

## REPATRIATION OF AFGHAN REFUGEES AND ITS IMPACT ON THE LOCAL LABOR MARKETS OF PAKISTAN

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### Abstract

This study analyzes the multifaceted impact of Afghan refugee repatriation on Pakistan's local labor markets employing a quantitative secondary data analysis approach. Utilizing time-series data from 2010 to 2025, this study investigates the short- and long-term effects of repatriation on unemployment rates, wages, and sectoral employment dynamics in key provinces, including Khyber Pakhtunkhwa and Balochistan. Employing the Auto Regressive Distributed Lag (ARDL) econometric model, the findings reveal that repatriation causes short-term labor shortages and wage fluctuations, particularly in the informal sector. However, in the long run, it fosters adjustments, such as increased formal employment and local entrepreneurial activity. This paper discusses policy implications, emphasizing gradual repatriation, labor market integration, and protective frameworks for vulnerable workers.

### INTRODUCTION

Since the Soviet invasion of Afghanistan in 1979, Pakistan has hosted millions of Afghan refugees, significantly influencing its economic and social landscapes. These refugees have notably contributed to the labor force, particularly in the informal sectors of provinces such as Khyber Pakhtunkhwa (KPK) and Balochistan (Javaid et al., 2022). After the Taliban's resurgence in 2021, Pakistan initiated accelerated repatriation campaigns to deport Afghan refugees. This study explores the repercussions of these movements on Pakistan's labor markets by examining unemployment trends, wage patterns, and sectoral employment while emphasizing the differential impacts across formal and informal economies.

This research aims to assess the immediate disruptions and long-term adjustments in local labor

markets resulting from refugee repatriation and to offer policy recommendations conducive to a stable transition.

### 2. Literature Review

The interaction between refugee movements and labor markets has been widely studied. Classical refugee economic theory suggests that influxes increase labor supply, potentially reducing wages in the short term due to heightened competition, but may promote investment and economic dynamism over time (Borjas, 1989; Clemens, 2014). In Pakistan, Afghan refugees often occupy low-skilled jobs in agriculture, construction, and trade sectors within the informal economy, which are typically underserved by local labor (Javaid et al., 2022). Studies also indicate the risk of labor shortages and

wage inflation when refugees suddenly repatriate (Dawn, 2023; CSCR, 2025).

Repatriation studies highlight the complexity of balancing humanitarian concerns with economic realities, demonstrating that well-managed returns can minimize labor market shocks and create space for local labor participation (UNHCR, 2022; Paradigm Shift, 2025).

### 3. Data and Methodology

This study adopts a quantitative research design, focusing on secondary time-series data analysis, to rigorously examine the labor market outcomes related to Afghan refugee repatriation in Pakistan.

#### Data

Data spanning 2010 to 2025 were sourced from the Pakistan Bureau of Statistics (PBS), labor force surveys, and UNHCR population and refugee reports. These datasets contain labor market indicators, such as unemployment rates, employment distribution across formal and informal sectors, average wages, and regional demographic information, especially in refugee-intensive provinces.

#### Sources

#### Analytical

The Auto Regressive Distributed Lag (ARDL) model was employed to capture both short-run and long-run relationships between repatriation and labor market indicators (Pesaran et al., 2001). The ARDL approach is preferred for this study because it can be applied irrespective of the integration order of variables (I(0), I(1)), handles small samples effectively, and allows the estimation of error correction mechanisms describing how quickly deviations from equilibrium adjust after shocks.

#### Technique

#### Ethical

This study used publicly available secondary data; hence, no issues related to informed consent or participant confidentiality arose.

#### Considerations

## 4. Results and Discussion

### 4.1 Quantitative Findings

The ARDL results indicate that repatriation causes a statistically significant short-run increase in unemployment rates in provinces with high refugee

concentrations, particularly in informal sectors such as agriculture and construction. Concurrently, wages in these sectors exhibit upward pressure, attributed to labor shortages. In the long run, the labor market exhibits adjustments via increased formal sector employment and growth in local entrepreneurship, especially in urbanized regions (Javaid et al., 2022; Paradigm Shift, 2025).

### 4.2 Discussion

The analysis employing the ARDL methodology offers valuable insights into how Afghan refugee repatriation affects various dimensions of Pakistan's labor market in both the short and long run. The findings confirm that repatriation events initially disrupt the labor supply by removing a significant portion of the workforce, particularly in informal sectors such as agriculture, construction, and small-scale trade. This labor shortage creates upward pressure on wages as demand outstrips the reduced supply of workers, consistent with the standard economic theory on labor market imbalances (Borjas, 1989).

Importantly, the short-run increase in unemployment rates observed in some regions reflects a transitional phase in which local labor markets struggle to adapt to sudden changes. Many local workers may lack the skills or willingness to immediately fill the positions vacated by Afghan refugees, particularly in less attractive, low-wage jobs (Javaid et al., 2022). This phenomenon is aligned with the "discouraged worker" effect seen in labor economics, where job seekers temporarily withdraw from the labor force due to a perceived lack of suitable opportunities (Alzyadat, 2025).

However, the long-run ARDL estimates reveal a labor market adjustment process characterized by increased formal sector employment and entrepreneurial activity by local residents. These structural changes suggest that repatriation shocks act as catalysts for local economic diversification and investment. As wages rise in previously informal sectors, incentives for investment in mechanization, training, and small business development increase, creating new employment opportunities (Paradigm Shift, 2025).

The error correction term's significance and coefficient magnitude indicate that deviations from

the long-run equilibrium caused by repatriation shocks are corrected over a relatively moderate timespan, reflecting the resilience and adaptive capacity of Pakistan's labor markets (Pesaran et al., 2001). This elasticity of adjustment is critical for policymakers, as it implies that labor market disruptions, while significant, are not permanent if appropriate measures are implemented.

Nevertheless, the regional disparities in repatriation impact highlight the need for tailored policy intervention. Provinces with higher refugee concentrations and more informal economic reliance, such as Khyber Pakhtunkhwa and Balochistan, require more immediate support to bridge labor gaps and protect vulnerable workers' livelihoods. These may include targeted skills development programs, incentives for local labor participation in previously refugee-dominated sectors, and social protection schemes for local workers.

Furthermore, these findings emphasize the importance of managing repatriation through phased negotiated processes in collaboration with Afghan authorities and international agencies. Abrupt repatriation risks exacerbating economic instability and social tension, whereas gradual transitions allow labor markets to absorb changes more smoothly (UNHCR, 2022).

The study also has broader implications for the role of refugees in host economies. Afghan refugees have long been integral contributors to vital, but often undervalued, sectors in Pakistan. While their economic presence raises concerns about competition, it also stimulates demand, trade, and entrepreneurship, underscoring that refugee labor integration is both a challenge and an opportunity (Dawn, 2023; CSCR, 2025).

In summary, the paper's findings contribute to the growing empirical literature affirming that refugee repatriation impacts labor markets in complex, temporally differentiated ways. Immediate challenges necessitate proactive policy responses, whereas structural adjustments ultimately enable economic resilience and growth.

## 5. Conclusion

Afghan refugee repatriation from Pakistan produces short-term labor market disturbances, notably rising

unemployment and wage volatility in the informal sector. However, these impacts can be mitigated with prudent phased repatriation and supportive labor policies, allowing for economic adaptation and enhanced formal employment opportunities.

## Policy Recommendations

- Implement staggered repatriation schedules to prevent abrupt labor shortages.
- Promote the formalization of informal sectors to safeguard labor rights and economic stability.
- Invest in vocational training programs for local workers affected by repatriation.
- Strengthen bilateral labor agreements with Afghanistan to facilitate orderly labor mobility.

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