urban policy. Further research in this area is required through the lens of economic development. A re-evaluation of Karachi's urban development policies and governance is required to include and incentivise the most important economic sectors and use their potential to contribute to economic growth and employment in order to have more inclusive and sustainable economic development.

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