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From Shelter to Survival: Exploring the Informal Economic Roles of Afghan Refugees in Pakistan and the Implications of Their Repatriation

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Abstract

Long stay of Afghan refugees in Pakistan has had a significant impact on the informal economy of the country. Many worked as vital employees in industries including transportation, agriculture, and construction. However, these labor-intensive industries have been impacted by large-scale returns since the government's 2023 policy shift toward refugee repatriation. Using a mixed-methods approach, this study looks at the socioeconomic effects of the refugees' abrupt departure as well as their past economic integration using both qualitative content analysis and quantitative workforce data. Results show that the departure of Afghan refugees has caused supply chain disruptions, wage inflation, labour shortages, and decreased productivity in several important industries. The study draws attention to the conflict between the refugees' political marginalization and their economic importance.

Keywords: Afghan refugees, informal economy, labor shortages, repatriation impacts, Pakistan, economic disruption.

1. Introduction

Spanning over four decades, the presence of Afghan refugees in Pakistan has shaped the country's informal economy. This study analyses the socio-economic impacts caused by the mass repatriation of Afghan refugees that began in 2023. It also addresses the various economic functions Afghan refugees have undertaken within the informal sectors of Pakistan's economy. The study extends past the conventional humanitarian approach and focuses on the political economy aspect of the migration - examining the quiet integration of refugee workers into Pakistan's informal economy of construction, agriculture, transport, and petty commerce. Under the Pakistani government's immigration policy aimed at curtailing illegal settlements, this research aims to document the initial economic impacts of repatriation, determine the economic sectors most at risk, and study the structure of the informal labour market without this enduring refugee population. The study concentrates on two main themes: first, the informal economy of Pakistan and its historical framing concerning Afghan refugees, and secondly, the immediate and long-term consequences of their abrupt exit. This study starts with the historical narrative of the successive waves of Afghan displacement and the gradual participation of the refugees in low-skill and labor-intensive roles. They are also merged into thematic analysis to understand the post-repatriation return of servicemen and women, inflation of payment rates, decrease of the shadow economy, as well as disparity in the economy of the region. Stepping away from these debates, the author attempts to understand the causes of these phenomena

by using secondary information gathered from government reports, international organizations, and several media outlets. This research also captures the informality and state policy of migration, thus broadening the scope of informality. The study demonstrates the political marginalization of the refugees resulted in a stark contrast to their economic role in supporting the refunding and maintenance of Pakistan's sub-economy that stands prominent due to their enforced return.

2. Historical Context of Afghan Refugee Influx into Pakistan

The influx of Afghan refugees into Pakistan is one of the most significant and enduring refugee situations in modern history. The past forty years of displacement of Afghans and the impact this has on Pakistan have unfolded because of the geopolitical crisis in Afghanistan. Pakistan's close border, ethnic ties, and similar culture have rendered it the primary host for Afghan refugees. The refugees' prolonged stay and settlement across the border have shaped the socio-political and economic framework of the country.

2.1 The Soviet Invasion and the First Wave (1979–1989)

The Soviet Union's invasion of Afghanistan in December 1979 triggered the first large-scale influx of Afghan refugees into Pakistan. The Soviet intervention started Afghanistan's first civil war, lasting political instability, and the large-scale dislocation of people. By 1980, Pakistan had become the world's largest refugee-hosting country, receiving 3.3 million Afghans. Most of the refugees were housed in camps that stretched along Pakistan's northwestern border, particularly in Khyber Pakhtunkhwa and Balochistan. Pakistan receiving its first UNHCR office in 1980 was a testament to the rapidity and magnitude of the humanitarian crisis as the organisation began to offer aid in the form of subsistence food and shelter, health, and education. The US, Saudi Arabia, and international NGOs sponsored the first 'open borders' policy proprietorship of Pakistan, which was followed by a generous welfare stance as the refugees were viewed as 'brothers' by Pakistan based on religious and cultural proximity. However, the mass influx placed enormous pressure on Pakistan's infrastructure and social services. Refugees were initially expected to return home once the conflict subsided, but the prolonged Soviet occupation, and later internal Afghan conflicts, made their stay more permanent than anticipated. By the late 1980s, Afghan refugees had already begun integrating into Pakistan's informal economy, particularly in sectors requiring low-skilled labor, such as agriculture, construction, and transportation.

2.2 Civil War and Continued Displacement (1989–1996)

The Soviet withdrawal from Afghanistan in 1989 did not bring peace. Instead, Afghanistan plunged into a brutal civil war among rival mujahideen factions. The collapse of the Soviet-backed Najibullah government in 1992 and the ensuing struggle for control of Kabul caused another wave of displacement. Although some Afghans returned home during the early 1990s under voluntary repatriation programs, ongoing violence forced many to either remain in Pakistan or flee back after attempting to resettle. During this period, refugee camps became more permanent settlements. Many Afghan refugees began moving to urban centers such as Karachi, Quetta, and Peshawar, engaging more deeply with Pakistan's urban informal economy. They found work in sectors such as daily wage labor, carpet weaving, transportation services, and petty trade. Some Afghan entrepreneurs established thriving businesses, particularly in the transport and wholesale markets. Despite their economic contributions, Afghan refugees increasingly faced political and social challenges during the 1990s. As Pakistan's internal political and economic problems worsened, public sentiment towards refugees grew more hostile, and calls for repatriation intensified.

2.3 Taliban Takeover and New Displacement (1996–2001)

The rise of the Taliban in Afghanistan in 1996 initially led to a decline in refugee outflows, as the Taliban quickly consolidated control over most of the country. However, human rights abuses, especially against women and ethnic minorities, soon triggered new waves of displacement. The international community's increasing isolation of the Taliban regime compounded Afghanistan's humanitarian crises. The period between 1996 and 2001 saw a smaller but steady stream of Afghan

refugees entering Pakistan. Unlike the earlier mass influx, this migration was more selective, with refugees often comprising ethnic minorities (such as Hazaras, Tajiks, and Uzbeks) and political dissidents.

2.4 Post-9/11 Dynamics and the New Refugee Waves

Following the U.S.-led invasion of Afghanistan in late 2001, another wave of refugees fled to Pakistan to escape military operations and Taliban reprisals. While international optimism about rebuilding Afghanistan led to large-scale repatriation programs between 2002 and 2005, which saw nearly 3.5 million Afghans return, many remained in Pakistan due to persistent insecurity, lack of livelihoods, and poor living conditions in Afghanistan. Throughout the 2000s and 2010s, Afghan refugees' legal status in Pakistan remained precarious. Many were categorized as "registered" refugees under Proof of Registration (PoR) cards, while a large number — possibly over 1.5 million — remained undocumented.

2.5 The Taliban Resurgence and Recent Repatriation Policies (2021–Present)

The return of the Taliban to power in Afghanistan in August 2021 and the US withdrawal precipitated a deep humanitarian crisis. However, by then, the refugee policy of Pakistan was no longer benign, given the country's precarious political and economic situation, worsening security, and growing anti-Afghan sentiment. In 2023, Pakistan initiated a large-scale repatriation programme requiring all undocumented Afghan refugees to exit the country, resulting in the repatriation of over 500,000 Afghans within months. Although this policy has been justified on security grounds, the mass return of Afghans is fundamentally changing the undeveloped informal economies of sectors in Pakistan where Afghan refugees had long been involved. The long history of such displacement, which entails patterns of economically motivated migration, the political-economic process of marginalisation, and economic integration in the host country, is crucial to understanding the economic consequences of this post-repatriation policy on Afghanistan.

3. Contextualizing the Informal Economy of Pakistan

In Pakistan, the informal economy is a structural and major component of the economy. It encompasses small-scale manufacturing and construction, trade (retail and wholesale), transport services, various professions, domestic work, street vending, and other economic activities. The informal economy in Pakistan is estimated by the Pakistan Institute of Development Economics (PIDE) to constitute 35-40 percent of the Gross Domestic Product (GDP) and to absorb roughly 72 percent of the non-agricultural employed workforce. Construction is one of the key informal economy sectors, where temporary and non-permanent employees operate as daily wage labourers. Other sectors include agriculture with informal tenancy and labour arrangements, the wholesale and retail trade through small-scale shops and markets, and transport services inclusive of informal trucking and passenger transport. Additional services contributing to the informal economy are domestic work, tailoring, and home-based manufacturing. Informal settlements known as *katchi abadis* in urban areas often serve as centres of these activities, forming dynamic and precarious economic regions. The informal economy remains central to the GDP of Pakistan, as it acts as a safety net for excluded informal sector workers from underemployment for many individuals due to lack of education, credit, and opportunity for formal employment. It sustains household incomes, reduces poverty to some extent, and supports economic resilience during periods of political instability or economic downturns. However, it also poses challenges such as low tax revenue generation, lack of labor protection, and difficulties in economic planning.

Policymakers must confront the challenge of gauging the informal sector's value alongside the potential gains of regulation and the formalisation of informal enterprises to bolster productivity and social security and achieve sustained and inclusive economic growth. Informal economic activity is significant in the short term, but formal policy and the institutional governance framework continue to exclude the informal economy. Invisibility is a defining feature of the informal sector, which entails the absence of formal records, taxes, and legal protection of any kind. Informal sector workers, like

independent contractors and casual workers, as well as small proprietors of micro businesses, operate in an economic environment devoid of social security, safe and healthy working conditions, and benefits and securities associated with paid employment. The informal sector is predominantly comprised of women, especially in the home-based jobs of stitching, embroidery, and piece-rate production, which are low-paid, and, in many cases, the economic contribution is unrecognised within national labour accounts (International Labour Organization [ILO], 2022). The absence of enforceable standards associated with formalised work is a significant downside of informal work. According to a 2022 Pakistan Bureau of Statistics report, over 80 percent of employees engaged in construction, household services, and petty trading are in the informal sector and therefore excluded from the protections of labour legislation. Absence of legal protections leads to situations like child and forced labour, underpayment, rampant exploitation, and inequity based on discrimination and gender. These factors, not to mention a considerable share of economic activity, keep societal welfare and overall productivity and economic development from sustaining inclusive growth. Policymakers, including the International Labour Organization (ILO), have sought the informal sector to be gradually formalized (ILO), formalised through protective labour legislation, digital registration, and simplified tax procedures. Such initiatives will, however, require careful design to avoid disruption to the informal sector workers' fragile livelihoods. Given the relatively slow growth of Pakistan's formal economy, the informal economy is a fundamental part, rather than an exception, of the country's economic landscape. For the country to achieve equitable growth, the informal economy must be integrated into development planning with safe and supportive measures.

4. Problem Statement

Prolonged geopolitical instability in Afghanistan has forced millions of people to seek refuge in neighbouring countries, some of them settling in Pakistan. For some Afghan refugees, participation in the informal economy has been a means of survival. Afghan refugees may operate at the periphery of the law, but for Pakistan's economy, especially its small-scale trade, construction, agriculture, and transport sectors, Afghan refugees have become an integral and invisible part of the workforce. With Pakistan's ongoing state-sponsored repatriation and voluntary repatriation measures, there are concerns about repatriation's long-term socio-economic effects, especially the gaps informal labour markets in metropolitan and peri-urban areas will experience. Pakistan has still not developed a concrete economic refugee policy to address the socio-economic integration of refugees. The current study intends to address this policy gap with an analysis of the informal economic activities of repatriating Afghan migrants as well as the socio-economic and humanitarian costs of their return on the host and return migration communities.

5. Methodology

This research examines the effects of Afghan refugee repatriation on the informal economy of Pakistan using a mixed-method approach involving qualitative content analysis and quantitative methods. It begins with a comprehensive review of secondary materials from the International Labour Organization (ILO) and the United Nations High Commissioner for Refugees (UNHCR), as well as the Pakistan Institute of Development Economics (PIDE) and several policy and scholarly works containing relevant information on the sectoral distribution of Afghan refugee workers and their roles historically within the informal construction, agriculture, transport, and microenterprise sectors of the economy in Pakistan. Thematic analysis on these works is aimed at revealing dominant socio-economic interdependencies concerning the chronic economic losses suffered from the abrupt withdrawal of the Afghan labour force. This qualitative approach also assists in demonstrating the significance of refugees beyond the economy in relation to the informal sector, as the importance of statistical information is often overstated. To analyze the economic impact of the Afghan refugees' repatriation on Pakistan's economy, qualitative methods are combined with descriptive statistical techniques to evaluate socio-labour losses. Statistically, Afghanistan's refugee population as well as sector-specific participation rates are used to infer workforce participation within each industry based on prior existing data. This estimate gives a preliminary overview of workforce engagement, which

is followed by calculations to estimate the economic repercussions caused by the reversal of over 500,000 repatriates. This loss is then expressed as a proportional reduction across various sectors to enable meaningful comparison. Using Python's Matplotlib library, relevant bar and pie charts are created for a more illustrative representation of the findings. Such representations make complex economic datasets more accessible to policymakers and scholars, while simultaneously allowing for easier visualization of multiparametric relationships.

Based on the available data and the qualitative factors mentioned, the analysis builds a comparative framework for estimating the level of impacts across the different sectors while considering the labour intensity of the sectors, the ease of economic recovery, and the sectors' shares in the GDP of Pakistan. The outlined reasoning illustrates the impact employed Afghan refugees have on the economy, such as shifts in production, inflation, and overall market equilibrium. Examining the crisis from both qualitative and quantitative angles offers a comprehensive understanding and demonstrates the potential role evidence-based research can play in the formulation of policies relating to refugee management and plans for economic resilience. For this reason, the use of mixed methods, in this context, offers a narrowing and deepening of the adaptive understanding of the informal economy concerning the pronounced structural weaknesses revealed by rapid population changes.

6. Role of Afghan Refugees in Pakistan's Informal Economy

The informal economy in Pakistan has absorbed Afghan refugees extensively, especially across sectors such as construction, agriculture, transportation, and small-scale trade. Since the early 1980s, Afghan refugees have increasingly become part of the low-skilled and semi-skilled labor force, filling crucial economic gaps where local labor was either unavailable or unwilling to participate. Their consistent involvement over four decades demonstrates how refugee populations can integrate into, and even sustain, informal economic systems under challenging socio-political conditions.

6.1 Construction Sector

Afghan refugees have been employed in Pakistan's construction industry for a considerable amount of time, mostly in unregulated and informal settings. The ILO-UNHCR 2024 report estimates that 60percent of Afghan refugees are unskilled laborers, many of whom work for daily wages doing manual labour, carpentry, masonry, and other construction-related jobs. Despite legal prohibitions on business ownership, refugees also work as labour contractors, brick kiln workers, and small-scale builders throughout the building value chain, frequently through unofficial partnerships with Pakistani nationals. Notably, 22percent of the study's questioned builders and contractors identified as Afghan refugees, highlighting their labour and entrepreneurial contributions to this vital industry.

Construction Activity	Host Community (percentage)	Afghan Refugees (percentage)
Labour: construction materials	11 percent	2 percent
Supervising	—	1 percent
Machine/equipment operation	5 percent	5 percent
General labour	37 percent	49 percent
Concrete work and finishing	5 percent	13 percent
Brick production	5 percent	8 percent
Bricklaying	11 percent	11 percent
Electrical	11 percent	3 percent
Carpentry	21 percent	8 percent
Masonry	26 percent	17 percent

Painting	9 percent	—
Plumbing	3 percent	—

Table 1: Primary Area of Expertise in Construction Work (Comparison Between Host Community and Afghan Refugees) Source: ILO-UNHCR Field Survey, December 2023

6.2 Agricultural Sector – Fruit and Vegetable Sector

Afghan refugees in Pakistan rely heavily on agriculture, especially the production of fruits and vegetables, for their livelihoods. The ILO report from 2024 states that 40–50 percentage of adult Afghan refugees work in agriculture. Twenty to thirty percent of them cultivate vegetables, and the same percentage produce fruit. They work as farm caretakers, laborers, sharecroppers, and vendors, mostly under unofficial agreements without official employment contracts or property ownership. Afghan refugees encounter obstacles such as insufficient capital, poor access to water, and price exploitation in marketplaces, despite the fact that these jobs offer them cash and subsistence. Despite these challenges, they play a crucial role in regional agricultural productivity, especially in Balochistan and Khyber Pakhtunkhwa provinces (ILO & UNHCR, 2024, pp. 62–103).

6.3 The Artisanal Sector and Textile Crafts

Afghan refugees have a significant role in Pakistan's artisanal and textile craft industries, particularly in block printing, weaving, tailoring, and embroidery. Due to legal restrictions on refugee company ownership, over 40 textile mills in Khyber Pakhtunkhwa alone are jointly held by Afghan refugees and Pakistani residents. Many refugees, especially women, work in home-based, subcontracted production units in the unorganized textile and craft industry. These craftspeople often work in exploitative and unregulated environments and make meagre salaries, averaging between USD 70 and USD 80 per month. Although their work exhibits a high level of expertise and has important cultural significance, the industry is beset by weak market connections and diminishing demand (ILO & UNHCR, 2024, pp. 169–180)

6.4 The Honey Industry

The involvement of Afghan refugees also has a significant positive impact on Pakistan's honey industry. Afghan immigrants make up about two-thirds of Pakistan's 27,000 beekeepers, most of whom are based in Khyber Pakhtunkhwa. In this industry, refugees work in trading, packing, honey extraction, and beekeeping. Even though they are the industry leaders, they still have to deal with issues including deforestation, exposure to pesticides, poor processing methods, and restricted access to contemporary beekeeping supplies and markets. Even though their honey products are still essential for satisfying both domestic and export demand, these limitations lower their quality and profitability (ILO & UNHCR, 2024, p. 17).

6.5 Weaving Carpets

For Afghan refugees, carpet weaving continues to be an economically and culturally important informal industry, particularly for women who weave at home. Afghan craftspeople contribute centuries of skills to the Pakistani carpet industry by working throughout the entire value chain, from gathering wool to doing elaborate hand-knotting and marketing. The research highlights that refugees make up a significant portion of the labour that makes carpets, even if exact participation rates are not given. But this industry is also characterized by low pay—weavers usually receive around 1,500 PKR per square meter—long hours, and unfavorable working conditions. Additionally, an already vulnerable workforce working in informal conditions is under increased strain as a result of falling exports and rising input costs (ILO & UNHCR, 2024, pp. 15–16).

6.6 The Dairy Industry

Particularly in rural areas and informal settlements on the outskirts of cities, the dairy industry also contributes significantly to the informal economic activities carried out by Afghan refugees. The ILO-UNHCR (2024) report states that a large number of Afghan households raise animals and

produce dairy products on a small scale, mostly for domestic consumption and unofficial sale in local markets or refugee settlements. In this industry, refugee women are essential because they care for domestic livestock and turn milk into goods like butter and yogurt. According to the research, Afghan refugee families frequently own goats or cows and sell their excess milk informally, either to small businesses or directly to households, avoiding official supply chains (ILO & UNHCR, 2024, pp. 154–158). Despite their efforts, these producers' production and profitability are constrained by their lack of access to formal distribution networks, cold storage, and veterinary care. However, they play an important and undervalued role in the informal dairy sector, especially in places like Peshawar and Quetta, and in ensuring food security in refugee populations.

6.7 Transportation Sector

The transportation sector in Pakistan, especially in cities like Quetta, Karachi, and Peshawar, witnessed a considerable influx of Afghan refugee labor. Many refugees entered the sector by driving minibuses, trucks, and rickshaws or working as loaders and helpers in goods transportation services. In cities with inadequate public transport infrastructure, Afghan drivers filled a significant service gap, offering affordable transport options to the public. Additionally, some refugees operated informal goods transport businesses, especially along Pakistan's western borders, using their transnational connections to facilitate trade and logistics between Pakistan and Afghanistan. This not only provided them a livelihood but also strengthened informal cross-border commerce. However, the informal nature of their involvement often meant they operated without licenses, insurance, or regulatory oversight, leading to tensions with local transport unions and authorities.

7. Afghan Repatriation: Scale, Drivers, and Policy Rationale

As of April 2025, Pakistan has intensified its repatriation efforts targeting Afghan refugees, marking the launch of the second phase of its deportation initiative. This repatriation policy was implemented in the midst of tense diplomatic ties between Pakistan and Afghanistan, mounting national security concerns, and economic strains. The Pakistani government justified the policy change by pointing to the existence of unauthorized migrants and claims that they were involved in illegal activities.

7.1 Refugees from Afghanistan in Pakistan Prior to Repatriation (Pre-2023)

Prior to the extensive repatriation program that was started in late 2023, Pakistan was home to one of the biggest and longest-lasting refugee populations in the world, which was mostly made up of Afghan nationals. The anticipated population of Afghans residing in Pakistan by early 2023 was estimated between 2.9 and 3 million. This included 1.37 million registered refugees who held Proof of Registration (PoR) cards for refugees issued by UNHCR and the Government of Pakistan. As of October 2023, Afghan citizen cards were issued to 803,000 Afghan nationals. As these cards were temporary foreigners' cards, they provided very minimal (legally and practically) rights and marginal legal protection. The remaining 822,000 stateless Afghans, most of whom had legally lived in Pakistan for decades, fell victim to legal inaction and remained highly susceptible to arrest without warrants, unlawful removals, and marginalisation. Within Peshawar, Quetta, and Karachi, refugees were highly concentrated in Peshawar, Quetta, and Karachi: Khyber Pakhtunkhwa at 52 percent, Balochistan at 24 percent, Punjab at 14.5 percent, and Sindh at 5.5 percent. With the passage of time, these populations became a part of Pakistan's informal economy. These populations had robust social and economic ties that they built over the years.

7.2 Afghan Repatriation Timeline and Scale (2023–2025)

Within the framework of the government's new domestic policy as of late 2023, Afghanistan's Pakistan policy became unconstitutional, provoking security concerns. The government then instituted a broad policy targeting the deportation of unregulated foreign individuals, especially undocumented Afghan refugees. An official announcement of this policy, stipulating the removal of undocumented Afghan refugees, was made in September 2023. This policy subsequently expanded in scope, concretising a cut-off date of November 1, 2023, by which point all Afghans, documented or not, must leave the country or retain the risk of deportation. The policy's justification rested on

grounded security concerns. Consequently, IOM (2024) reports that more than approximately 500,000 Afghan nationals were forcibly deported from Pakistan between October 2023 and March 2024. The majority of these individuals returned through official border points of Chaman (Balochistan) and Torkham (Khyber Pakhtunkhwa). In April 2025, the Pakistani government announced the commencement of Phase II of the repatriation drive, which intends to forcibly remove some 800,000 Afghan nationals with Afghan Citizen Cards (ACCs), following Phase I in late 2023, which deported over 541,000 undocumented Afghans. Also, IOM (2024) reports Pakistan undertook a large-scale campaign from October 2023 to March 2024 to forcibly remove undocumented Afghan nationals from Pakistan, resulting in over 500,000 people being returned to Afghanistan. Human rights groups such as Amnesty International and Human Rights Watch have reported that many of the returnees are being forced to return to unsafe and unsecured environments, even though some of the returns were voluntary. In addition, the item of lacking appropriate humanitarian fallbacks was also pointed out as a shortcoming of the procedure. Due to repatriation, there are already acute shortages of workers in the nonregulated sectors such as building, farming, and freight transportation, this raises concerns about possible long-term economic impacts in regions that host refugees.

7.3 Policy Rationale behind Afghan Repatriation

Repatriation policies are of concern for the state; however, from an informal economy standpoint, the policies seem to have far-reaching impacts on Pakistan's economy. With the exemption of the outcast period, Afghan refugees were informally absorbed in the economy and construction, agriculture, the transport sector, and street-worn trades. Their sudden removals might lead or are likely to lead to unbalanced economic conditions as they relate to reduced employee capacities and cascading supply dysfunction. In particular, the socio-economic conditions based on the everyday functions of adjacent communities that have lived with and catered to Afghan refugees may change without the socio-policy that further escalates the socio-imbalance of already vulnerable communities. Despite many years of residence in Pakistan and working in economy formations, most Afghan refugees were informally working, which then made and increased the deportation risk and exposed them to the most significant socio-economic loss of this repatriation advance. This was because in most parts of the country deportation exposure and risk levels were highest for most unregulated foreign individuals.

People are being displaced from cities such as Karachi, Quetta, and Peshawar, and, as a result, entire communities are being disbanded. There has been a considerable decline in the availability of low-skilled labour, particularly in industries reliant on Afghan workers. The scale and reasoning behind this repatriation policy, particularly in relation to informal sectors dominated by Afghan refugees, requires understanding and will inform the rationale on the policy's socio-economic implications. This research aims to understand the economic impact of the ongoing repatriation of Afghan refugees on the informal sector of Pakistan's economy. It seeks to assess the extent of the Afghan migrant workers' and entrepreneurs' integration within certain sectors of the economy and the potential transformation to the informal economy in Pakistan because of their absence. Understanding this will allow for the proposed rationale of strategic management of refugees, the labour market, and economic resilience in Pakistan.

8. Implications of Afghan Repatriation on Informal Economy of Pakistan

The sociological and economic impacts of large-scale Afghan refugee removal are notable, especially with respect to the informal economy of Pakistan. For over forty years, Afghan refugees have been a vital supply of cheap and adaptable labour in the construction, agriculture, transport, and trade industries. Their large-scale removal not only creates a manpower vacuum but also supply chain disruptions, increased costs, and the informal economy's fragility in Pakistan's economy.

8.1 Construction Sector

The construction sector has experienced a severe blow due to the mass repatriation of Afghan refugees. Historically, Afghan refugees made up a significant portion of the workforce, particularly

in unskilled and semi-skilled roles. According to the ILO-UNHCR (2024) report, 60percent of Afghan refugees were engaged in the construction industry, performing critical roles such as general laborers, masons, carpenters, and brick makers. With over 500,000 Afghans repatriated by March 2024, approximately 300,000 construction workers were removed from the labor pool. This unprecedented loss has led to acute labor shortages, delaying construction projects and driving up wage rates. General labor roles alone have suffered an estimated loss of 147,000 workers, while the masonry and carpentry sectors have experienced reductions of 51,000 and 24,000 workers, respectively.

The following chart visually represents the estimated workforce loss across various construction roles:

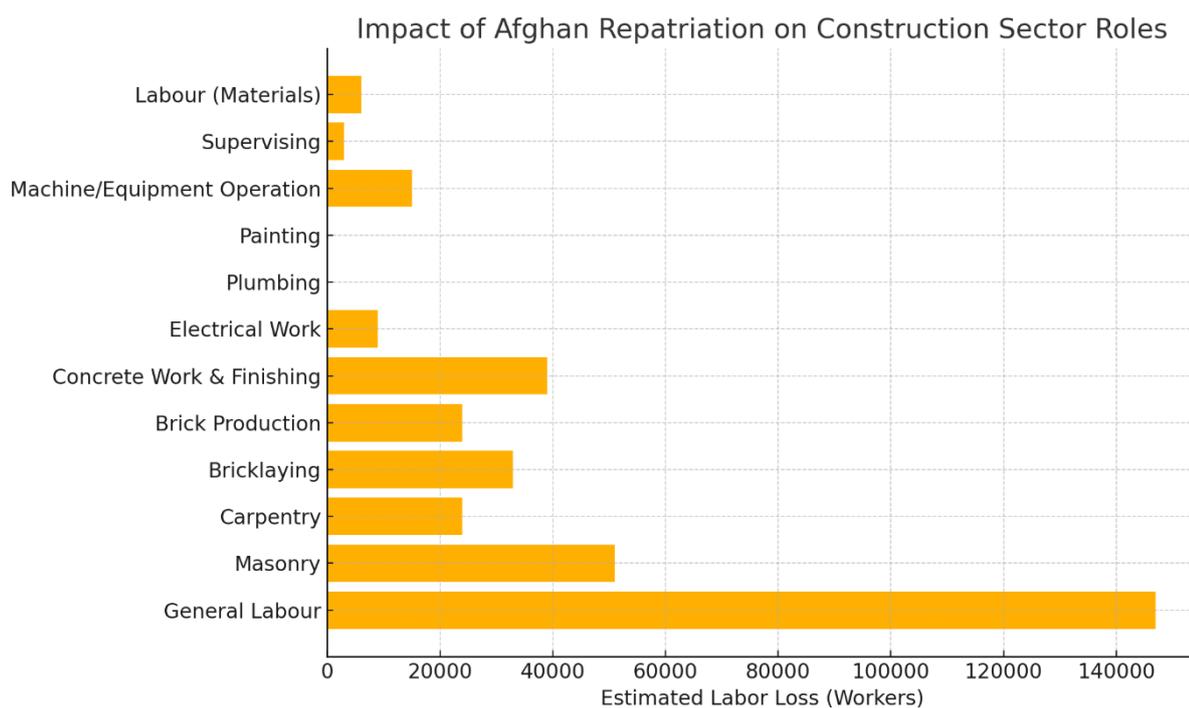


Figure 1: Analysis built on ILO and UNHCR Reports

The greatest impact is observed in general labor, masonry, and concrete work—areas critical to ongoing infrastructure development. These shortages have pushed daily wages up by 25–30percent, particularly in urban centers such as Karachi, Lahore, and Islamabad (PIDE, 2023). Private contractors report project delays of up to three months, and housing development schemes have halted due to the lack of affordable labor. The overall impact of Afghan repatriation on the construction sector is also approximately 16.7percent of the Afghan construction workforce. This means that nearly one out of every six Afghan workers who previously contributed to Pakistan’s construction industry has now left, resulting in substantial labor shortages, project delays, and wage inflation in this critical sector. If this trend continues, the construction sector’s contribution to GDP, which currently stands at 2.5percent, is likely to shrink further, directly affecting allied industries such as cement, steel, and ceramics. Urgent policy interventions are needed to train local labor and stabilize this critical economic sector.

8.2 Agriculture Sector

The agriculture sector, a backbone of Pakistan’s informal economy, has been severely disrupted by the sudden repatriation of Afghan refugees. Historically, Afghan labor filled vital roles in fruit and vegetable cultivation and as general farm laborers, particularly in Balochistan and Khyber

Pakhtunkhwa provinces. According to the ILO-UNHCR (2024) report, nearly 45percent of Afghan refugees were involved in agriculture-related activities. With approximately 500,000 refugees repatriated by early 2024, an estimated 225,000 workers have exited the agricultural workforce. This has resulted in severe labor shortages at critical times such as planting and harvesting seasons. General farm labor roles have suffered the greatest loss, with around 112,500 workers removed from the labor pool. Similarly, the fruit production sector has seen a loss of nearly 67,500 workers, while vegetable cultivation has lost around 45,000 laborers.

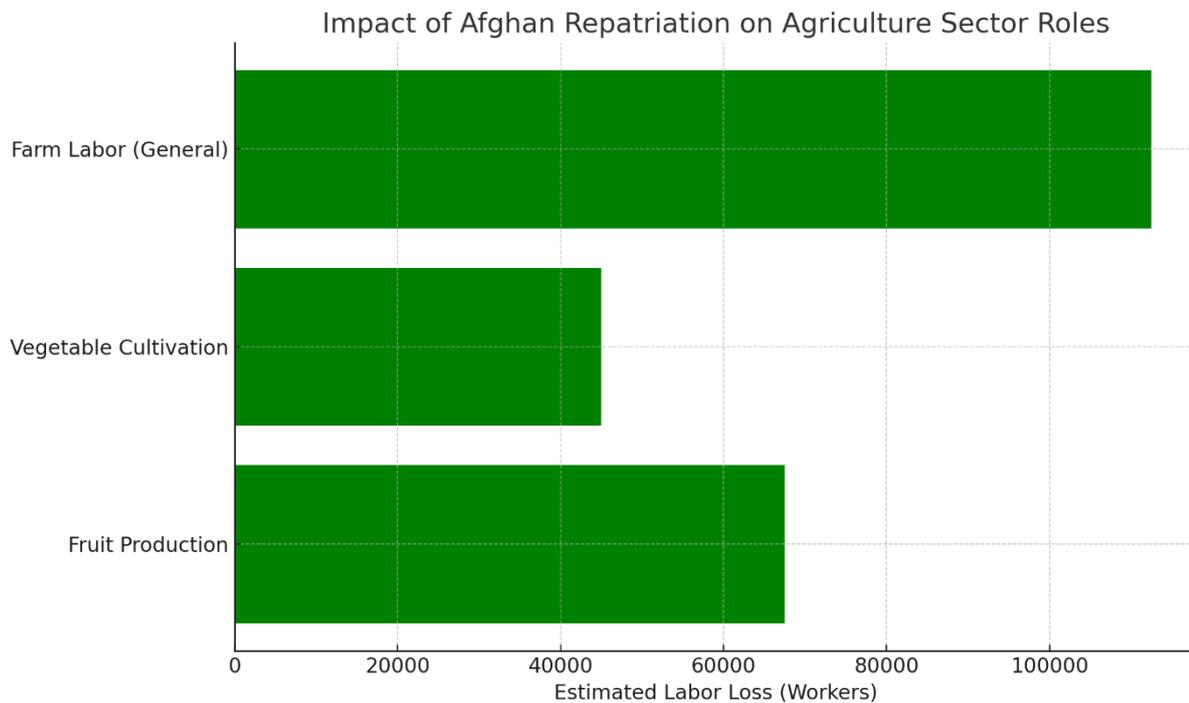


Figure 2: Analysis built on ILO and UNHCR Reports

The chart illustrates the disproportionate impact on general farm labor, which is essential for managing day-to-day agricultural activities. This sudden gap has caused significant disruptions in the production and distribution of perishable commodities, leading to price hikes in local markets. For instance, vegetable prices have increased by 20–25percent in urban centers, directly affecting household food security. The Afghan repatriation impact of the agriculture sector overlap is 16.7percent, which is approximately one-sixth of the Afghan workforce employed in agriculture. This indicates that there has been a considerable labour vacuum in this sector. Should the repatriation continue at the predicted pace, this figure might continue to increase, aggravating the crisis in agricultural productivity and the stability of food supply. Additionally, the lack of Afghan agricultural workers has led to unharvested crops, which in turn has resulted in financial losses to small farmers as well as reduced the agricultural output of Pakistan.

8.3 Transportation Sector

The mass Afghani refugee repatriation is strikingly noticeable in the transportation industry around metropolitan and border areas. Afghan workers were integral participants in the intercity transport system as minibus, truck and rickshaw drivers and as loaders, porters, and cross-border traders. As per the ILO (2024) estimate, nearly 20percent of the Afghan refugee workforce (about 100,000 workers) were employed in this industry. Due to the current wave of repatriation, this sector is experiencing a considerable deficit in the workforce. The most impacted group is the drivers, with a deficit of approximately 50,000 drivers from the active population. These drivers were essential to Pakistan's urban transport systems and the informal freight industry. Additionally, the loss of 30,000

loaders and helpers has caused disruptions in cargo handling at major trade hubs, particularly in Karachi, Quetta, and Peshawar. The most critical impact, however, is observed in the cross-border informal trade, which has lost around 20,000 transport entrepreneurs. These individuals played a pivotal role in sustaining informal trade routes between Pakistan and Afghanistan, particularly through the Torkham and Chaman borders. Their absence has resulted in logistical bottlenecks, increased freight costs, and a noticeable slowdown in informal cross-border commerce.

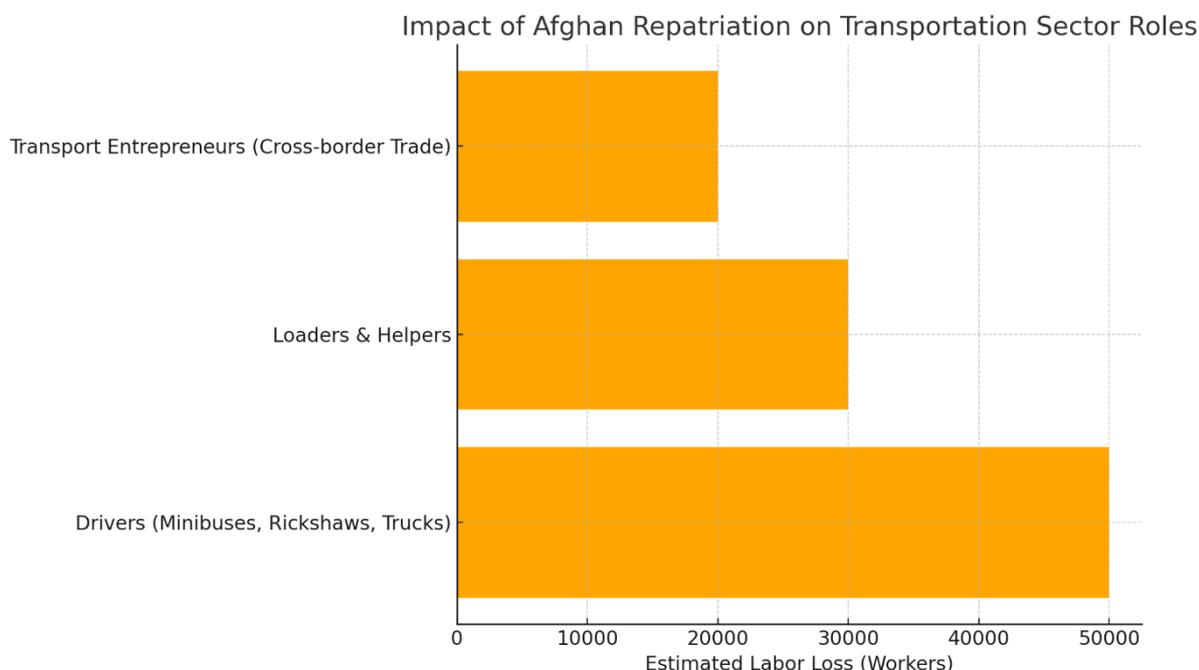


Figure 3: Analysis built on ILO and UNHCR Reports

This data reflects an alarming scenario, especially in the informal public transport sector where affordable commuting options are becoming scarce. Transport fares have already increased by 15–20 percent in major cities, burdening the working-class population. Moreover, the disruption in informal trade has affected the availability and prices of imported goods such as dried fruits, medicinal herbs, and coal. If this trend persists, the transportation sector's contribution to informal employment and cross-border trade will diminish, potentially leading to broader economic instability in border regions.

8.4 Micro-Enterprises and Artisanal Sector

The micro-enterprise and artisanal sector, traditionally supported by Afghan refugee labor, has also been significantly affected by the ongoing repatriation efforts. This sector includes critical informal economic activities such as textile crafts, honey production, small-scale dairy, and carpet weaving. Approximately 15 percent of the Afghan refugee workforce—around 75,000 individuals—were engaged in these industries prior to repatriation. The greatest losses are seen in the textile and handicrafts sector, with an estimated 30,000 workers withdrawn from home-based and small-scale production units. This sudden shortage has resulted in reduced production capacity and has negatively impacted export potential, particularly in embroidery and tailoring crafts highly sought after in local and international markets.

In the honey industry, approximately 18,750 Afghan beekeepers and workers have left the sector, disrupting the supply chain and reducing Pakistan's honey production significantly. This sector had previously relied heavily on Afghan expertise, especially in Khyber Pakhtunkhwa, which is the primary region for honey production (ILO & UNHCR, 2024). Similarly, the dairy production sector

lost 15,000 small-scale producers, mostly women engaged in home-based livestock rearing and informal dairy sales. This has affected both household-level food security and the supply of affordable dairy products in local markets. Finally, carpet weaving, a culturally significant trade for Afghan refugees, has lost around 11,250 workers, predominantly women. This has led to a sharp decline in handwoven carpet production, directly impacting exports and artisan livelihoods.

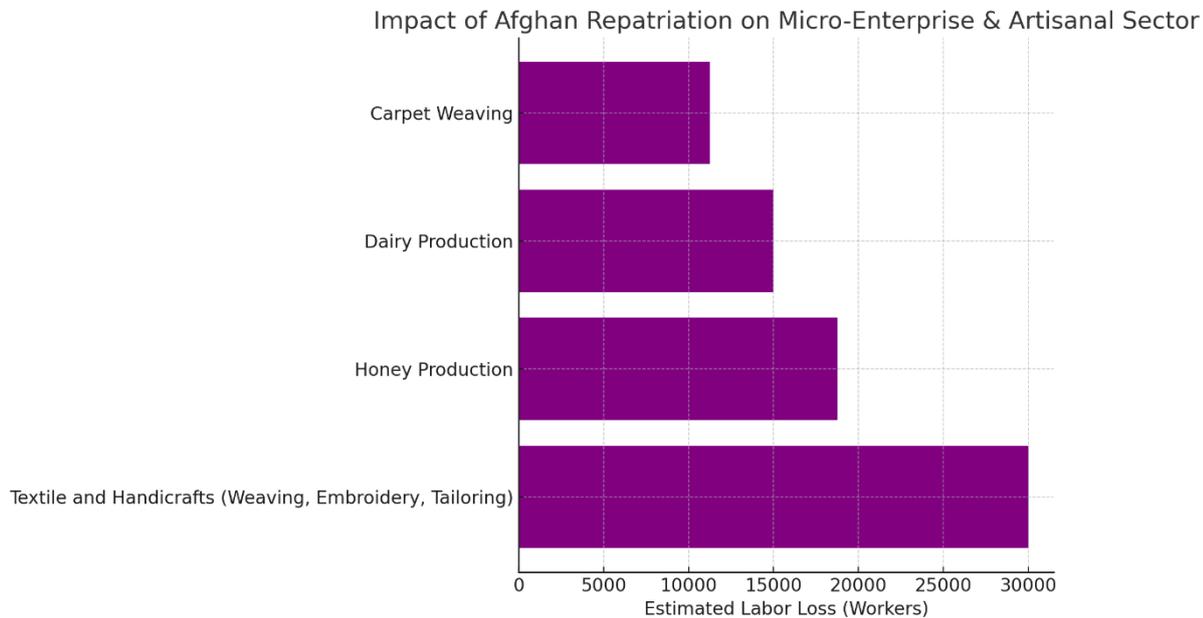


Figure 4: Analysis built on ILO and UNHCR Reports

The chart highlights the disproportionate loss in the textile and honey sectors. Without intervention, the informal micro-enterprise sector will face long-term contraction, further marginalizing low-income communities reliant on these activities.

9. Comparative Impact of Afghan Repatriation Across Key Sectors

Aspect	Construction Sector	Agriculture Sector	Transportation Sector	Microenterprises & Artisanal Sector
Percent of Afghan Workforce Engaged	60 percent (1.8 million)	45 percent (1.35 million)	20 percent (0.6 million)	15 percent (0.45 million)
Workforce Lost	300,000 workers	225,000 workers	100,000 workers	75,000 workers
Dependency Level	High on Afghan labor for low-skilled work (49 percent of general laborers were Afghans)	High during peak seasons but more substitutable labor is available domestically	High for urban transport and cross-border trade logistics	High in cultural crafts and home-based industries, especially women
Economic Impact	Immediate, with visible project	Slower but critical; affects food prices and	Immediate cost escalation and	Decline in exports, loss of cultural

	delays and cost hikes	long-term food security	disrupted trade flows	industries, rising product prices
Recovery Feasibility	Difficult due to lack of trained domestic labor willing to work at low wages	Moderate; locals can fill roles but at higher wages and with lower efficiency	Difficult; high reliance on transnational networks	Difficult; loss of traditional skills not easily replaced
Sectoral GDP Contribution	2.5percent of GDP (direct) + indirect through allied industries	~19percent of GDP directly (including livestock and crops)	Approx. 3percent of GDP including logistics and trade facilitation	Approx. 2percent of GDP (informal economy, crafts, small-scale production)

10. Conclusion and Recommendations

The mass repatriation of Afghan refugees from Pakistan represents a significant socio-economic turning point with far-reaching consequences for the country's informal economy. Over the past four decades, Afghan refugees became an integral part of Pakistan's low-skilled and semi-skilled labor force, particularly in informal sectors such as construction, agriculture, transportation, and microenterprises. Their roles, although largely undocumented and undervalued in policy narratives, were essential in filling critical labor shortages and sustaining economic activity in marginalized regions. The sudden severing of this labour force has triggered immediate changes and contractions in sector output, increased costs of production, and exposed deep, systemic weaknesses in the informal economy of Pakistan. The construction sector has borne the largest burdens, and this sector remains most affected. Afghan refugees constituted nearly 60 percent of this sector's workforce. They offered considerable assistance as general labourers, masons, and carpenters. Their absence has worsened deficits in the available workforce, contributed to higher wages, and stalled the ongoing expansion of construction projects in rapidly urbanising cities. Major disruptions were also experienced in the agricultural sector, which employed around 45 percent of the Afghan refugee workforce. Disruptions in the supply chains of market-supporting ecosystems during the crucial harvesting periods, enforced by the loss of 225,000 skilled agricultural workers, contribute to food inflation and enduring food scarcity in the country.

The transportation sector, which employed 20 percent of the Afghan workforce, has also experienced severe disruptions. Afghan drivers and loaders were instrumental in helping cross-border traders facilitate informal trade with Afghanistan, while also managing internal freight logistics. Their absence has sustained congestion in supply chains and inhibited the free flow of trade, especially through the Torkham and Chaman border crossings as trade flows. Moreover, honey production and textile crafts, along with other microenterprises and artisanal industries suffering from the loss of 75,000 home-based workers, mostly women, have sharply reduced output. This has increased prices of handicraft products and sparked the threatened loss of generationally preserved cultural craftsmanship. Considering the major socio-economic shifts, it is crucial for the government of Pakistan as well as other developmental bodies to immediately and strategically re-stabilize the economy in the face of this labour crisis. Primarily, there is an opportunity to invest in developing the domestic labour market. Vocational programs should be established to train local employees in construction and agriculture, which are significantly underserved due to a labour shortage. To help close the widening labour gap, there should be special grants issued to incentivise participation from the youth and other disadvantaged groups.

Furthermore, the government has the authority to implement targeted financial micro-crediting and aid programs for small businesses and micro ventures impacted by the Afghan skilled worker's

exodus. These schemes should focus on empowering ‘surviving businesses to adapt to the prevailing blend of scarce labour and capital by investing in automation when possible and offering funding to hire and retrain new local employees. Equal attention must be given to women entrepreneurs who have burgeoned by the adoption of flexible business models which have, during the pandemic, crumbled due to the unavailability of Afghan females working from home. Third, it is important to systematically and gradually integrate the most critical segments of the informal economy. There is a need for policies that assist informal enterprises to register as formal businesses without incurring high regulatory compliance costs, which include providing streamlined regulations and tax benefits. Doing so would stabilise the sectors involved and, at the same time, expand the labour market and social security coverage while enhancing fiscal revenue and creating sustained economic strength. Fourth, it is necessary to revisit some regional trade policies to reduce their harmful effects on cross-border trade due to the repatriation of Afghan traders and transporters. One strategy to maintain the informal economic linkages is to facilitate formal trade relations with Afghanistan and establish special economic zones at the bordering areas. These measures would also improve trade route legitimacy, which in turn fosters regional economic stability and decreases the reliance on illicit trade. Finally, it is critical for the government to bolster social safety nets for the communities that are most vulnerable impacted by the repatriation policy. Cash transfer programmes, food subsidies, and welfare assistance must be increased to stop households from being economically stressed by inflation resulting from informal economic activity being closed. Development initiatives of a local economy focused on community-based welfare projects to reduce dependency on exploitative employment should be increased, especially since Khyber Pakhtunkhwa and Balochistan are poorer provinces. In conclusion, comments on the economic implications of the Afghan refugees’ repatriation underscore the importance of informal economic activity in Pakistan. Policies which are uncoordinated and reactive to disruptions will be harmful to economic growth, the creation of jobs, and the reduction of poverty in Pakistan in the long term. With the right comprehensive response in terms of workforce policies, financing support to crumbling micro and small enterprises, regulatory relief, and increased social safety nets, Pakistan would be able to convert the current crisis of economic informal dependency into a widening and strengthening of the economy, making it more resilient and inclusive.

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