

Editor's Desk

The September, 2017 issue of *Thinking Aloud* comes with the theme of 'employment and labor market challenges for South Asia'. The first article on "Are we entering into a 'jobless' growth phase in South Asia?" focuses on a timely concern that, although South Asia has been the fastest growing region in the world, performance in terms of an employment friendly growth has not been satisfactory. The article suggests for a 'meaningful' structural transformation coupled with enhancement in productivity and economic diversification in order to translate the economic growth into an inclusive growth. The second article titled "Why do we need to be concerned about the youth 'not in employment, education or training' in South Asia?" points out that, the NEET rate in South Asia is alarmingly high with an average NEET rate well above 20% mark and an average female NEET rate as high as 45%. Applying a logit model using LFS, 2013 of Bangladesh the article finds that, the impacts of being a school dropout, female or physically disabled increases the probability of being NEET. On the other hand, parental education or family income plays a positive role in reducing the likelihood to be NEET. Thus the authors suggests for an improvement in the education system while engaging a wider share of youth in vocational education and training, along with adequate social, political and policy reforms to elevate participation of females in the labor market. In this issue, SANEM interviews Prof. Dr. Alakh N. Sharma, Director of the Institute for Human Development (IHD), New Delhi where Prof. Sharma talks on the major labor market challenges in South Asia. The fourth page covers the events that took place in the month of August, 2017.

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Are we entering into a 'jobless' growth phase in South Asia?

Selim Raihan

'Jobless' growth is a phenomenon when an economy experiences growth without an expansion of jobs. In recent time, South Asia is considered to be the fastest growing region in the world. However, there are marked differences among South Asian countries in terms of economic growth. Over the past one and half decades, the high growth performing countries have been Bangladesh and India. Sri Lanka has been growing at a slower rate, Nepal's growth has been stagnant, and Pakistan's growth rate has been on a declining trend. Other South Asian countries have experienced much volatility of their growth rates. In contrast, Bangladesh has the least volatile growth rate compared to all other South Asian countries. However, there are genuine concerns whether the growth dynamics in South Asian countries have been able to generate a good number of jobs or these countries have entered into a 'jobless' growth phase.

The relationship between economic growth and employment is an important issue in the economics discourse. Promotion of inclusive growth also requires economic growth process to be employment friendly. The measure that captures the employment effect of economic growth is the 'employment elasticity' of economic growth, which is the ratio of percentage change in employment to the percentage change in real gross domestic product (GDP).

We have calculated the employment elasticity with respect to the change in real GDP for the South Asian countries for three different periods from 2001 to 2015 (see Table 1). There are mixed patterns among the South Asian countries. During 2001 and 2005, Maldives had the largest employment elasticity (1.39) and Sri Lanka had the lowest one (0.08). India, with a share of 75% of the total population in South Asia, had an employment elasticity of only 0.38, one of the lowest in South Asia. Two other large countries, Pakistan and Bangladesh, had employment elasticities of 0.70 and 0.77 respectively.

For the period of 2006-2010, India experienced a drastic fall in employment elasticity as low as 0.03 despite the fact that the average GDP growth rate of India increased from 6.6% (2001-2005) to more than 8% (2006-2010). Over these periods, Bangladesh also had a similar experience where employment elasticity declined from 0.77 to 0.4 in the wake of a rising average GDP growth rate from 5% to 6%. While Afghanistan, Maldives, and Nepal also experienced a decline, Pakistan and Sri Lanka could increase the elasticities.

Over the recent period between 2011 and 2015, Bangladesh experienced a further fall in the employment elasticity to 0.28, while India's improvement is meager (from 0.03 to only 0.09). Despite the slower economic growth rates during this period, Afghanistan, Maldives, Nepal, and Pakistan could increase their employment elasticities. Sri Lanka had a further fall in employment elasticity to only 0.14. During this period, India had the lowest employment elasticity among all South Asian countries.

The aforementioned analysis points to the concern that two major South Asian countries, India and Bangladesh, experienced a substantial reduction in employment elasticities throughout the periods of high economic growth. While during 2001 and 2005, the annual average job creation in Bangladesh and India were 1.6 million and 11.3 million respectively, in 2011-2015, such numbers declined to 1 million and 3.2 million for Bangladesh and India respectively. Most of the other South Asian countries experienced either volatile, or slow or stagnant economic growth, and therefore, despite a rise in employment elasticities, the actual employment generation in

these countries had not been substantial. It is also important to mention that while SDG 8 talks about ensuring 'decent' job for all, South Asian countries are seriously lagging far behind. In most of the South Asian countries, there are persistent

employment challenges such as lack of economic diversification, poor working conditions, low productivity and a high degree of informality. This is reflected by the fact that among the top five countries in the world with very high proportion of informal employment in total employment, four are from South Asia (Bangladesh, India, Nepal, and Pakistan).

The upshots of the above discussion lead to some important policy concerns and the necessity of revisiting the growth processes of the South Asian countries. In order to avoid the 'jobless' growth phenomenon, economic diversification can play an important role in the South Asian countries. The economic growth momentum in these countries needs to be tuned for 'meaningful' structural transformations of the economy where promotion of labor-intensive and high-productivity sectors, both in the farm and non-farm sectors, would be fundamental. This should be coupled with interventions to enhance productivity, jobs, and incomes in traditional and informal activities where there are large pools of surplus labor.

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	2001-2005	2006-2010	2011-2015
Afghanistan	0.92	0.22	1.01
Bangladesh	0.77	0.41	0.28
Bhutan	0.29	0.58	0.19
India	0.38	0.03	0.09
Maldives	1.39	0.09	2.48
Nepal	0.40	0.38	0.50
Pakistan	0.70	1.01	1.59
Sri Lanka	0.08	0.50	0.14

Data source: World Bank, WDI and ILOSTAT

Why do we need to be concerned about the youth “not in employment, education or training” in South Asia?

Selim Raihan and Mahtab Uddin

A growing literature points out to an alarming feature of labor market dynamics in the developing countries. There is a substantial size of youth-population, in the age bracket of 15-24, who are not acquiring human capital through education and training for their future and also are not engaged in any job. A measure that adequately captures this phenomenon is called “Not in Employment, Education or Training” (NEET) as a percentage of the population of the reference age bracket.

Being not involved in employment or any other kind of skill development initiatives not only possesses a waste of potential youth resources, it also bears adverse consequences on the economy and the society as a whole. Being NEET, the youth population suffer from skill atrophy, which leads them to further long-term unemployment and underemployment. It also induces them to crimes, and mental and physical health issues. A high NEET rate among females can have a trans-generational impact over the next generation of females and their decisions regarding employment and education.

Latest available data (from ILOSTAT and different labor force surveys) between 2008 and 2015 of the NEET rates for 123 countries for the age group of 15-24, suggests that majority of the top 25 countries (in terms of lowest NEET rates) are from the OECD countries or from the East and Southeast Asian countries. The South Asian countries stand at the bottom of the ranking with very high NEET rates. Most of the South Asian countries have NEET rates well above the 20% mark. In 2013, Bangladesh had a NEET rate of 20.2%. The NEET rate of Nepal in 2008 was 23.4%. In 2012, the NEET rate of India was 27.5%. In 2014, Sri Lanka had a NEET rate of 27.7%. In 2015, the corresponding figure for Pakistan was 30.4%. Finally, in 2010, Maldives had a NEET rate of 56.4%. Among the Southeast Asian countries, in 2015, Malaysia had a very low NEET rate of only 1.2%. Apart from Myanmar (18.6%), Philippines (22.7%) and Indonesia (24.8%), all other Southeast Asian countries have a NEET rate of around or less than 12%.

A gender disparity is quite evident in the NEET rate almost everywhere in the world as the world average of NEET rate for females (21.2%) has been found as 1.5 times higher than that of males (14%). However, this gender disparity in the NEET rate is one of the highest in South Asia with the only exception of Nepal where the female NEET rate is 24.4% compared to the male NEET rate of 22.2%. The disparity is highest in Pakistan where the female NEET rate (53.6%) is 7.2 times higher than the male NEET rate (7.4%), which is followed by India (female 49.3% and male 8%), Bangladesh (female

30.7% and male 8.8%), Maldives (female 77.4% and male 32.9%), and Sri Lanka (female 37.3% and male 17.5%). In contrast, the disparity in the NEET rates between male and female remain in close proximities for the Southeast Asian countries. The ratio of female to male NEET rates remains below 2.3 for all of the Southeast Asian countries with Indonesia scoring highest female NEET rates (about 31.4%). As a whole, South Asia's average female NEET rate stands at an alarmingly high rate of 45.5% compared to Southeast Asia's 18.8%. Nevertheless, the average male NEET rate in South Asia (16%) is at par with those of Southeast Asia's (14.8%) and the rest of the world (14%) – which depicts that, NEET in South Asia is quite persistently a female phenomenon.

Why does NEET occur? Empirical studies have shown that although poor educational achievement is a major factor for entering NEET, factors like parental interest in girls' education, place of dwelling, disability, low household income, lower level of parental education, teenage motherhood, etc are the other notable impeding factors for the youth to be engaged in employment, education or training. In South Asia, females have a higher risk of being in NEET. Among other potential causes, the age old traditions and strict religious beliefs coupled with heavy female engagement in household chores hinder women from entering the labor market or engage them to be in education and training as their age increases.

To explore the factors behind NEET in Bangladesh for the age group of 15-24, we have undertaken a micro-econometric analysis using the Labor Force Survey 2013 data. The dependent variable of the model is a dummy giving 1 if the individual is NEET and 0 otherwise. The explanatory variables of the model are the level of education of the household-head, log of family income per month, female dummy, hours of work done in non-market activities per day (cooking, child rearing, etc.), dummy for dropout from school, physical disability dummy, etc. From the logit model estimation, we find that all the variables are statistically significant with expected signs. Results from average marginal effect suggest that having dropped out from school increases the probability to be in NEET by 19 percentage points compared to their counterparts. Also, being female increases the probability by 5 percentage points compared to males. The level of education of the household-head also plays a crucial role as household-head with secondary education reduces the probability to be in NEET by 1.4 percentage points while with a tertiary degree reduces it by 2.2 percentage points compared to the no-education category. The income of the household plays a significant and negative impact over being in NEET as a 10% increase in the family income results in a decline in probability to be in NEET by 0.6

percentage points. Furthermore, an increase in work-hour in the household by an additional hour increases the chance to be in NEET by 6.7 percentage points. The regression also suggests that being physically disabled increases the probability to be in NEET by 44.4 percentage points compared to non-disabled persons.

A multifaceted initiative would be needed to address the challenges of NEET. Three broad sets of measures should be taken. The first set of measures are related to education. Inappropriate and age old curricula, mostly distant from labor market relevancies widely followed in South Asia, in fact, widens the skill mismatch. Furthermore, the Vocational Education and Training (VET) system in South Asia, both in terms of training facilities and curricula, is not well equipped to comply with the modern dynamic labor market demands. On top of that, the young generation is rarely encouraged to opt for a vocation education and training. Therefore, along with the improvements in curricula and quality of education, it is also imperative to engage a wider share of the youth in the vocational education and training. The second set of measures is related to employment. One of the biggest challenges for South Asia is to ensure larger female participation in the labor market. For ensuring an enhanced participation of females in the active labor market, it is necessary to elevate the female education rate in South Asia. However, that will not be sufficient if adequate social, political and policy reformations are not coupled with it. Creating a social reform in favor of working females, ensuring safety at workplace and enhancing females' active participation in politics are the most crucial cornerstones yet to be set. The third set of measures are related to the facilitation of a swift transition of the youth from school to work through internships, traineeships, and apprenticeships which will further foster their productivity and future employability.

Thus, through identification of logistical and practical barriers to youth engagement in education or employment, it is possible to absorb the new young entrants to the labor force into productive employment. The experience of East and Southeast Asian countries show that the export led industrialization, driven by those countries' rapid incorporation in the global value chain mixed with prior investments in education and VETs, generated a virtuous cycle of rising supply and demand for human capital. If proper policies are not undertaken timely, the demographic dividend can easily turn into a demographic burden in near future in South Asia.

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“Improvement of the labour market dynamics and institutions in South Asia requires giving impetus to the manufacturing sector”

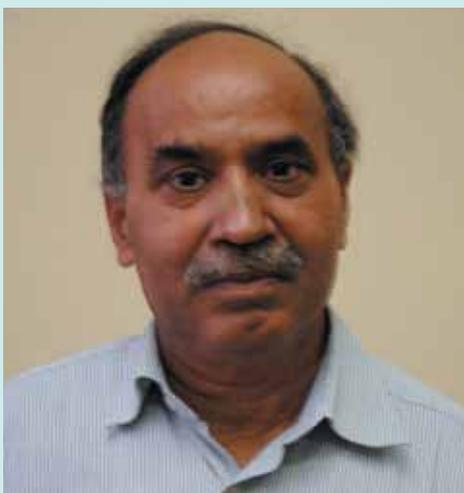
Professor Alakh N. Sharma is currently Professor and Director of the Institute for Human Development (IHD), New Delhi. Earlier he has worked in the capacity of Senior Visiting Fellow, Institute of Economic Growth, Delhi; Advisor (Research), V.V. Giri National Labour Institute, Noida; Professor, Shri Ram Centre for Industrial Relations, New Delhi; and a Faculty Member, A.N. Sinha Institute of Social Studies, Patna, for several years. During his academic career, he has worked with various agencies including national governments, bilateral and multilateral agencies, and international organizations. Professor Sharma has been closely associated with the policy-making processes involving employment, livelihoods and development in India, and has been a member of several high-level committees/task forces constituted by national and provincial governments. He has authored/edited/co-edited 15 books and published over 30 research papers in various journals. He is also the Editor of the Indian Journal of Labour Economics (IJLE), the quarterly journal of the Indian Society of Labour Economics (ISLE) and co-editor of the Indian Journal of Human Development (IJHD), a bi-annual journal brought out by IHD. Until recently, he led a major research and network programme on Employment, Social Protection and Inclusive Growth in South Asia, which was supported by IDRC (Canada), UNESCAP and ILO.

SANEM: What are the major labor market challenges that South Asia foresees on its path towards implementing SDGs agenda?

ANS: The SDGs agenda calls for decent employment for all. The South Asian countries face enormous challenges of deficit in decent employment. First, in spite of significant progress, the incidence of poverty in South Asia is still very high. In fact, the region has the dubious distinction of having the highest number of poor people in the world. Second, because of the widespread poverty, although the level of open employment is low, there is widespread under-employment, and the quality of employment is very low with low earnings and wages. Third, most of the employment, close to 85%, is informal with no provision for social protection, thus with high level of uncertainty of livelihoods. Fourth, the level of labour force participation of women, particularly in countries like India, Pakistan and Afghanistan happen to be very low. In fact, this region has one of the lowest participation of women in the world. Lastly, there are some groups such as tribal people, women, people belonging to lower castes etc, who face extreme discrimination in the labour market. All these are indeed very formidable challenges and have persisted over time.

SANEM: What actions can be taken to address dominance of informal employment in South Asia?

ANS: The high persistence of informal employment in South Asia is a major characteristic of the labour market. The important aspect of the high informality is that around half of the workers in the region are self-employed which is much larger than any other region in the world. This means that there is a need of creation of a large number of jobs in the formal sector where petty self-employed people can be absorbed. In recent years, there has been an increasing trend of informalisation even in the formal sector. This needs to be reversed. The provision of a minimum level of social protection to all workers will considerably lead to a process of formalization of workforce in South Asia. These measures have to be accompanied by active support by state in terms of registration of firms as well as workers through adoption of



new technology and simplification of labour laws. The process of formalization is not an easy one, but gradually it can be improved certainly.

SANEM: What needs to be done to reduce the gaps of skill mismatch in the South Asian countries?

ANS: To address the gap in skill mismatch in South Asian countries, there is a need of developing a regular labour market information system which can throw light on this mismatch. At present, most of the countries do not have robust labour market information system. An important aspect which is generally overlooked is the role of education in skill formation. Except Sri Lanka, in most of the South Asian countries workers have lower levels of education. A good secondary education available to all should be the medium term goal of the South Asian countries. Given the fast technological change, this level of education is extremely important in improving any kind of skill.

SANEM: What are the impeding factors for creating new entrepreneurs and thus enhancing self-employment in South Asia?

ANS: As mentioned earlier, close to half of all workers in South Asia are self employed. In overwhelming cases, this employment is

subsistent one and low productive. Hence, in my view the objective in South Asia should not be to create more and more petty self-employment in itself. Of course, new entrepreneurs with viable firms can pull up some of the self-employed people engaged in subsistent sector. As such, the goal should be to encourage those activities and industries which can create decent jobs. Needless to say, provision of credit, market support, imparting training and education and skill development are extremely important in this regard. The imperfections in the legal system with contradictory provisions pose an important challenge before entrepreneurship in South Asia. The legal system should be codified and made simple which is friendly towards the growth of firms.

SANEM: Why is the female labor force participation in South Asia (except Nepal) one of the lowest in the developing world? How can this scenario be improved?

ANS: An important obstacle behind the low female labour force participation in South Asia has been cultural norms. These cultural norms have often been prohibiting women workers and can be broken only through education. As such, education as well as effective public policy can contribute towards enhancing female labour force participation in these countries. The public policy should see that employment suitable to women is generated in the economy. Lastly, the supply side factors such as provision of crèche, public housing for women workers etc. should be taken into public policy.

SANEM: To improve the labor market dynamics and institutions, what kind of policies would you suggest for the South Asian countries?

ANS: As a whole, for improving the labour market dynamics and institutions in South Asia there is a need of giving impetus to the manufacturing sector. So far, structural change has largely not happened in South Asian countries. The manufacturing sector will considerably help in this process. The other aspect is provision of universal secondary education, which will go a long way in shifting the workforce from agricultural to non-agricultural as well as enhancing the productivity of workers. An important measure will be provision of universal social protection, which will lead not only to gradual formalization of workforce but also in reducing the incidence of poverty. Lastly, the labour market institutions such as trade unions should be strengthened. It should be realized that it is an important institution not only for welfare of workers but also for industrial democracy. There is an urgent need of simplifying labour laws as well. At present labour laws regime in South Asia is characterized by confusions and contradictions, and codification and simplification will go a long way in strengthening the labour market institutions.

SANEM: Thank you very much!

ANS: You are most welcome!

10th South Asian Training Program on CGE Modeling held in Cox's Bazar, Bangladesh

"Tenth South Asian Training Program on CGE Modeling" was held from August 12-16, 2017 at Hotel Sea Crown, Cox's Bazar, Bangladesh. The program was organized by South Asian Network on Economic Modeling (SANEM), Dhaka and co-organized by South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu, and the Centre for WTO Studies (CWS), New Delhi. Dr. Selim Raihan, Executive Director, SANEM and Professor, Department of Economics, University of Dhaka, was the Instructor of the training program. The objectives of the training program were to impart basic knowledge of theory and applications of CGE model to the researchers in South Asia, enhance policy research capacity using CGE models on issues related to the interlinkages between trade, climate change and food security, and expand the network of South Asian researchers. The training program included 31 participants from South Asian countries (20 participants from Afghanistan, Bhutan, India, Nepal, Pakistan and Sri Lanka and 11 participants from Bangladesh), who are mostly engaged in research and academia. Sight-seeing for the participants were arranged on 14th August. The training program ended with a certificate distribution ceremony on the last day.

Bilateral Taskforce meeting held in Kolkata, India

A Bilateral Taskforce meeting between officials from ministries/departments from the Government of India and Government of Bangladesh was held on August 22, 2017 at Kolkata, India. The meeting was jointly organized by Confederation of Indian Industry (CII) and Business Initiative Leading Development (BUILD), Bangladesh. The purpose of the taskforce meeting was to discuss and agree on the procedures for conducting a dual trail run this year of an express courier truck in both directions between the customs facilities at the Dhaka and Kolkata airports via the Petrapole-Benapole border crossing under the draft protocols of the Bangladesh, Bhutan, India, Nepal (BBIN) Initiative Motor Vehicles Agreement (MVA). Dr. Selim Raihan, Executive Director, SANEM and Professor, Department of Economics, University of Dhaka was present in the meeting.

Lecture on 'National Budget of Bangladesh' held at National Defence College, Dhaka

Dr. Selim Raihan, Executive Director, SANEM and Professor, Department of Economics, University of Dhaka delivered a lecture on "National Budget of Bangladesh" at the National Defence College, Mirpur, Dhaka on August 20, 2017. The lecture was for the Armed Forces War Course (AFWC) participants. The focus of AFWC is to facilitate operational level planning and conduct of war among the armed forces officials.

Advocacy Dialogue to Reduce NTBs in Agricultural Trade between Bangladesh and India held in Dhaka, Bangladesh

An Advocacy Dialogue to Reduce NTBs in Agricultural Trade between Bangladesh and India was held on August 08, 2017 at Golden Tulip - The Grandmark Hotel, Dhaka, Bangladesh, organized by Consumer Unity and Trust Society (CUTS International). The objective of this event was to establish cross-border bilateral partnerships to address NTBs for a specific set of agricultural commodities and to create a framework for continued bilateral dialogues to address NTBs. Dr. Selim Raihan, Executive Director, SANEM and Professor, Department of Economics, University of Dhaka, was present in the meeting as a discussant.

Mr. Nazmul Hossain, Ms. Mehzebabeen Ahmad and Mr. Sadat Anwar represented SANEM at the EconDU Day-2017. SANEM was a partner of the event.



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Expert Group Meeting held in Bangkok, Thailand

An Expert Group Meeting on inputs and feedback for a first draft of the report on "Enhancing Complementarities between the ASEAN 2025 Vision and Blueprints and the United Nations 2030 Agenda for Sustainable Development" was held on August 24 – 25, 2017 at Bangkok, Thailand. This was a joint initiative of United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), Ministry of Foreign Affairs (MFA), Thailand and Association of Southeast Asian Nations (ASEAN). The workshop brought together experts on ASEAN and on cross-cutting thematic priority areas identified for the report, namely resilience, infrastructure and connectivity, sustainable production and consumption, poverty eradication and sustainable management of natural resources. Dr. Selim Raihan, Executive Director, SANEM and Professor, Department of Economics, University of Dhaka was present as an expert in the workshop.

Workshop on Trade and Economic Integration: South Asia, Southeast Asia and Asia Pacific

A workshop on "Trade and Economic Integration: South Asia, Southeast Asia and Asia Pacific" was held on August 3, 2017 at UNDP Auditorium, National University of Singapore, Singapore. The Institute of South Asian Studies of National University of Singapore organized this day-long workshop with a view to discussing the Regional Comprehensive Economic Partnership (RCEP) possibilities and hindrances in Asia. Dr. Selim Raihan, Executive Director, SANEM and Professor, Department of Economics, University of Dhaka, facilitated the session on "South Asia's Greater Integration in Asia and the RCEP: The Bangladesh Perspective" in the workshop.

Advocacy Dialogue to remove NTBs in agricultural trade between Bangladesh and India held in New Delhi, India

An Advocacy Dialogue to remove NTBs in agricultural trade between Bangladesh and India was held on August 17, 2017 at The Metropolitan Hotel, Bangla Sahib Road, New Delhi, India. Consumer Unity and Trust Society (CUTS International) organized this meeting to bring together policymakers, regulators, private players, experts and practitioners to deliberate on and come up with concrete steps to remove NTBs in agricultural trade, focusing on four specific products, viz. Potato, green chilly, eggplant and tomato, as a pilot case for exploring such exercises for other items in future under a larger framework. Mr. Mahtab Uddin, Research Associate, SANEM and Lecturer, Department of Economics, University of Dhaka was present as one of the discussants in the meeting.

SANEM is a non-profit research organization registered with the Registrar of Joint Stock Companies and Firms in Bangladesh. Launched in January 2007 in Dhaka, it is a network of economists and policy makers in South Asia with a special emphasis on economic modeling. The organization seeks to produce objective, high quality, country- and South Asian region-specific policy and thematic research. SANEM contributes in governments' policy-making by providing research supports both at individual and organizational capacities. SANEM has maintained strong research collaboration with global, regional and local think-tanks, research and development organizations, universities and individual researchers.