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**RURAL LANDSCAPE**



## **The Changing Rural Landscape in Pakistan: Labor Markets and Consumption Patterns**

**Rafi Ullah**

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Labour Markets and Consumption Patterns**

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**PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS**  
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## **Abstract**

Pakistan's rural areas have complex economies with employment permeating across a range of industry divisions apart from agriculture. This paper aims to examine the trends in rural employment and consumption patterns by looking at key individual and household level indicators. The data used for this exercise comes from Household Integrated Economic Surveys (HIES) conducted by the Pakistan Bureau of Statistics (PBS) over multiple years.

A thorough examination of the trends indicates that there has been a persistent shift in non-farm-related employment in Pakistan, with about half the working population now involved in non-farm-based jobs. Furthermore, approximately two-third of household income comes from sources that are not directly linked to agricultural production, either crop production or livestock. People in rural Pakistan are switching from non-farm employment due to a myriad of reasons, including an increase in peri-urban agglomerations, increasing connectivity, low returns to agriculture, and scarcity of land due to skewed land ownership.

Household consumption patterns over the past two decades also indicate key shifts in the nature of commodities consumed. Households on average spend less than half their total consumption expenditure on food items. This is even true for families in the lowest income quintile.

There is a need to examine further the changing economic landscape of rural areas in Pakistan. The research needs to move away from ideological pitfalls that have often inhibited factual realities by relegating rural areas as non-dynamic places that only contain primary sector economic activities.

## **1. BACKGROUND**

There is a common perception that persists in popular culture and certain policy circles that Pakistan is a predominantly rural country whose economy is primarily based on primary sector-related economic activities. But even a precursory look at available figures and data reveals that this perception cannot be any farther from the actual picture at hand. Furthermore, the country has one of the highest urbanisation rates in the region, with an ever-increasing urban population. Additionally, the country's economy has also seen a distinctive shift from reliance on primary sector activities to a more goods and services-based economy. Less than 20 percent of Pakistan's GDP comes from agriculture. Building upon the 2017 census results, which put the percentage of rural population at approximately 63 percent, it is essential to investigate the rapidly changing and diversifying economic landscape of the rural areas in Pakistan.

An important starting point for the discussion of this paper is to first establish what is precisely meant by the criterion that designates an area as 'rural'. If the criterion based on arbitrarily demarcated administrative division is to be accepted, then indeed, the majority of Pakistan is still 'rural'.<sup>1</sup> However, if one was to designate the label of 'rural' to only those areas where an overwhelming majority of people is involved in farm-related employment, income generation and consumption, then it should be pointed out that far less of Pakistan is rural than what the official figures report.

If one was to, for the moment, accept the current administrative demarcation between urban-rural, in the areas that are currently designated as 'rural' a distinctive change at both individual and household level can be observed for a range of economic indicators. In this paper, using data from Household Integrated Economic Surveys (HIES) conducted by the Pakistan Bureau of Statistics (PBS) over the last two decades, we observe the evolution of key individual and household level indicators on employment, income sources, and consumption. The objective of this exercise is to point out how there have been significant shifts in both individual and household level characteristics in the areas currently demarcated as 'rural' and how these shifts carry important policy-related significance.

## **2. PERCENTAGE RURAL POPULATION**

### **2.1. How Much of Pakistan is Rural?**

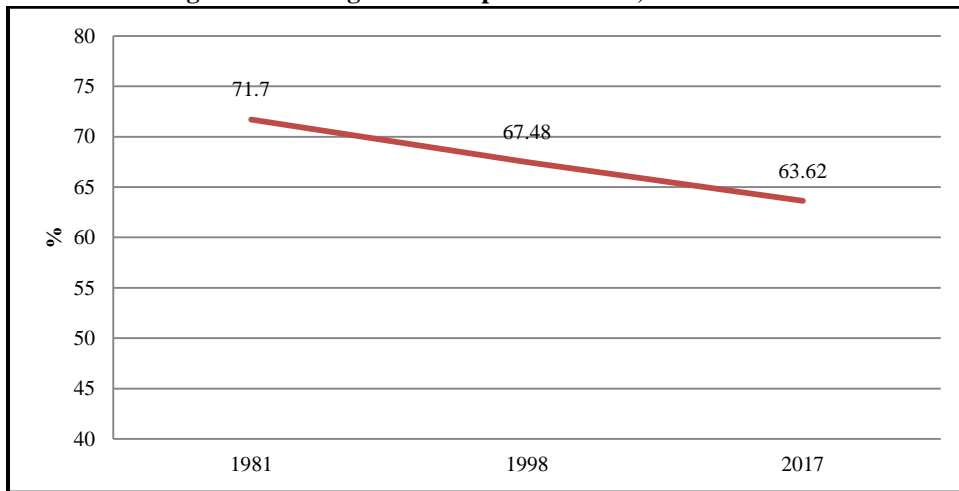
If one was to look at the last three country-wide census results, it could be observed that the percentage of the rural population in Pakistan has gradually declined. In 1981 about 71.7 percent of the population was rural-based, whereas, in 2017, the percentage came down to 63.6 percent. (See Figure 1).<sup>2</sup>

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I would like to express my gratitude towards Mr. Reza Ali for his valuable comments and input based on a preliminary draft of this paper. Mr. Reza Ali's comments and input as an expert on the subject matter were helpful while finalising the final draft of this research paper.

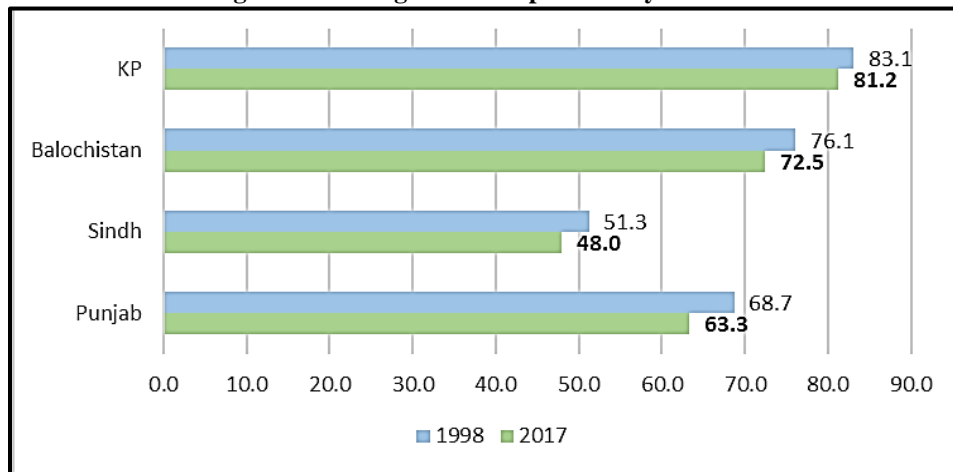
<sup>1</sup>Provisional Census Results Summary, Pakistan Bureau of Statistics, 2017.

<sup>2</sup>Ibid.

**Fig. 1. Percentage Rural Population 1981, 1998 and 2017**

Source: Pakistan Bureau of Statistics.

Furthermore, if we look at the data trend for percentage of rural population for all four major provinces, it can be observed that all of them have seen a decline in percentage of rural population in the period between the last two nationwide censuses (1998-2017). (See Figure 2)<sup>3</sup> The most significant percentage decrease of about five percentage points is observed in Punjab, where about 63 percent of the population still lives in rural areas based on provisional 2017 census results. The province of Sindh is reported as the most urbanised province and hence has the lowest percentage rural population at about 48 percent. The rural population for Khyber Pakhtunkhwa (KP) and Balochistan are 81.2 percent and 72.5 percent, respectively.

**Fig. 2. Percentage Rural Population by Province**

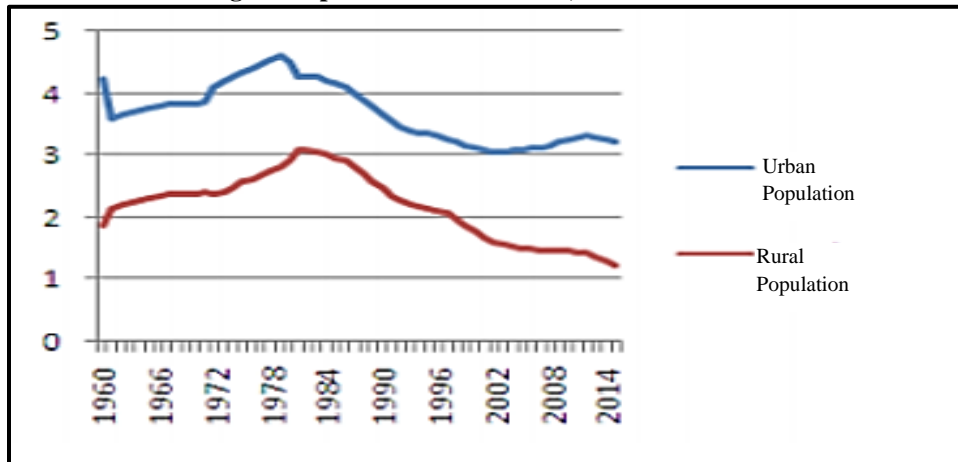
Source: Census 1998 & 2017.

<sup>3</sup>Ibid.

## 2.2. Why Percentage of Rural Population is Decreasing?

Pakistan's overall population has increased by an average annual percentage of about 2.5 percent during the past two decades.<sup>4,5</sup> During this time, the percentage of the rural population has gradually declined. This is true because the urban population growth rate is higher than the rural population growth rate. (See Figure 3).

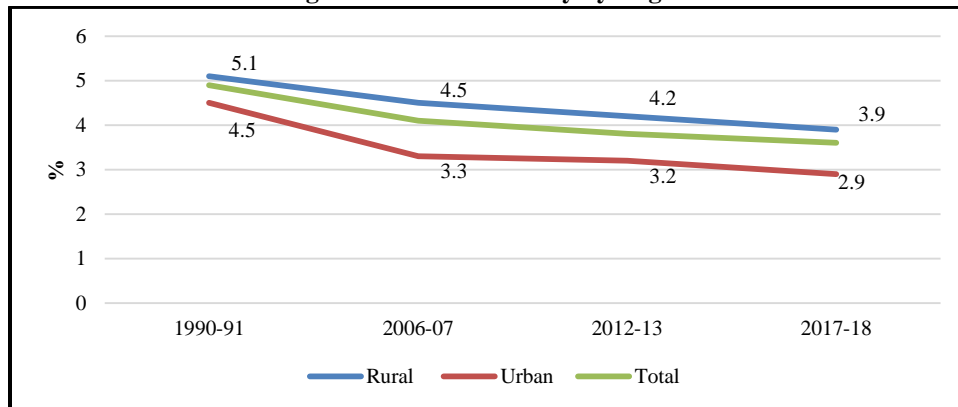
**Fig. 3. Population Growth Rate, Rural vs. Urban**



Source: Alvi, Mohsin Hassan (2018).

Why the rural population growth rate has remained consistently lower than the urban population growth rate might seem counterintuitive from a demographic sense, particularly since the rural fertility rate in Pakistan has always been significantly higher than the urban fertility rate. (See Figure 4).

**Fig. 4. Trends in Fertility by Region**



Source: Pakistan Demographic & Health Survey 2017-18.<sup>6</sup>

<sup>4</sup>Pakistan, Population Growth Annual percent, World Bank.

<sup>5</sup>Chapter 12, Pakistan Economic Survey, 2017-18.

<sup>6</sup>Pakistan Demographic and Health Survey, 2017-18, National Institute of Population Studies, pg. 84.



Findings from the Pakistan Demographic and Health Survey (PDHS) 2017-18 indicate that, on average, rural women have one more child compared to their urban counterparts.<sup>7</sup> Despite these higher fertility rates in rural areas, the percentage of the rural population as a percentage of the total population has steadily declined. Further meticulous analysis of demographic data suggests that this decrease in rural percentage despite the higher fertility levels cannot be attributed to the higher crude death rates in the rural areas either. The sections below (2.2 a. and 2.2 b.) outline two major contributing factors to the country's diminishing percentage of the rural population.

### **2.2(a) Rural-Urban Migration**

One major contributing factor to the lower net population growth rate in rural areas compared to urban areas is the migration of people from rural to urban areas. Rural to urban migration is a phenomenon observed across the globe. Rural-urban migration, particularly in emerging and developing economies, has been the subject of extensive research spanning over the last six decades. (Lall et al. 2006)<sup>8</sup> Internal migration, i.e., migration of people within the boundaries of a sovereign country, is a phenomenon that happens continuously over time. This includes both rural-urban migration and urban-rural migration with intra-urban and intra-rural migrants.<sup>9</sup> In Pakistan, just like in many other emerging economies, the percentage of the population moving from rural to urban exceeds the percentage of the population that moves the other way around, resulting in a net increase in the population of the urban areas. In Pakistan, the number of people moving from rural to urban regions has been consistently more than two times the number of people moving from urban to rural areas. (Hamid, S. 2006)<sup>10</sup> The net effect is that while the country's total population has kept on increasing, the rural percentage share of this population has steadily declined.

### **2.2(b) Rural-Urban Reclassification**

Another reason for the decrease in the percentage rural population lies with a reclassification of those areas that were previously labeled as 'rural' being reclassified as 'urban' for counting, survey, and other purposes. Most urban areas in Pakistan are sprawling at an unprecedented rate.<sup>11</sup> This urban sprawl means new areas are being added to the urban agglomeration. Hence from time to time, the "rural areas" around the cities need to be reclassified as they formally become part of the suburbia and urban agglomerations. In Pakistan, this means administrative reclassification of these areas to include them within the municipal boundaries of respective cities. Whether these administrative reclassifications have been undertaken to the extent they actually happen is another very interesting topic of study. Due to space constraints and the need for

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<sup>7</sup>Ibid.

<sup>8</sup>Lall, S., Selod, H., Shalizi, Z., Rural-Urban Migration in Developing Countries, 2006, Working Paper, Development Research Group, The World Bank.

<sup>9</sup>The term 'intra-rural migrants' refers to those people who migrate from an area that is designated as 'rural' to another area within the country that is also designated as 'rural'. Whereas the term 'intra-urban migrants' refers to those people who migrate from an area that is designated as 'urban' to another area within the country that is also designated as 'urban'.

<sup>10</sup>Hamid, S., Rural to Urban Migration in Pakistan: The Gender Perspective, 2006, Working Paper Series, Pakistan Institute of Development Economics, pg. 5.

<sup>11</sup>Haq, N., Flawed Urban Development Policies in Pakistan, 2015, Working Paper Series, Pakistan Institute of Development Economics.

conceptual coherence are not included in this particular paper.<sup>12,13,14</sup> Nonetheless, areas have been reclassified from rural to urban periodically, decreasing the total percentage land coverage of the ‘rural’ administrative criterion. This consequently has meant that the percentage rural population has gone down in Pakistan.

### 3. THE CHANGING LANDSCAPE OF PAKISTAN’S ‘RURAL AREAS’

Despite the gradual decline in the percentage of rural population over the past several decades, still approximately 64 percent of Pakistanis live in areas that are labelled as ‘rural’. In the sections that follow, we attempt to take a closer look at key individual and household level characteristics for people who reside in these areas. The aim of the exercise is to show that Pakistan’s rural landscape, including the economy of these areas, is diverse in its modes of production and general economic activities. The archetypal depictions of rural households primarily involved in on-farm employment coupled with subsistence consumption patterns are not representative of the majority of the rural socioeconomic landscape in Pakistan.

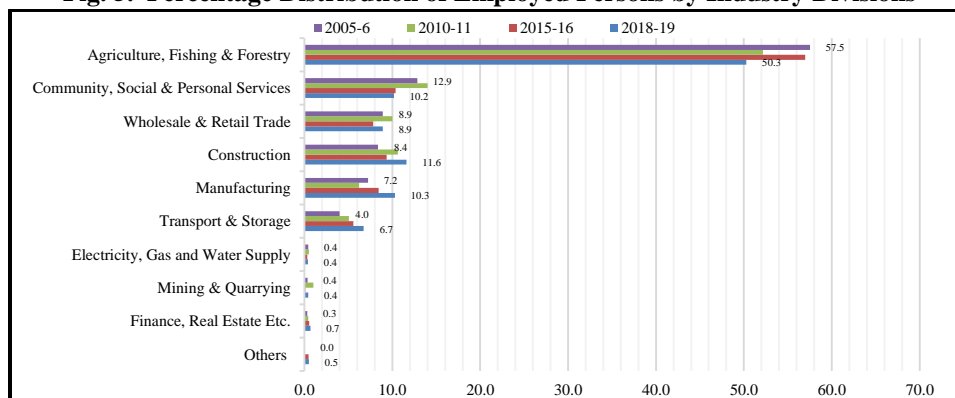
#### 3.1. Employment Statistics and Income

Over the past few decades, there has been a gradual shift in the nature of employment activities that most people undertake in rural areas in Pakistan.

##### 3.1(a) *Percentage Distribution of Employed Persons by Industry Divisions*<sup>15</sup>

Primary industries, which include agriculture, fishing, and forestry according to the last Household Integrated Economic Survey, still employ about 50 percent of the total employed persons in the rural areas, but this percentage has come down almost 7 percentage points from about 57.5 percent in the 15-year period between 2005-06 and 2018-19. (See Figure 5) On the other hand, the percentage of persons employed by major services and goods related industries such as manufacturing and construction has gone up.

**Fig. 5. Percentage Distribution of Employed Persons by Industry Divisions**



Source: HIES 2005-06, 2010-11, 2015-16 & 2018-19.

<sup>12</sup>There is evidence that a significant portion of areas surrounding urban centers in Pakistan which are informally part of the urban areas’ social and economic structures have not been reclassified. This on the whole means that urban population is significantly underestimated in Pakistan.

<sup>13</sup>Zaidi, A., *Rethinking Rural and Urban*, 2017.

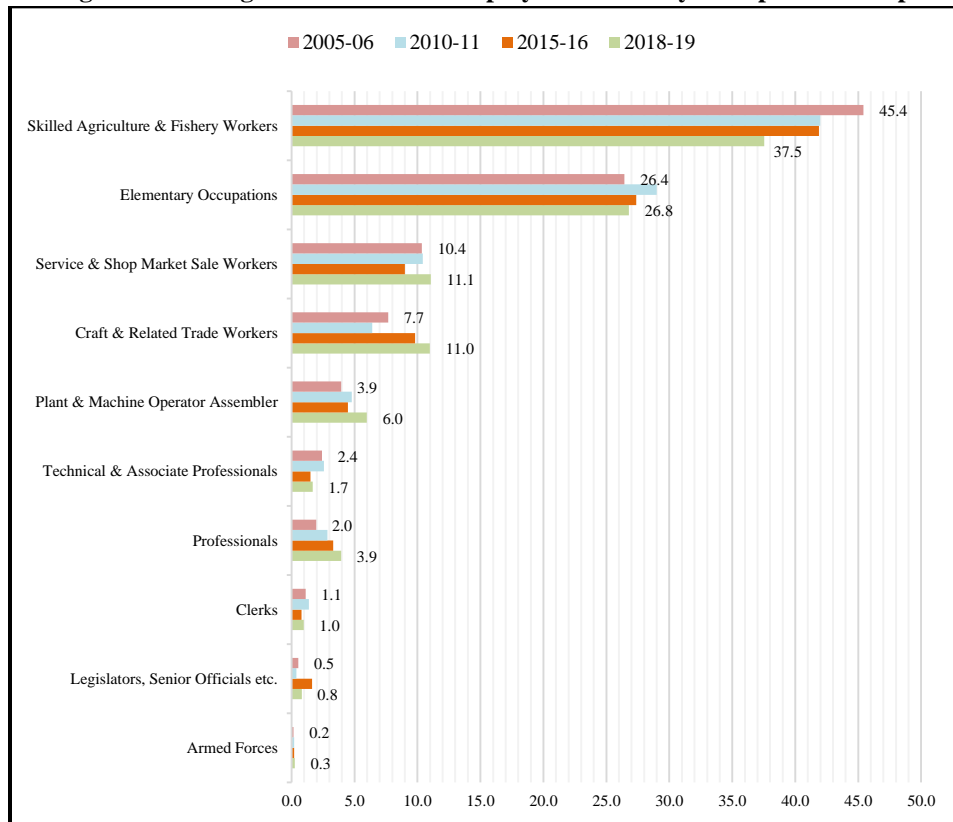
<sup>14</sup>Ali, R., *Estimating Urbanisation*, 2013.

<sup>15</sup>HIES 2015-16 & 2018-19, Pakistan Bureau of Statistics.

### 3.1(b) *Percentage Distribution of Employed Persons by Occupation Groups*<sup>16</sup>

Similarly, if one was to look at the percentage distribution of employed persons by occupation groups instead of industry divisions in the rural areas, a similar trend can be observed. The percentage of employed persons that come in the category of ‘skilled agriculture & fishery workers’ went down by 7.9 percentage points between 2005-06 and 2018-19 and stood at 37.5 percent according to the HIES 2018-19 estimates. (See Figure 6) An important point that comes out of this descriptive analysis is that while 50 percent persons are employed in the agriculture and fishing industry (See Figure 5), not all of them are skilled agriculture and fishery workers—a significant bulk of them are unskilled farm labourers who fall under the category of ‘elementary occupations. As for the percentage of those involved in skilled goods and services producing occupations, for most<sup>17</sup> of these occupational categories, the percentage share has gone up significantly over the 15 years between 2005-06 and 2018-19. (See Figure 6).

**Fig. 6. Percentage Distribution of Employed Persons by Occupation Groups**



Source: HIES 2005-06, 2010-11, 2015-16 & 2018-19.

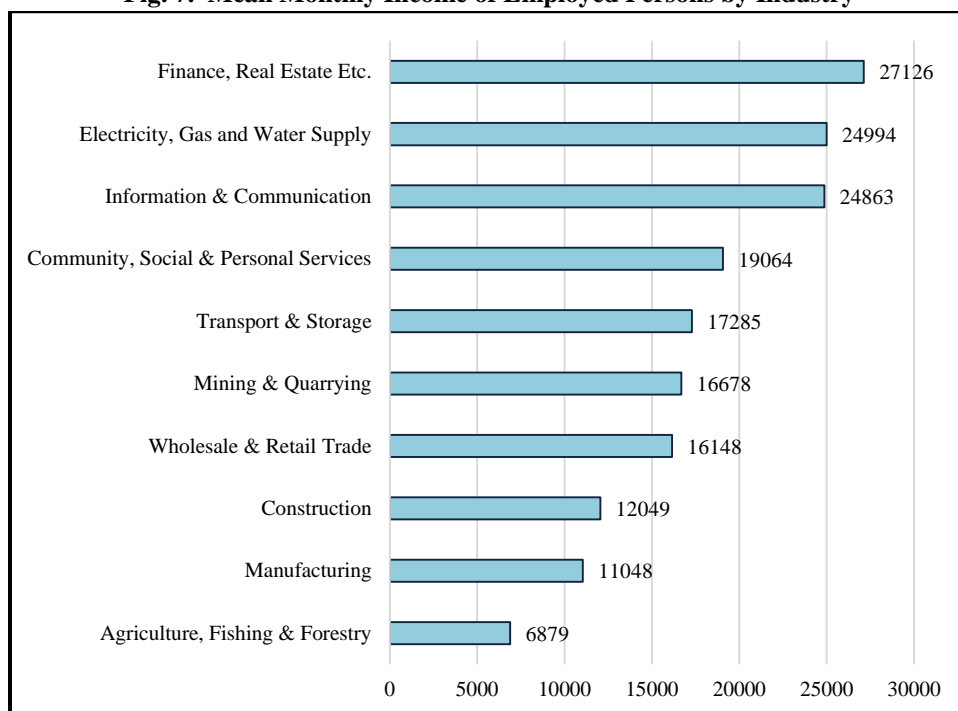
<sup>16</sup>HIES 2015-16 & 2018-19, Pakistan Bureau of Statistics.

<sup>17</sup>The percentage share of goods & services related occupational groups of ‘Technical & Associate Professionals’ and ‘Clerks’ went down by 0.7 and 0.1 percentage points, respectively.

### 3.1(c) Mean Monthly Income of Employed Persons by Industry Divisions<sup>18</sup>

As for the mean monthly income of the employed persons in each industry division in rural areas, it is observed those employed in the primary industries of agriculture and forestry have the lowest average monthly income of all the occupation groups. (See Figure 7) The further deeper analysis also reveals that most of these persons are employed in agriculture and forestry and income level of most of them lie in the bottom three quintiles according to HIES 2018-19 data. (See Appendix A)<sup>19</sup>

**Fig. 7. Mean Monthly Income of Employed Persons by Industry**



Source: HIES 2018-19.

### 3.1(d) Percentage Distribution of Mean Household Income by Income Source<sup>20</sup>

Another interesting facet that indicates the changing nature of the rural areas in Pakistan is that according to HIES 2018-19 data, only 14 percent and 12 percent of an average household income came directly from crop production and livestock rearing, respectively. Expressed in other words, 74 percent of an average household's income came from sources that were not directly related to farm production.<sup>21</sup> (See Figure 8).

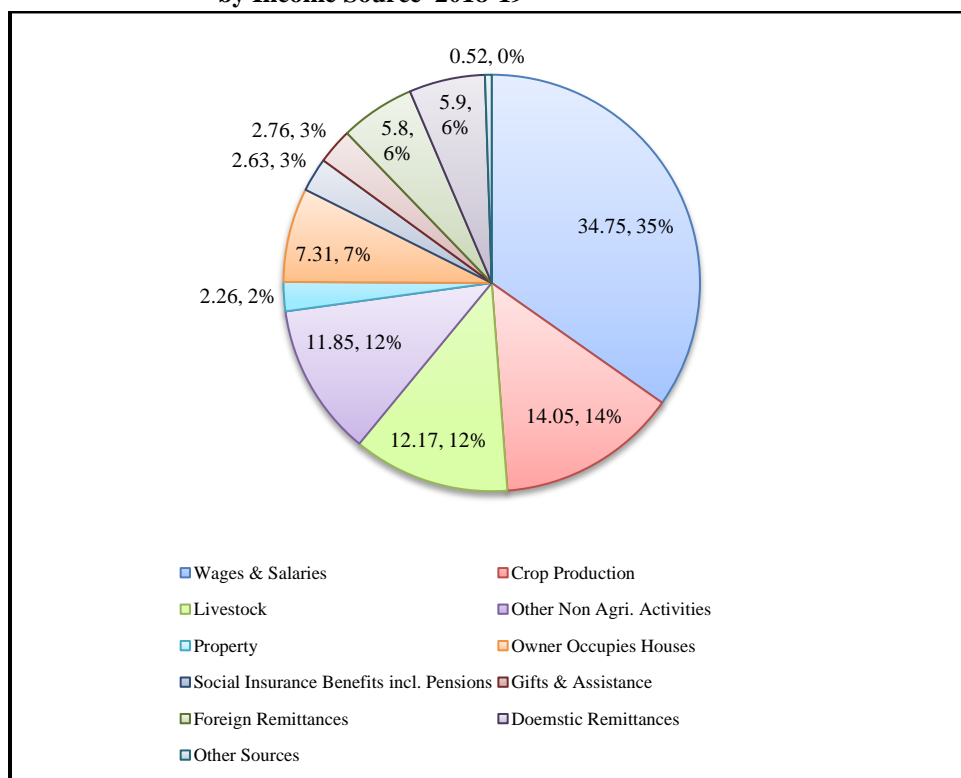
<sup>18</sup>HIES 2018-19, Pakistan Bureau of Statistics.

<sup>19</sup>Ibid.

<sup>20</sup>HIES 2018-19, Pakistan Bureau of Statistics.

<sup>21</sup>It is important to keep in mind what the quote "directly from agriculture implies here"; this includes income made from selling agriculture produce in market—This category does not include wages and salaries of those employed on agriculture farms which instead come under the category of 'wages & salaries'. (See Figure 8).

**Fig. 8. Percentage Distribution of Monthly Household Income by Income Source 2018-19**



Source: HIES 2018-19.

The fact that the bulk of a household's income comes from non-agriculture sources is a testament that these rural areas are not what typically is expected by popular culture imagination of what constitutes 'rural'. Specifically speaking, if one was to define rural areas as those places where agriculture and other primary-based activities are considered to be main sources of income, then most areas under analysis cannot be regarded as rural *per se*. The economies of these areas are almost as diverse as they are throughout the country including that of urban areas.

### 3.1(e) Why are 'Rural' Workers Shifting to Non-farm Employment?

Why a significant portion of the rural workforce is shifting to ever-increasing non-farm and non-agriculture work does not have a straightforward explanation. An amalgamation of reasons come together to cause this change in the employment structure of rural areas.<sup>22</sup> Some of the main contributing factors are summarised below.

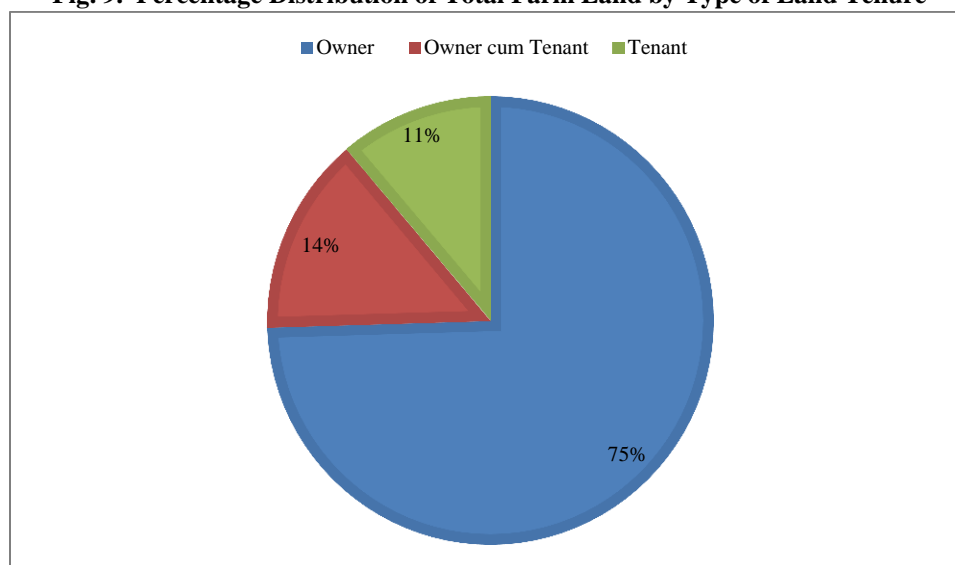
- **Rural Areas are Shrinking** – As already identified in this paper (See Figure 2), the percentage of rural areas is shrinking across all four major provinces. This means that many of these areas are undergoing a distinctive shift towards

<sup>22</sup>G.M Arif, et al. (2000).

urbanisation, particularly those areas that lie at the boundaries of major urban agglomerations. The linkages created from proximity to urban agglomerations can account for the shift towards non-farm employment to more manufacturing & services-related professions.<sup>23</sup>

- **Low Returns from Agriculture** – Even in rural areas, as pointed out in this paper, 74 percent of an average household’s total monthly income comes from sources that are not directly related to agricultural production. (See Figure 8) A major reason for this increased share of non-agricultural income is that returns from agriculture are typically low in rural Pakistan. This, combined with the fact that most of the farms in Pakistan fall in the category of small-to-medium-sized farms,<sup>24</sup> means that households in agriculture need to complement their agricultural income from other non-agricultural sources.
- **Small Farm Size and Asymmetrical Land Ownership** – The scarcity of land in rural Pakistan can be utilised for agricultural activities. According to the Agriculture Census of Pakistan (2010), about 90 percent of total farms in Pakistan were “small”<sup>25</sup> farms, with the average farm size being 6.4 acres.<sup>26</sup> Furthermore, approximately 25 percent of the total farm area in Pakistan is under use by individuals who don’t own all of their farm area; 11 percent are pure tenants who don’t own any of the farm area under their operation.<sup>27</sup> (See Figure 9).

**Fig. 9. Percentage Distribution of Total Farm Land by Type of Land Tenure**



Source: Agriculture Census (2010).<sup>28</sup>

<sup>23</sup>Dutta and Chakrabarti (2015); Avery et al. (2017)

<sup>24</sup>Agriculture Census of Pakistan (2010), Pakistan Bureau of Statistics

<sup>25</sup>Small Farms are defined as farms that are less than 12.5 acres in size.

<sup>26</sup>Agriculture Census of Pakistan (2010), Pakistan Bureau of Statistics

<sup>27</sup>Ibid.

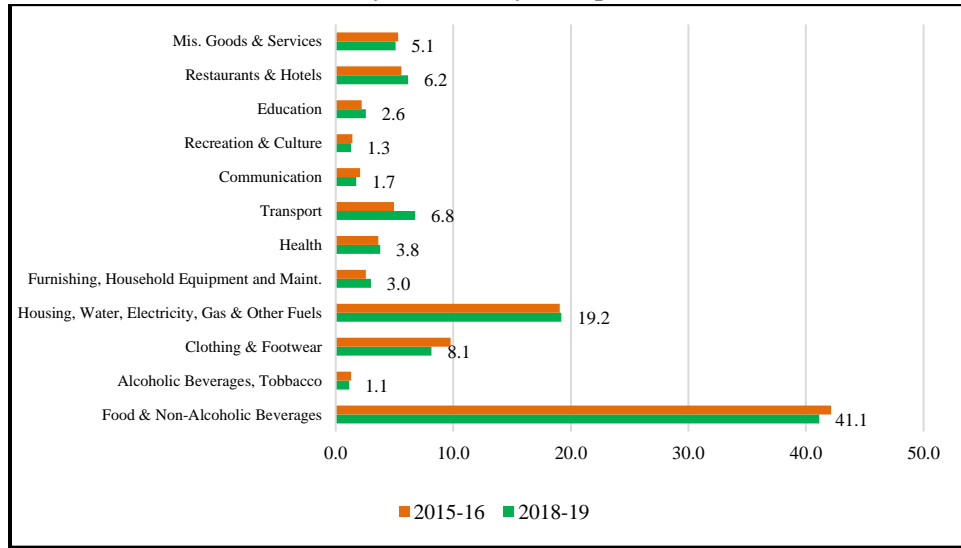
<sup>28</sup>Ibid.

### 3.2. Consumption Statistics

#### 3.2(a) *Percentage Monthly Consumption Expenditure Per Households by Commodity Groups*

For our analysis, it is also important to investigate the consumption habits of the population living in the rural areas of Pakistan. According to HIES 2018-19 data, a rural household with an average monthly income spent about 41 percent on food & beverages (See Figure 9). Furthermore, it was also observed that in the three years 2015-16 and 2018-19, percentage spending on essential services such as education, health, and transport increased by multiple percentage points, respectively. (See Figure 9).

**Fig. 10. Percentage Distribution of Monthly Consumption Expenditure Per Households by Commodity Groups**



Source: HIES 2015-16 & 2018-19.

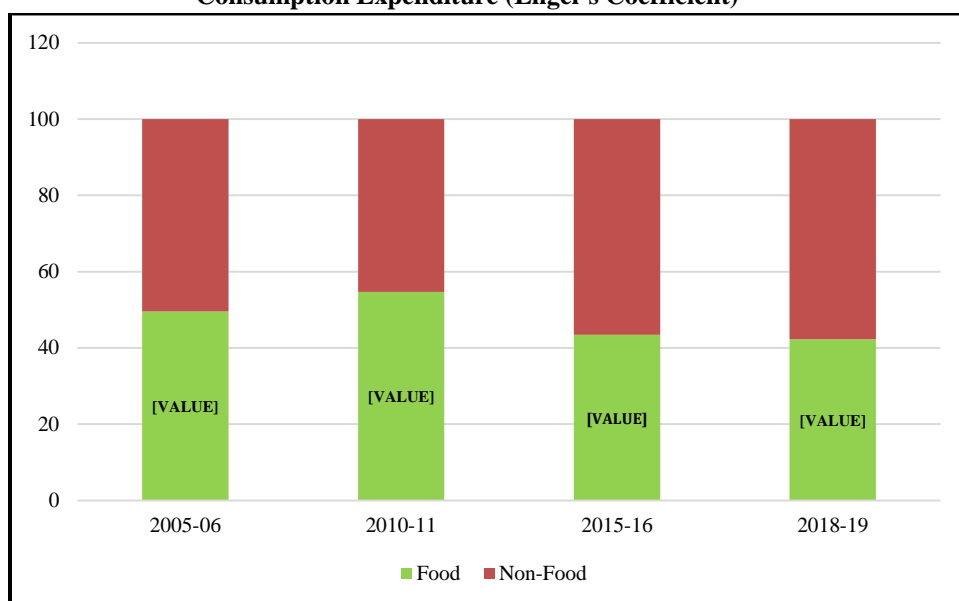
Increasingly people in rural areas of Pakistan spend a lesser fraction of their total income on food items and have increased percentage spending on non-food goods and services. The figure below shows the percentage share of expenditure on food items in the total household of consumption expenditure for three 5-year intervals between 2005-06 and 2018-19. (See Figure 10) The measured percentage for this important indicator has gone down in the last two intervals. Engel's coefficient,<sup>29</sup> a lower value of which is often taken as a measure for improving the standard of living of the population, has declined for rural households in the past ten years. (See Figure 10).

<sup>29</sup>Engel's Coefficient refers to the percentage of expenditure on food in the total consumption expenditure, using the following formula:

$$\frac{\text{expenditure on food}}{\text{total consumption expenditure}} \times 100\%$$

Engel's Coefficient.

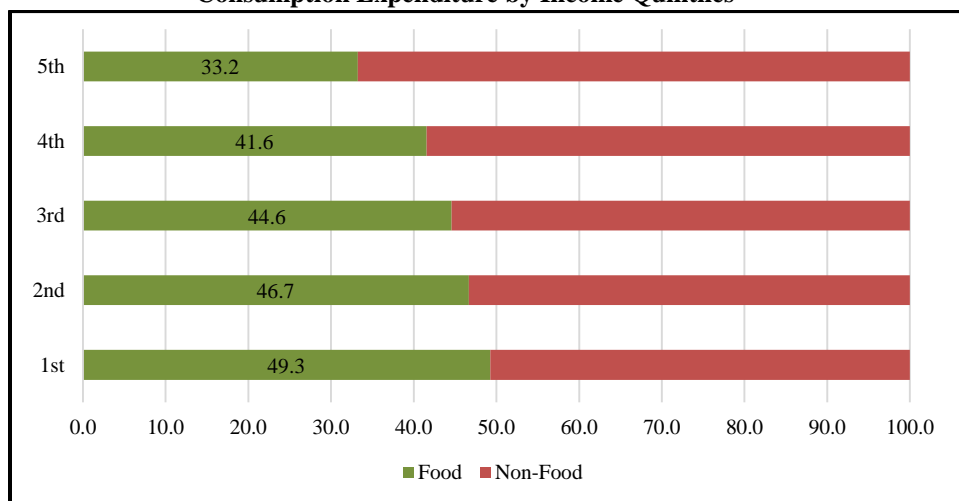
**Fig. 11. Percentage Share of Food Expenditure in Total Household Consumption Expenditure (Engel's Coefficient)**



Source: HIES 2005-06, 2010-11, 2015-16 & 2018-19.

Furthermore, Engel's coefficient value is below 50 percent for all income quintiles, including the lowest quintile. (See Figure 11) Expressed in simpler words, rural households at all income levels, including even the poorest 20 percent of rural households, do not spend more than half of their total monthly consumption expenditure on food items. (See Figure 11 and Appendix B)

**Fig. 12. Percentage Share of Food Expenditure in Total Household Consumption Expenditure by Income Quintiles**



Source: HIES 2018-19.



#### 4. CONCLUSION

The rural areas of Pakistan where the majority population lives have been consistently ignored by policymakers over the years. This neglect of policymakers who often have an urban-centric approach has led to rural areas being relegated in the popular imagination as uninteresting places where life is pastoral and the economy is single-dimensional and not quite dynamic. In this paper, we have tried to illustrate that such idyllic representations are not fully reflective of most areas that are designated the status of ‘rural’ in Pakistan.

Despite the gradual decrease in the percentage rural population in the country, the rural areas and their economies are diverse and vibrant. Although it is indeed true that agriculture plays a prominent role in the life and economies of these areas, there is compelling evidence that an ever-increasing number of people are shifting towards non-agriculture occupations. This finding about the significant role that non-farm employment plays in rural areas is corroborated by already existing research from other parts of the world.<sup>30</sup> More research needs to be undertaken to understand why this decrease in the share of agriculture in rural economies is happening. Meticulous analysis of labour market trends and controlled regression analysis of returns to agriculture compared to other goods & services-related industries is the ideal next logical step for further research.

Furthermore, in addition to observing the labour market trends in rural areas, we have illustrated in this paper the manner in which household consumption patterns in rural Pakistan have changed over the last two decades. According to the most recent figures, even the poorest sections of rural households spend less than half their monthly consumption expenditure on food items. The story of changing tastes, increased purchasing power of rural population and consequent growth of vibrant non-food related goods and services markets needs to be examined more closely.

As pointed out earlier, the majority of Pakistan’s population lives in areas that are designated the status of ‘rural’. The policymakers and members of the intelligentsia that drive popular discourse need to refrain from simplistic descriptions of the rural population and realise the potential of the rural areas in contributing to both economic growth and overall human development in the country.

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<sup>30</sup>Hazell and Haggblade (1993); Adams and He (1995); Bakht (1996); Sen (1996); Lanjouw (1999).

APPENDIX A<sup>31</sup>

PERCENTAGE DISTRIBUTION OF MONTHLY INCOME OF EMPLOYED PERSONS BY OCCUPATION GROUPS, SEX AND QUINTILES, 2018-19							
MAJOR OCCUPATION GROUPS	Average Monthly Income (Rs.)	QUINTILES					
		Total	1st	2nd	3rd	4th	5th
1	2	3	4	5	6	7	8
<b>PAKISTAN RURAL</b>							
<b>Both Sex</b>	<b>11004.88</b>	<b>100.00</b>	<b>15.98</b>	<b>20.56</b>	<b>19.82</b>	<b>20.62</b>	<b>23.02</b>
Legislators, Senior Officials etc	33860.10	2.06	0.04	0.11	0.15	0.44	1.32
Professionals	25086.22	7.44	0.28	0.56	0.87	1.74	3.99
Technical & Associate Professionals	24745.83	3.02	0.15	0.28	0.47	0.70	1.41
Clerks	23402.28	1.70	0.09	0.12	0.24	0.62	0.63
Service & Shop Market Sale Worker	17174.28	14.29	1.63	3.60	3.06	3.08	2.93
Skilled Agricultural & Fishery Workers	7448.77	21.05	2.79	4.00	4.45	4.22	5.58
Craft & Related Trade Workers	10829.18	8.96	1.60	1.81	2.11	2.22	1.23
Plant & Machine Operator Assembler	16071.03	7.25	1.28	1.80	1.63	1.59	0.94
Elementary Occupations	8256.47	16.66	5.32	4.67	3.30	2.38	0.99
Armed Forces	25626.44	0.51	0.05	0.10	0.15	0.12	0.08

APPENDIX B<sup>32</sup>

TABLE: 15 PERCENTAGE DISTRIBUTION OF MONTHLY CONSUMPTION EXPENDITURE PER HOUSEHOLDS BY COMMODITY GROUPS AND QUINTILES, 2018-19							
COMMODITY GROUPS	QUINTILES						Total
	1st	2nd	3rd	4th	5th	Total	
1	2	3	4	5	6	7	
<b>PAKISTAN RURAL</b>							
<b>Average Monthly Consumption Expenditure (Rs.)</b>	<b>30908</b>	<b>21430</b>	<b>26587</b>	<b>29389</b>	<b>34491</b>	<b>47236</b>	
Percentage of Consumption Expenditure on:							
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	
Food & Non Alcoholic Beverages	41.13	47.67	45.32	43.38	40.50	32.56	
Alcoholic Beverages, Tobacco	1.13	1.58	1.34	1.20	1.07	0.68	
Clothing and Foot Wear	8.14	9.09	8.85	8.38	7.95	7.00	
Housing, Water, Electricity, Gas and Other Fuels	19.20	17.31	18.03	18.70	19.34	21.57	
Furnishing, Household Equipment and Maintenance	3.00	2.96	2.99	2.96	2.93	3.14	
Health	3.78	3.66	3.58	3.65	3.95	3.97	
Transport	6.75	4.69	5.67	6.28	7.08	8.95	
Communication	1.74	1.49	1.57	1.64	1.78	2.06	
Recreation & Culture	1.31	1.25	1.40	1.44	1.30	1.18	
Education	2.56	0.81	1.25	1.91	2.61	5.13	
Restaurants and Hotels	6.16	4.35	4.77	5.32	6.50	8.75	
Miscellaneous Goods and Services	5.09	5.13	5.22	5.15	4.98	5.00	

<sup>31</sup>HIES 2018-19, Pakistan Bureau of Statistics.<sup>32</sup>HIES 2018-19, Pakistan Bureau of Statistics.

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