Confronting labour market challenges in South Asia: An SDG perspective

Mohammad Nazmul Avi Hossain and Iyanatul Islam

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POLICY BRIEF

CONTENTS

ABOUT THIS PUBLICATION

Cover image: Indian male workers digging and carrying out soil at buliding construction site. India has a huge population of daily wage earners. | Shutterstock

Note: In this article, South Asia is defined as Bangladesh, Bhutan, India, Nepal, Maldives, Pakistan, and Sri Lanka. The information reported here is not consistently presented for all the countries listed above due to data constraints.

Introction

South Asia represents a region with multiple contradictions. On the one hand, it is home to two of the world's most rapidly growing economies in the world (Bangladesh and India). On the other hand, the region bears the unenviable distinction of having a significant share (24% in 2019) of the world's poor.[1] In terms of progress towards attaining the Sustainable Development Goals (SDGs) by 2030, the record is uneven, with some countries doing well (such as Bhutan), but with others lagging (such as Pakistan).[2]

Significant progress towards attaining the SDGs in South Asia is hampered by the manifold labour market challenges that the region faces. Despite rapid economic growth in several countries, the growth of decent jobs, especially for young men and women, has not matched with the growth of the labour force. Major employment challenges exist, gender disparities are widespread, the incidence of low real wages is considerable reflected in a good deal of working poverty, while the social protection system is inadequate. The labour market challenges such as sluggish growth of jobs, low level of real wage, gender pay gap, a big bulge of youth who are not in education, employment and training, a huge share of vulnerable employment and weak social protection systems in turn are evolving against systemic risks posed by climate change. At the same time, changes in technology encapsulated in digitisation and automation at the workplace are creating new opportunities in juxtaposition with threats of job losses and insecure working conditions.

Policymakers will have to make a resolute commitment to deal with the salient labour market challenges facing the region. Failure to do so will in turn lead to a failure to realise the aspirations of the SDGs. This article reflects on the interlinkages between key labour market and employment indicators with respect to the relevant SDGs—SDG 1, SDG 5, SDG 8, and SDG 10. In terms of themes, the article reflects on (1) employment (2) wages (3) social protection (4) gender disparities (5) green economy and (6) digitisation.

Employment and the labour market

The labour market dynamics of South Asia are complex in nature due to a heavy influence of informality and the enormous number of people who enter the labour force every year. According to the *World Economic and Social Outlook Report* (2022) of the International Labour Organization (ILO), every year about 18-20 million people join the working-age population in South Asia.[3] In 2023, the growth of jobs in South Asia was expected to nearly halve to 1.6 percent from 3 percent in 2022. Figure 1 depicts the country-wise situation of three crucial indicators of South Asia. The aggregate working-age population in the region stands around 1.084 billion of which around 571 million are in the labour force. It means, that out of the total working-age population in the region, around 513 million people (47 percent) are out of the labour force, or they are inactive. Hence, creating employment at a sharply increasing rate for a) absorbing the new entrants into the labour force and b) bringing the inactive population into the labour force is the crux of South Asia's employment challenges. To solve this "joblessness", the South Asian economies should adopt National Employment Policies (NEP) geared towards decent job creation, especially by promoting broad-based employment opportunities for young men and women.

Figure 1: Working age population, labour force and out of labour force population by date up to 2023 in South Asia (in millions)
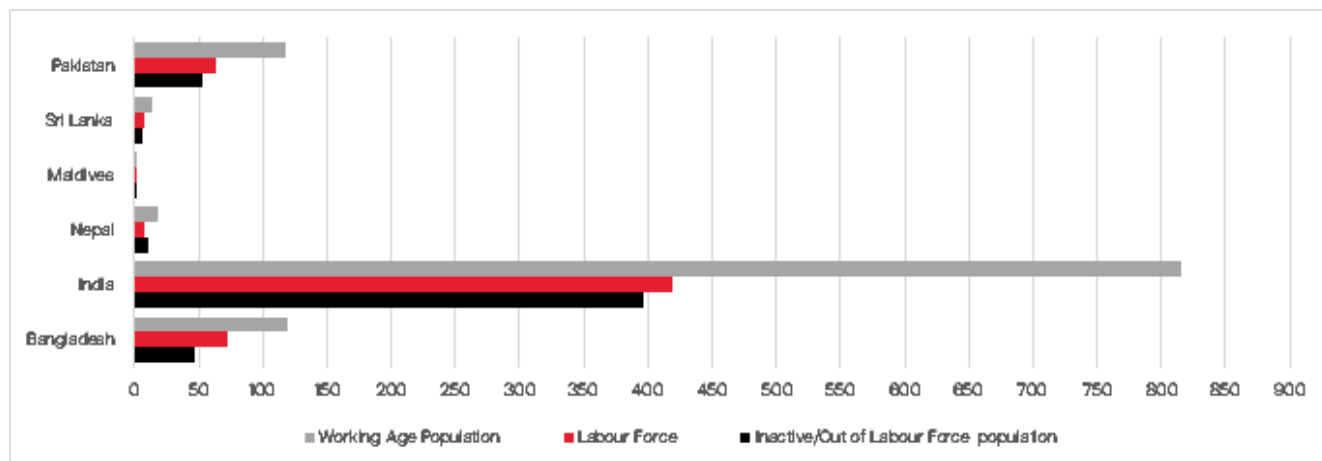

Source: ILOSTAT, https://ilostat.ilo.org/topics/employment/

The SDG-compliant labour market indicators are anchored in the notion of economic growth and decent work (SDG 8). Economic growth is driven by two key sources: (a) factor accumulation and (b) factor productivity. Labour productivity in turn is a key aspect of factor productivity, given the efficiency with which the capital stock is used and the level of technology. When it comes to South Asia, the preponderance of the informal sector also causes a low level of productivity of the workers resulting in a high incidence of working poverty.

Figure 2 displays trends in labour productivity in real terms (constant US dollars) for the 2011-2022 period. India and Bangladesh have the highest labour productivity growth for the relevant period (more than 4 percent) which is consistent with their status as among the most rapidly growing economies in the developing world. The other South Asian economies have moderate labour productivity growth rates, while Maldives has experienced a decline in labour productivity.

Figure 2: Annual growth rate of real GDP per employed person (GDP constant 2010 US $) (%), 2011-2022


Source: ILOSTAT, https://ilostat.ilo.org/topics/labour-productivity/
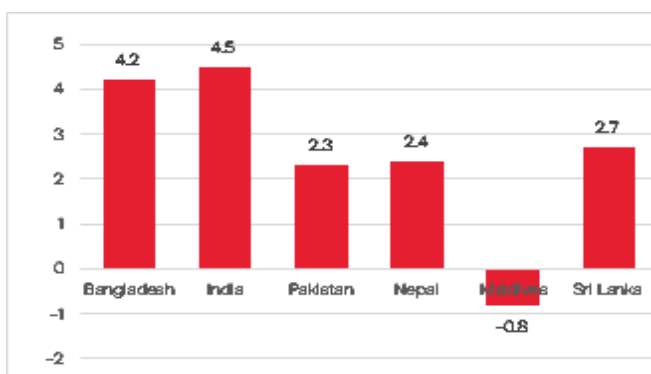
The region has a high level of informal employment with Bangladesh, India, Pakistan, and Nepal having around 85 percent of informal employment. Maldives has the lowest incidence of informal employment (less than 50 percent) followed by Sri Lanka (less than 70 per cent).[4] High level of informality results in vulnerable employment.[5] Figure 3 depicts the share of vulnerable employment out of total employment by countries in the region. With this high level of share of vulnerable employment, the region has poor

working conditions, weak employment contracts, low productivity, low real wages, and a fragile state of labour rights.

Figure 3: Share of vulnerable employment 2021 (as a share of % of total employment)
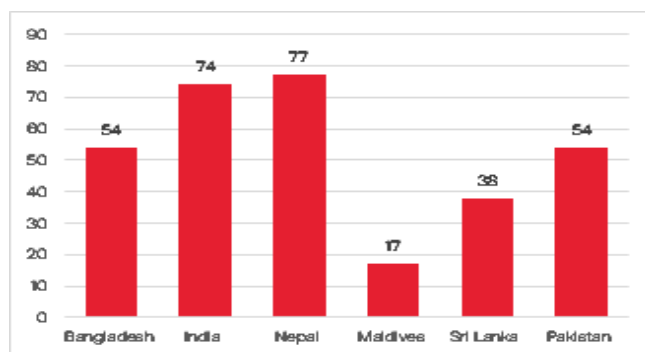
Source: Authors' estimates based on https://ilostat.ilo.org/topics/informality/.
Note: Vulnerable employment is defined as contributing family workers and own-account workers as a proportion of total employment.

The South Asian countries have the advantage of enjoying a demographic dividend compared to the countries of the global north. However, a large share of youth who are not in education, employment, or training (NEET) poses a critical threat to resilient economic growth for the region. Figure 4 illustrates country-wise share of youth population who are NEET.

Figure 4: Share of youth not in education, employment or training, total (% of youth population) in different years (2017-21)

Source: ILOSTAT, https://ilostat.ilo.org/topics/sdg/
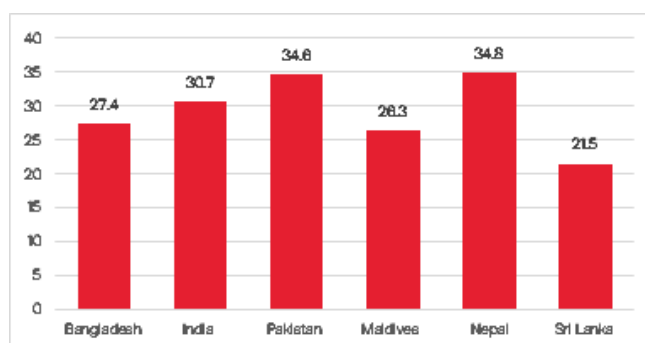
Figure 5 reflects the unemployment rates of the South Asian countries. Bangladesh has the lowest unemployment in the region while Nepal has the highest level of unemployment with 11.1 percent. Considering the size of the labour force, the Indian unemployment rate of 7.3 percent suggests that the country has a huge population who are unemployed.

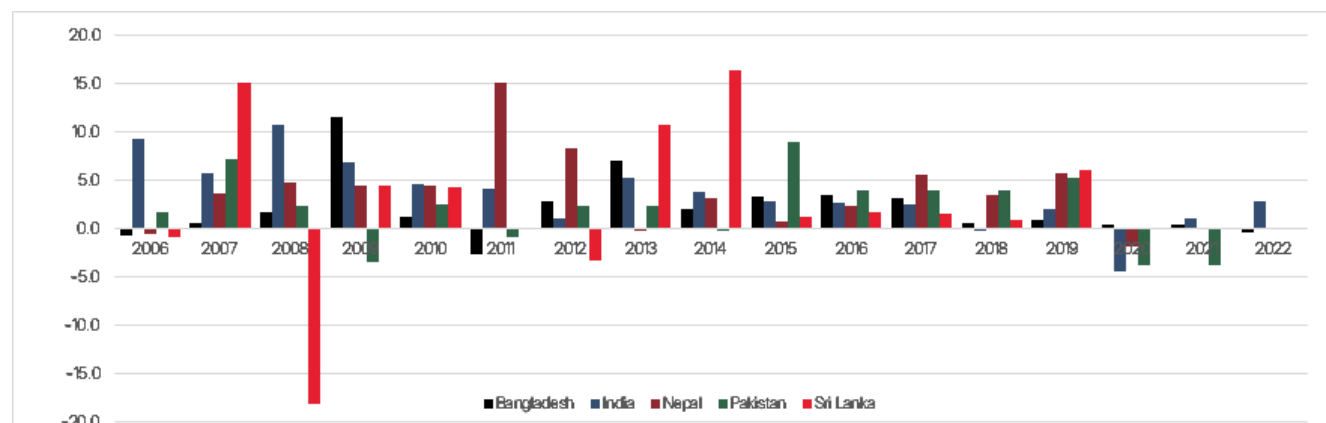**Figure 5: Unemployment rate as of latest available estimates (2022)**

Source: ILOSTAT, https://ilostat.ilo.org/data/
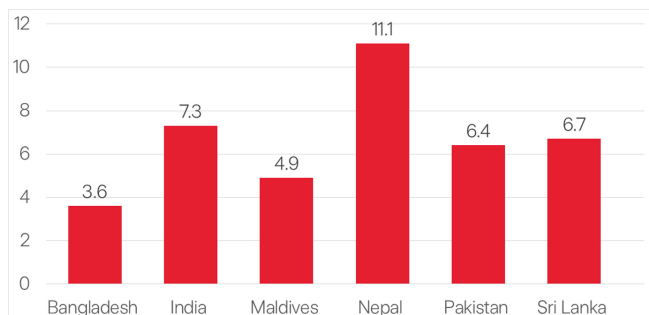
Wages and the welfare of workers
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Wages are key determinants of several crucial SDG targets. Working poverty and social protection under SDG 1; gender pay gap under and productivity under SDG 8 and labour income share under SDG 10 are among the most critical ones where wages play a significant role. Moreover, wages have implications on ILO's crucial convention such as C 154 (Collective Bargaining), C 87 (freedom of association and protection of workers) and C 98 (right to organise and collective bargaining). The growth of real wage has always been a big challenge for several countries of South Asia. Figure 6 depicts that often South Asian countries have been experiencing negative real wage growth rates in different periods. For instance, being one of the fastest-growing economies not only in the region but also globally, Bangladesh has been experiencing an average negative real wage growth rate of -5.29 percent over the last two decades.[6]

Besides real wages, a measure of the health of the labour market is the extent to which the living standards of workers are adequate. An internationally agreed approach is to assess whether earnings of the average worker are enough to meet the necessities of life. Ideally, this should be based on earnings data derived from regular labour force surveys. Unfortunately, this is difficult to obtain in the case of South Asia (as well as in other developing regions of the world). Therefore, a proxy that is used by the SDGs monitoring framework is the incidence of the employed population that lies below a global poverty line of USD 1.90 per day. This yields the notion of 'working poverty' which is negligible in Maldives and Sri Lanka and highest in India (5.7 percent) followed by Nepal (5.1 percent). Bangladesh and Pakistan have low levels of working poverty (less than 3 percent) as depicted in Figure 8. Regardless of the initial level, an encouraging trend is that working poverty has fallen over recent years in all the South Asian countries under review.

Figure 7: Working poverty (%), latest available year, 2022

Source: ILOSTAT, https://ilostat.ilo.org/topics/working-poverty/
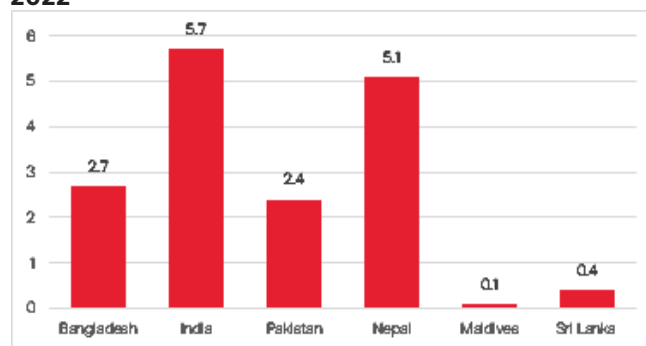
Average weekly working hours of employed population provides additional insights. Both excessive hours of work and inadequate hours of work are undesirable. Figure 9 illustrates the mean of average weekly working hours of South Asian countries where India stands with the highest mean of average hourly working hours (50.2 hours) followed by Maldives (47.6 hours), Pakistan (46.6 hours and Bangladesh (45.7 hours). There is thus evidence of excessive hours of work when judged against the standard metric of 40 hours of work a week.

Figure 6: Real wage growth rate of South Asian countries (2006-2022) with available data

Source: ILOSTAT, https://ilostat.ilo.org/topics/wages/

Figure 8: Mean of Average Weekly Hours of Actual Work (2005-2022)
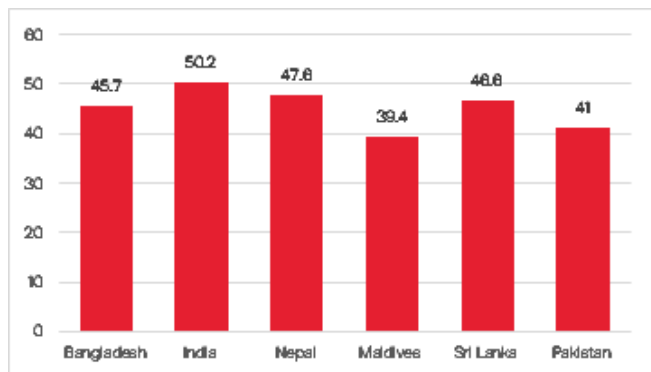
Source: ILO Modelled Estimation for World Economic and Social Outlook 2023.

Figure 9: Population covered by at least one social benefit (%)

Source: ILOSTAT, https://ilostat.ilo.org/topics/social-protection/

Social protection for all
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Social protection provided by governments seeks to shield individuals and families and households from various vicissitudes in life—such as spells of involuntary unemployment, income losses due to health breakdowns, old age, external shocks and so forth. The UN system is committed to a 'social protection floor' (SPF)—a goal in which all countries rich and poor, can provide various social benefits to a minimum standard. Currently, at the global level, about four billion people are without any form of social protection. What is the state of play in South Asia?

Figure 9 shows the proportion of the population covered by at least one social benefit. Sri Lanka has the highest coverage, Nepal the lowest. Even then, social protection coverage rates are well below the benchmark of a universal SPF. Attaining the aspirations of SPF is thus a major challenge in South Asia.

In terms of numbers of programs, one study based on a 2020 evaluation found that 'Bangladesh has the most programmes (11), followed by Nepal (10), India (7), Maldives (7), Sri Lanka (6), Afghanistan (4), Pakistan (4) and Bhutan (2).'[7] Of course, the sheer number of programs does not necessarily enable one to arrive at any meaningful conclusion pertaining to the adequacy and effectiveness of social protection measures. One evaluation (Khondker and Kitsios, 2023) finds that, for the bottom 20 percent of the poorest household, social protection coverage, benefit incidence and adequacy are quite low in the region although they have improved over time.[8]

When COVID-19 hit the various economies of South Asia there was a significant, albeit transient, increase in poverty. Governments in the region responded with time-bound expansion in selected aspects of the prevailing social protection system. These are shown in Table 1. Some measures—most notably cash-based transfers, public works, utility (that is reduced user charges for electricity gas and water) and financial support were used in all the South Asian countries under review, but other measures, such as wage subsidies to preserve jobs, were used sparingly.

Table 1: Changes to social protection during COVID-19: selected examples from South Asia

Type of policy support during COVID (2020-2021)	Bangladesh	Bhutan	India	Maldives	Nepal	Sri Lanka
Cash based transfer	✓	✓	✓	✓	✓	✓
Public works		✓	✓			
In-kind support	✓	✓	✓	✓	✓	✓
Utility and financial support	✓	✓	✓	✓	✓	✓
Health insurance support	✓		✓		✓	
Pension and disability benefits			✓			✓
Waiver/subsidy pertaining to social security contributions			✓		✓	
Labour market programs: wage subsidy	✓	✓				
Active labour market programs (training)				✓	✓	
Labour market deregulation	✓		✓	✓		✓

Source: Khondker and Kitsios (2022), chapter 4, in IMF (2022) 'South Asia's path to resilient growth', Washington DC, https://www.elibrary.imf.org/display/book/9781513587219/9781513587219.xml

In terms of financing social protection systems, a 2022 World Bank evaluation notes that:

> South Asian countries spend an average of 0.9 percent of gross domestic product (GDP) on so-cial safety nets, which is lower than the global 1.5 percent average among low- and middle-income countries (Figure ES.3). The benefits provided through social protection programs in the region are generally inadequate and do not contribute substantially to poverty reduction. The region has historically relied on categorical transfers (for example, for the elderly, people with disabilities, and marginalised groups); only a few countries have broad-based cash transfer pro-grams that can be scaled up in response to shocks.[9]

Hence, scaling up the financing of social protection systems and moving in the direction of broad-based measures represent important policy challenges for South Asian countries. To overcome the challenges in improving the social protection system of the countries in the region, governments must increase the budget allocation and public spending on social protection.

Closing the gender gap
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Gender disparities in the workplace are significant and persistent around the world, especially in terms of major gaps in gender-specific labour force participation rates. It is widely agreed that a reduction in gender disparities is one of the hallmarks of an inclusive labour market. Two indicators on gender disparities are part of the SDG monitoring framework: (a) share of women in management and (b) the gender pay gap. Figure 10 corresponds to indicator (a) while Figure 11 corresponds to indicator (b).

In all cases, the representation of women in management is low. It is lowest in Pakistan and Bangladesh, followed by Nepal and India. Maldives has a female representation rate in management of more than 25 percent.

An unanticipated element of Figure 11 is that female workers earn a little more than men in Pakistan. Elsewhere the status quo prevails, that is, women earn less than men, with the gender pay gap ranging from 83 percent (Nepal) to 91 percent (Bangladesh). Unfortunately, there is no pertinent information on India.

Figure 10: Proportion of women in senior and middle management positions (%), various years, 2017 to 2022

Source: ILOSTAT, https://ilostat.ilo.org/topics/sdg/
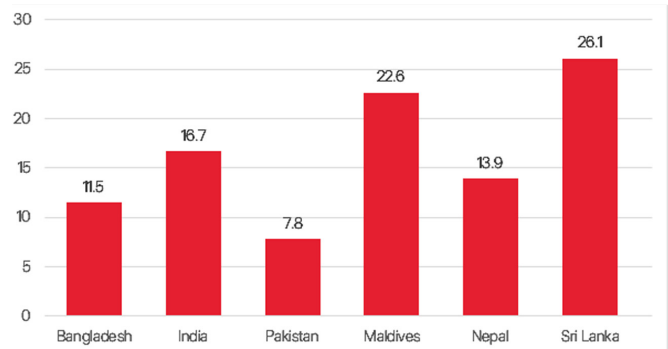
Figure 11: Gender pay gap (Female wages as % of male wages)

Source: ILOSTAT, https://ilostat.ilo.org/topics/sdg/
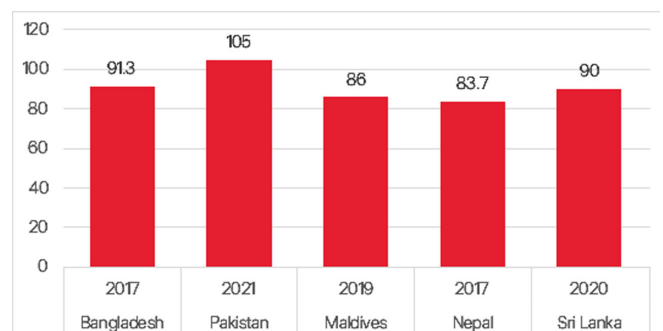
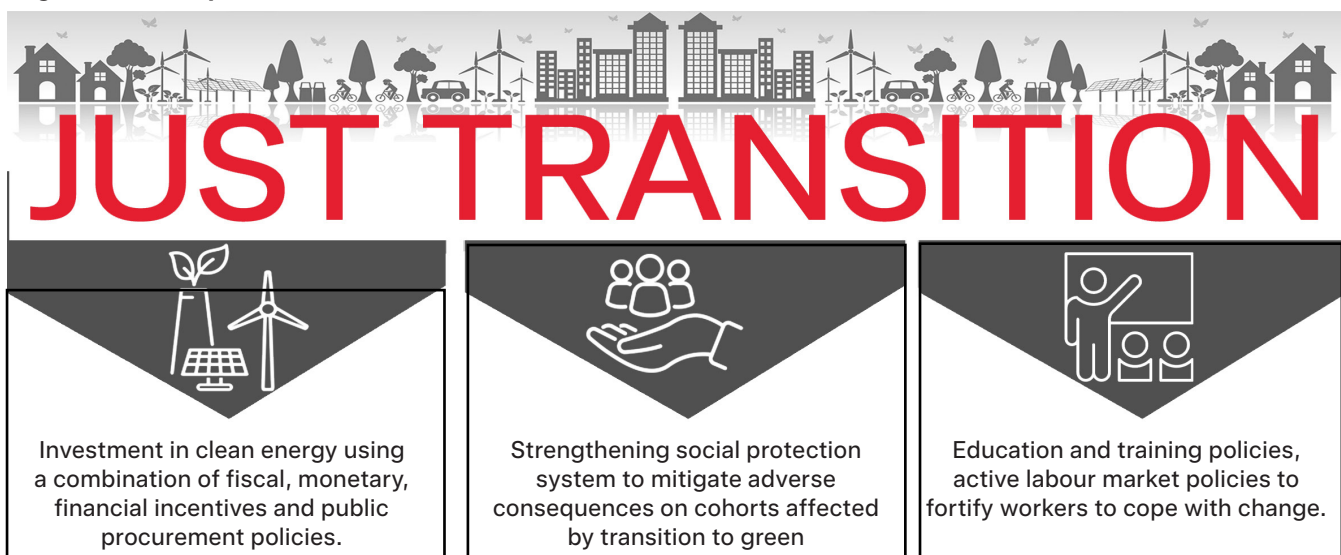## Just transition to a green economy
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The trade union movement, the ILO, and other international agencies as well as the broader scholarly community has proposed the framework of a 'just transition' (JT) to a green economy. This is particularly germane in an era when climate change, if left unabated, represents an existential threat to both rich and poor countries. Hence, there is a shared global vision that one should make the transition from fossil fuel intensive energy system to an energy

Figure 12: Three pillars of Just Transition (JT)

| Investment in clean energy using a combination of fiscal, monetary, financial incentives and public procurement policies. | Strengthening social protection system to mitigate adverse consequences on cohorts affected by transition to green | Education and training policies, active labour market policies to fortify workers to cope with change. |

system that relies heavily on renewables leading to the consolidation of a green economy. This is a particular form of structural transformation that will be the defining feature of the future for both poor and rich nations.

One can commence the discussion by recalling the core concept of JT as advanced by the ILO: 'A Just Transition means greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind'.

There are three pillars that make up JT (see Figure 12). They are meant to reap the benefits of a green economy—and hence mitigate climate change—while minimising the disruptions caused by movements of resources to new activities and sectors.

Figure 13: Units: billion USD (2022) annual clean energy investment
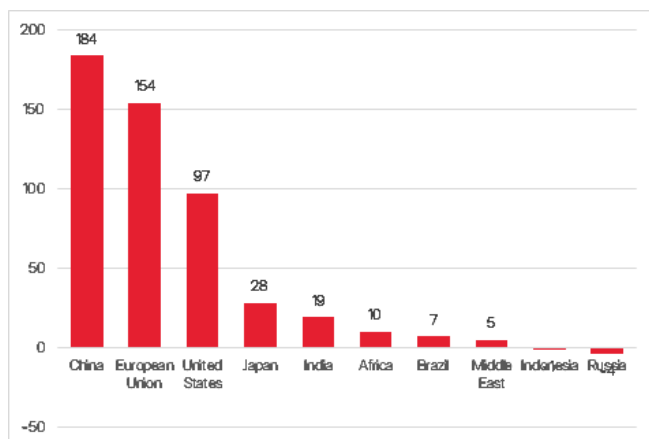
Source: IEA Data and Statistics, https://www.iea.org/data-and-statistics

There is the challenge of dealing with the global divide with respect to investment in clean energy (pillar 1 of JT). China, EU, and USA are primarily leading in this sphere. The rest of the world, including Japan, is far behind. In some cases, there appears to be a decline in investment in renewables—such as Indonesia and Russia.

One growing trend in both rich countries of the West and China is the promotion of electric vehicles (EVs) and the phasing out of internal combustion engines (ICE) as a means of reducing greenhouse gas emissions. The key issue is whether this strategy is aligned with the JT agenda in South Asia. This is where the global divide in the transition to a green economy cannot be overlooked. China is unique among emerging economies in terms of boosting EVs. Even other systemically important emerging economies, such Brazil, India and Indonesia, lag far behind China in terms of EV ownership.

Car ownership rates are low in South Asia, given prevailing socio-economic conditions. There is limited access to electricity among the general population. EVs are more expensive than ICEs in the absence of subsidies, but the provision of such subsidies on a long-term basis might be beyond the fiscal capacity of many governments. In addition, they need to be supported by the installation of charging stations entailing expensive upfront investments.

Without additional investments in the electricity grid, such charging stations will drain electricity supply from households and businesses.

One also needs to be aware that a substantial increase in the production of EVs entails commensurate increase in the mining of requisite metals and minerals that are often located in poor countries, such cobalt-rich DRC. This in turn could have deleterious environmental consequences.

Boosting the use of privately owned EVs might not be fully aligned with the goals of JT in South Asia. Other options include the electrification of public transport and use of solar energy in the electrification of basic amenities. Not surprisingly, in India, several states, such as Assam, Andhra Pradesh and Madhya Pradesh, have opted for 100 percent electrification of public buses by 2030.[10] This is a goal that other South Asian countries can follow.

Digitisation and the labour market
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Among many indicators of assessing digitisation in South Asian countries, the Digital Entrepreneurship Index is a robust composite index used by the World Bank. According to the World Bank (2022) Bangladesh and Nepal are at the bottom of the list of South Asian countries in this Index, while India and Sri Lanka have the most developed digital entrepreneurship ecosystems in the region (Figure 14). This indicates how the future of work is shaping up in the region in terms of adapting the 'fourth industrial revolution' (4IR) at the firm and enterprise levels. This will have certain impacts on the labour market including the short-term negative effects on low-skill jobs and workers. The medium-term effect will also be negative, such as millions of Ready-Made Garment (RMG) industry workers who lost jobs due to the integration of automation in Bangladesh are still unemployed as they do not have advanced skill sets. However, eventually, there are likely to be more jobs and economies of scale in many sectors because of the rapid adaptation towards technological transformation. Skills policies, employment policies and social protection policies in the region should reflect on the nature of technological transformation and their impact on the labour market carefully.

Figure 14: Digital Entrepreunership Index South Asia (2022)
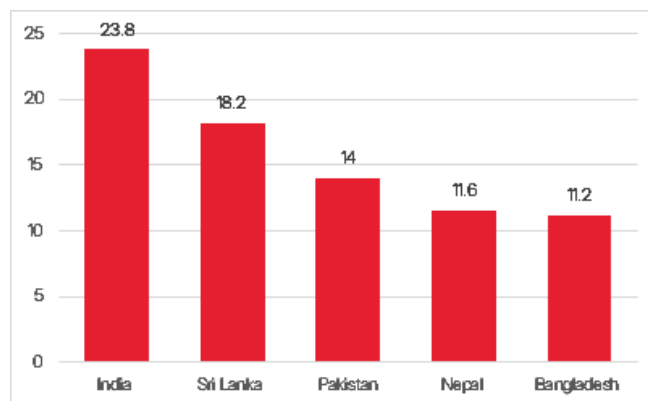
Source: World Bank (2022)

Summary and recommendations

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South Asia faces manifold labour market challenges that hobble the capacity of the countries in the region to make significant progress towards attaining the SDGs. These challenges are compounded by the risks posed by climate change and the tensions between job creation and job displacement engendered by rapid digitisation. Relying on growth alone will not resolve the labour market challenges confronting South Asia. One would need a resolute political commitment to an inclusive economic strategy that emphasises decent jobs for all, comprehensive social protection, living wages and secure working conditions, closing the gender gap, harnessing the benefits of digitalisation, and embracing just transition to a green economy.

The following recommendations are meant to facilitate policy dialogue among key stakeholders in the South Asian region on crafting a strategy to respond to the core labour market challenges discussed in this paper. Such a strategy, if successfully financed and implemented, will enable national governments to make substantial progress towards the attainment of the SDGs.

RECOMMENDATION 1

Comprehensive national employment policy (NEP) with effective implementation strategy

Governments of South Asian countries should emphasise formulating comprehensive modern NEPs with a focus on high-growth sectors for employment generation. The NEPs should have active labour market policies and gender-inclusive strategies with an integrated approach that is aligned with the major development strategies of the countries. NEPs should be supported by implementation strategies/action plans using a 'whole-of-government' approach.

RECOMMENDATION 2

Increased coverage of social protection schemes

South Asian countries should increase budgetary allocation as a share of GDP in social protection programs and schemes. Unemployment insurance, employment injury schemes, and schemes for women and disabled persons should be the key priorities for designing and implementing national social security strategies.

RECOMMENDATION 3

Formulation of modernised labour inspection system

South Asian countries should have modernised labour inspection systems with transparency and accountability in place for improved and effective compliance with respect to mandated minimum wages and safe working conditions.

RECOMMENDATION 4

Strong labour governance and institutes

Strong labour governance with ratification and implementation of ILO conventions, especially those pertaining to the right to collective bargaining and freedom of association, is crucial for South Asian countries. Social dialogue and tripartite participation of government, employers, and workers are pivotal for having robust labour governance in countries in South Asia.

RECOMMENDATION 5

Increased public and private investment

Budgetary allocation for increased public expenditure in both conventional and digital infrastructure to create jobs and implement NEPs should be a top priority in South Asian countries. Ensuring equitable access to digital infrastructure is essential. Moreover, boosting private investment for diversified manufacturing-led growth, and to facilitate just transition to a green economy, are critical for South Asian countries to accelerate job growth while responding to the challenges of climate change.

Notes
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1. World Bank (2023) "Where in the world do the poor live? It depends on how poverty is defined", https://datatopics.worldbank.org/world-development-indicators/stories/where-do-the-poor-live.html#:~:text=Extreme%20poverty%20has%20now%20moved,middle%2Dincome%20countries%20are%20located.
2. Sustainable Development Report, The Overall Performance of all 193 UN Countries, this is based on an overall SDGs index. See https://dashboards.sdgindex.org/rankings
3. https://www.ilo.org/global/research/global-reports/weso/trends2022/lang--en/index.htm
4. A detailed discussion of the international evidence on the informal economy can be found in Islam, I and Lapeyre, F (eds) (2021) Transition to formality and structural transformation, ILO, Geneva. https://www.ilo.org/global/topics/employment-promotion/informal-economy/publications/WCMS_738685/lang--en/index.htm
5. Vulnerable employment is defined as contributing family workers and own-account workers as a proportion of total employment.
6. Global Wage Report 2020-21, ILO https://www.ilo.org/global/research/global-reports/global-wage-report/2020/lang--en/index.htm
7. "Overview of social protection systems in South Asia" IPC-IG (2020) https://ipcig.org/pub/eng/OP441_Overview_of_social_protection_systems_in_South_Asia.pdf
8. Khondker and Kitsios (2022), chapter 4, in IMF (2022) 'South Asia's path to resilient growth', Washington DC, https://www.elibrary.imf.org/display/book/9781513587219/9781513587219.xml
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10. IEA Data and Statistics, https://www.iea.org/data-and-statistics
11. The Digital Entrepreneurship Index ranks the relative strengths of digital entrepreneurship ecosystems across the sub-indices of Digital Infrastructure Governance, Digital User Citizenship, Digital Multi-sided Platforms, and Digital Technology Entrepreneurship.
12. World Bank (2022). South Asian Digital Economy: An Opportunity to Build Back Better Digitally, Washington DC, https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099230004062228270/p1723000e5e0d20908c790a5ffdda147f1

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ABOUT THE AUTHORS
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Mohammad Nazmul Avi Hossain is a Labour Economist, working for the International Labour Organization (ILO) based in Dhaka, Bangladesh, and is currently seconded to the Fiji office for the ILO Pacific countries.

Iyanatul (Yan) Islam is Adjunct Professor, Griffith Asia Institute, Brisbane, Australia. Formerly he was Chief, Employment and Labour Market Policies Branch, Employment Policy Department, ILO Geneva.