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South Asia's Challenge: Generating more and better jobs in the next two decades

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The World Bank has initiated a new report titled South Asia Development Matters and the first issue was released in mid- January 2012 titled 'More and Better Jobs in South Asia'. The report will be an annual publication hereafter with different themes every year.

Why focus on jobs in the region in the very first issue? It is shown that South Asia will contribute nearly 40 % of growth in the world's working age population (15-65 years) over the next several decades while it remains home to 40 % of the global poor.

This is a serious issue that needs the attention of the region's policy makers. The report thus examines whether South Asia is creating an increasing number of jobs and meeting the employment challenge when moving forward.

During the last two decades, South Asia created close to 800,000 jobs per month-- broadly in track with the growth of the working age population. But this amount of job creation will be inadequate for the next two decades when South Asia will be releasing 1 to 1.2 million new entrants to the labour force every month. Absorbing them at a higher productivity level during the next two decades will be the employment challenge according to the report.

Highlights

- South Asia will be releasing 1 to 1.2 million new entrants to the labour force every month. Absorbing them at a higher productivity level during the next two decades will be the employment challenge according to the report.
- An estimated 86 – 95 % of employment is informal in all South Asian countries except Maldives and Sri Lanka, and 71-81% non-agricultural employment is informal in all countries except Maldives, Sri Lanka and Bhutan. Self-employment persons constitute a large portion of the informal employment. In Sri Lanka, for instance, self-employed persons accounted for 43 % and the informal sector accounted for 62 % of the workforce – a key area that was highlighted in the State of the Economy in Sri Lanka Report of 2011, published by the Institute of Policy Studies of Sri Lanka.
- The report shows that :(1) particularly for India and Sri Lanka, ‘the efficiency costs of employment protection legislation outweigh the benefits in terms of worker protection’, (2) less than 10 % of the labour force is covered by labour laws in most South Asian countries (less than one-third in Sri Lanka); and (3) firms employ various strategies to circumvent labour laws, thus reducing de facto protection. While this is the reality, the share of the labour force not covered by a pension scheme is above 60 % in South

Asia (in Nepal, Bhutan, India, Pakistan, and Bangladesh it is above 80 %). So the message is, moving away from strong job security laws to worker protection. In other words, the emphasis is on protecting the workers in both informal and formal sectors rather than on protecting the jobs for a few in the formal sector of the economy.

- Maldives is already a labour importer -- most of them from neighbouring South Asian countries, while Sri Lanka is experiencing a decline in its low wage advantage before developing its mass production base. There are already cases of labour shortages in some sectors in Sri Lanka and associated rise in wages reflecting symptoms of a 'middle income trap'. Thus, the focus in these countries should be on enhancing productivity and creating quality jobs to get out of such a trap, rather than being concerned about employment numbers.

To meet this challenge, the report advocates a reform agenda which goes beyond the traditional World Bank structural adjustment line of reducing rigidities in the labour market and making it more responsive for demand and supply forces of an economy.

The agenda is multifaceted: structural adjustments, improving governance, and provision of better social and physical infrastructure; more specifically, these areas can be elaborated as access to more reliable electricity supply, reducing corruption in dealings between the firms and the state, strengthening transport links between town and country, facilitating access to land, focusing on better nutrition in early childhood, improving the quality of education to equip workers with the relevant skills, and re-orienting labour market regulations for worker protection. The report argues that it is only via a multi-sectoral reform agenda that large scale quality jobs could be generated in South Asia.

Working age population

The report starts with explaining the growth of the working age population in South Asia -- it is estimated that all South Asian countries other than Sri Lanka, are in the foothills of a demographic dividend that will peak in 2040. In the case of Sri Lanka, the demographic dividend ceased after it peaked in 2005 and this exceptional situation occurred due to the country's high achievements in basic needs. South Asia's female participation rates, which are currently very low, will increase, as they did in East Asia during the 1980s and 1990s.

All South Asian countries (except Sri Lanka) can reap this dividend with suitable investments provided they generate a conducive policy

framework. Sri Lanka in fact, failed to reap a full demographic dividend due to not creating a conducive policy framework and consequently, experiencing two youth insurrections and a separatist war during the dividend period. So, the message from the report is that without policy reforms, demographic dividend cannot be harnessed for productive ends.

Why should South Asia absorb the growing workforce at a higher productivity level? The Report argues that better jobs (quality-wise) have been created in South Asia during the last two

decades. It comes to this conclusion by showing that real wages have increased for wage workers and poverty has declined for the self-employed and casual workers during this period. It is further shown that the better jobs have resulted due to improving quality within employment type rather than reallocating of workers across types. Moreover, large-scale out-migration during the last two decades has exerted upward pressure on real wages, thus benefiting the workers who remain.

Productivity

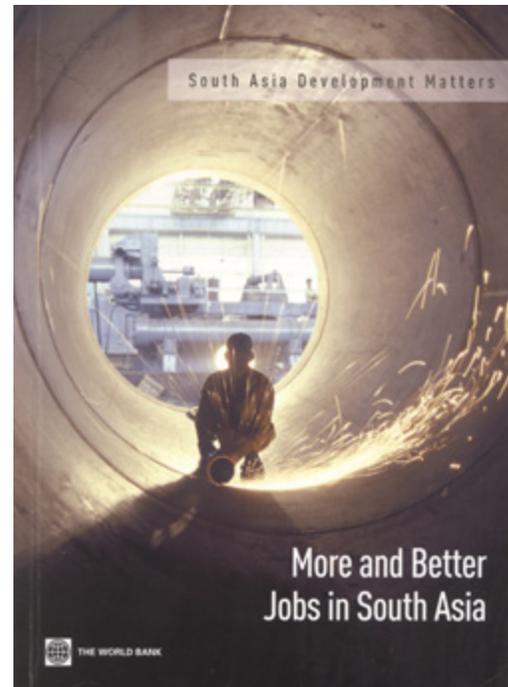
The report shows that labour productivity growth in South Asia since 1980s owes more to growth in Total Factor Productivity Growth (TFP) than accumulation of physical and human capital, reflecting the region's opening up to the world economy and deregulation. It is argued that the improved job quality occurred due to an acceleration of labour productivity growth in some countries driven mainly by TFP.

In the process of moving forward, the report argues that higher rates of factor accumulation and continued TFP growth through faster labour reallocation out of agriculture, is needed. Compared to East Asia, the contribution of reallocation of TFP growth in South Asia has been lower. TFP growth can be increased through faster reallocation of labour from agriculture to industry and services – where there is higher TFP growth. Reallocation across sectors needs to be complemented by moving labour out of lower-productivity to higher-productivity firms in industry and services. Reallocation across and within sectors will require physical and human capital accumulation. Demographic dividend can enable the factor accumulation needed for faster inter and intra-sectoral reallocation of labour.

One of the findings is that education assists workers to access better jobs and labour to reallocate between and within sectors (from agriculture to non-farm, from casual to regular wage jobs). In contrast to the period of the 1950s to the 1970s, returns for higher levels of education are rising and returns for lower levels are falling. Moreover, demand for skilled workers is increasing and this is indicated by rising wage premiums for higher levels of education in all countries.

A demographic dividend could however change into a demographic disaster, if people are not educated, trained and healthy. Despite South Asia's progress in education, there is a huge gap between the demand for higher levels of education and the education attainment of the labour force. For example, more than half the female workforce in five of the eight countries does not have any education. The report thus argues that education reform is key, but improving the quality of learning also calls for action even before children enter school. It states that the biggest payoffs may come from addressing poor nutrition in early childhood, where South Asia has the weakest indicators in the world, even lower than Sub-Saharan Africa – which impairs cognitive development before children get to school.

Despite growing labour productivity and increasing quality of jobs in South Asia, there is little evidence from labour force surveys that labour informality is declining. Easing restrictive labour legislation and other incentives to improve the business regulatory environment can contribute to lower informality, but large increases in informality are not expected to occur immediately. An estimated 86 – 95 % of employment is informal in all South Asian countries except Maldives and Sri Lanka, and 71-81% non-agricultural employment is informal in all countries except Maldives, Sri Lanka and Bhutan. Self-employment persons constitute a large portion of the informal employment. In Sri Lanka, for instance, self-employed persons accounted for 43 % and the informal sector accounted for 62 % of the workforce – a key area that was highlighted in the State of the Economy in Sri Lanka Report of 2011, published by the Institute of Policy Studies of Sri Lanka.



In Nepal, for instance, the self-employed accounts for 82 % of the workforce. To meet the employment challenge in the face of intensifying demographic pressure and informalizing the workforce, demand and supply-side bottlenecks for firms should be addressed.

Political instability, electricity supply and corruption rank as the most severe constraints for job creating firms. Moreover, addressing constraints facing informal and rural firms will require additional policy focus on transport and access to land.

Rigid labour legislation

Rigid labour regulations are among the top five impediments for job creation in most South Asian countries. The report pursues the well-known policy of reforming labour market institutions for more formal sector job creation. Tight regulations reduce investment, productivity and output, and employment in formal manufacturing. The report shows that: (1) particularly for India and Sri Lanka, 'the efficiency costs of employment protection legislation outweigh the benefits in terms of worker protection', (2) less than 10 % of the labour force is covered by labour laws in most South Asian countries (less than one-third in Sri Lanka); and (3) firms employ various strategies to circumvent labour laws, thus reducing de facto protection. While this is the reality, the share of the labour force not covered by a pension scheme is above 60 % in South Asia (in Nepal, Bhutan, India, Pakistan, and Bangladesh it is above 80 %). So the message is, moving away from strong job security laws to worker protection. In other words, the emphasis is on protecting the workers in both informal and formal sectors rather than on protecting the jobs for a few in the formal sector of the economy.

At a time when South Asia has become a 1.2 million per month worker generating region in the world, this report is timely. It makes a departure from the traditional employment-output elasticity models and examines employment issues from a multi-sectoral approach. Four areas

however could have received further attention: First, the increased informalization of the labour force that South Asia witnessed with globalization and opening up their respective economies has further increased with the advancements in Information and Communication Technology, where virtual workstations, outsourcing, etc, have become popular. Is informalizing the labour force a problem and if so why? More discussion in this area and its implication for policy would have further enriched the report.

Second, in South Asia, in the absence of universal Social Security Schemes, job security is seen as the only form of income security. Thus, the resistance to change in labour legislation that is related to job security from employees is quite understandable. How these legislative changes could be brought about needs more elaboration, as this area has been in the reform agenda for more than two decades in most South Asian countries with very little progress. All attempts to address it have not been successful. In India, for instance, the threshold of employment was up-scaled for the applicability of the Termination of Employment law in the 2001 Budget but this policy could not be implemented due to trade union resistance. Had the policy been implemented, many firms would have come under a more flexible termination policy. Third, perhaps the battle of demographic dividend will be won by more female participation in the labour force, which would in turn reduce the number of children and produce healthier children. This area should have received more emphasis in the report.

Maldives labour importer

Fourth, the large annual addition to the labour force may not be a major issue in smaller South Asian nations such as Maldives and Sri Lanka. Maldives is already a labour importer -- most of them from neighbouring South Asian countries, while Sri Lanka is experiencing a decline in its low wage advantage before developing its mass production base. There are already cases of labour shortages in some sectors in Sri Lanka and associated rise in wages reflecting symptoms of a 'middle income trap'. Thus, the focus in these countries should be on enhancing productivity and creating quality jobs to get out of such a trap, rather than being concerned on employment numbers. More light on these issues would have enriched the narrative.

Overall, the report is a welcome initiative and reflects the World Bank's new image as a "knowledge-partner" for developing countries in addition to its traditional role. The report is rich in data, illustrations, individual country experiences, and comparative analysis. Those interested in Labour Economics, Labour Law, policy makers, trade unionists and other practitioners will find it a useful report to figure out the growing challenges in the South Asian employment market in the coming years.

(This report can be downloaded at <http://issuu.com/world.bank.ublications/docs/9780821389126> . It was launched in Delhi last week and the writer was one of the speakers. This article is based on the points he made there).