

Creating good jobs

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By *Dr. Sadiq Ahmed*



Working hard to work better. Photo: Jashim Salam/ Drik News

BANGLADESH can celebrate quite a few achievements since independence. These include growing per capita income, lower rate of poverty, and better human development indicators. Nevertheless, moving forward with the development agenda is daunting. Some 59 million people (40 percent of the total population) are officially classified as poor. Per capita income has now grown to about \$700 (estimated for 2010), which is still substantially lower than the South Asian average and 55 percent lower than that in India. These concerns are well known to the policy makers. What has received far less attention is the challenge of creating good jobs.

It is unfortunate that good data on labour market and job creation are scarce. Limited data available from the Labour Force Surveys (LFS) and the census data and reports compiled by the Bangladesh Bureau of Statistics are inadequate, and often inconsistent and non-comparable over time. I have compiled a reasonably consistent time series (at least in the

comparability of definitions) of a few key labour market variables. The employment picture looks rather dismal.

The first striking finding is that only 22 percent of the employed labour force is engaged in the formal sector. Some 11 percent of employed labour is in manufacturing and another 11 percent is in organised services. The remainder are still engaged in informal activities. A second striking result is that the responsiveness of employment to growth in manufacturing is rather low (measured by employment elasticity). Thus, between 1980 and 2009, value added in manufacturing grew by 6.4 percent annually whereas employment increased by 3.9 percent, suggesting a long-term manufacturing employment elasticity of 0.61, which is on the low side.

While this is an improvement over the early 1970s, when only 15 percent of the labour force was in the formal sector (8 percent in manufacturing and 7 percent in formal services), the slow progress in transforming the labour market after about 40 years of independence is an indication of a major weakness in our development strategy.

What is wrong in being engaged in informal activities and why should we worry about the low employment elasticity in manufacturing? The short answer is that informal activities mostly involve low levels of productivity and low earnings. As such, these are not very good jobs.

To appreciate this better, let's look at the sectoral earnings prospects based on average productivity. Not surprisingly, average productivity in agriculture is much lower than in manufacturing or services. Agriculture's GDP share has fallen drastically since independence, from over 55 percent in 1975 to 32 percent in 1980 to 20 percent in 2009, but its employment share has not fallen by as much, and it continues to employ some 48 percent of the labour force. As a result, the average labour productivity has not increased much — by only 0.9 percent between 1980 and 2009. As compared to this, average productivity in manufacturing has grown by 2.9 percent and by 1.1 percent in services. Since services are an aggregation of both formal and informal services, average productivity and its growth are constrained by the large share of informal activities — as much as 82 percent.

Low initial average labour productivity in agriculture, estimated at about only 48 percent of the average productivity in manufacturing in 1980, combined with sharply lower productivity

growth, has further expanded the productivity gap between agriculture and manufacturing. Thus, in 2009, the average labour productivity in agriculture fell to only 27 percent of that in manufacturing. Agriculture's productivity gap with services is similarly large, despite the dominance of informal services component.

Wages data show the differences in sectoral productivity. Agricultural real wages grew by only 0.3 percent annually between 1980 and 2009, as compared with 2.6 percent in manufacturing and 0.6 percent in services. The gap between the average real wages in manufacturing and agriculture also reflects the productivity gap.

The above analysis provides a simple answer to addressing Bangladesh's growth and employment challenges. A faster rate of GDP growth will require commensurate increases in the average labour productivity. Finding more productive and better-paying jobs will require faster expansion in high productivity, high earning sectors. The two can be reconciled by finding ways to create more jobs in manufacturing and organised services.

International experience shows that high-paying jobs are best created in manufacturing and formal services, and Bangladesh is no exception. Other South Asian countries are striving to go through a similar transformation with varying degrees of success. However, India, Pakistan and Sri Lanka have done better in increasing both the share of manufacturing in GDP as well as its share of employment. They are also higher per capita income countries.

How can manufacturing grow faster than in the past? How can it absorb labour at a faster pace? One can draw from the lessons of experience as well as from economic theory. Rapidly growing East Asian countries have relied on exports to develop their manufacturing sector with a great deal of success. From theory (the Hecksher-Ohlin model of trade), one can argue that Bangladesh can concentrate its development efforts on promoting labour-intensive manufacturing exports based on the rationale that it has a relatively abundant labour endowment that gives it a cost advantage in labour-intensive products. The experience with the ready-made-garments (RMG) sector seems to support both points.

One debatable aspect is: Can Bangladesh emulate the experience of East Asian economies in terms of successfully launching its large scale manufacturing sector, or should it concentrate instead on medium and small enterprises? This debate partly germinates from the New

Economic Geography (NEW) that suggests that the large-scale manufacturing faces increasing returns and, as such, agglomeration benefits of freer trade and lower transport costs tend to accrue to existing firms, making new entries difficult until such time that factor costs (typically labour costs) more than offset the agglomeration advantages. This debate requires additional research. But there is no reason for Bangladesh not to focus on the policy framework for implementing an export-oriented manufacturing strategy.

On the demand side, one can assume that the world demand is not a major constraint for Bangladesh despite the recent global downturn. This is because Bangladesh is a very small player in the world market and the experience of the RMG sector during the recent global crisis shows that a small country like Bangladesh, which is producing low-cost, mass-consumption products (low end of the RMG market), can not only survive but even expand its market share by paying attention to market trends. So, much of the policy attention has to focus on production incentives, quality and cost competitiveness.

Regarding production incentives, there is plenty of empirical evidence that both the exchange rate and trade protection matter for exports. By and large, Bangladesh has managed its exchange rate policy well, although the appreciation of the real exchange rate since 2006 needs careful monitoring. On the trade protection front, unfortunately, Bangladesh has moved hesitantly. While trade protection has come down sharply from its very high levels in the early 1990s, Bangladesh remains amongst the most heavily-protected countries in the world. Trade reform has also stagnated over the past few years. A rapidly expanding and diversified manufacturing sector requires a much faster pace of trade liberalisation.

On the quality front, much will depend upon the quality of labour and adoption of better technology. As LFS data show, some progress has been made in upgrading labour skills through improvements in education and training, but there is a long-long way to go. Indeed, the 78 percent informal labour force cannot be converted overnight into quality labour for manufacturing and formal services without long-term massive enhancement effort in education and training.

This is a huge challenge and requires a long-term strategy for public investment in human development and improvement in service delivery. On the technology front, the experience

of the RMG sector clearly demonstrates the importance of diffusion of technology through partnership with foreign investors.

Concerning cost, the most obvious place to look for improvement is in infrastructure. Both power and transport are key determinants of cost competitiveness. In electricity, the inadequacy of supply is well known. While efforts are underway to mobilise new investments in power, innovative ways must be found to address the power crisis.

The solutions include better demand management and more aggressive efforts for energy trade with neighbours. In transport, Bangladesh faces trade logistic costs that are much higher than in East Asian countries or in India. Trade logistic cost has to be brought down substantially through new investment in transport network, including sea-ports, improvements in performance of existing facilities, and much better traffic management.

Bangladesh's potential for creating good jobs is quite large. Endowed with an abundant and expanding labour force and excellent geography in terms of location and access to the sea, good policies should open up the doors for a rapid expansion of an export-oriented manufacturing sector. Good political leadership is the key to harnessing this potential.

Sadiq Ahmed is Vice-Chairman, Policy Research Institute of Bangladesh.