Does economic growth ensure youth employment?

Selim Raihan

In 2014, 14% of the globally unemployed were young people (aged between 15 and 24). However, the situation was not uniform across different regions of the world. For example, while the South Asian average youth unemployment rate was 10.3%, the rates were much higher in the Middle East & North Africa (30.4%) and in the European Union (25%). The corresponding figures for Sub-Saharan Africa, East Asia & Pacific, Latin America & Caribbean and North America were 14.1%, 11.6%, 14% and 13.9% respectively. According to the ILO (2015) estimates, the unemployed and the working poor together account for 40% of the global youth labor force. For young females, the unemployment situation is even worse. In South Asia, countries differ in youth unemployment rate quite widely. In 2014, while Nepal had the least rate (4%), the highest rate was for Maldives (26.9%). Also, while Bangladesh, Bhutan, India and Pakistan had rates between 8-10%, the rates were quite high for Afghanistan (20.8%) and Sri Lanka (19.1%). Yet, during the 2010 to 2014 period, except Nepal, all South Asian countries experienced rise in the youth unemployment rate. High level of youth unemployment leads to economic, social and political costs, such as foregone output, increased poverty and social exclusion and social and political unrests. The reasons behind youth unemployment are manifold and complex. Among them, the quality and relevance of education and training, inflexible labor market and regulations, lack of supporting government policies, and lack of inclusiveness in the economic growth process can be considered as the major ones.

How does economic growth affect youth unemployment? The answer is not very straightforward. As an example, we have plotted the trends in real GDP growth rates and youth unemployment rates in Bangladesh for the period 1991 to 2014. The figure suggests an inconclusive association between real GDP growth rate and youth unemployment rate in Bangladesh (in fact, there is a very low overall positive correlation coefficient!). During the period 1991 to 1994, real GDP growth rate and youth unemployment rate moved simultaneously. Over the years 1995 to 1999, although Bangladesh observed moderate upward trend in real GDP growth rates, the youth unemployment rates fluctuated quite a lot. The years 2000 to 2002 observed declining youth unemployment rate along with a downward trend in the GDP growth rates. However, during the period 2003 to 2007 both these rates had upward trends. Also, for the period 2009 to 2014, with an overall rising trend in the GDP growth rates, youth unemployment rates saw a rising trend. All these suggest that economic growth in Bangladesh is yet to be conducive for youth employment.

At the global level, the association between economic growth and youth unemployment is rather alarming! We have run a fixed effect model using a cross-country panel data for 171 countries with a time span for 24 years (1991-2014). The regression results suggest that 10% rise in the per capita income (PPP at constant 2011 US$) at the global level is associated with a rise in the youth unemployment rate by 1.2%, and this association is statistically significant. We have also explored the validity of Okun’s law in the context of youth unemployment using the panel data mentioned above. According to the Okun’s law, to achieve a 1 percentage point decline in the unemployment rate in the course of a period, real GDP must grow approximately 2 percentage points faster than the rate of growth of potential GDP over that period. The cross-country panel regression results suggest that, during the period 1991 to 2014, globally, 1 point increase above average economic growth rate was associated with a 0.02 % increase in youth unemployment rate, which is not consistent with the Okun’s law! The aforementioned analysis points to the fact that, economic growth is not a guarantee in tackling youth unemployment. There is a need for flanking policies, which may differ for different regions of the world depending on the level of developments. However, few policy measures are common and are also very relevant for countries like Bangladesh and other countries in South Asia. The policies for job creation should be at the top of the agenda. This will require actions from governments in the form of widening scopes and coverage of relevant training programs, supporting the sectors with high potentials for youth job creation by removing the binding constraints these sectors face, and supportive fiscal and monetary policies for the promotion of youth entrepreneurship. There should also be targeted programs for the specific disadvantaged segments of youth population (i.e. female youth or youth from lagging regions of the country) through skill-development and appropriate labor-market policies, which include customized training and work experience programs, job search assistance and other employment services. Furthermore, there is a need for building public-private partnerships, in collaboration with international organizations, for investments to improve the working conditions aiming at the promotion of decent jobs for youth.


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Youth population and economic growth in Bangladesh: A macroeconomic analysis

Sayema Haque Bidisha and S M Abdullah

It is widely accepted that the composition of population of a country can play a crucial role in its growth and development prospects. Globally, the world now hosts everlargest young population: aged between 10 to 24 and in many countries of the world, the proportion of youth to the population is also showing a rising trend (UNFPA, 2014). Having greater proportion of working age population (15 to 64 years), which consists of youth population (15 to 29 years), is argued to contribute positively by generating higher output and accumulating greater savings and thereby expected to have positive contribution towards economic growth—this plausible positive impact of the proportional increase of working age population on economic growth is commonly referred to as demographic dividend (demographic dividend can be defined as the accelerated economic growth that may result from a decline in a country’s mortality and fertility and the subsequent change in the age structure of the population). However, this expected growth enhancing effect of youth population, critically depends on the quality of youth population in terms of education, health and skill level. Based on such characteristics of population, the implications of rising trend of youth population on the growth prospects of a country can, however, be quite diverse.

In the context of Bangladesh, according to the Labour Force Survey 2013 (BBS, 2013), within the age group of 15 to 29 years, there was around 43.4 million people. So the youth population consisted of around 28 percent of total population of the country. From an initial high fertility-high mortality structure during 70’s, Bangladesh, with advancement in health care facilities and expansion of family planning program, has eventually been able to significantly reduce birth rate as well as death rate. Life expectancy has also increased from 58.4 in 1990 to 71.6 in 2014 (World Bank, WDI). This rise in youth population has been reflected in the trend of youth labor force: from 19 million in 2002-03, with a decline in 2005 to 17.8 million, youth labor force (aged 15-29 years) has reached to 23.4 million in 2013 (BBS, 2013). This increased youth labour force, if coupled with essential education and skill, then could turn into a vital factor for Bangladesh’s development.

While analyzing the time series data of Bangladesh from 1972 to 2014 and separately for different decades (1972-80; 1981-90; 1991-00; 2001-10; 2011-14), table 1 reveals that during early years, the average GDP growth of the country was quite slow (1.76 percent) with a high standard deviation. The average share of youth in total population (RYP) in the corresponding period was around 23 percent. From a statistical point of view, the correlation coefficient of GDP growth and proportion of youth population was found to be negative but insignificant (-0.477). During 1980’s, GDP growth, on an average, has increased along with RYP — their correlation was however still negative and insignificant. The decade of 1990’s has experienced an average GDP growth of above 4 percent and the average RYP during that period has increased further to more than 29 percent as well, resulting in a positive (but insignificant) correlation coefficient between the variables. The increase in average GDPG along with increase in RYP continued in the next decade too and during 2001 and 2011 the correlation coefficient between the variables turned out to be significant with a positive sign. For the sample as a whole, during 1972 to 2014, the correlation coefficient was found to be 0.336 with a positive sign and being statistically significant. Our descriptive statistics therefore provide evidence of plausible positive impact of proportional increase in youth population on economic growth for Bangladesh— the impact of change in RYP on GDPG could be considered as a long run phenomenon for Bangladesh.

Table 1: Summary statistics of key variables

<table>
<thead>
<tr>
<th>Year</th>
<th>GDPG</th>
<th>RYP</th>
<th>GDPG Deviation</th>
<th>RYP Deviation</th>
<th>Correlation (R²-Value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972</td>
<td>7.64</td>
<td>7.70</td>
<td>3.886</td>
<td>0.437</td>
<td>-0.477 (0.193)</td>
</tr>
<tr>
<td>1980</td>
<td>7.40</td>
<td>7.20</td>
<td>3.684</td>
<td>0.336</td>
<td>-0.290 (0.411)</td>
</tr>
<tr>
<td>1990</td>
<td>6.80</td>
<td>0.60</td>
<td>2.924</td>
<td>0.139</td>
<td>0.443 (0.108)</td>
</tr>
<tr>
<td>2001</td>
<td>5.78</td>
<td>0.94</td>
<td>2.972</td>
<td>0.139</td>
<td>0.708 (0.021)</td>
</tr>
<tr>
<td>2011</td>
<td>6.46</td>
<td>0.26</td>
<td>2.877</td>
<td>0.169</td>
<td>0.800 (0.003)</td>
</tr>
<tr>
<td>2012</td>
<td>4.73</td>
<td>3.53</td>
<td>2.769</td>
<td>2.423</td>
<td>0.336 (0.02)</td>
</tr>
</tbody>
</table>

Unemployment rates saw a rising trend. All these policy issues in this regard can be suggested. Similar policy focus too. A number of specific policy issues are common and are also very relevant for governments in the form of widening scopes and degree, it is of paramount importance for developing countries to carefully plan and utilize the youth population in economic growth. In the process of the country require specific initiatives in education and skill development program and to carefully plan and strategize in favor of it. Given that a significant percentage of youth work force of Bangladesh possesses no education, with a very small percentage holding university degree, it is of paramount importance for upgrading the education level of the youth. In terms of technical and vocational training, similar scenarios can be found, which requires similar policy focus too. A number of specific policy issues in this regard can be suggested.

First, in order to utilize the proportional increase in youth population, it is crucial to provide quality education to them. With a view to achieve the 8 percent growth rate as proposed in the 7th Five Year Plan, the most important policy step would be to increase allocation in human resource development by a much greater margin.

Second, for absorbing the growing number of youths in Bangladesh, it is crucial to create innovative job opportunities with great diversification. Greater emphasis should be given to create employment opportunities at innovative sectors like those of, ICT and electronics, ship building, frozen foods, solar energy etc.

Third, it is widely argued that there exists a significant skill mismatch in the job market, especially in the field of technical and vocational education which is acting as a barrier towards employability of youths. In this context, a number of policies like strengthening the collaboration between vocational institutes and industrial units; involving industry sector representatives in designing curriculum; linking secondary education along with the TVE programs to the existing demand through effective collaboration with the Ministry of Labor and the Ministry of Commerce etc. can prove to be useful.

Finally, with a view to link the policies of youth development to reduce poverty and to bring greater equity, specific demands for women as well as those in remote and lagging regions are needed to be considered. Given the constraint of domestic responsibilities in the participation of women/young mothers in the labor market, an important policy intervention could be that of providing support in establishing day care centers at the workplaces and to extend the provision of maternity leave and to introduce flexible and part time working hours.

Table 2: Co-integrating equation: Long run coefficients

<table>
<thead>
<tr>
<th>GDPG</th>
<th>RYP</th>
<th>GDPGFSGF</th>
<th>GDPSSPSE</th>
<th>GDPGDFSE</th>
<th>GDPSSPSE Constant</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.00</td>
<td>0.431</td>
<td>0.784</td>
<td>-1.648</td>
<td>-0.338</td>
<td>0.087 (6.387)</td>
</tr>
<tr>
<td>0.01</td>
<td>0.393</td>
<td>0.383</td>
<td>0.349</td>
<td>0.046</td>
<td>0.019 (0.618)</td>
</tr>
</tbody>
</table>

Note: Indicates 1 percent level of significance, indicates 5 percent level of significance. Standard errors are in parenthesis.

Based on our analysis, we can infer that, in case of Bangladesh, an increase in the proportional share of youth population to total population in the long run tends to have a positive and significant impact on economic growth. The evidence of positive and significant long run impact of youth population on economic growth of the country provides indication in favor of the possibility of attaining demographic dividend for the country. In this connection, we should keep in mind that, integrating and utilizing the youth population in the growth process of the country require specific initiatives in education and skill development program and to carefully plan and strategize in favor of it. Given that a significant percentage of youth work force of Bangladesh possesses no education, with a very small percentage holding university degree, it is of paramount importance for upgrading the education level of the youth. In terms of technical and vocational training, similar scenario can be found, which requires similar policy focus too. A number of specific policy issues in this regard can be suggested.
Addressing youth unemployment requires improving quality and relevance of education...

Dr. Ganga Tilakaratna is a Research Fellow and the Head of Poverty and Social Welfare Policy Unit of the Institute of Poverty Studies Sri Lanka (IPS). She has over 15 years of research experience in the areas of poverty and social protection and financial inclusion. She has worked as a consultant to the World Bank and the Asian Development Bank and has led a number of research projects funded by international organizations such as the UNICEF, ILO and GIZ. Dr. Tilakaratna holds a B.A in Economics from the University of Manchester (UK), an MPhil in Economics from the University of Cambridge (UK) and a PhD in Development Policy and Management from the University of Manchester. For April 2017 issue, SANEM speaks to Dr. Tilakaratna about youth unemployment situation in Sri Lanka and the policies to address the challenges regarding youth unemployment.

SANEM: How prevalent is youth unemployment in Sri Lanka?

GT: Youth unemployment has become an issue of great concern for Sri Lanka. Although the overall unemployment rate has fallen to less than 5 percent in recent years, the unemployment rate among the youth, particularly those between 15-24 years, has remained over 20 percent. In fact, youth unemployment rate has shown a steady increase over the past five years, from 17 percent in 2011 to around 21 percent in 2016. At present, youth unemployment accounts for 52 percent of the total unemployment of the country.

SANEM: Are there any gender, education or regional aspects in youth unemployment in Sri Lanka?

GT: Yes, youth unemployment is particularly high among females and among the educated youth, including the graduates. Youth unemployment rate among females has increased steadily in recent years, reaching 27 percent in 2015. This is notably higher than the unemployment rate for young men, which was around 17 percent in 2015. In addition, rising levels of unemployment among the educated youth is a serious challenge for Sri Lanka. Unemployment rate for youth with advanced level qualifications or university degrees is currently around 34 percent, indicating that one third of Sri Lanka’s economically active educated youth are without employment!

SANEM: What are the factors driving high levels of youth and graduate unemployment in Sri Lanka?

GT: Several factors have contributed to the prevailing high levels of youth and graduate unemployment in Sri Lanka. Skills mismatch in the labor market is one of the main reasons. Skills mismatch is of two types: on one hand, the job seekers or the youth lack the skills and work experience needed in the labour market while on the other hand, there is a shortage of jobs to match the needs and skills of the job-seekers. For instance, it is often argued that many educated youth, including the university graduates, although have relevant academic qualifications, lack certain ‘soft skills’, like English language, IT and communication skills, that are demanded by the private sector employers. Lack of such skills among youth is primarily due to the gaps in the secondary and tertiary education systems of the country.

Conversely, there is also a mismatch between job aspirations, needs and skills of youth and the nature of the jobs available in the country. For example, youth often seek for ‘white-collar’ jobs in the service sector but the types of jobs available are largely ‘blue collar’ jobs in the industrial sector. However, many young people are least interested in such jobs as they are often seen by them as ‘low status’ and ‘not so comfortable’ jobs. Queuing for the public sector jobs is another factor driving high levels of youth and graduate unemployment in Sri Lanka. There is a strong preference for public sector jobs over private sector jobs among the youth, due to job security, pensions and other non-financial benefits involved in state jobs. By contrast, private sector jobs are often seen as ‘risky’ jobs where benefits depend on the performance and which often involve less holidays and more working days. Moreover, a larger share of private sector jobs is informal in nature, with little or no social security benefits. Hence, there is a tendency for many educated young people to wait for government job openings. The successive governments of Sri Lanka over the past many decades too have contributed to this situation by absorbing large numbers of graduates to the public sector time to time. Preference for public sector employment is particularly significant among young females, including graduates. This is driven by both the advantages of public sector jobs such as job security, pensions and maternity leave as well as the prevailing gender wage differentials and gender-related discriminatory practices associated with private sector employment.

Slow growth of formal sector jobs, particularly formal private sector jobs is another contributory factor for high levels of youth unemployment in Sri Lanka. This is partly due to the current regulatory environment governing Sri Lanka’s labor market. In particular, the Termination of Employment of Workman (TEWA) Act, while helps protecting jobs and preventing job losses, also raises the cost of hiring permanent workers. This has encouraged many private sector companies to rely on casual or contractual employees rather than permanent employees, leading to growing informalization within the formal sector. Such employment opportunities are not often attractive to youth, particularly to educated youth who seek for permanent jobs in the formal sector.

SANEM: What are the government policies to address the problem of youth unemployment?

GT: First and foremost, addressing youth unemployment requires improving quality and relevance of education, to enhance youth employability and to ensure a smooth transition from education to the world of work. The Sri Lankan government has identified a number of policies in this regard. These include, curriculum reforms at the secondary and tertiary levels, measures to enhance soft skills such as English language, IT and communication skills, establishing links between higher education institutes like universities and the private sector companies to provide opportunities for students to get internships, which could help addressing the prevailing skills mismatch in the labor market and changing students’ attitudes towards private sector employment. Moreover, expansion of the tertiary education sector to cater to the growing need for high skilled labor, establishing vocational training institutes and introducing vocational training at the school level, setting up a network of one-stop career centers and introducing active labor market programs, are other identified policies to reduce youth unemployment in Sri Lanka.

However, along with these policies, addressing youth unemployment also requires re-visiting the current regulatory environment that discourages creation of formal sector employment and, identifying policies or mechanisms to reduce gender wage gap and gender discriminatory practices in the labor market.

SANEM: What has been Sri Lanka’s experience in getting the benefit from the demographic dividend and Youth bulge? Are there any lessons that other South Asian countries could draw from Sri Lanka?

GT: Sri Lanka experienced the demographic dividend much earlier than the other South Asian countries. Countries like Bangladesh, India and Pakistan are currently entering the demographic dividend while Sri Lanka’s demographic dividend has just come to an end. Sri Lanka’s demographic dividend started in early 1990s and was expected to end by 2017. As the demographic dividend is coming to an end, the country is experiencing a rapid ageing of population along with a shrinking working age and youth population. While many other South Asian countries are experiencing a ‘youth bulge’ during this period, Sri Lanka’s youth population is on decline – both as proportion of the population and in absolute numbers. This situation is somewhat similar to East Asian countries like South Korea and Indonesia. However, Sri Lanka was not able to reap the full benefits of the demographic dividend and the youth bulge, as the country was going through a decade long conflict during that period. Therefore, it was like a missed opportunity for Sri Lanka! Other South Asian countries that are currently experiencing a demographic dividend and a youth bulge should see them as an opportunity and take necessary measures to reap the full benefits from them. This would in particular require investment in education and employment creation for youth.

SANEM: Thank you so much for your time.

GT: You are most welcome.
SANEM’s Quarterly Review of Bangladesh Economy, March 2017, held in Dhaka

A National Consultation Meeting on the SASEC SPS/TBT Diagnostic Study, jointly organized by the Ministry of Economic Development, Government of Maldives and the Asian Development Bank (ADB), was held in Malé, Maldives on February 2, 2017. Minister for Economic Development, Mr. Mohammed Saeed, inaugurated the meeting. Dr. Rose McKenzie of ADB chaired the technical session where Dr. Selim Raihan, Executive Director, SANEM and Professor, Department of Economics, University of Dhaka, presented the “Draft Terms of Reference for the Maldivian National SPS/TBT Diagnostic Study”. Representatives from different ministries, relevant public departments and private sector were present in the meeting.

Asian Development Bank organized a similar meeting on February 9, 2017 in Colombo, Sri Lanka, in collaboration with the Ministry of Development Strategies and International Trade, and the Department of National Planning, Government of Sri Lanka. Ms. Chandani Wijayawardane, Secretary, Ministry of Development Strategies and International Trade, delivered the inaugural address. Dr. Rose McKenzie of ADB chaired the technical session where Dr. Selim Raihan presented the “Draft Terms of Reference for the Sri Lankan National SPS/TBT Diagnostic Study”. Participants representing different government agencies and private sector organizations attended the event.

HelpAge International published report: “Work, family and social protection -Old age income security in Bangladesh, Nepal, the Philippines, Thailand and Vietnam”

A report titled “Work, family and social protection -Old age income security in Bangladesh, Nepal, the Philippines, Thailand and Vietnam” has recently been published by HelpAge International, based on the research work funded by United Nations Population Fund (UNFPA). The main objective of the report is to understand the interaction of multiple sources of income that contribute to income security in old age. The report mines existing information in every nation to investigate three key wellbeing of older individuals: work, exchanges from family and social security. SANEM team, comprising Dr. Bazlul Haque Khondker, Chairman, SANEM and Professor, Department of Economics, University of Dhaka, Moshiur Rahman, Senior Research Associate, SANEM and Md. Mahedi Hassan, Research Associate, SANEM contributed in the Bangladesh part of this report. For the e-version of the report please visit http://www.helpage.org/what-we-do/work-family-and-social-protection-in-asia/

SANEM-FDID capacity building workshop held in Dhaka

With the aim of building the capacity of young researchers, SANEM, in collaboration with DFID, organized a daylong workshop on “Growth, Institutions and Trade Modeling” on February 17, 2017 in Dhaka. The workshop consisted of four major sessions. The first session on “Low income traps and institutional quality: A Cross Country Analysis” was conducted by Professor Sabyasachi Kar, Institute of Economic Growth, University of Delhi, India. The second session of the day was on “Institution and Economic Growth”. Dr. Mirza M. Haskar, Acting Fellow, Institute of Governance and Development (BIGD), Dhaka and Dr. Sohela Nazneen, Professor, Department of International Relations, University of Dhaka and Research Fellow, Institute of Development Studies (IDS), University of Sussex, UK, were the focal persons of the session. The third session: “Gravity Modeling of International Trade”, was conducted by Dr. Somesh K. Mathur, Professor of Economics, Department of Humanities and Social Sciences, Indian Institute of Technology, Kanpur, India. The fourth and final Session was on CEG Modeling, carried out by Dr. Bazlul Haque Khondker, Chairman, SANEM and Professor, Department of Economics, University of Dhaka and Dr. Selim Raihan, Executive Director, SANEM and Professor, Department of Economics, University of Dhaka. A total number of forty-nine participants from different research organizations, public and private universities attended the workshop. The daylong event ended with the concluding remarks by Dr. Selim Raihan, followed by a certificates awarding ceremony.

SANEM associates awarded gold medals in the 50th Convocation of University of Dhaka

SANEM family congratulates Mahtab Uddin, Lecturer, Department of Economics, University of Dhaka, and Md. Wahid Ferdous Ibon, Research Associate at Bangladesh Institute of Development Studies (BIDS), on receiving gold medals in the 50th convocation of the University of Dhaka held on March 4, 2017. Mr. Uddin received Shah A. M. S. Kibria Gold Medal for obtaining highest CGPA in the MS examination of 2014 in Economics and Mr. Ferdous received Shah A. M. S. Kibria Gold Medal, Dr. Jalal Alamgir Memorial Gold Medal and Advocate Md. Idris Memorial Gold Medal, for obtaining highest CGPA in the MS examination of 2015 in Economics. SANEM wishes them a bright future.