

# POLICY BRIEF



## Impact of Anti-competitive Practices in the Construction Industry on Housing for the Urban Poor in Pakistan

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As at 2019, globally, over a billion people have no access to housing of adequate quality, and this number is growing rapidly. It is estimated that some three billion people will need housing by 2030.<sup>1</sup> Pakistan, with 241.5 million people, is the fifth most populous country in the world. Of the total population, 40% reside in urban areas and 60% live in rural areas.<sup>2</sup> According to the 2017 census, Pakistan had a housing stock of 32.2 million, of which 39% was urban. Pakistan's housing shortage is currently estimated at approximately 10 million units and is growing. About half of this shortage occurs in urban areas, where 47% of households live in overcrowded houses.<sup>3</sup> With an annual population growth of 2.55%, internal rural-to-urban migration, and change in lifestyle from joint-family living to nuclear families living independently, the demand for housing is growing.

Pakistan's construction industry accounts for 2.53% of its gross domestic product (GDP) and employs 7.61% of the labor force. The affordability of adequate housing is, in part, dependent on the competitiveness of the construction industry and its ancillary markets. Pakistan is a part of a multi-country research study undertaken by the Advocata Institute to study the nexus between anti-competitive practices in the construction industry and the extent to which these practices impact affordable housing for the poor. This policy brief summarizes the recommendations made for Pakistan in that study.

The most pertinent ones are: (i) employment opportunities, or lack thereof, that affect affordability; (ii) lack of competition in the construction sector; (iii) dumping by foreign manufacturers; that annual rent increases by a high percentage, thereby making rental housing unaffordable.

### A. Employment Opportunities

Amartya Sen argues that any policy to eradicate poverty "must focus on creating environments in which people have the opportunities to 'lead the lives they have reason to value and to enhance the real choices they have.'"<sup>4</sup> Competition provides choices. It provides the engine of growth, which can not only raise the standards of poor economies as a whole, but also can improve the lives of individual consumers. According to the World Development Report 2000-2001, "economies with competitive domestic markets tend to have higher levels and rates of growth in per capita income."<sup>5</sup> "[M]arkets work for the poor because poor people rely on formal and informal markets to sell their labor and products, to finance investment, and to insure against risks. Well-functioning markets are important in generating growth and expanding opportunities for poor people."<sup>6</sup> Competition helps to create employment, which in turn helps improve affordability.

#### 1. Bricks and Bonded Labour

Brick is the main input for the construction of residential buildings. According to statistics for 2018, there are 18,000 to 20,000 brick kilns in Pakistan.

<sup>3</sup>

The study identified several issues pertaining to affordable housing.



The annual brick production is 82.5 billion bricks, and annual demand is 112 billion bricks. There are 1.3 million people employed at brick kilns.<sup>7</sup> Almost 95% of workers working on brick kilns are bonded labour.<sup>8</sup> Laborers are bonded through the peshgi system of debt bondage, where a loan is given to the laborer, and he or she works on the brick kiln in lieu of payment of the debt. To perpetuate the loan, the lender scams the debtor/laborer; while the minimum wage limit set by the Punjab government in 2022 was PKR 1,850 per 1,000 ordinary bricks,<sup>9</sup> most workers were paid between PKR 800-850.<sup>10</sup> This wage is not even 50% of the wage stipulated by the government. Additionally, the borrowed amount is multiplied by two in the debt books.<sup>11</sup>

In Punjab, there are 7,966 functional brick kilns with 87,134 families currently working in these brick kilns, including 126,779 children under the age of 14.<sup>12</sup> According to the Global Slavery Index, 2018, Pakistan ranks third in terms of estimated prevalence of modern-day slavery in the Asia-Pacific. An estimated 3.2 million people in Pakistan work in conditions of slavery.

Slavery is banned in Pakistan by the Constitution,<sup>13</sup> and there are several laws that prohibit child labor.<sup>14</sup> The ineffective implementation of labor laws not only fails to protect the dignity and liberty of citizens, but also fosters abuse of employees, which distort competition in the bricks market.

Competitive markets provide choices. In a well-functioning market, there are more players, who then generate and offer more employment opportunities for the poor. The practice of bonded labor undermines the core output of competition, employment opportunities, due to its distortion of employment conditions, by doubling employees' debt and paying less than half of the legally stipulated minimum wages. The practice of underpayment and over-accounting of debt keeps about 216,000 families in Pakistan in a debt trap, thereby stifling their desires and ability to ever have an affordable house of their own.

In addition to reducing their production cost illegally, brick kilns that use bonded labor also put those that follow ethical employment practices at a competitive disadvantage.

## Recommendation

Bonded labour at brick kilns must be eradicated as such heinous practices not only constrain the employment opportunities of bonded workers, but also puts brick manufacturers who employ ethical and legal labor practices, at a competitive disadvantage

## B. Anticompetitive Practices in the Construction Industry

### 1. Cartelization among Cement Manufacturers

Cartelization among cement manufacturers in Pakistan has been prevalent since the cement sector was privatized in 1992. It has persisted despite the many enforcement actions by first the Monopoly Control Authority and later the Competition Commission of Pakistan (CCP). Generous stay orders by the courts have stifled CCP's actions and have favored the continued existence of the cartel.

Anti-competitive prices of cement have a considerable impact on affordable housing for the poor. Based on prices as at 28 March 2023, constructing a three marla (62 sq m) house in Lahore will cost around PKR 6.98 million (USD 24,584), excluding the cost of land.<sup>15 16</sup>

| Total Cost (PKR in millions) | Grey Structure Material Cost (PKR in millions) | Finishing Material Cost (PKR in millions) | Labour Cost (PKR in millions) | Price Per Sq Ft |
|------------------------------|--|---|-------------------------------|-----------------|
| 6.98                         | 2.974  | 3.402                                     | 0.6                           | 5,743           |

| Cost Breakdown for Bricks, Cement, Sand, & Crush (PKR 1.760 million) |          |          |            |               |
|--|----------|----------|------------|---------------|
| Item   | Rate     | Quantity | Cost (PKR) | Share of cost |
| Bricks + Gravel  | 30/unit  | 33757    | 1,012,710  | 57.54%        |
| Cement   | 1150/bag | 363      | 417,450    | 23.72%        |
| Sand   | 85/Cft   | 1815     | 154,275    | 8.77%         |
| Crust  | 170/Cft  | 1033     | 175,610    | 9.98%         |
|  |          |          | 1,760,045  |               |

Studies have shown that cement cartels raise prices by an average of 25% to 30%.<sup>17</sup> By that estimation, the overall cost of cement for a three marla house includes overcharges of PKR 104,363 (25% of the cost of cement), which is equivalent to 1.5% of the total cost of building a three marla house (PKR 6.98 million).

The indirect impact of cement cartels on low-cost housing is felt through overcharges paid by the government in public-sector construction projects. The funds expropriated by the anticompetitive prices of cement could have been used for low-cost housing or other development projects by the government.

## 2. Cartelization in Construction Materials

In June 2023, the Association of Builders and Developers of Pakistan (ABAD) filed a complaint with the CCP regarding cartelization in the steel, glass, and tile industries.

ABAD complained that "over the past two years, the price of construction materials in Pakistan have experienced significant hikes, causing distress for both the industry and consumers. Cement bags, for instance, have almost doubled in price, averaging over [PKR] 1,100. Similarly, steel prices surged to a staggering [PKR] 300,000 per tonne, nearly tripling during the same period."<sup>18</sup> CCP opened an inquiry pursuant to the complaint by ABAD.

## Recommendation

All organs of the state, that is the Competition Commission of Pakistan, the courts, and the executive must work together to combat cartelization in the construction materials industry.

## C. Trade Liberalization and its Impact on Low-Cost Housing

While imported products create competition for local manufacturers and enhance their efficiency, dumping products (at prices below the cost sold in the home country) is equivalent to predatory pricing that harms local manufacturers, to the extent that they are forced out of the market. Commenting on the impact of dumping of wall and floor tiles, the NTC noted that "the domestic industry suffered material injury on account of increase in volume of dumped imports; price depression; price suppression; decline in market share, production, profits, sales, capacity utilization, return on investment, productivity; and negative effect on inventories, employment, salaries & wages, growth and ability to raise capital."<sup>19</sup>

The end objective of competition law is not low prices; rather it is the functioning of markets that create employment opportunities, sources of livelihood for the poor, and opportunities for entrepreneurs to grow and flourish. When dumping occurs, local players suffer and exit the market, which results in unemployment, and has a negative ripple effect on housing affordability for the poor.

## Recommendation

Unbridled trade liberalization is not without negative consequences. Instead of imposing anti-dumping duties, NTC has recommended the use of safeguard measures, under GATT article 19, by way of restricting imports from countries found repeatedly engaged in dumping.<sup>20</sup>

## **D. Affordability and Rent Control Laws**

One of the elements of "affordability" in housing, is that the tenants should be protected by appropriate means against unreasonable rent levels or rent increases; that is, laws should be enacted to safeguard the interest of tenants, and from unreasonable increase in rent by landlords.

There has been a trend in revising rent control laws, such as the revision of the clause restricting rent increase from 25% every three years to an increase of 10% every year. Our calculations have showed that under the new laws that permit an annual rent increase of 10%, a low-cost housing tenant will end up paying more than the rent of the initial two years of tenancy in a ten-year lease. Such an outcome is absolutely unfair.<sup>21</sup>

### **Recommendation**

Revise rent control laws to safeguard the interest of tenants, and to preserve affordability in the market for rental housing for the poor. In addition, shelter allowance may be considered by the government for low-cost rental dwellers.

## Endnotes

- (1) The analysis in the "Issues in the construction industry", "Impact on consumer welfare" and "Policy
- (2) Pakistan Bureau of Statistics, 7th Population and Household Census 2023; Table 1: Households, Population, Household Size and Annual Growth Rates, available at <https://www.pbs.gov.pk/sites/default/files/population/2023/Pakistan.pdf>
- (3) The World Bank: Towards a More Nuanced Approach to Measuring Housing Affordability: Evidence from Pakistan, Policy Research Working Paper 10450  
Available at <https://elibrary.worldbank.org/doi/epdf/10.1596/1813-9450-10450>; But See, PIDE, The Assumed Shortage of Housing in Pakistan, (2022 )  
<https://pide.org.pk/research/the-assumed-shortage-of-housing-in-pakistan/> (arguing that the number of household shortage of 10 million is fictitious and not based on evidence)
- (4) Amartya Sen, Development as Freedom at 293 (Anchor Books/Random House, New York, 1999).
- (5) See R. S. Khemani, Competition Policy and Promotion of Investment, Economic Growth and Poverty Alleviation in Least Developed Countries, FIAS, Occasional Paper 19, 2007, at 3
- (6) World Bank, World Development Report 2000/2001, Attacking Poverty, 2001, at 6-7.
- (7) Fact Sheet, Brick sector in Pakistan, ICIMOD; <https://www.ccacoalition.org/en/resources/fact-sheet-brick-sector-pakistan>.
- (8) ILO, A Study of Deficits in the Fundamental Principles and Rights at Work in the Brick Kiln Supply Chain, [https://www.ilo.org/islamabad/whatwedo/publications/WCMS\\_858027/lang--en/index.htm](https://www.ilo.org/islamabad/whatwedo/publications/WCMS_858027/lang--en/index.htm)
- (9) Notification No. SO(D-II)MW/2011(Vol-VI), u/s 6 of the Punjab Minimum Wages Act, 2019 (XXVIII of 2019), (dated 22 June 2022) available at [https://labour.punjab.gov.pk/system/files/Punjab%20Minimum%20Rates%20of%20Wages%20Notification%202022\\_0.pdf](https://labour.punjab.gov.pk/system/files/Punjab%20Minimum%20Rates%20of%20Wages%20Notification%202022_0.pdf)
- (10) Minaal Mohsin Maan, Combating Bonded Labour (5 Feb. 2023); <https://www.thenews.com.pk/tns/detail/1037450-combating-bonded-labour#:~:text=cold%20in%20winters.,According%20to%20data%20provided%20by%20the%20Bonded%20Labour%20Liberation%20Front,are%20paid%20Rs%20800%2D850>.
- (11) Global Slavery Index, 2018 at page 231. (Ashraf has spent 25 years at this kiln in bonded labour. He has a debt of Rs. 250,000, an amount he will never be able to pay back in his lifetime. But despite his hard work, he has suffered abuse by the kiln's thekadars.) See <https://voicepk.net/2019/12/bonded-labour-in-pakistan/#:~:text=is%20no%20stopping.,At%20least%20a%20thousand%20bricks%20a%20day%20must%20be%20made,960%20for%201%2C000%20bricks>.
- (12) Children's Rights in Brick-making Factories (Brick Kilns) in Punjab, Pakistan, (12 Mar, 2021 )  
<https://peacesos.nl/childrens-rights-in-brick-making-factories-brick-kilns-in-punjab-pakistan/#:~:text=87%2C134%20families%20are%20currently%20working,their%20growth%2C%20health%20and%20education>.
- (13) Article 11: Slavery, forced labour, etc., prohibited
  - (1) Slavery is non-existent and forbidden and no law shall permit or facilitate its introduction into Pakistan in any form.
  - (2) All forms of forced labour and traffic in human beings are prohibited.
  - (3) No child below the age of fourteen years shall be engaged in any factory or mine or any other hazardous employmentConstitution of Pakistan, 1973; [https://na.gov.pk/uploads/documents/1333523681\\_951.pdf](https://na.gov.pk/uploads/documents/1333523681_951.pdf)
- (14) See, e.g., The Punjab Prohibition of Child Labor at Brick Kilns Act, 2016.
- (15) 1 marla is equal to 225 sq feet. <https://www.zameen.com/blog/plot-size-conversions-pakistan.html>; see also <https://www.magicbricks.com/marla-to-square-feet-pppfa> (In India, Bangladesh 1 marla is equal to 272 sq feet.)
- (16) <https://www.zameen.com/tools/construction-cost-calculator/3-marla-house-construction-cost-lahore-1/>



(17)See John M. Connor & Robert H. Lande , Cartels as Rational Business Strategy: Crime Pays, available at [https://www.antitrustinstitute.org/wp-content/uploads/2018/08/CONNOR.LANDE\\_34.2.pdf](https://www.antitrustinstitute.org/wp-content/uploads/2018/08/CONNOR.LANDE_34.2.pdf); see also Lars-Hendrik Röller & Frode Steen, On the Workings of a Cartel: Evidence from the Norwegian Cement Industry, 96 AM. ECON. REV. 321, 322 (2006) (finding an overcharge of 34.5% and an elasticity of -1.47).

(18).The Tribune, ABAD Flags Cartels in Construction Industry, <https://tribune.com.pk/story/2423330/abad-flags-cartels-in-construction-industry>, June 24, 2023.

(19)Id.

(20).WTO, Antidumping, subsidies, safeguards, [https://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/agrm8\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm8_e.htm)

(21)Please see the Chapter on Pakistan, for calculations.