

ECONOMIC AGENCY AND URBAN TRANSFORMATION: AFGHAN REFUGEES IN PESHAWAR (1980–2010)

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ABSTRACT

This research paper examines the economic impact of Afghan refugees in Peshawar between 1980 and 2010. Contrary to narratives that frame refugees solely as a burden, I show that their prolonged presence was a dynamic force, fundamentally altering the city's economic and urban contours. The arrival of over half a million registered refugees, alongside subsequent waves, spurred significant urbanization by introducing new, often informal, economic processes. Afghan entrepreneurs established diverse small and medium enterprises, while the ready availability of low-wage labor fueled growth in sectors like construction and real estate. Furthermore, cross-border trade, despite its illicit elements, revitalized commerce in hubs such as Karkhana Bazaar. This study concludes that the refugee population acted as vital agents of economic transformation, creating a complex socio-economic hybridity that cemented Peshawar's status as a regional economic metropolis, despite the pressures exerted on existing social services and infrastructure.

KEYWORDS: Economic Impact, Afghan Refugees, Peshawar, Labour Market, Urbanization.

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I contest the persistent misconception that Afghan refugees in Peshawar served merely as a demographic and economic strain on the host country. The reality is much more complex. I propose that, over three decades from 1980 to 2010, Afghan refugees acted as a critical and often misrepresented force, driving the urbanization and rapid economic modernization of Peshawar through a proliferation of small, medium, and diverse economic activities, ranging from highly formal ventures to expansive informal trade networks. This mass migration, triggered by the 1979 Soviet invasion and sustained through subsequent conflicts, quickly turned Peshawar into the world's largest refugee-hosting city, fundamentally reorienting its social, demographic, and economic fabric (Alimia 2022). This prolonged crisis created an environment of economic hybridity that redefined labor relations, commerce, and the physical expansion of the city itself.

The underlying debate concerns the nature of refugee impact: do refugees deplete resources, or do they inject new capital and dynamism into a host economy? I advance a proposition that policy discourses and much early literature have unjustly vilified the refugees, ignoring their critical contribution to the city's post-modern economic transformation (Ministry of SAFRON 2009). The initial liberal refugee policy, influenced by Cold War geopolitics under General Zia ul Haq, provided the necessary framework for this population to integrate into the informal sector (Amstutz 2009). This integration, often driven by necessity and entrepreneurial skill, created robust cross-border trade, transformed local food and textile industries, and supplied the affordable labor crucial for Peshawar's expansion, particularly in the Hayatabad township.

I will demonstrate how the evolution of Peshawar's economy over this period is inextricably linked to the refugee presence. They introduced new competitive

dynamics, increased access to affordable goods, and established transnational commercial networks connecting Peshawar with distant markets (Marsden and Hear 2005). While acknowledging the dual impact—the pressure on public resources and the suppression of local wages—I specifically focus on the creative agency and economic value generated by the refugees. I structure this argument by first establishing the historical and urban context, then detailing the methodology, before comprehensively analyzing the refugees' deep influence on the labour market, real estate, and cross-border trade, ultimately proving their centrality to Peshawar's phenomenal development.

The existing scholarly work on Afghan refugees typically falls into two major and often contrasting fields. The first group adopts a geopolitical and social-cost perspective, highlighting the burden on host nations. Scholars in this camp focus on how large refugee movements place unsustainable pressure on urban infrastructure, leading to the deterioration of utilities, health, and education services for both the refugee and host communities (Crisp and Schmeidl 2016). For example, Alimia documents the history of refugee shelters in Peshawar, showing how they metastasized from short-term emergency camps into permanent urban fabric, causing rapid urbanization and severe strains on resources like sanitation and housing (Alimia 2022). Gatrell and Roy reinforce this perspective by positioning refugee crises as political assets; they suggest that host countries strategically leverage the protracted displacement to call for international assistance and strengthen regional political standing, effectively utilizing the refugee crisis as a geopolitical tool.

The second, more recent body of work challenges the 'burden' narrative by emphasizing the economic agency and transformation driven by refugees. Scholars like Zetter, Koser, and Monsutti focus on the

refugees' capacity to contribute positively to host economies (Monsutti 2016). Zetter establishes that forced migrants actively contribute to development through participation in the informal economy and through remittances (Javed 2014). Monsutti's work specifically highlights the utility of social networks and kinship structures among Hazaras and other Afghans, which provided the scaffolding necessary for economic incorporation into Peshawar's competitive market (Monsutti 2005). These studies underscore that the prolonged stay of the refugees altered Peshawar's urban and economic profile, reshaping the physical geography and creating a lasting mark on the city's evolving informal sector.

I synthesize these debates through the lens of subaltern urbanism (Roy) and cultural hybridity (Hall, Monsutti). The political and historical accounts detail the macro forces that drove the migration (Dupree 2002), while the economic studies reveal the micro-level adaptation (Khan 2007). Harpviken and Glover provide the necessary spatial perspective, analyzing how the refugee settlements fundamentally reorganized urban space and altered the social landscape of Peshawar (Harpviken 2009). This synthesis is crucial: it moves beyond quantifying the costs or benefits to explore the *process* of economic integration. This process, as articulated by Hall and Monsutti, involves the formation of fluid, hybridized identities—a blend of Afghan tradition and Peshawar's economic practices—which in turn enabled refugees to create alternative urban environments and establish informal, yet dynamic, commercial rights over the city space (Monsutti 2016).

I anchor this study in a mixed-methods policy that combines qualitative and quantitative methodologies to analyze the socio-economic transformation of Peshawar between 1980 and 2010. I specifically utilize archival research, focusing meticulously on unpublished government reports and

documents. These include policy correspondences from the Ministry of States and Frontier Regions (SAFRON) and the State Bank of Pakistan, which provide essential quantitative data on refugee demographics, labour market contributions, and formal trade patterns, establishing a critical baseline dating back over 25 years (Ministry of SAFRON Archives). These primary government records help me assess official policy responses and the macro-level economic distortions caused by the influx.

Supplementing this government data, I incorporate secondary quantitative evidence from international organizations like the UNHCR, ILO, and the World Bank. These reports offer vital macro-level perspectives on labour integration rates, the scale of informal economic contributions, and policy outcomes (UNHCR 2018; ILO 2006). I also employ qualitative techniques, including the use of case studies and documentary analysis as primary source material. Since formal interviews presented logistical limitations, I turn to visual ethnographies—specifically documentaries like *Life in Exile: Afghan Refugees in Peshawar*—which provide invaluable visual testimony and firsthand accounts of refugees' daily lives, economic activities, and survival strategies within the informal economy, thus compensating for the absence of direct fieldwork data. I find this multi-dimensional approach uncovers the creative strategies by which refugees responded to exclusionary policies and successfully reshaped the urban environment.

THE TRANSFORMATIVE CONTEXT OF REFUGEE INFLUX

The Soviet invasion of Afghanistan in December 1979 as the single most critical antecedent to Peshawar's transformation. This military action initiated a protracted conflict, sowing violence and political anarchy, forcing millions of Afghans to flee across the accessible border into Pakistan (Amstutz 2009). Peshawar quickly emerged

as the primary destination due to its geographical proximity to the Khyber Pass and deep-rooted Pashtun kinship and cultural linkages that transcended the international border. The initial wave of refugees in the 1980s was overwhelmingly Pashtun, but by 1986, the city hosted nearly 1.5 million refugees with over half concentrated in the Khyber Pakhtunkhwa (KP) region (UNHCR 2015). The initial makeshift camps rapidly evolved into permanent settlements as the conflict persisted, laying the physical and demographic groundwork for Peshawar's evolution from a regional city to a global cosmopolis.

The nature of the refugee population shifted following the Soviet withdrawal in 1989 and the ensuing Afghan Civil War among splintered Mujahideen factions. The instability across the 1990s prevented returns and triggered a second, more diversified migration wave. While Pashtuns dominated the first influx, the civil war brought a far more complex mix of Tajiks, Uzbeks, and Hazaras into Pakistan, directly reflecting the factional and ethnic conflicts within Afghanistan (Monsutti 2005). These various ethnic groups typically settled in specific districts, establishing distinct communities within Peshawar's metropolitan area. This ethnic diversification introduced a greater variety of skills, trade networks, and cultural practices into the host economy, expanding the scope of economic hybridity that Peshawar would soon adopt.

Pakistan's role as a frontline state during the Cold War decisively influenced the economic and social fate of the refugees. Under General Zia ul Haq, Pakistan strategically aligned itself with the anti-Soviet resistance, facilitating arms and financial assistance to the Mujahideen with backing from the U.S. and Saudi Arabia (Amstutz 2009). Peshawar consequently became the logistical and political hub for the Afghan resistance, housing not only refugees but also political and military leaders. The massive

inflow of international aid—intended to offset Soviet influence—was channeled through the city, establishing the initial infrastructure for the refugee camps and contributing a new stream of foreign capital that indirectly subsidized the nascent informal economy that the refugees would soon dominate (UNHCR 2018).

By the late 1990s, the concentration of Afghan nationals exceeded 28% of Peshawar's population, outsourcing local Pakistanis in several economic quarters during peak refugee years (Nawaz 2015). This demographic surge did not just put pressure on resources; it fundamentally altered the city's social structure. Initial tent settlements rapidly stabilized, as refugees constructed permanent dwellings and opened businesses within the camps, which eventually became indistinguishable from other urban neighbourhoods. The expansion was particularly visible around Hayatabad and Gul Kalay, with the economically secure Afghan elite moving into regulated zones, while the vast majority settled in burgeoning, unregulated informal settlements (Shah 2019). This expansion, fueled by refugee labour and entrepreneurship, was the engine of Peshawar's transformation from a regional city to a cosmopolitan centre.

REFUGEES AND THE RESTRUCTURING OF THE LABOUR MARKET

The influx of a large, available, and highly competitive refugee labour force intervened dramatically in Peshawar's existing wage structure (Wickramasekara 2005). Afghan refugees were often willing to accept significantly lower wages than their local Pakistani counterparts, creating stiff competition and exerting a downward pressure on overall wages across several sectors, particularly construction and agriculture (Khan 2007). Local workers who could not accept the reduced rates faced displacement and job insecurity, leading to inevitable resentment and social conflict between the host

and refugee communities. This displacement constituted a major strain on the city's social fabric, demonstrating the complex dual impact of the refugee economy.

Despite the wage suppression, the availability of cheap Afghan labor was a crucial catalyst for Peshawar's rapid urbanization. As the city expanded to decongest its high-density core, the demand for construction workers skyrocketed (Nawaz 2015). Afghan laborers filled this gap decisively, providing the necessary workforce for the massive development of the Hayatabad township, roads, and other infrastructural facilities. This influx allowed the construction sector to expand rapidly with higher profit margins, effectively subsidizing the city's growth. Refugees directly facilitated the physical expansion of Peshawar by providing labor for both formal development projects and the proliferation of informal housing settlements, thus serving as the indispensable human capital for the city's metamorphosis.

A large proportion of Afghan refugees were compelled to operate within the informal labour market due to a lack of legal documentation and work permits. This expansion saw refugees engaging as street vendors, shop assistants, casual laborers, and in small-scale manufacturing (Javed 2014). This informal economy became a vital survival mechanism, providing livelihoods for thousands of displaced families and significantly contributing to the city's burgeoning casual economy (Zafar 2021). While this informal sector lacked regulatory oversight and exposed refugees to exploitation, its expansion provided essential goods and services at highly competitive prices for the local population. This market segment represented the raw, dynamic energy of refugee entrepreneurship, reshaping economic life without formal recognition.

Many refugees were skilled traders and businessmen from Afghanistan and rapidly integrated into Peshawar's economy,

establishing numerous Small and Medium-sized Enterprises (SMEs) (Abbasi 2016). These ranged from grocery stores specializing in traditional Afghan products like dried fruits and nuts to textile shops introducing new Afghan garments and carpets (Latif 2014). This entrepreneurial activity directly revitalized the local economy: it diversified the market, created new jobs for both Afghans and Pakistanis, and cemented Peshawar's commercial vibrancy. The emergence of Afghan eateries and restaurants, serving popular dishes like Afghani Pulao and Kabuli kebab, also added a distinct, marketable cultural layer to the local food scene.

ECONOMIC HYBRIDITY AND URBAN SPATIAL REORGANIZATION

The influx dramatically impacted Peshawar's real estate and housing sector, primarily by intensifying the demand for housing and driving up property prices in specific, desirable areas (Khan 2010). The vast majority of refugees settled in informal, makeshift settlements—like those that expanded in Hayatabad and Gulbahar—contributing to acute housing shortages and the proliferation of 'slums' lacking basic utilities. Conversely, I note that the economically prosperous Afghan traders and businessmen leveraged their capital and diaspora linkages to invest in affluent parts of the city, such as University Town and Hayatabad (Javed 2016). This investment dynamic had a dual effect: it simultaneously encouraged investment in the housing sector while pushing affordable housing out of reach for many locals, thereby becoming a clear source of social tension.

We see Karkhano Bazaar as the primary spatial manifestation of the refugee-driven informal economy and cross-border trade. Established on the city's outskirts, the Bazaar became synonymous with the sale of smuggled and undeclared goods, predominantly electronics, clothes, and other commodities brought in from Afghanistan and

neighboring regions (Latif 2014). I propose that this market provided a crucial economic function: it offered cheap goods to local consumers who otherwise could not afford legally imported products, bolstering purchasing power among the poor. We should recognize the corresponding negative impact: the flow of contraband undermined legal businesses and led to government revenue losses from customs and taxes, fostering an environment of corruption that complicated economic governance.

The cultural hybridization brought about by the refugees holds deep economic significance. The introduction of Afghan cuisine, with its distinct flavors and preparation methods, enriched Peshawar's food culture and created new economic niches for Afghan-owned restaurants and food stalls (Zafar 2021). Similarly, in the textile and fashion industry, skilled Afghan women introduced new fabrics, elaborate embroidery, and traditional Afghan garments into local bazaars. I conclude these cultural exchanges were not merely social phenomena; they created new avenues for commerce and manufacturing, providing employment for refugee women and diversifying the retail offerings, which were readily adopted by the local Pashtun and other communities. This hybridization was a powerful, non-traditional source of economic value creation.

We can employ Asef Bayat's concept of 'quiet encroachment' to explain how Afghan refugees, lacking formal legal rights, secured their presence and economic footing in Peshawar. Quiet encroachment refers to the informal, persistent, and incremental practices by which marginalized groups appropriate and claim urban resources and spaces (Roy 2011). In Peshawar, refugees engaged in this process by establishing informal settlements, securing livelihoods through street vending, and building powerful social and economic networks

(Harpviken 2009). This agency allowed them to successfully negotiate their socio-economic status within the host society, effectively reshaping the physical and social landscape of the city despite exclusionary policies. This framework confirms the refugees were active subjects, not passive recipients of aid.

CONCLUSION

The economic impact of Afghan refugees on Peshawar between 1980 and 2010 was a profound, multi-layered force of urban transformation, emphatically refuting the simplistic narrative of refugees as a mere economic drain. The availability of affordable, skilled Afghan labor was indispensable, subsidizing the massive construction boom that fueled the city's rapid physical expansion and urbanization, particularly in areas like Hayatabad (Khan 2007). Furthermore, the refugees' robust entrepreneurship diversified commerce, from ethnic grocery stores and restaurants to textile ventures, while their cross-border networks positioned Peshawar as a major hub for regional trade, highlighted by the vibrant, if problematic, activities of Karkhano Bazaar (Latif 2014). This dynamic, characterized by cultural hybridization and the creation of a vast informal economy, undeniably generated economic opportunity and growth that benefited the entire urban area.

This socio-economic transformation represents a complex legacy, defined by the successful integration of a marginalized population through sheer economic agency. The use of subaltern frameworks reveals how refugees utilized 'quiet encroachment' to stake an informal, enduring claim on the city's resources and space, successfully establishing their livelihoods despite legal and social hurdles (Harpviken 2009). While this process inevitably created social friction over wage suppression and strains on infrastructure, the catalytic effect of the refugee population in accelerating Peshawar's

modernization and cementing its contemporary role as a vibrant economic metropolis outweighs the localized costs. Given agency, refugee populations can become potent agents of urban and economic development for their host communities.

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