

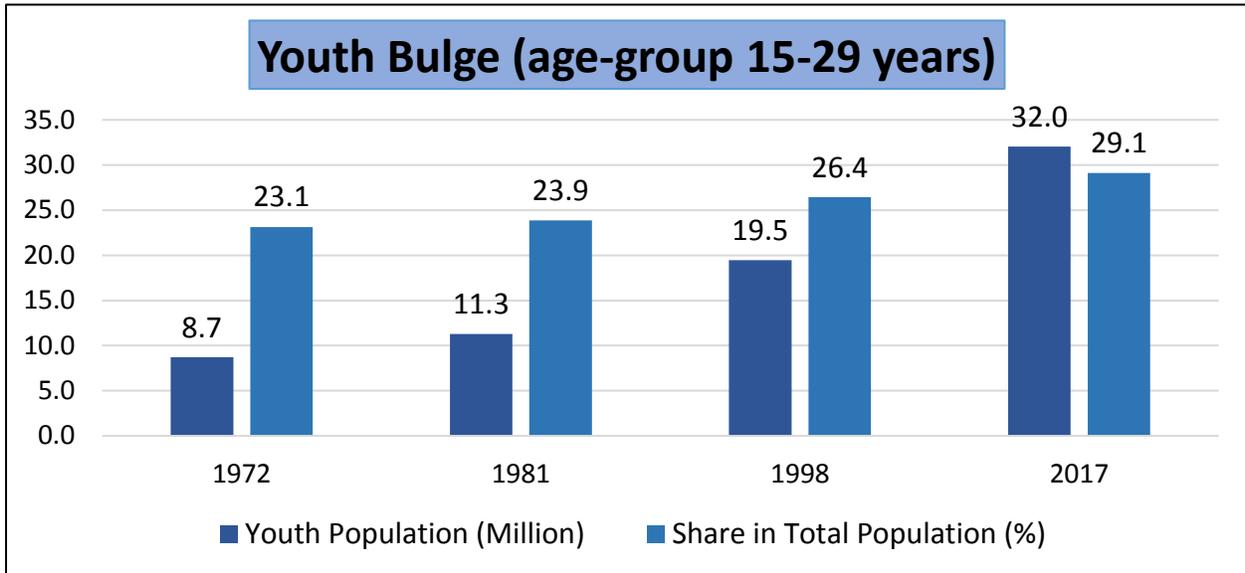
Labour Deletion Policy Punjab (To Be Added as Part of the Industrial Policy)

Background:

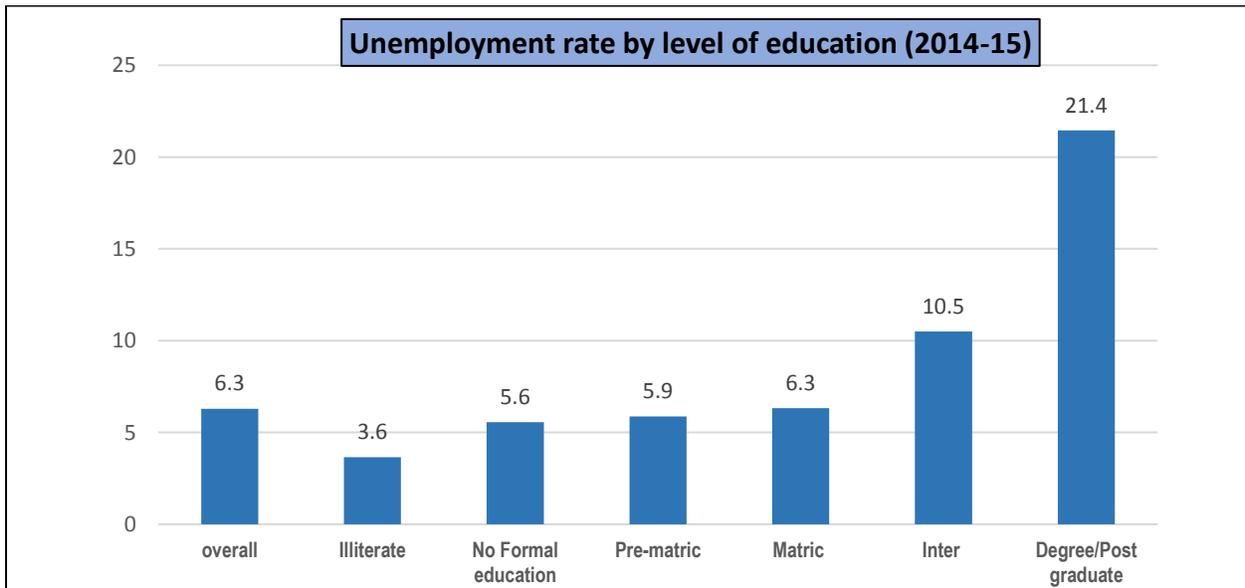
Pakistan has entered a new economic era and is rapidly establishing itself as a key economic player in the region. Signing itself up for stronger global integration through massive projects such as the China-Pakistan Economic Corridor, Pakistan is opening its borders and land to the global market. With improved security, construction of numerous power plants and heavy investments in infrastructure, the Government is actively reducing the major binding constraints to growth and FDI inflows. This drive for growth, feeds directly into the promise made by the ruling political party of creating 2 million jobs for youth per year. However, by their very nature, foreign ventures can result in limited opportunities for including local labour force, and may prefer to bring their own workers. This phenomenon must be carefully managed.

The Government of Punjab, in a similar vein, is working actively to prepare the province to receive greater foreign and domestic investments, offering a number of incentives, including subsidized land in state of the art industrial estates. The province has experienced rapid growth rates in the recent few years and is aiming for a 7% growth rate in the coming year. The focus is on expanding the manufacturing base of the province in order to cater to the employment needs of the labor force, estimated to be at 37 million, representing about 35.3 percent of the population of the province. By way of comparison, the aggregate labor force of Pakistan is estimated to be around 61.04 million in 2015. The labor force in Punjab in the eight years between 2007 to 2015 has grown at an average rate of around 2.8 percent, while the employment rate has grown at a slightly slower rate of around 2.3 percent. This results in some 34.6 million people employed and around 2.32 million unemployed in Punjab. Moreover, the demographics of Punjab and Pakistan (See figure below) suggest that till 2030 due to past fertility trends the number of youth will keep increasing. Thus, a major objective and priority of the PTI government is creation of gainful employment. To support this priority, the Government of the Punjab under its Growth Strategy 2018 trained close to 2 million young skills graduates in the last four years. However, employment opportunities have been hard to

come due to the historic constraints of power shortage, declining exports and premature de-industrialization.



Moreover, the figure below shows that the total unemployed work force holding a degree or higher education is significantly higher. These trends are alarming, as the unemployment rate increases to 21.4% for this segment of the population. These are likely to be the most disenchanting from persistent unemployment.



Source: Labor Force Survey

Thus, to cater to the local populations' employment needs in an increasingly liberal investment climate, with an increased number of foreign businesses setting up operations in Punjab, it is important that the government has a labor policy that ensures that the benefits of increased industrial activity and FDI reaches the local population. To ensure employment, skills development and technological transfer to the local population it is important that businesses prioritize local hiring. Countries, including Vietnam, Myanmar, Singapore, Malaysia as well as Saudi Arabia, all have similar policies to promote local employment and ensure that growth is equitable and beneficial for the foreign investors as well as the host country. The driving principle behind these policies is to encourage local hiring and only allow the employment of foreign nationals if the job is a highly technical one and the host country does not yet have professionals with the requisite skills for the position. Although, the policy should be country blind, but as part of CPEC's Industrial Cooperation Agenda, Punjab should build some safeguards to ensure that local labour is able to find employment in industry relocating to Punjab and benefiting from the investment incentives in shape of low cost/subsidized land, discount on taxes and duties and other incentives that may be offered.

The Government of Punjab thus sets forth the following policy for hiring of foreign workers once a business/industry is operational:

- Foreign companies will be required to work with PSDF, TEVTA and PVTC to raise their demands for specific skills and will provide opportunities to invest in training of local labour to meet their requirements. The JCC also agreed that, Chinese investing in SEZs will promote skills trainings and will set up training institutes to build capabilities for local labour to work in their ventures. In addition, where PSDF, TEVTA and PVTC may not have the capacities, Tianjin University of Technology Lahore will be engaged to develop training programmes to meet the upcoming needs. In addition, the government will work with Chinese counter parts under CPEC to set up a framework for a mutual recognition of competencies and skills required.
- At the time of registration, the firm/business will have to obtain a certificate from the Labour Department that will define the context of 'un-skilled'; 'semi-skilled' and 'skilled' workers for the concerned investments. The un-skilled workers

include all type of factory floor workers, up to and below the level of supervisors. The semi-skilled workers include supervisors and going up to managerial level staff both on factor floor and management office. The skilled workers include the senior management team requiring higher level of qualifications and skills. A plan is to be submitted on number of workers and growth expected for each category type. Once agreed these definitions will them apply for the deletion rates as proposed below.

- 90% of all unskilled positions need to be employed with Pakistani Citizens by the end of the second year of operation. By the end of the third year of operations, 100% unskilled positions need to be employed by Pakistani Citizens.
- 70% of semi-skilled positions need to be employed with Pakistani Citizens by the end of the second year of operation. By the end of the third year of operations, 100% semi-skilled positions need to be employed by Pakistani Citizens.
- 50% of skilled positions need to be employed with Pakistani Citizens by the end of the second year of operation. By the end of the third year of operations, 80% of skilled positions need to be employed by Pakistani Citizens.
- Firms are allowed to hire their top-management and supervisors internationally. However, by the end of the third year of operations 50% of these positions also need to be employed by Pakistani Citizens.

By the end of the period stated, firms will only be allowed to hire internationally, over the stated quota if they can prove that the position cannot be filled locally. In case any firm is found in non-compliance with the above targets and evidence is obtained; it may result in:

- Immediate withdrawal of incentives like subsidies (including land subsidies received through the land lease incentives), tax holidays, export tax rebates and other incentives offered under the SEZ regime.
- A foreign-worker tax will be imposed that would have to be paid by the firm. The amount can range between USD 500-1000 per worker per annum and will have to be increased yearly.

Visa Control

Directorate General of Immigration & Passports, Ministry of Interior, Government of Pakistan, has the mandate to develop the Visa Policy. The visa policy prescribes that Pakistan Missions abroad are authorized to grant multiple-entry Work Visa to foreign expatriates on the recommendations of Board of Investment with one year's validity. Board of Investment, Government of Pakistan, has the necessary jurisdiction to process work visa applications and makes recommendations to the Ministry of Interior for authorization of visa to the concerned Mission. The Punjab Government, on a proactive basis will share the information on investors with Board of Investment to both facilitate the visa of foreign workers and also to ensure compliance with the policy.

Gender Inclusion

The policy actively encourages inclusion of local women in employment with foreign owned businesses. For this the policy recommends that foreign businesses maintain a 5% quota for female workers. To encourage this, those businesses which exceed this threshold of 5% will be allowed a 25% discount on their social security payments of all women hired.