

Creating good jobs

Bangladesh's potential for creating good jobs is quite large. Endowed with an abundant and expanding labour force and excellent geography in terms of location and access to the sea, good policies should open up the doors for a rapid expansion of an export-oriented manufacturing sector.

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BANGLADESH can celebrate quite a few achievements since independence. These include growing per capita income, lower rate of poverty, and better human development indicators. Nevertheless, moving forward with the development agenda is daunting. Some 59 million people (40 percent of the total population) are officially classified as poor. Per capita income has now grown to about \$700 (estimated for 2010), which is still substantially lower than the South Asian average and 55 percent lower than that in India. These concerns are well known to the policy makers. What has received far less attention is the challenge of creating good jobs.

It is unfortunate that good data on labour market and job creation are scarce. Limited data available from the Labour Force Surveys (LFS) and the census data and reports compiled by the Bangladesh Bureau of Statistics are inadequate, and often inconsistent and non-comparable over time. I have compiled a reasonably consistent time series (at least in the comparability of definitions) of a few key labour market variables. The employment picture looks rather dismal.

The first striking finding is that only 22 percent of the employed labour force is engaged in the formal sector. Some 11 percent of employed labour is in manufacturing and another 11 percent is in organised services. The remainder are still engaged in informal activities. A second striking result is that the responsiveness of employment to growth in manufacturing is rather low (measured by employment elasticity). Thus, between 1980 and 2009, value added in manufacturing grew by 6.4 percent annually whereas employment increased by 3.9 percent, suggesting a long-term manufacturing employment elasticity of 0.61, which is on the low side.

While this is an improvement over the early 1970s, when only 15 percent of the labour force was in the formal sector (8 percent in manufacturing and 7 percent in formal services), the slow

progress in transforming the labour market after about 40 years of independence is an indication of a major weakness in our development strategy.

What is wrong in being engaged in informal activities and why should we worry about the low employment elasticity in manufacturing? The short answer is that informal activities mostly involve low levels of productivity and low earnings. As such, these are not very good jobs.

To appreciate this better, let's look at the sectoral earnings prospects based on average productivity. Not surprisingly, average productivity in agriculture is much lower than in manufacturing or services. Agriculture's GDP share has fallen drastically since independence, from over 55 percent in 1975 to 32 percent in 1980 to 20 percent in 2009, but its employment share has not fallen by as much, and it continues to employ some 48 percent of the labour force. As a result, the average labour productivity has not increased much -- by only 0.9 percent between 1980 and 2009. As compared to this, average productivity in manufacturing has grown by 2.9 percent and by 1.1 percent in services. Since services are an aggregation of both formal and informal services, average productivity and its growth are constrained by the large share of informal activities -- as much as 82 percent.

Low initial average labour productivity in agriculture, estimated at about only 48 percent of the average productivity in manufacturing in 1980, combined with sharply lower productivity growth, has further expanded the productivity gap between agriculture and manufacturing. Thus, in 2009, the average labour productivity in agriculture fell to only 27 percent of that in manufacturing. Agriculture's productivity gap with services is similarly large, despite the dominance of informal services component.

Wages data show the differences in sectoral productivity. Agricultural real wages grew by only 0.3 percent annually between 1980 and 2009, as compared with 2.6 percent in manufacturing and 0.6 percent in services. The gap between the average real wages in

manufacturing and agriculture also reflects the productivity gap.

The above analysis provides a simple answer to addressing Bangladesh's growth and employment challenges. A faster rate of GDP growth will require commensurate increases in the average labour productivity. Finding more productive and better-paying jobs will require faster expansion in high productivity, high earning sectors. The two can be reconciled by finding ways to create more jobs in manufacturing and organised services.

International experience shows that high-paying jobs are best created in manufacturing and formal services, and Bangladesh is no exception. Other South Asian countries are striving to go through a similar transformation with varying degrees of success. However, India, Pakistan and Sri Lanka have done better in increasing both the share of manufacturing in GDP as well as its share of employment. They are also higher per capita income countries.

How can manufacturing grow faster than in the past? How can it absorb labour at a faster pace? One can draw from the lessons of experience as well as from economic theory. Rapidly growing East Asian countries have relied on exports to develop their manufacturing sector with a great deal of success. From theory (the Heckscher-Ohlin model of trade), one can argue that Bangladesh can concentrate its development efforts on promoting labour-intensive manufacturing exports based on the rationale that it has a relatively abundant labour endowment that gives it a cost advantage in labour-intensive products. The experience with the ready-made-garments (RMG) sector seems to support both points.

One debatable aspect is: Can Bangladesh emulate the experience of East Asian economies in terms of successfully launching its large scale manufacturing sector, or should it concentrate instead on medium and small enterprises? This debate partly germinates from the New Economic Geography (NEG) that suggests that the large-scale manufacturing faces increasing returns and, as such, agglomeration benefits of freer trade and lower transport costs tend to accrue to existing firms, making new entries difficult until such time that factor costs (typically labour costs) more than offset the agglomeration advantages. This debate requires additional research. But there is no reason for Bangladesh not to focus on the policy framework for implementing an



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export-oriented manufacturing strategy. On the demand side, one can assume that the world demand is not a major constraint for Bangladesh despite the recent global downturn. This is because Bangladesh is a very small player in the world market and the experience of the RMG sector during the recent global crisis shows that a small country like Bangladesh, which is producing low-cost, mass-consumption products (low end of the RMG market), can not only survive but even expand its market share by paying attention to market trends. So, much of the policy attention has to focus on production incentives, quality and cost competitiveness.

Regarding production incentives, there is plenty of empirical evidence that both the exchange rate and trade protection matter for exports. By and large, Bangladesh has managed its exchange rate policy well, although the appreciation of the real exchange rate since 2006 needs careful monitoring. On the trade protection front, unfortunately, Bangladesh has moved hesitantly. While trade protection has come down sharply from its very high levels in the early 1990s, Bangladesh remains amongst the most heavily-protected

countries in the world. Trade reform has also stagnated over the past few years. A rapidly expanding and diversified manufacturing sector requires a much faster pace of trade liberalisation.

On the quality front, much will depend upon the quality of labour and adoption of better technology. As LFS data show, some progress has been made in upgrading labour skills through improvements in education and training, but there is a long-long way to go. Indeed, the 78 percent informal labour force cannot be converted overnight into quality labour for manufacturing and formal services without long-term massive enhancement effort in education and training.

This is a huge challenge and requires a long-term strategy for public investment in human development and improvement in service delivery. On the technology front, the experience of the RMG sector clearly demonstrates the importance of diffusion of technology through partnership with foreign investors.

Concerning cost, the most obvious place to look for improvement is in infrastructure. Both power and transport are key determinants of cost com-

petitiveness. In electricity, the inadequacy of supply is well known. While efforts are underway to mobilise new investments in power, innovative ways must be found to address the power crisis.

The solutions include better demand management and more aggressive efforts for energy trade with neighbours. In transport, Bangladesh faces trade logistic costs that are much higher than in East Asian countries or in India. Trade logistic cost has to be brought down substantially through new investment in transport network, including sea-ports, improvements in performance of existing facilities, and much better traffic management.

Bangladesh's potential for creating good jobs is quite large. Endowed with an abundant and expanding labour force and excellent geography in terms of location and access to the sea, good policies should open up the doors for a rapid expansion of an export-oriented manufacturing sector. Good political leadership is the key to harnessing this potential.

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Will the Afghan surge succeed?

It is likely that the "surge" is primarily a political move to try to pass off the retreat from Afghanistan as another "mission accomplished." Let's hope that this stratagem works somehow, because the alternative is likely to be much worse for all parties involved in this un-winnable war.

M. SHAHID ALAM

MORE than eight years after dismantling the Taliban, the United States is still mired in Afghanistan. Indeed, last October, it launched a much-hyped "surge" to prevent a second Taliban takeover of Afghanistan, not imminent yet, but eminently possible.

The first dismantling of the Taliban was a cakewalk.

In 2001, the United States quickly and decisively defeated the Taliban, killed, captured or scattered their fighters, and handed over the running of Afghanistan to their rivals, mostly Uzbeks and Tajiks from the Northern Alliance.

Unaware of Pashtoon history, American commentators were pleased at the smashing victory of their military, convinced that they had consigned the Taliban to history's graveyard.

Instead, the Taliban came back from the dead. Within months of their near-total destruction, they had regained morale, regrouped, organised, trained, and returned to fight what they saw as a foreign occupation of their country. Slowly, tenaciously they continued to build on their gains, and by 2008 they were dreaming of taking back the country they had lost in 2001.

Could this really happen? That only time will tell, but prospects for the Taliban today look better than at any time since November 2001.

In 2001, the United States had captured Afghanistan with the loss of only twelve of its own troops. Last year, it lost 316 soldiers, and the British lost another 108. The numbers speak for themselves.

The United States had occupied Afghanistan with 9,000 troops. When Obama took office in January 2009, that had climbed to 30,000. In October, US troop strength in Afghanistan had more

than doubled. This does not include tens of thousands of foreign contractors and some 200,000 Afghan troops armed and trained by the Americans.

Yet, Nato could not deter the Taliban advance.

That is when President Obama ordered a troop surge. US troop strength will soon reach 100,000. At the same time, the United States is inviting Taliban fighters to defect in return for bribes. In tandem, President Karzai -- for the umpteenth time -- is offering amnesty to defecting Taliban fighters. So far, there have been no high-ranking defections.

Can the United States defeat these men -- returned from the dead -- it calls terrorists? It is a vital question. It should be, since the United States claims that if the Taliban come back, Afghanistan will again become a haven for Al-Qaida, their training ground and launching pad for future attacks against Western targets.

How did the Taliban stage this comeback.

Simply, the answer is: By finding strength in their handicaps. If you had compared the defeated Taliban in December 2001 to the Mujahidin in 1980, you would conclude that history had closed its books on them irrevocably.

The Mujahidin brought several advantages to their fight. All Afghan ethnicities opposed the Soviet presence in Afghanistan. They had financial, military and political support from all the Western powers. President Reagan honoured them as freedom-fighters. They also had support from Saudi Arabia, Pakistan, and Iran. In addition, tens of thousands of foreign fighters would join the Afghan Mujahidin.

In comparison, Taliban prospects looked quite dismal after their rout in November 2001. Nearly all the factors that favoured the Mujahidin worked



Will the surge remove the "scourge"?

against the Taliban. Afghan support was confined mostly to one Afghan ethnicity, the Pashtoons. In the United States and its European allies, they faced a more formidable opponent than the Mujahidin did in the Soviet Union.

There was not a single Muslim country that could support the return of the Taliban; the US forbade it. Worst of all, the Pakistani military, partly for lucre and partly under US pressure, threw its forces against the Taliban. Under the circumstances, few Muslim fighters from outside Pakistan have joined the Taliban.

Their goose was cooked, or so it seemed.

Nevertheless, the Taliban defied these odds, and now, some eight years later, they have taken positions in nearly every Afghan province, with shadow governments in most of them. Is it possible to reverse the gains that Taliban have made in the face of nearly impossible odds?

What can the US do to weaken the Taliban? They have few vulnerabilities because the United States has been so

effective in denying them any help from external sources. They have built their gains almost exclusively on their own strengths; and these are harder to take away.

What then are some of these strengths? Unlike the Mujahidin, the Afghan resistance against the United States is less fractious. The Taliban make up the bulk of the resistance. Other groups -- led by Haqqani and Hekmatyara -- are much smaller. The Afghan resistance has a central leadership that the Mujahidin never had.

Unlike the Mujahidin, the Taliban do not have the technology to knock out the helicopters, drones or jets that attack them from the air. On the ground, however, they have technology the Mujahidin did not have. They have acquired suicide vests and, more importantly, improvised explosive devices (IEDs) developed by the resistance in Iraq. Indeed, the Taliban claim to have improved upon the IEDs they acquired from Iraq.

Notwithstanding their apparent lack

of sophistication, the Taliban leadership have proved to be savvy in their use of videos, CDs, FM radio stations, and the internet to publicise their gains, build morale, and mobilise recruits.

Despite the satellites, money, spies on the ground, and prize money for their capture, much of the Taliban leadership has evaded capture. In particular, Mulla Omar remains a ghost. He has not been seen or interviewed since 2001. Yet he remains in touch with his commanders through human couriers.

Afghanistan's corrupt government is another Taliban asset. They have spawned a tiny class of Afghan nouveau riche battered by drug money, government contracts and cronyism. President Karzai implicates the US occupation in the blatant corruption of his own government.

It appears that there is little that the United States can do to neutralise these elusive advantages. Instead, it tries to blame and shift the burden of the war on Pakistan. It continues to pressure and bribe Pakistan's rulers to mount full-scale

military operations against the Taliban support network in Pakistan.

More and more, Pakistan's military leaders have been caving under these pressures, escalating their wars against their own population. This has provoked a backlash. A new faction of the Taliban has emerged to launch deadly attacks against military and civilian targets in Pakistan. These attacks are destabilising Pakistan. In turn, the US uses these attacks to push Pakistani rulers into greater capitulation to its demands.

In addition, President Obama has dramatically escalated drone attacks against the Taliban support network in Pakistan. In tandem, Pakistan too has been launching more massive air and ground attacks against their hideouts. However, none of this has deterred the escalating Taliban attacks against Nato and Afghan forces.

No one suggests that the Taliban can match the credentials of America's freedom fighters in the late eighteenth century. The latter were committed to the proposition that all men are created equal, barring a few rarely mentioned exceptions. The Taliban are zealots and misogynists, but only a tad more so than the Mujahidin, whom the West embraced as freedom fighters.

The West celebrated the Mujahidin's victory over the Soviets. The same people, fighting under a different name, have now pushed the United States into a costly stalemate. Will the US prolong this stalemate, and push Pakistan, too, over the brink? Or will it accept the fait accompli the Taliban have created for them, accept its losses, and save itself from greater embarrassment in the future?

Once or twice, the United States has retreated from unwinnable wars and survived. It is unlikely that the "surge" is primarily a political move to try to pass off the retreat from Afghanistan as another "mission accomplished." Let's hope that this stratagem works somehow, because the alternative is likely to be much worse for all parties involved in this unwinnable war.

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