



**STRUCTURAL CHANGE AND DYNAMICS
OF LABOR MARKETS IN BANGLADESH**

Studies on Labor and Employment

*Edited by
Selim Raihan*

Structural Change and Dynamics of Labor Markets in Bangladesh
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SOUTH ASIAN NETWORK ON ECONOMIC MODELING

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Preface

Bangladesh's achievement in economic growth over the last one decade has been quite robust. The country has recently been upgraded from low income country (LIC) to lower-middle income country (LMIC) as per World Bank's classification. There is an aspiration of graduating from the LDC status to middle income country by 2021 as per the United Nations' classification. The 7th five year plan sets the target of 8 percent GDP growth rate by 2020. This requires a huge leap forward from the current level of 6 percent average growth rate. The situation also demands for a considerable structural change in the economy leading to large scale economic diversification, promotion of labor-intensive and high-productivity sectors, both in farm and nonfarm sectors, and interventions to enhance productivity, jobs and incomes in traditional and informal activities where there are large pools of surplus labor.

Against this backdrop, South Asian Network on Economic Modeling (SANEM) is happy to offer the volume titled ***Structural Change and Dynamics of Labor Markets in Bangladesh: Studies on Labor and Employment***. This publication is a compilation of the papers produced under a research project titled "Changing Labor Markets in Bangladesh: Understanding Dynamics in Relation to Economic Growth and Poverty", sponsored by the International Development Research Center (IDRC), Canada.

This volume covers a wide range of issues related to labor markets in Bangladesh. These include structural change and employment creation, factors affecting the choice between farm and nonfarm employments, employment status and wellbeing of rural households, factors influencing female labor force participation, unpacking unpaid family labor, dynamics of employment in the urban informal sector, social protection programs impacting on labor force participation behavior, impact of both international and internal remittances on the domestic labor market, some estimates of the first demographic dividend in Bangladesh, role of education and skill development in the transition from 'good-enough' job to 'decent' job, issue of agricultural seasonality in skill training, and policy simulations using social accounting matrix and computable general equilibrium frameworks.

We wish to extend our sincere gratitude to IDRC, Canada for their financial support to successfully publish this volume. It is our pleasure to thank Edgard Rodriguez, from the IDRC, Canada, for his support and advice. We are pleased to recognize the contributions from authors and co-authors of chapters in this volume. The list includes Selim Raihan, Bazlul Haque Khondker, Simeen Mahmud, Sayema Haque Bidisha, Abu Parves Shonchoy, Nafiz Iftakhar, Mir Tanzim Nur Angkur, Muhammad Moshir Rahman, Fatima Tuz Zohora, Syer Tazim Haque, Israt Jahan, Mahtab Uddin and Andilip Afroze.

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Abbreviations

APS	<i>Average Propensities to Spend</i>
BA	<i>Bachelor of Arts</i>
BBS	<i>Bangladesh Bureau of Statistics</i>
BIHS	<i>Bangladesh Integrated Household Survey</i>
CES	<i>Constant Elasticity of Substitution</i>
CET	<i>Constant Elasticity of Transformation</i>
CFW	<i>Cash for Work</i>
CGE	<i>Computable General Equilibrium</i>
ECI	<i>Economic Complexity Index</i>
ESR	<i>Economic Support Ratio</i>
EU	<i>European Union</i>
FDI	<i>Foreign Direct Investment</i>
FE	<i>Fixed Effect</i>
FFW	<i>Food for Work</i>
GDP	<i>Gross Domestic Product</i>
GFCF	<i>Fixed Capital Formation</i>
GR	<i>Gratuitous Relief</i>
GSP	<i>Generalized Systems of Preference</i>
HIES	<i>Household Income and Expenditure Survey</i>
HSC	<i>Higher-Secondary School Certificate</i>
IFPRI	<i>International Food Policy Research Institute</i>
ILO	<i>International Labor Organization</i>
I-O	<i>Input Output</i>
IV	<i>Instrumental Variable</i>
LCD	<i>Life-Cycle Deficit</i>
LFP	<i>Labor Force Participation</i>
LFPR	<i>Labor Force Participation Rate</i>
LFS	<i>Labor Force Survey</i>
LIC	<i>Low Income Country</i>
LMIC	<i>Lower-Middle Income Country</i>
LPM	<i>Linear Probability Model</i>
MFA	<i>Multi Fibre Arrangement</i>
MICE	<i>Multiple Imputations by Chained Equations</i>
NGO	<i>Non-Government Organization</i>
NSSS	<i>National Social Security Strategy</i>
NTA	<i>National Transfer Account</i>
OECD	<i>Organization for Economic Co-operation and Development</i>
OLS	<i>Ordinary Least Square</i>
OPS	<i>Open market sales</i>
PEP	<i>Partnership for Economic Policy</i>
PSU	<i>Primary sampling unit</i>

<i>RE</i>	<i>Random Effect</i>
<i>RMG</i>	<i>Readymade Garments</i>
<i>RR</i>	<i>Relative Risk</i>
<i>RRR</i>	<i>Relative Risk Ratio</i>
<i>SAM</i>	<i>Social Accounting Matrix</i>
<i>SNA</i>	<i>System of National Accounts</i>
<i>SNA</i>	<i>National Accounts Statistics</i>
<i>SSC</i>	<i>Secondary School Certificate</i>
<i>TFR</i>	<i>Total Fertility Rate</i>
<i>UN</i>	<i>United Nations</i>
<i>UNDP</i>	<i>United Nations Development Program</i>
<i>UNFPA</i>	<i>United Nations Population Fund</i>
<i>VGD</i>	<i>Vulnerable Group Development</i>
<i>VGf</i>	<i>Vulnerable Group Feeding</i>
<i>WSD</i>	<i>widowed/separated/divorced</i>

Key Messages

1. Bangladesh economy has undergone significant structural changes over the last four decades. The share of agriculture in GDP has declined, while the relative significance of industry and service sectors has increased. These structural changes have been associated with both positive trends and persistent employment challenges such as lack of diversification, poor working conditions, low productivity and a high degree of informality.
2. Economic diversification can play an important role in the structural transformation of the economy from producing low value-added products to high value-added products. Promotion of labor-intensive and high-productivity sectors, both in the farm and nonfarm, is therefore 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.
3. However, strategies specified in the different policies in Bangladesh for economic and export diversification lack clear guidelines as regards to implementation, and therefore, result in ineffective strategies. In case of export diversification, it has been a matter of serious concern that though there are significant incentives provided to the export sector in Bangladesh, there is formidable difficulty in actually accessing such incentives and they helped little in diversifying the export basket. Furthermore, though the latest industrial policy identifies a number of high priority and priority sectors for economic diversification, there are several policy-induced and supply-side constraints that have constricted the development of these sectors. Unless and until these policy-induced and supply-side constraints are addressed, the agenda for further productive economic diversification will remain unfulfilled.
4. Major supply side constraints include poor physical infrastructure, inefficiencies at ports and related internal road transportation, lack of investment fund and working capital, high interest rate, shortage of skilled workers, technological bottlenecks, lack of entrepreneurial and management skills, and very high invisible costs of doing business.
5. In the discourse on infrastructure and economic growth the dominant area of discussion is on the quantity and quality of infrastructure and how countries differ in these respects. While most of the countries emphasize a lot on investing in raising the quantity (and quality) of infrastructure, there is a fundamental concern whether rising supply of infrastructure ensures the access to infrastructure. This problem is manifested through the fact that due to a variety of reasons enhanced supply of infrastructure may not solve the problem of 'entitlement failure' in terms of effective access to infrastructure, as the people/sectors in dire need of improved infrastructure may not have the access even with an increased supply.
6. Some of supply-side constraints related to weak infrastructure in Bangladesh are broadly 'general' in nature and some are critically 'sector-specific'. Yet, policymakers are so inclined to improvement in the broad general infrastructure, i.e., enhanced supply of electricity, improvement in roads, improvement in port facilities, etc. that the developments of critical sector-specific infrastructure are largely overlooked. Embarking on developing broad general infrastructure are relatively easy, whereas solving sector-specific infrastructure problems involve identifying priorities in the policy making process and addressing a number of political economic issues. Failure to deal with sector-specific infrastructure problems leads to a scenario where a large number of potential inclusive-growth enhancing sectors fail to enjoy the benefit from the improvement in broad general infrastructure, and thus end up with 'entitlement failure'.

7. Manufacturing is now an overwhelmingly salient component of Bangladesh's export composition, thanks largely to the rapid expansion of the garments industry. Garments has been an important contributor to growth and employment generation in Bangladesh. However, the garments industry of Bangladesh is now at a crossroad. There have been concerns with regard to compliance issues and work place safety in the garments industry in Bangladesh, and, in the last few years, these issues have become very critical for the future of this industry. These concerns should be addressed in a positive way as an opportunity to build industry's reputation in the global market. In this context, issues like wage, workplace security, fringe benefits, workplace environment etc. need to be resolved on a priority basis. In addition, there is a critical need for enhancing labor productivity, moving up to the higher value-added products through introducing new technology along the production line spurring innovation, and enhancing Bangladesh's competitiveness by reducing the cost of doing business.
8. As far as economic diversification is concerned, productive rural nonfarm sector can be very instrumental. Rural nonfarm sector also has a crucial role in reducing poverty and increasing the wellbeing of rural households. Education, improvement in rural infrastructure and development of productive rural nonfarm sectors provide positive stimulus to raise employment in the rural nonfarm sectors.
9. The rate of female labor force participation in Bangladesh is still very low. Evidence suggests that female labor force participation reduces the likelihood of household poverty; and resources in female's hands have a range of positive outcomes for human capital and capabilities within the household. Thus, there is a strong rationale for ensuring female participation in the economy's growth process. Education, skill development, public and private sector initiatives in investment in the care economy as well as different social protection programs can be very useful in increasing female labor force participation.
10. 'Decent' job should be regarded as a dynamic and progressive phenomenon. There could be three stages for moving towards 'decent' job. The first stage is the 'good-enough' job, which shows the transition from 'no job' to 'job' or from unpaid family job to paid-job. The second stage is the 'good' job, which shows the transition from 'good-enough' job to job with better return, formal job security and enhanced workers' rights. The third stage is the 'decent' job, which is the transition from 'good' job to a state of productive employment in compliance with agreed international standards of working environment and workers' rights.
11. The economic growth process in Bangladesh, over the past two decades, has been in a position to generate employment in agriculture, rural non-farm sector, urban informal sector, and the urban formal sector, mostly in garments. Apart from garments, employment in all other sectors has largely been for males, mostly informal in type. The nature of these jobs has been largely 'good-enough'. Rise in employment in agriculture, both in the crop and non-crop sectors, has been associated with virtually no progress towards 'good' job. Rises in employment in the rural non-farm and urban informal sectors have also happened without much progress towards the creation of 'good' jobs in these sectors. For males, such expansion has helped moving out from unemployment or unpaid family labor to 'good-enough' jobs. For females, employment in the garments sector, in most cases, is a manifestation of the transition from no labor force participation or unpaid family jobs to paid-jobs. Such paid-jobs in most of the garments factories are largely 'good-enough' in nature. All these suggest that, jobs in Bangladesh are pre-dominantly 'good-enough' in nature.
12. In the near future, for the promotion of inclusive growth, the challenge of the Bangladesh economy, as far as the quality of employment is concerned, is how to make a transition from the current state of 'good-enough' jobs to large scale 'good' jobs. In the medium to long term, the prospect of inclusive growth in Bangladesh would depend on how the growth momentum would be able to generate successful transition towards a state of 'decent' job.
13. Imposition of terms and conditions for 'decent job' agenda may not be enough in promoting 'decent job' as the workers may themselves lack the quality to be absorbed in the transformation process due to their

lower productivity. Hence, supply side policies like spreading education and skill development programs to the mass population, removing socio-economic barriers over educational attainments, and enhancing the diversity of training programs, taking into consideration domestic as well as global labor market demands, should be adapted. Most importantly, to ensure the proper escalation of labor productivity – emphasis must be on the improvement of the quality of education and training as well.

14. The critical issue of local agricultural seasonality should be taken into consideration for any typical skill-development training program. As socio-economic attributes of participants systematically vary during the period of seasonality than normal time, understanding the seasonality and adequately addressing this into the design of the program is warranted to achieve a targeted population. Otherwise, programs will face issues like mis-targeting, attrition and drop-outs.
15. Bangladesh is passing through a critical phase of demographic dividend. However, the country is still far from making the best use of it. For making the best use of the demographic dividend, the critical policy areas should include investment on youth development, expanding access to family planning, investment in infrastructure, public health, education, especially female education and skill development. In addition, decisive policy emphasis should be on promoting both labor-intensive and skill intensive jobs, savings and openness to trade and foreign investment.
16. For further economic growth acceleration and employment generation in Bangladesh, there is a need for reforms in policies and institutions. This will require increased domestic private investment and foreign direct investment targeting broader economic and export diversification. Emphasis should be not only on raising the level of investment but also on the efficiency of investment through removal of a number of supply side bottlenecks in the economy. There is a need for a new paradigm of macro, trade and investment policies with effective and time-bound support to emerging dynamic sectors.
17. There is a need for a well-designed and effective industrial policy wherein monetary and fiscal incentives for the emerging dynamic sectors should be transparent and time-bound. In addition, industrial policy needs to address issues of education and skill development for facilitating higher capabilities for economic diversification, attracting FDI and integrating with the global value chain.
18. Institutional reforms should be considered as a key to overall policy reforms. Improving the bureaucracy quality, ensuring property rights, managing corruption, ensuring contract viability through reduction of the risk of contract modification or cancellation are examples of such institutional reforms. Furthermore, reducing political uncertainties or establishing political stability and generating political capital for economic diversification are critically important.