

The employment challenge

Wednesday, May 16, 2012

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Bangladesh seeks to raise its growth rate from around 6.0% per year to 8.0% per

annum by the end of the Sixth Five Year Plan period. It also aims to reduce the incidence of poverty from about 32 per cent in 2010 to 22 per cent by 2015. The developments in real wages, productivity and employment are critical determinants of the ability to achieve and sustain these growth and poverty reduction targets.

A recent study of South Asian employment outcome done by the World Bank (WB) suggests that the story is a positive one, including for Bangladesh. Over the past two decades, South Asia has created jobs at around the same pace as the growth in the working age population and the average productivity of labour and real wages are rising. This is indeed comforting, giving rise to cautious optimism that South Asia and Bangladesh might indeed be gaining from the ongoing demographic dividend of a growing labour force. Let us first look at the nature and extent of the structural transformation of the Bangladesh economy and the implications for employment. The evidence clearly suggests that a slow but significant transformation of the Bangladesh economy has happened over the 40 years since independence where the sources of production and employment have changed in a noticeable way. There are two dimensions of this transformation.

Structural Change in Output and Employment 1974-2010

Share in valued added 1974 2010	Share in employment 1974 2010	Average growth in value added, 1974-2010	Average growth in employ- ment, 1974-2010	Employment elasticity, 1974-2010
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	Share in valued added, 1974-2010	Average growth in value added, 1974-2010	Share in employment, 1974-2010	Average growth in employment, 1974-2010	Employment elasticity, 1974-2010
Agriculture	58.0 18.6 77 48	2.9	1.5	0.52	
Manufacturing	8.7 17.9 6 12	5.9	4.6	0.78	
Services	33.3 63.5 17 40	5.9	5.0	0.85	

First, as a result of much faster growth in services (5.9 % per year) as compared with agriculture (2.9% per year), the structure of production has changed significantly away from agriculture to services, which is reflected in a substantial reduction in the value-added share of agriculture in total gross domestic product or GDP (from 58% in 1974 to 19% in 2010) and a sharp increase in the value-added share of services (from 33% to 64% over the same periods). Manufacturing sector has also played a role, but in a much more limited way as compared with the experiences in developed countries. While manufacturing growth rate has increased faster than in agriculture and at the same pace as in services (5.9% per year), this is from a low base (9% in 1974 increasing to 18% in 2010).

Second, production and employment opportunities have increased much faster in the urban areas as compared to rural areas contributing to the growing urbanization of Bangladesh. Thus, much of the manufacturing and services are located in urban areas, which in turn attracted considerable migration of the labour force. For example, the share of urban labour force increased from 12% in 1984 to 23% in 2010. As a result of these structural changes, jobs have been created at a faster pace in services and manufacturing, reflected in increases in the employment shares of services and manufacturing. Some improvement has also happened in the quality of labour as indicated by the increase in the share of educated labour in total labour force. The other structural improvement is the increasing participation of female labour in total labour force. The combined impacts of these changes of the demand and supply sides of the labour market are increases in average labour productivity and real wages. By and large real wage increases have tracked productivity improvement. Thus, for example, average labour productivity increased by 1.6 % per year between 1980 and 2010 while average real wages also increased by 1.6% per year over the same periods. These results also carry over to the sectoral components.

While these findings are indicative of a positive transformation of the Bangladeshi economy, the challenges moving forward are substantial. Average labour productivity is low by international standards. Thus average labour productivity in Bangladesh in 2008 was only 30% of the productivity in Sri Lanka, 38% of Indonesia, 40% of China, and 50% of India.

Productivity in agriculture is particularly low and it continues to employ almost half of the labour force.

So, in addition to creating sufficient higher productivity and higher real wage jobs for employing the growing labour force, additional jobs must be created for absorbing labour that withdraws from low productivity activities, typically in agriculture. This problem of “disguised unemployment” renders the concept of “open unemployment” rather mechanical and not very useful for policy purposes. Accordingly, to reduce the problem of disguised unemployment in Bangladesh, total employment must grow faster than labour force and also employment in manufacturing and services must grow faster than employment in agriculture. The ability to create higher productivity jobs at a pace that exceeds the growth in supply of labour depends on profitability and investment. Bangladesh has achieved fairly rapid growth in private investment, although public investment lacks dynamism. Investment in labour intensive and export-oriented garments sector has been particularly beneficial for economic growth and employment creation. Yet the rates of total and private investments seem to be stagnant for the past few years despite a healthy savings rate.

Profitability in export-oriented manufacturing that spurred the expansion of manufacturing sector in the 2000s with commensurate increases in the number of higher earning jobs appears to be slowing down in recent years. This is partly because of the substantial anti-export bias of trade policies but also because of constraints in infrastructure. Additionally, the tax policies favour private investment in real estate as against investment in manufacturing, infrastructure and other productive sectors.

Trade policy also constrains the transformation of agriculture from a primarily peasant economy type sector to a more modern commercial sector. Over 60 per cent of agricultural GDP comes from crops, which is dominated by food grain. Export ban on food grain aimed at keeping food prices low for domestic consumption limits the profitability of the crop sector. Diversification to higher value crops, horticulture, livestock and fisheries is adversely affected by inadequacies of rural infrastructure, marketing, technology, quality control and private

investment.

The quality and productivity of labour force is another challenge. Despite some improvement, the education level of the work force is deplorably low. A whopping 40% of the workforce has no education; some 23% have undertaken only up to primary education; and less than 4.0% have tertiary education. Converting this into a quality workforce that is needed to support the transformation of a rural-based peasant economy into a modern urban-based manufacturing and formal services economy is not an easy challenge. This will require huge investments in human capital as well as reforms of related policies, programs and institutions. Unlike in India, the gains from total factor productivity have been limited in Bangladesh. One important reason for this is the very low level of direct foreign investment. It is now well recognized that direct foreign investment can be a major source of productivity gains through technology transfer. The experience from the garments sector in Bangladesh is a direct example of this. But this positive experience has not been replicated in other manufacturing activities. How to attract more foreign capital in the manufacturing sector is a major policy challenge.

It is clear from this brief review that although the prospects for Bangladesh to cash on its ongoing demographic transition are good, this will not happen automatically. It will require major policy and institutional reforms on both demand and supply sides of the labour market. On the demand side, the main reform efforts concern policies that are aimed at increasing the overall GDP growth rate and in particular the rate of growth of manufacturing sector. These entail policies and institutional reforms for raising public and private investment; attracting direct foreign investment; concerted efforts to increase the quantity and quality of infrastructure services (especially electricity and transport); improving technology through strategic partnerships with foreign firms including supply chain linkages; productivity enhancement by adopting modern information communication technology (ICT) facilities; and lowering trade protection to boost exports on a broader base than only readymade garments (RMG). On the supply side of the labour market, the main effort needed is to substantially strengthen policies for human development, especially education and training programmes to enhance skills and encourage greater female labour force participation.

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