

HUMAN DEVELOPMENT IN SOUTH ASIA 2003

THE EMPLOYMENT CHALLENGE

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ABBREVIATIONS

ADB	Asian Development Bank	EU	European Union
AoA	Agreement on Agriculture	FDI	Foreign Direct Investment
APPNA	Association of Pakistani Physicians in North America	FTZ	Free Trade Zones
ATC	Agreement on Textile and Clothing	GATS	General Agreement on Trade and Services
BDS	Business Development Services	GATT	General Agreement on Tariff and Trade
BEPZA	Bangladesh Export Processing Zones Authority	GDI	Gender Development Index
BGMEA	Bangladesh Garments Manufacturer's and Exporter's Association	GEFONT	General Federation of Nepalese Trade Union
BoI	Board of Investment	GEM	Gender Empowerment Measure
BYST	Bharatiya Yuva Shakti Trust	GER	Gross Enrollment Ratio
CAA	Civil Aviation Authority	HDR	Human Development Report
CCACR	Conference Committee on the Application of Conventions and Recommendations	ICFTU	International Confederation of Free Trade Unions
CEACR	Committee of Experts on the Application of Conventions and Recommendation	ICT	Information and Communication Technology
CRC	Convention on the Rights of the Child	IDBP	Industrial Development Bank of Pakistan
CVD	Countervailing Duties	IIT	Indian Institute of Technology
DFI	Development Finance Institute	ILO	International Labour Organization
DIP	Double Income Project	IMF	International Monetary Fund
DSB	Dispute Settlement Body	IPA	Indian Patent Act
EDI	Entrepreneurship Development Institute	IPEC	International Program on the Elimination of Child Labour
EPF	Equity Participation Fund	IRO	Industrial Relations Ordinance
EPZ	Export Processing Zones	ISP	Internet Service Provider
EPZA	Export Processing Zone Authority	IT	Information Technology
EPZAO	Export Processing Zones Authority Ordinance	LFPR	Labour Force Participation Rate
EPZR	Export Processing Zones Rules	MFA	Multi Fiber Agreement
		MFN	Most Favored Nation

MNE	Multinational Enterprises	SBFC	Small Business Finance Co-operation
MOU	Memorandum of Understanding	SCCI	Sialkot Chambers of Commerce and Industry
M&A	Mergers and Acquisitions	SCM	Subsidies and Countervailing Measure
NAFTA	North America Free Trade Area	SEWA	Self Employed Women Association
NBIA	National Business Incubators Association	SEZ	Special Economic Zones
NDFC	National Development Finance Co-operation	SIMAP	Surgical Instrument Manufacturers Association of Pakistan
NFE	Non-formal Education	SME	Small and Medium Scale Enterprises
NGO	Non Governmental Organization	SNA	System of National Accounts
NRF	National Renewable Fund	SPS	Sanitary and Phytosanitary Measure
NRSP	National Rural Support Program	T&C	Textile and Clothing
NSS	National Sample Survey	TRIM	Trade Related Investment Measures
NTB	Non Tariff Barriers	TRIPS	Trade Related Intellectual Property Rights
ODA	Official Development Assistance	TSE	Total Support Estimate
OECD	Organization for Economic Co operation and Development	UN	United Nations
PCMEA	Pakistan carpet Manufacturers and Exporters Association	UNCTAD	United Nation Conference on Trade and Development
PIA	Pakistan International Airlines	UNDP	United Nations Development Programme
PPP	Purchasing Power Parity	UNICEF	United Nations Children's Fund
QR	Quantitative Restriction	UR	Uruguay Round
RDFC	Regional Development and Finance Co-operation	USAID	United States Agency for International Development
RETTP	Radio Education Teacher Training Program	WTO	World Trade Organization
RMG	Ready Made Garments	YIPS	Youth Investment Promotion society
SAARC	South Asian Association for Regional Co-operation		

Foreword

This report is about the challenge of livelihoods in South Asia. In this region, as in most developing countries, the issues of employment, unemployment, underemployment, and all forms of forced labour and child labour are connected to the question of survival of the majority of population. The formal, organised sector that is concerned with employment, unemployment, wages and labour laws includes only about 10 per cent of the labour force. The other 90 per cent is engaged in the vast informal sector in rural, urban and peri-urban areas. This is where South Asia's employment challenge lies. And this is where the issue of poverty needs to be addressed with adequate policy attention. This report argues that to date sufficient policy focus is not being given to this challenge in South Asia.

Despite various initiatives taken by South Asian governments during the last few decades, including directed and micro-credit, and specific employment programmes to enhance job opportunities, the employment situation has not improved. The report argues that this is mostly the result of the economic reform programmes implemented in the 1990s aimed at making the economies more competitive and open to the process of globalisation. While these reform programmes were needed to improve the productivity of the economies, and while these have improved the exports of some products, the balance sheets of gains and losses during the last few years have been heavily tilted against the livelihood challenges of the majority of the South Asians. While the metropolitan cities have expanded and become the engine of many new enterprises, the rural areas have suffered and, as a result, the rural to

urban migration has created a nightmare for public services in urban areas. The crumbling infrastructure, inadequate provision of health, education and water in urban slums are leading to a deterioration in the human condition. The productivity of workers is critically dependent on the provision of these services. Yet governments are unable to cater to these needs. Thus our major concern in this report has been to look at the employment challenge from the vantage point of the majority of people who are getting bypassed by the economic growth and sidelined by policies.

The central part of this report is devoted to analysing where the greatest problems lie and what needs to be done to reorient economic policies towards a job-led growth strategy that has been tried in East Asia with success. Our purpose has been to analyse the economic growth that has been associated with the recent reform programmes, and its impact on employment and human development in South Asia. Our efforts, however, have been constrained by the lack of availability of data on employment and unemployment, particularly in the informal sector. The methodological and conceptual issues regarding what is included in employment statistics presented additional problems. Every source of data gives different numbers based on different methodology and definitions used.

The Report presents the experience of the seven (depending on data availability) South Asian countries: India, Pakistan, Bangladesh, Nepal, Sri Lanka, Bhutan, and Maldives. The questions the Report raises and tries to answer are: What has been the experience of South

Asian countries in raising economic growth with employment? Why have the reasonable levels of economic growth achieved during the 1990s failed to reduce unemployment and under-employment, improve human development, and reduce South Asia's poverty? What is the appropriate role of the state in a labour-intensive growth strategy? Can the South Asian governments play an efficient and equitable role in an employment-generating industrial and agricultural strategy as an engine of South Asia's economic growth? And, what should be the role of the multilateral institutions such as WTO, and IMF and World Bank, as well as the developed countries, to truly make the global trading regime more equitable and sensitive to the needs of poor people and poor nations?

The Report consists of nine chapters, in addition to the Overview. Chapter 1 introduces the theme of this year's Report by presenting a conceptual framework for employment and human development. Chapter 2 provides a statistical profile of South Asia's employment. Chapter 3 analyses the macroeconomic policies of South Asian countries and their impact on employment and poverty reduction. Chapter 4 presents an in-depth overview of the implementation of WTO rules in South Asia and its effect on employment in three particular sectors—agriculture, textiles and clothing, and services. Chapter 5 profiles the gender picture in South Asia's labour market. Chapter 6 addresses the issues of education and training in the context of labour market demand. Chapter 7 analyses the rights of workers in South Asia. Chapter 8 explores, in the context of demographic asymmetry between developing and developed countries, a solution to South Asia's employment problem by exporting its labour to developed countries. And finally, in Chapter 9, the report proposes an agenda that identifies some policy imperatives required at national,

international and multilateral institutional levels to combine growth in South Asia with employment and human development.

This Report would not have been completed without the active support of two members of the MHHDC Board: Shahid Javed Burki and Farid Rahman. Shahid Javed Burki wrote two chapters, and Farid Rahman, as Acting President of the Centre during my absence from Islamabad, looked after the day to day running of the Centre and guided the research staff. I am deeply grateful to both of them.

The Report has benefited tremendously from the background papers prepared by Jayati Ghosh and Parthapratim Pal, both from India. Rashed Amjad of ILO provided much-needed documents and advice. I am grateful to them for their critical contributions.

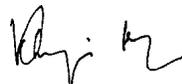
I gratefully acknowledge the contribution of Canadian International Development Agency (CIDA) for its consistent support of the Centre. CIDA has been on the forefront in supporting and advocating for the cause of social justice in South Asia, as well as in other developing regions. I would also like to put on record my very grateful thanks to Norwegian Agency for International Development (NORAD) and UNDP for their continuing financial support for the Centre's annual report. As always, the report has benefited from the field offices of UNDP in South Asia. I am particularly grateful to Önder Yücer, Brenda McSweeney and Henning Karcher, UNDP Representatives in Pakistan, India and Nepal.

The small research team at the Centre worked hard and for long hours to complete this Report. The team consisting of Feyza Arman Bhatti, Umara Afsar, Muhammad Daud Munir and Mohammad Ali Raja collected and compiled data and prepared tables and charts, besides preparing background

papers. I must recognise in particular Dr. Mohammed Irfan for supervising the research staff at the early stage of the preparation of the Report. My special thanks go to Taha Mustafa for composing

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Islamabad
Khadija Haq
15 November 2003



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About the Mahbub ul Haq Human Development Centre

Mahbub ul Haq Human Development Centre was set up in November 1995 in Islamabad, Pakistan by the late Dr. Mahbub ul Haq, founder and chief architect of UNDP Human Development Reports. With a special focus on South Asia, the Centre is a policy research institute and think tank, committed to the promotion of the human development paradigm as a powerful tool for informing people-centered development policy nationally and regionally, in order to reduce human deprivation.

The Centre organises professional research, policy studies and seminars on issues of economic and social development as they affect people's well being. Believing in the shared histories of the people of this region and in their shared destinies, Dr. Haq was convinced of the need for cooperation among the seven countries of the region. His vision extended to a comparative analysis of the region with the outside world, providing a yardstick for the progress achieved by South Asia in terms of socio-economic development. The Centre's research work is presented annually through a Report titled, *Human Development in South Asia*.

Continuing Mahbub ul Haq's legacy, the Centre provides a unique perspective in three ways: first, by analysing the process of human development, the analytical work of the Centre puts people at the centre of economic, political and social policies; second, the South Asia regional focus of the Centre enables a rich examination of issues of regional importance; and third, the Centre's comparative analysis provides a yardstick for the progress and setbacks of South Asia vis-à-vis the rest of the world.

The current activities of the Centre include: preparation of annual reports on *Human Development in South Asia*; preparation and publication of a journal, *Mahbub ul Haq Human Development Review*; preparation of policy papers and research reports on poverty reduction strategies; organisation of seminars and conferences on global and regional human development issues, South Asian cooperation, peace in the region and women's empowerment. The Centre also organises an annual Mahbub ul Haq Memorial Seminar and a Mahbub ul Haq Lecture.

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Overview

Employment in South Asia, in fact in most developing countries, is not about paid jobs or even about the rate of unemployment. These indicators are not truly expressive of the way of life that is dominated by informal, casual and home-based work, mostly in agricultural or rural settings, and intricately woven into the daily survival issues of the majority of population. Therefore, in the context of South Asia, when we discuss employment, we are really referring to challenges of livelihood—the challenges that form the basic concern for human security. In fact, employment is one area where the three components of a human-centred policy—human development, human security and human rights—converge. Article 23 of the Universal Declaration of Human Rights states that, ‘everyone has the right to free choice of employment, to just and favourable conditions of work, and to protection against unemployment.’ Mahbub ul Haq interpreted human security as ‘security of all the people everywhere—in their homes, *in their jobs*, in their communities, in their environment’ (italics added). These ideals have provided the inspiration and courage for this report.

In keeping with the tradition of the Centre’s previous reports, we have analysed the issues of employment from the vantage point of people. Throughout the report concerns are raised about the patterns of growth and trade, the systems of education and training, the protection of the rights of all workers, including women and children, and the implementation of the global trading rules as they impact on poor nations and poor people. The overwhelming concern of the report is the employment security of the poor and an improvement in their capability to move out of poverty. The

promotion of employment opportunity for the youth of the region is an imperative, as is the need to enhance women’s ability to get paid jobs with enforceable legal and social protection against discrimination.

The main problem in analysing the issues of employment, unemployment and the dynamics of the labour market in South Asia is the non-availability of reliable and comparable statistics. As the labour market is dominated by the informal sector with casual and family-based workers, the collection and compilation of data concerning employment in these sectors becomes a formidable task. Added to these is the fact that the concepts and definitions of employment, unemployment and underemployment vary among countries and within a country over time. There is, therefore, a need for caution in drawing conclusions from the labour market statistics.

However, we have tried to be as careful as possible in preparing the tables containing data on all facets of employment in South Asia. We have also been very cautious in interpreting these data and deriving policy implications. Based on our analysis, the report comes up with the following messages:

The first message is that without a serious commitment to employment generation and human development, economic growth is neither sustainable nor deliverable in a socially just manner. This strong imperative of growth with social justice has consistently been stressed and highlighted in all our previous reports.

Secondly, South Asian workers, particularly those in the small-scale industrial and agricultural enterprises, have been adversely affected as a result

Without a serious commitment to employment generation and human development, economic growth is neither sustainable nor deliverable in a socially just manner

Employment growth lagged behind both GDP and labour force growth rates

of the opening up of the regional economies to the global markets. Despite gains in employment in textiles and clothing, and in the high-technology sectors, the majority of workers in rural areas and those in traditional manufacturing, have suffered as a result of global competition, especially on account of the high subsidies which are provided to agriculture in the developed countries.

Thirdly, South Asian women bear the heaviest burden of work inside and outside home. Yet they fail to get full recognition for their work whether in employment statistics, or in parity with men in wages, working conditions and occupational status. Gender disparity and discrimination, which we have been discussing in all our previous reports, gets magnified in the job market. Even where women get increased employment opportunities as in export-oriented industries, the conditions of work remain poor, and when there is any sign of improvement in women's wages or working conditions, there is a tendency to replace women workers with men. The search for equity and equality backfires against women.

Fourthly, the systems of education and training in the region have failed to produce a critical mass of qualified workforce to compete in the global market. The countries need to go beyond primary education to stress on better availability of secondary education and technical training, as well as to enhance the quality of education being currently offered, particularly by the public sector institutions.

Fifthly, despite being signatories to various international conventions and covenants, the South Asian countries have failed to enforce even those few fundamental labour standards which they have ratified. Each country is burdened with traditional practices of bonded labour, child labour and the newly emerging phenomenon of child trafficking, all of which clearly speak of the lack of will on part of the

government, and the society at large, to change their situation.

Sixthly, asymmetric demography between the developed and developing countries, provides a window of opportunity to the South Asian countries to benefit from exporting its labour to the developed countries, provided South Asia prepares its labour force with quality education and training.

During the last two decades, the South Asian countries have gone through several economic reform programs. However, their impact on employment generation and human development has been negligible, or even negative, in some cases.

South Asia is the fastest growing region in the world with 22 per cent of the world's population. The bulk of this population is in the 15-64 age group, which offers a demographic dividend to the region provided economic growth is linked to employment growth and human development. The development strategies followed in the region so far have not been successful in extending the benefits of growth to the majority of population. This has had a negative impact of increasing poverty and income inequality. Employment growth lagged behind both GDP and labour force growth rates.

In South Asia, there exists a large informal sector characterised by low productivity, low wage rates and long working hours. One-third of South Asia is in absolute poverty, and there is a high concentration of working poor. Although the GDP share of agriculture has fallen from 38.6 per cent in 1980 to 24.9 per cent in 2001, it still remains the primary source of employment in the region. Contribution of industry to GDP has remained stagnant along with a falling share in employment. The services sector has shown rapid growth and absorbs most of the incremental labour force. Its share in the South Asian GDP increased

from 36.4 per cent in 1980, to 48.7 per cent in 2001.

Unemployment rate for South Asia is not very high when compared to other regions of the world. However, there is a high degree of underemployment in the region. Due to a large population base, a primary-activity based economy, and an education system geared towards providing formal employment, the South Asian labour markets have been associated with a high incidence of unemployment among the youth and the educated during the past decade. The underlying reasons include the diminishing role of the public sector in employment generation, a mismatch between the education offered and the opportunities available, and the lack of marketable skills and training.

Children and women are among the highly vulnerable groups in the South Asian labour market. Women are mostly concentrated in low paying, low productivity jobs. A startling number of child labourers work in all sectors of the economy. The current labour force participation rates of children are over 12 per cent for most countries of the region with the exception of Sri Lanka, where it is just 2 per cent.

The South Asian experience has shown that despite growth in aggregate economic activity, overall employment situation may suffer, pointing to the critical link between employment generation and growth.

The economic experience of most South Asian countries has been remarkably similar, especially during the last two decades. All countries (except Nepal) pursued a set of policies based on the market-based economic paradigm. The main features of these economic reforms were:

(a) reduction of direct state control in regulation of economic activity;

- (b) privatisation of state assets;
- (c) attempts to reduce fiscal deficits (by curbing public investment, reducing farm subsidies and increasing user charges for public utilities); and,
- (d) trade and financial liberalisation.

The set of economic reforms pursued was based on certain premises that turned out to be over-optimistic. It was thought that the various measures taken would spur economic growth because private enterprise delivers more efficient and dynamic outcomes. This expectation was met successfully in particular export sectors in each of the South Asian countries (readymade garments in Bangladesh; cotton cultivation in Pakistan; IT-enabled services, software and clothing in India; and, miscellaneous exports in Sri Lanka). However, the increased growth and employment in these sectors was more than counterbalanced by the decline in employment in the traditional sectors.

The basic assumptions of economic reform policies were wrong on three counts. Firstly, the conditions in the region were not right for introducing such reforms. The unequal asset and income distribution in the region, coupled with the limited nature of the home market would lead private investment to come up against a demand constraint fairly quickly. Secondly, the link between public and private investment was ignored when South Asian governments cut back on public expenditure. This seems to be a crucial mistake on part of the region's governments, since public expenditure works towards easing infrastructure and other supply constraints—making private production easier and cheaper. Thirdly, economic reform policies supported the use of more capital-intensive technologies that was not in keeping with the perceived comparative advantage of labour-intensive production in South Asia. The worst affected by the greater openness to trade were small producers, who are the most labour intensive, and cannot

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compete with the quality and cost standards of multinational producers.

As a similar set of policies was adopted by the countries of the region—quite expectedly—the outcomes were also similar. On the whole, the policies were unsuccessful in generating productive employment for the majority of people in the region. With respect to employment generation, the reforms failed to perform in at least five ways:

- (1) There has been deceleration of employment generation.
- (2) The reforms led to increased inequalities in income.
- (3) There was a stagnation or increase in the levels of poverty.
- (4) There was a relative decline in the manufacturing sector—especially in the small-scale sector with the result that agriculture and services emerged as residual refuge sectors for workers; and, finally,
- (5) The quality of employment deteriorated across the region with an increase in casual and part-time work, as well as greater fragility in contracts, and fewer days of work for day labourers.

Despite clear comparative advantage in the three key sectors, agriculture, textiles and services, post-WTO liberalisation in South Asian countries has failed to significantly expand exports of these sectors. Perhaps the most startling feature of this failure has been the deterioration of the employment situation in the region.

The late eighties and nineties were years of increased global integration for the South Asian countries. This period of increased openness coincided with the formation of the World Trade Organisation (WTO). In fact, the establishment of WTO was one of the reasons that motivated the governments of the region to pursue export-oriented economic policies.

The establishment of WTO brought about an air of optimism in the South Asian region. It was expected that the three key sectors in which they had comparative advantage—agriculture, textiles and services—could grow rapidly after the imposition of a new multilateral trading system. Although WTO promised liberalisation in these three sectors, it also laid two crucial demands on developing countries. Firstly, the developing countries had to accept much stricter patent laws globally, and secondly, they had to remove all non-tariff barriers and reduce tariff barriers on industrial goods. It was expected, however, that the benefit accrued from the export in agriculture, textiles and services would more than offset the losses from the other two areas.

Given the labour-intensive nature of all three sectors (agriculture, textiles, and services), it was expected that export-led growth would lead to rapid increase in employment in these three sectors. However, in the past five years, the unemployment rate has actually gone up for the region. This increase indicates that liberalisation is quite evidently not a painless process. As the pattern of production changes in the developing countries, many workers lose jobs. Such displaced workers may have to go through long periods of unemployment as the economy readjusts. In addition to workers, the firms themselves find it hard to readjust to join the export sector. Very often this requires huge investments, which most small-scale producers cannot make.

The Agreement on Agriculture (AoA) signed by the WTO member countries in 1995 sought to bring discipline in global agricultural trade by removing trade distortions resulting from unrestricted use of production and export subsidies and import barriers. The developed countries had pursued a policy of highly subsidizing their agricultural sector such that the surplus output was usually dumped in the international market. The developing countries, which possessed clear comparative advantage in this sector,

were therefore not able to compete with the subsidized produce from the developed countries. Reduced protection of the agriculture sector in the developed countries was expected to create massive employment opportunities for the South Asians. Rural labour demand and wages were expected to rise. Also, rural infrastructure development, which is itself a labour-intensive process, was expected to follow export-led growth in the agriculture sector. However, agriculture did not show the kind of growth that was expected. Some of the reasons for this failure are structural, such as the prevalence of subsistence farming with no potential for cash-crop production; the dependence of farmers on middlemen that sharply increases costs and reduces competitiveness; the adoption of more capital-intensive modes of cultivation by bigger farmers; and, the readjustment costs associated with switching from non-competitive crops to more internationally competitive crops. In addition to these structural issues, there are problems with the way in which WTO is being implemented. The developed countries have not yet responded to the demands made on them by AoA, and continue to subsidize their farm produce. There are indications that domestic farm subsidies might actually increase in the developed countries. Under such conditions, the South Asian countries will not be able to reap the benefits of trade in the agriculture sector. At home, the governments have to work towards developing better and suitable rural infrastructure, which will not only provide rural employment, but will also make rural produce more competitive internationally. And, globally, the developed countries have to fulfil their promises and obligations to reduce the protection of their agriculture sectors.

The Agreement on Textiles and Clothing (ATC) was an attempt by the WTO member countries aimed at bringing the trade of textiles at par with that of other industrial goods. Since the seventies, many developed countries had

pursued a policy of establishing quotas on imports of textiles and clothing from more competitive countries. According to ATC, this quota regime is to be phased out by 2005. ATC was seen as a great new hope for the textiles and clothing sector in South Asia. Most countries in the region possess comparative advantage internationally and would stand to gain considerably in a truly liberalized trading scenario. As the sector is labour-intensive, it was expected that it would create much-needed productive employment opportunities for the South Asians. However, eight years after the implementation of ATC, there are very little signs of growth in the sector. The case of Bangladesh is an exception because it is allowed preferential market access by the developed countries. On the whole, implementation of ATC has not been extensive enough to provide substantial gains to the South Asian countries. This is because of three main reasons: first, most of the quotas that were supposed to be eliminated still remain in place in the developed countries. Second, the products on which quotas have been abolished were not commercially significant for the developing countries. Third, the liberalisation so far has only been superficial, since products that were never under quota restrictions are being considered as having been integrated. Other impediments include tariff peaks, disguised trade barriers (such as anti-dumping laws), and preferential trade through regional trading blocks (e.g. NAFTA and EU). Keeping in view all these considerations, it seems that the end of quota restrictions in 2005 will be a mixed blessing for the South Asians. Although it will create access to new markets, it will also expose them to global competition. It is questionable whether the South Asian industry is ready to meet such a challenge. With a dominance of small and medium sized producers, who suffer from outmoded machinery, power failures, management problems etc., it remains to be seen how the industry can

The developed countries have not yet responded to the demands made on them by AoA, and continue to subsidize their farm produce

In the manufacturing sector, small and medium sized industries have been the worst hit in the liberalized environment

cope in the protection-free environment. Again, as is the case with agriculture, the governments at home need to provide support to the industry. Infrastructure needs to be expanded in key areas such as ports, telecommunications, power and highways.

Other manufacturing goods are a significant portion of Sri Lanka's and India's export sector. It is thought that in a liberalized scenario, significant employment opportunities can be provided in developing countries through Foreign Direct Investment (FDI). Since most developing countries have cheap labour, manufacturing can be done more cost-effectively by multinational companies in these countries. However, this requires good infrastructure in place, as well as support by the governments in form of tax-exemptions etc. However, it is not clear whether this route would lead to an alleviation of the unemployment problem in these countries. Multinational companies and other large domestic firms tend to employ more capital-intensive technologies. In the manufacturing sector, small and medium sized industries have been the worst hit in the liberalized environment, since they work with very little capital, and face intense competition. A look at the trade restrictions in the area of other manufacturing goods shows that these are much higher in sectors where developing countries have export interest. In addition, tariff escalation and peaks are huge obstacles to the diversification of manufacturing. Hence, the manufacturing sector also seems to have suffered as a result of liberalisation in the South Asian region. It is only the larger firms that will be able to deal with the stiff global competition, and as explained above, these firms are not generally labour intensive.

The services sector currently dominates in the region, accounting for about 49 per cent of the South Asian GDP. Liberalisation of the services sector can be extremely beneficial for creating productive employment for many South Asians. If there is meaningful

implementation of GATS, South Asian countries stand to gain in at least the following four areas:

- The export of services in back-office processing, call centres and medical transcription industries, as well as software development and business process outsourcing.
- Tourism (especially significant for Nepal and Maldives).
- 'Commercial presence' of foreign services firms in the region (similar to Foreign Direct Investment).
- Migration of skilled workers to developed countries.

Till now, however, GATS has not been very successful in liberalizing trade in services. The report discusses several impediments, including unfulfilled commitments of developed countries and various conditions and limitations to free trade in services. Given the tremendous comparative advantage South Asian countries possess in the key areas identified above, meaningful implementation of GATS will be crucial for employment generation in the region.

Women face various forms of discrimination in employment. They are engaged mostly in low productivity employment in agricultural and informal settings. Although they often work harder, and for longer hours than men, their earnings are significantly lower.

Labour market statistics and practices discriminate against women. The low participation of women in economic activity is not a reality but a myth created by the system of patriarchy. The report discusses how statistical invisibility of women is a cause of concern, and why such systematic discrimination against women should be corrected. The South Asian governments have made efforts to address this problem by expanding the definition of economically active women.

However, they still have a long way to go before women get full recognition for their work. This recognition in statistics, although only a change in numbers, will have the important effect of making policy-makers aware of the importance of women in employment.

Two-thirds of South Asian women are employed in agriculture or agriculture-related activities. They work in various roles such as agricultural labourers, manager of homesteads, and sometimes even as landowners. However, they are not allowed equal opportunities in this sector in access to credit and inputs, and face discrimination in wages.

In the informal sector, women form the majority of the workers. Two trends have led to the growth of female involvement in this sector. First, in the rural areas where the migration of men to urban centres or abroad has provided opportunities for more female involvement in small enterprises. Second, in urban areas, the demand for cheap low-skilled labour has increased over the years owing to export-oriented manufacturing. This trend has been instrumental in providing employment to an increasing number of women. However, women are often hired on exploitative terms. They often work in difficult conditions for long periods of time. They accept low wages, and do not demand permanent contracts. As women become more active in the labour market, their bargaining power also improves. At the same time, however, as women's work gets more recognition, there is a fear that this might negatively impact on the future employment opportunities for women.

Except in Sri Lanka, the role of women in formal sector employment is very limited (less than one-fifth of total public sector employment). Even when they do find employment, they are mostly relegated to relatively peripheral jobs in education, health and community services.

To link education and training to job market, South Asia needs to improve, both quantitatively and qualitatively, its education and training systems, including investment to promote ICT and other new technologies, and encourage entrepreneurship.

In an increasingly global economic environment, it has become imperative for a country to have people who possess not only the basic skills of literacy and numeracy at a functionally useful level, but also higher levels of education and skills.

The fact that South Asia has the highest number of illiterates in the world should be a cause for alarm amongst the region's governments. However, education is not an area of priority in the budgets of the majority of governments in the region. The education system is plagued by low enrolment amongst the poor and vulnerable groups, low quality (measured by pupil-teacher ratios and repetition rates), high dropout rates, and high gender disparity. In addition, teachers are not sufficiently trained to impart quality education. The primary level suffers most from these inadequacies.

Given the low quality of education that the majority of literate South Asians are exposed to, it is not surprising that a significant portion of them fail to get productive employment. The startling fact that the unemployment rates are higher amongst the educated class of the region goes contrary to the idea that education leads to productive employment. The main reasons for this situation are the manner in which education is imparted, and a number of external factors (such as the macroeconomic policy environment) which do not produce a conducive scenario for the educated people to be productive. In addition, in the current global economy, it is important for

Women are often hired on exploitative terms

The Information and Communication Technologies (ICT) sector has great promise in providing productive employment to the educated South Asians

educated people to be creative and innovative. One has to remain in touch with the developments in one's field, and has to evolve with these. To this end, it is extremely important that entrepreneurship be included as a significant component of education at post-primary levels.

A key area that needs uplift in the South Asian region is that of technical and vocational education. The East Asian experience has shown very clearly how technical and vocational education can become one of the main solutions to the problems of unemployment. The South Asian training system suffers from at least two major inadequacies. Firstly, such training must build on good foundational skills such as numeracy and literacy. Low literacy and substandard quality of primary education makes subsequent training difficult and useless. Secondly, the training sector is neglected by the region's governments. The financial allocations are niggardly, leading to a lack of requisite facilities and qualified teachers. In most countries of the region, vocational and technical training is in the hands of a number of departments and ministries such that no one governing body has the responsibility of supervision. South Asia can learn from the East Asian countries in making their training sector viable and progressive. Some important measures that need to be taken are uplifting of primary education; higher allocations to technical education; emphasis on teacher training; involvement of public sector in making training viable; and, planning by the governments to keep the training sector compatible to the needs of the economy.

Entrepreneurship needs to be incorporated in education to induce progressive and creative thinking amongst students. This is necessary for South Asia because a significant portion of the workforce is employed in the small and medium enterprises (SMEs). It is in these enterprises that entrepreneurship can

work most successfully in producing competitive goods for the domestic and international markets. A few things need to happen to increase the spirit of entrepreneurship in the region. These include hassle free availability of credit for new businesses, reduction in corruption to make new businesses viable, extension of incentives to new entrepreneurs by the governments, and promotion of business incubation for helping new businesses to succeed. In addition, a very important area that needs attention of the governments is the development of suitable infrastructure. Most importantly, transport, communication network and stable electricity supply need greater investment. Not only is improved access necessary, but also the rates of basic utilities must be lowered for encouraging new business enterprise in the region.

The Information and Communication Technologies (ICT) sector has great promise in providing productive employment to the educated South Asians. The region stands to gain not only by the development of the sector at home, but also by exporting IT professionals to the developed world. There is great optimism that the ICT sector will grow to a massive extent in the region. However, ICT diffusion in the region seems limited. The number of internet users in South Asia is low, and are concentrated in the urban areas. Internet is not being used in the region in vital areas such as business, health, academic and public sectors. Internet, except in India, is used mainly as an email or fax tool. In addition, connectivity and organisational infrastructures are not in place to allow full utilisation of ICT. If these obstacles are dealt with successfully, then South Asia stands to gain tremendously from the ICT sector. The proficiency in English language by the educated in the region gives South Asia a huge edge over other developing countries.

The rights of South Asian workers, though enshrined in each country's constitution and supported by specific labour legislation, are not protected across the board, especially in case of women and children employed in the informal and exploitative sectors.

In South Asia, the ratification of ILO core labour standards, particularly eight core ILO Conventions, has been very low. Sri Lanka is the only country that has ratified all eight Conventions. Pakistan and Bangladesh have ratified seven, India has ratified four, while Nepal has ratified six of these Conventions. Bhutan and Maldives are not members of ILO. It should be noted, however, that mere ratification does not automatically imply that the rights of workers are being protected in a country. Ratification is merely the acknowledgement that a certain right has to be extended to workers. Implementation of the labour standard, the actual extension of the right, involves greater dedication from the governments. Therefore, there are often gaps between the rights which are promised to the workers, and those that are actually promulgated and implemented. The effective implementation of labour standards in the region has been made difficult on three accounts. Firstly, there is the prevalence of a huge informal sector, where protection of workers becomes a difficult task. Secondly, there are minimum-size restrictions for organisations to benefit from these laws. And thirdly, the agriculture sector is usually excluded from the jurisdiction of these laws.

The first fundamental principle is that of 'freedom of association and collective bargaining.' These are recognised by the South Asian governments as the fundamental rights of workers. However, they have limited the scope of these rights in several ways. For instance, these rights are restricted in case of government servants (India), and for workers in

Export Processing Zones (India, Pakistan, Bangladesh, and Sri Lanka).

The second fundamental principle is that of the 'elimination of forced labour.' Forced labour is prevalent in the region mostly in the form of bonded labour. Mostly, this is associated with the structures of land-ownership and caste, which can keep people in bondage for several generations. Bonded labour is pervasive in brick kilns, leather and fish processing, carpet manufacturing, and in agriculture. Several initiatives to end these unacceptable working conditions have been taken both by governmental and non-governmental organisations in the region. However, the practice continues.

The third fundamental principle is that of the elimination of 'discrimination in employment or occupation.' In South Asia, people are discriminated on the basis of caste, gender, ethnicity and religious affiliation. Both changes in legislation and a more effective implementation are required to end the discriminatory practices in the workplace.

The fourth fundamental principle is that of the 'elimination of child labour.' Child labour and child trafficking are rampant in the region, and are issues that should be on the priority list of the South Asian governments. Although the governments have adopted numerous legislation to protect the rights of children, these have not been implemented widely. Many children work in agriculture, often as bonded labourers, or effectively as slaves. Other children work in hazardous industries such as mining, brick-making, fireworks, brass handicrafts, carpet weaving and gem polishing industries. Although child labour is a global phenomenon, it is much more pervasive in the South Asian region. The report discusses a few initiatives that have been taken to combat child labour (workplace monitoring, product labelling, SAARC initiatives to combat child trafficking etc.). However, much more still needs to be done for protecting children's rights in terms of providing

Although child labour is a global phenomenon, it is much more pervasive in the South Asian region

There is tremendous potential for countries with surplus labour to export it to the developed world, which is most likely to face a shortage of labour

them with education, training and means to get more wholesome employment.

The report also raises concern about the rights of workers in the export sector. Owing to the informal and flexible nature of this sector, the workforce engaged in this sector is vulnerable to low levels of labour standards. Trade unions have lost their power as the rights of freedom of association and collective bargaining rights are greatly constrained in this sector.

Demographic asymmetry in the world, with populations declining in the developed countries and increasing in the developing ones, provides an opportunity for South Asia to export its labour, which can be an important step towards alleviating the unemployment problem.

By making a dynamic analysis of the process of migration, the report shows that it can actually be beneficial for countries to export labour to regions where it will be more productive. Population statistics reveal many interesting findings which point to a clear demographic asymmetry in the world. Fertility rates have collapsed in the developed countries (in Europe, North America and Japan), and have declined in many parts of the developing world. Even in South Asia, there has been a decline in fertility rates. However, in South Asia, demographic inertia will ensure an increase in the size of the workforce. In the next twenty years, South Asia will add over 500 million people to its workforce. The developed world, on the other hand, will actually face a shortage of workers. Given the present demographic situation in the developed world, the population of most of these countries is actually expected to decrease in the coming decades. Owing to rapidly declining rates of fertility, there has been a virtual explosion of the proportion of older people in the richer economies of the world. This suggests that there is

tremendous potential for countries with surplus labour to export it to the developed world, which is most likely to face a shortage of labour.

The report, having established that there is indeed tremendous opportunity for exporting workers from developing to the developed countries, explores how this can be beneficial for the labour-exporting country. The report challenges the assumption that migrants, when they leave their countries of origin, also sever all ties with it. On the contrary, economically, they maintain ties in at least three important ways: firstly, they send remittances to their relatives back home, which are sometimes a significant portion of their incomes abroad. Secondly, they sponsor foreign direct investment in their countries of origin. Thirdly, they assist non-governmental organisations (NGOs) engaged in various developmental and charity work activities. These three economic interactions of diasporas with their homelands usually happen in three phases. New settlers abroad first save significant amounts from their incomes to send remittances to their families. As they establish roots in the new country, however, the proportion of remittances they send back decreases. Later, as they get more successful economically, they are able to make foreign direct investment, and aid NGOs in their homelands.

The developed countries have recognized the huge benefits of importing productive labour from the developing countries. In the recent years, there has been a significant migration of workers to USA and EU. However, 9/11 has caused a major setback to this trend. The western countries (particularly the US), have become very cautious about having foreigners in their countries.

However, whether to allow migration of workers into their countries or not is an important choice that the developed world will have to make. Their decision will have a tremendous impact not only on their own economies, but eventually on the global economy as well. With declining or stagnating populations, the

bulk of which will be in the older age bracket, the developed countries face the risk of significant economic slowdown. The report argues that importing productive labour from the developing world is the only way out for the developed world, if it wants to maintain economic growth. The developing countries must also take measures to reap maximum benefits from exporting their labour. For this, they must invest considerably more on human resource development than they are doing at present

There is need for a more humane macroeconomic, trade and social development framework in South Asia that reinstates the critical role of states in pursuing job-led economic growth.

Given the failure of market-based reforms in generating productive employment for the South Asians, this report recommends the following policy measures to improve the employment situation in South Asia. First, more public investment is required in rural as well as in urban areas in job-creating infrastructure, building maintenance and in building capability of people by improving access to and quality of education and training. These measures will also assist and provide a boost to private enterprise.

Second, some degree of protection from global competitive markets is required for domestic producers, especially for small-scale producers.

Third, the governments should take measures to encourage more employment-intensive production.

Fourth, the agriculture sector needs some protection by the governments, as it has been the worst affected by greater openness in trade. In particular, as long as the developed countries continue to subsidize their farm produce, it is imperative that the developing countries protect themselves from this unfair competition.

Fifth, the possibility of directed credit needs to be revived, especially for small-scale producers.

Sixth, the dichotomy in labour markets of the region, with a limited large-scale sector (with protected workers), and a dominant small-scale sector (with little protection to workers), needs to be broken.

Seventh, unemployment/underemployment needs to be addressed in more active ways than through legislation alone.

Finally, the potential of regional cooperation must be recognized and realized by the South Asian governments.

ICT has been-and continues to be-a very promising sector, providing growth and employment opportunities to an increasing number of people in the region, particularly in India. Following the rapid success of India in capturing the ICT market, there is great optimism amongst the South Asian countries about this sector. However, a detailed analysis reveals that the scope of ICT in alleviating the unemployment situation in South Asia is more limited than commonly imagined. The ICT sector is dominated by the relatively rich and educated English-speaking minority of the region. The bulk of the workforce is not sufficiently educated to do the kind of high quality work that ICT requires. In addition, the infrastructure requirements for the sector (telephone connectivity and penetration of computers) are still limited in the region. Therefore, to use the tremendous potential of this sector to increase employment for the educated in the region, governments must provide the required infrastructure and incentives to the private sector, to invest more in this sector so that the countries can reap the benefits that ICT promises.

For any real and worthwhile progress, women's empowerment must always be one of the guiding principles of South Asian human development initiatives. All of women's work, whether it is performed within the household or outside, must be counted in compiling national income

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Globalisation must be guided by ethical considerations if we want to make this process sustainable

statistics. The realisation that women occupy an important role in the economic life of countries will help in changing perceptions about women's contribution to economy and society. This, in turn, will help enhance women's employment opportunities. Trade liberalisation has led to increased employment opportunities for women in export-oriented industries. Although this is a positive trend, the employment conditions of women in this area have to be improved without compromising women's opportunities and growth prospects with respect to these industries.

The report also suggests several policy measures for improving the education and training systems in order to keep them consistent with the present and future needs of competitive national and global markets. There must be:

- increased efforts towards improving universal primary as well as secondary education in the region;
- ensuring equivalency of degrees from technical and general education institutions;

- creating greater and improved access to technical education for women and for people in neglected areas;
- provision of adequate budgetary support for education; and
- a closer alliance between public and private sectors for the promotion of education, entrepreneurship, and ICT.

Rights of workers must not only be enshrined in constitutions and legislations, but must also be enforced in practice. The reach of these laws needs to be extended to informal sector workers, and to workers in export-processing zones.

And finally, the report advocates for equity in international trading rules. The way these are currently designed and implemented works against the interests of poor countries, and poor people within these countries. Globalisation must be guided by ethical considerations if we want to make this process sustainable.

Working out of Poverty: A Conceptual Framework¹

People—men, women and sometimes even very young children—must work to earn a living. However, work does not always provide enough income to keep people out of poverty. And the type of work people sometimes have to do can stunt their long-term development. Work can also be degrading. It can inflict irreparable damage on mind and body. In other words, the connection between employment, income and poverty alleviation is a complex one, which is not yet fully understood. The way in which these separate developments are linked differs from region to region. It is the aim of this report to explore these various connections in the context of South Asia.

There is already a rich corpus of literature relating to the ways in which employment and its counterpoints—underemployment and unemployment—impact on economic and social development. Systematic work in this area was initiated by the International Labor Organization (ILO) in the early 1970s, when that agency sponsored a number of country studies. The major finding of ILO's work was that the informal sector played an enormously important role in absorbing the growing labour force in many parts of the developing world. The initiative taken by the ILO was continued further by the World Bank and a number of development think tanks.

The literature that has come out of this work deals with the way employment can help in promoting economic growth and alleviating poverty. Some of the more important works that belong to this genre are noted in the extensive bibliography which we have provided at the back of this report. It is not our intention to write a synopsis of the analyses already available. As has been the practice in the previous reports produced by this Centre,

we will build upon this solid and pragmatic foundation and provide the policymakers in the region a framework of policies that would enable them to focus on employment generation for promoting economic growth as well as alleviating poverty.

This chapter sets out a conceptual framework which encompasses the analyses and findings of those that follow. This part of the report focuses on defining policy imperatives rather than developing a strong analytical underpinning for the body of the report. It has been a tradition in the Centre's reports to provide guidance to the policymakers in South Asia rather than to break new analytical ground. Much of what we say in this document is concerned with government policies and government actions. We will also explore what the private sector and the civil society can do to face the challenge posed to the millions of people in the region who continue to search for productive jobs.

There is a great deal that markets can do in helping people find productive employment. But markets do not work on their own; they have to be prompted by the governments to move in a certain direction. The debate on what is the right role for the state continues to this day and will continue to engage and energise academics, policymakers, and ordinary citizens for many more decades. We made a significant contribution to this dialogue four years ago when, in the Centre's report published in 1999, we added humane governance to the panoply of ideas that are already around to deliver to the people their needs. 'Humane governance is governance, indeed good governance, which is dedicated to securing human development,' we wrote

Markets do not work on their own; they have to be prompted by the governments to move in a certain direction

The relative youth of the South Asian population provides the region with an opportunity to fill the skill gaps that are rapidly emerging in Europe, Japan and North America

in the 1999 report. 'It requires effective participation of people in state, civil society and private sector activities that are conducive to human development. It further enjoins the state, civil society, and the private sector to help build capacities which will meet the basic needs of all people, particularly women, children and the poor. Humane governance will also ensure that human development is sustainable.'²

The 1999 report, in focusing on humane governance, also developed a new index—the humane governance index to indicate how the governments in the area were faring in terms of serving their citizens. On a scale of zero to one, our analysis indicated that in terms of humane governance, industrial countries had reached the level of 0.83. Those in East Asia, scored at 0.65. But four countries (India, Pakistan, Bangladesh, and Sri Lanka) in South Asia were lagging way behind, with an aggregate score of 0.56. In other words, according to our findings published four years ago, there was much the South Asian governments needed to do to effectively work for their citizens. This is a theme which we will pick up at the very end of this chapter.

The chapter that follows offers a statistical profile of the South Asia region in order to set the stage for the analyses that come in the later parts of the report. We do this also to underscore the important point that South Asia has many unique characteristics that distinguish it from other parts of the developing world. It is a large region with a population only slightly smaller than that of East Asia. It includes one of the two countries in the world with a population of more than one billion. In terms of the size of the population, India is likely to overtake the other one billion plus country, China. By 2035, India, at the current population growth rate, is projected to be the world's most populous country.

South Asia's population is very young as a consequence of high rates of fertility sustained over a long period of time. Although the rates of fertility have begun

to decline in recent years, they are still significantly higher than those in other parts of Asia and in Latin America. This means that for decades to come the South Asian populations will be dominated by the young. In Pakistan, the South Asian country with the highest rate of fertility, the very young—those below the age of 14—accounted for 41.8 per cent of the total population in the year 2000.

The relative youth of the South Asian population provides the region with an opportunity to fill the skill gaps that are rapidly emerging in Europe, Japan and North America—the regions of the world that are now moving into a phase of development variously called post-industrialisation or post-modernisation. How this demographic asymmetry can be turned into an opportunity for the countries of South Asia is a subject we will explore in chapter 8. By doing so, we will step out of the conventional thinking that has dominated development literature ever since development economics carved out a niche for itself as a separate sub-discipline. We will challenge the popular view that brain drain—the migration of skilled and well-trained people from the developing world to the countries where they earn considerably higher incomes—inflicts a great deal of damage to the labour exporting country. Instead, we will argue that the opportunities for migration provide a win-win solution to both countries with large populations and those that have begun to experience severe shortages of workers with the right kinds of skills. This, as will emerge later, is not the only new area of public policy which we will bring to the attention of the policymakers in the South Asian region.

The relative youth of the South Asian populations may ultimately provide them with increased opportunities. For the moment, however, it translates into a burden with which the policymakers must contend and for which they must institute the right set of policies. There is a high incidence of unemployment and

underemployment among the young, which forces them into jobs that provide poor wages and do not contribute to increasing the productivity and efficiency of the economy. A challenge faced by the region's policymakers, therefore, is to create an economic structure that will find a place for the enormous number of young people in the South Asian populations.

Should the provision of education be a critical part of the employment strategy in South Asia? The answer is obviously yes but this report, in analysing the structure of education in South Asia, will build on the work done five years ago in the report published by the Centre under the title of *The Education Challenge*. It said, 'The challenge for the South Asia region today is to travel the vast distance between its performance and its promise. On the one hand, it has emerged as the poorest, the most illiterate, the most malnourished, and the least gender-sensitive region in the world... On the other, it has the potential to become the most dynamic region in the twenty-first century if there is massive investment in human development. The most critical components in any such investment plan are: (a) basic education for all, and (b) relevant technical skills.'³ These words ring as true today as they did half a decade ago when they were written. Not only that, we will reach the unhappy conclusion in this report that much of the educational endeavour in the region does not produce the workforce it needs. The weak educational system does not reach the entire population and those that it does reach, it educates poorly. This is the reason why there is such a large proportion of educated unemployed in this part of the world. Bringing the educational system in line with the opportunities currently available, and those that will become available, has to be a high priority for the region's policymakers. This is yet another important challenge which the governments must address.

Political scientists, more than economists, have stressed for decades their findings that semi-educated but unemployed youth bring political instability. To this aspect of the problem, we should now add the more recent phenomenon of the rise of religious education in the region. Much has already been written about the *madrassas* (religious schools) in Pakistan that produce graduates with little prospect of gaining employment in the modern part of the economy. They are able to find jobs only as teachers in *madrassas* or as *imams* in mosques. This cycle has to be broken, not only for economic reasons but for political and social reasons as well. However, religious schools are not gaining a strong foothold in the educational systems of only the Muslim countries of the sub-continent. They have also now appeared in some regions of India where Hindu fundamentalism is on the rise.

A disconcerting aspect of this situation is the unhappy fact that religious schools are receiving active financial support from the South Asian migrant communities who are all over the world. These diasporas are providing assistance to the institutions that operate at the fringes of the educational system. They do so in the misguided belief that it is their duty to support the cultural and religious establishment of the areas from which they have come. We would like to use this report to reach the South Asian diasporas and carry to them a different message: that they should encourage the modernisation and genuine development of the countries they have left behind and help them to integrate with the global community.

The relative youth of the South Asian population also poses another problem that must be addressed with some sensitivity and urgency by the policymakers. This relates to child labour, a phenomenon also encountered in most other parts of the developing world but is most prominent in South Asia and

A challenge faced by the region's policymakers is to create an economic structure that will find a place for the enormous number of young people in the South Asian populations

The region's children—tens of millions of them—are engaged in the continuing war against poverty

Africa. Fortunately, unlike Sub-Saharan Africa, South Asia does not have child soldiers trained to kill and inflict cruelty. The South Asians have fought many wars that should have been avoided and there are yet many conflicts that still remain unresolved. Even in those conflicts in which non-professional soldiers were inducted, children were not recruited to do battle. Nonetheless, the region's children—tens of millions of them—are engaged in another kind of war—the continuing war against poverty.

There are now many laws on the statute books of many countries, developed and developing, and also on those of international organisations such as the ILO, to prevent children from entering the work place. But laws do not always provide the right solution to complex problems such as child labour. There is no question that it is indeed inhuman and insensitive to press young children—boys and girls—into the workforce. However, when the wages earned by children form a significant component of a poor family's total earnings, it can be self-defeating to take these children out of the workforce and cause increased misery in the absence of proper alternatives. This is one more area where we part from conventional and received wisdom. What is needed is a policy framework that ensures that working children do not work in hazardous conditions, or poor environment, and do not suffer serious deprivations to their mental and physical development, and that they are provided suitable opportunities for education even though they may be spending some time in the work place. In South Asia, there are some NGO programmes supported mostly by UNICEF which provide education to the working children. But in view of the magnitude of the problem, there is a need for many such programmes.

Another characteristic of South Asia, which distinguishes it from other developing parts of the world, is the treatment of women in the society. The

Centre's 2000 report, titled *The Gender Question*, focused on the issue of gender and development. It underscored several characteristics of the South Asian situation, which has resulted in severe discrimination against women. In a celebrated series of articles, Amartya Sen, the Nobel Prize winning Indian economist, has highlighted the problem of 'missing women' in Asia. These are the women who do not appear in national censuses in the number expected from a normal distribution of the sexes in any population. Women are 'missing' in South Asia either because of explicit or implicit female infanticide; or neglect of women's health problems; or, again, because of under-reporting by the heads of households when approached to take population counts. All this has a bearing on female employment. If the proportion of women in a particular population is under-reported, policymakers cannot devise appropriate policies. If female under-representation is the result of infanticide or discrimination in the provision of health care, then that poses a different set of problems.

In terms of employment, we should emphasise that South Asia has one of the lowest female participation rates in the developing world. This has grave consequences for any policy aimed at human development and poverty alleviation. Studies have shown that women tend to spend a much larger share of their incomes on meeting the basic needs of their families. Having women participate in the labour force and ensuring that the compensation for the work they do is comparable to that performed by men, are important parts of any strategy aimed at employment as a contributor to poverty alleviation.

As suggested in the 2000 report, the subject of women's employment gets entangled in the deeply rooted cultural practices and beliefs. Anthropologists, more than economists, have begun to recognise how difficult it is to make economic progress when it is inhibited by cultural norms. In the 2000 report, we

touched upon the problem posed by cultural constraints for women's development. We discussed the structures of South Asian patriarchy and how they were impacting on the situation of women. We noted in that report that while South Asian languages do not have terms to define gender, Bangla, Hindi and Urdu all have words—*pitratantio*, *pitrasatta* and *pidarshahi*—to define patriarchy. 'Small wonder that patriarchy remains unassailable in South Asia under the cover of gender-blind policies that take existing gender relations for granted, while women's particular concerns are relegated to 'women's issues,' we wrote at that time.⁴

Much of South Asia's workforce remains engaged in agriculture, which is operating at a level much below its considerable potential. We explored this subject extensively in the Centre's report of 2002 titled *Agriculture and Rural Development*. It was emphasised in that document that no government in the region had given much attention to improving the productivity—and, therefore, the incomes—of the agricultural workforce. This is unfortunate and much can be accomplished in this area. That there is a considerable gap between the potential and real incomes has been demonstrated vividly by the small and medium sized farmers in the Indian state of Punjab. Their remarkable performance in adopting first the 'high-yielding' crop technology in the late 1960s, and much of the 1970s, and then building on top of that 'green revolution' an agricultural sector that has become highly productive compared to the rest of the sub-continent, provides hope to hundreds of millions of farmers working in the South Asian agriculture. But the transformation of the Indian Punjab's agriculture did not happen without the states support.

A series of state governments run by the people with deep roots in the soil of the Indian Punjab were fully aware of what the farmers needed in order to improve their productivity. Sensitive to

the needs of the farming population, the government of Punjab provided them with credit, new seeds, water and electricity. At the same time, the government invested large amounts in developing physical infrastructure such as farm to market roads, storage facilities and extension centres. A first class agricultural research institution was built at Ludhiana, which became a university that now ranks among the very best in the world.

All this is worth recounting since the agricultural revolution in the Indian Punjab not only turned the state into a granary for the country, it also found jobs for all those who were looking for work. The agricultural sector in the Indian Punjab was the only part of the South Asian economy in the 1970s and 1980s that experienced serious labour shortages. To meet the demand for agricultural workers, particularly during the busy planting and harvesting seasons, farmers in Punjab imported labour from the neighbouring states. The Indian state of Punjab, in other words, not only fed other parts of that vast country, but also served as a safety valve for the over-populated states in the neighbourhood that had several problems of underemployment and unemployment.

The Indian state of Punjab is not the only area in South Asia that was able to break out of tradition and create a revolution for its workforce. Something similar happened in Bangladesh where the concept of micro-credit was institutionalised by Professor Muhammad Yunus. His Grameen Bank broke new ground and set the stage for the development of an entirely new set of enterprises to help finance the economic activities of essentially the rural poor. But there is an irony in the success of the Grameen Bank. It has been replicated more outside South Asia than within South Asia. According to one entrepreneur operating in this area, the total market for micro-loans worldwide is \$3 billion. It could grow to \$10 billion in the next decade if entrepreneurs could

Much of South Asia's workforce remains engaged in agriculture, which is operating at a level much below its considerable potential

There are possibilities for large-scale employment in sectors such as health, education, entertainment, finance and tourism

be found to go the way of Grameen Bank.⁵ Much of this potential market is in South Asia. Very little of it is being reached by micro-finance institutions modelled after the Grameen Bank.

Microfinance is an area where the three components of humane governance identified in the Centre's 1999 report meet. This form of finance has been practised by institutions that have grown out of the civil society. They have a place in the economic system since more formal parts of the financial structure—'good economic governance' in the language of the 1999 report—failed to serve the credit needs of entrepreneurs, who had no collateral to offer other than the product of their own work. In the absence of collateral, 'good political governance,' the third element in the concept of humane governance, can prepare the legal environment in which the institutions providing microfinance can operate.

With so much of South Asia's population resident in and working in the countryside, and with the non-agricultural sector growing at rates two to three times the rate of increase in agricultural output, we should see a pick up in rural-urban migration in the coming decades. South Asia already has half a dozen or so cities with populations of more than ten million people. Their size will increase considerably in the next few years. Some of these cities will probably double in size by the year 2010. This obviously has enormous implications for labour absorption and for the perpetuation—if not further aggravation—of the problems of underemployment and unemployment.

If the experience of the world's other mega-cities is any guide, much of this inflow of people into the urban areas will be first accommodated in the low productivity service sector. Is there a way for increasing their efficiency and hence their incomes? What role could the government play in bringing this about?

There is no particular reason why South Asia should follow the path already traversed by other developing regions of

the world which have reached a higher level of urbanisation than the current situation in this group of countries. It should be possible to skip to some extent the phase in which the service sector picks up the surplus workers from the countryside. This, as we indicated above, was the theme explored in the ILO reports in which the role of the informal sector was identified as the source of employment for those who had recently arrived from the countryside. We are familiar with the tens of thousands of vendors that clog the streets of the mega-cities in Latin America and many parts of South Asia.

One way of leap-frogging over the experience of other countries is to combine education, training, finance and entrepreneurship to develop sectors such as Information Technology (IT) that have already brought such handsome dividends to the southwestern states of India. These states have been so successful in providing employment for their abundant workforce that in the first decade of the twenty-first century, they have begun to experience the kind of labour shortages which the Indian state of Punjab dealt with a quarter century ago. The offshore model of labour use that has worked so well in the IT sector should also be able to deliver employment opportunities in the labour rich countries of South Asia.

The IT sector is not the only one which is labour and skill intensive. There are other parts of the service economy which offer similar opportunities to the rapidly urbanising workforce in South Asia. There are possibilities for large-scale employment in sectors such as health, education, entertainment, finance and tourism.

A strategy aimed at reducing the levels of unemployment and underemployment and making more productive the jobs already held by those who are employed has to be cast within a broader strategy of economic development. This report is not the place for an extensive discussion of the various strategies pursued by the governments in the region that have been

in office at various points in the sub-continent's history. Nonetheless, it would be important to underscore those components of the past strategies that have inhibited a greater use of the abundant workforce.

While much of what we have said above is related to specific areas where South Asia faces challenges in accommodating its large workforce, the employment strategy must be an important component of the overall approach to development. There is an extensive and growing literature explaining why South Asia has fallen so far behind the countries of East Asia over the last half century. The story has been well told and by now is well known. What has not drawn sufficient attention in this story is that the emphasis in South Asia on the policies favouring state ownership of economic assets, preference of manufacturing over agriculture and the service sector, and strong preference of import substitution over export promotion all affected the levels of employment and the quality of the jobs that were created.

South Asia had much higher capital to labour ratio in the way it developed various parts of its economy than could be justified by the size, geographic distribution and age composition of its labour force. It failed to take advantage of its large workforce to gain market shares in the world economy for the products that could be produced by labour intensive techniques. That approach was followed with extraordinary success by China in the last quarter century. By turning the state into an employer of last resort—at times even of the first resort—the South Asian governments did not succeed in creating the incentive structure that would have encouraged potential workers to seek appropriate education and skill development. The South Asian states also failed to evolve linkages between research and development on the one side and manufacturing on the other. Such linkages were developed with considerable success

in East Asia, first by South Korea and Taiwan, and later by China. The extraordinary growth of high-tech industry in the first two countries is an illustration of what the right set of government policies can accomplish in improving the workers' productivity.

The early approach to development in South Asia also placed the crucial financial sector in the hands of the government. The state run financial institutions fed resources to the large capital-intensive state enterprises, leaving the small and medium sized enterprises at the mercy of the informal sector. That the right interface between finance, industry and commerce can help in improving labour absorption has been demonstrated well by the way the Taiwanese economy developed. The financial sector in that country was able to support the development of small and medium enterprises that were much more labour intensive than their larger counterparts. Even today, although Taiwan can be considered as a fully industrialised country on its way to becoming post-industrial and post-modern, small and medium enterprises remain the economy's back-bone.

A development strategy for South Asia should encompass not only the need to provide employment opportunities to its large and expanding workforce, it should also take full advantage of the process of change that is altering the shape and structure of the global economy. Globalisation is a much discussed phenomenon. It includes many things, in particular, financial flows across borders and trade among nations. Both are significant for development that is labour intensive. But as discussed in the Centre's report on globalisation published in 2001, this process can also pose serious problems for the developing world if the policymakers are not fully cognisant of what it really entails. Those who have studied the financial crisis in East Asia, in particular the Nobel Prize winning economist Joseph Stiglitz, have underscored how globalisation can wreak

South Asian states failed to evolve linkages between research and development on the one side and manufacturing on the other

Without proper human development, South Asia will not be able to provide productive employment to its large population

havoc when the countries in the developing world do not take action to protect themselves against some of its adverse consequences. After the enormous pain suffered by several East Asian countries where tens of millions of people lost their jobs and livelihood, consensus has developed that premature and full opening of the markets—especially the financial markets—can cause enormous damage to the recipient countries. Short-term capital flows take place at the flick of a computer's switch. These flows are also nervous. They can depart quickly, leaving in their wake devastation and job losses that can create—in fact, did create—great misery. Even the International Monetary Fund (IMF), the institution that had backed most forcefully the adoption of policies under the collective title of *The Washington Consensus*, has more recently taken the position that it is legitimate for countries to make it expensive for short-term capital to move quickly in and out of the developing world. The IMF has also concluded, albeit reluctantly, that it is legitimate to use public finance to create new jobs when unemployment becomes a serious burden on the economy. The IMF, in other words, has rediscovered Keynesian economics to treat unemployment and jobless economic recoveries in the countries faced with extreme distress.

Given the timing of this report—the winter of 2003—the area of globalisation which concerns us most is that of further liberalisation of global trade. The progress made by the Doha round of negotiations would have been reviewed by trade ministers meeting in Cancun, Mexico before this report hits its intended audiences. The developing world has rightly taken the position that any further opening of their markets must not be at the expense of the employment of their citizens. They have focused much attention on the policies adopted by most developed countries that heavily subsidise their farmers at the expense of jobs and

earnings of the poor farming communities in the developing world.

The problem is this: each year rich countries spend more than \$1 billion a day supporting their agricultural producers—about six times the amount they give in foreign aid. The European Union and the US account for almost two-thirds of total spending. The subsidy translates into rocketing levels of output, fewer imports and the dumping of vast surpluses on world markets. Farmers in developing countries lose on several counts. Subsidised exports from rich countries undercut them in both the local and global markets, while high import barriers have shut them off from rich country markets.

As Kevin Watkins, the head of research at Oxfam put it recently, 'Northern governments like to lecture on the merits of open markets. But success in world agriculture depends less on comparative advantage than on comparative access to subsidies—and poor countries lose every time.'⁶

There are three main conclusions we reach—and present to our audiences—in this report. First, much of the persistent unemployment and underemployment in South Asia can be laid at the door of the state. The states of South Asia have failed to pursue macroeconomic policies that would have generated employment opportunities for the large and very young population in the region. Even after the beginning of the process of economic reforms in Bangladesh, India and Pakistan in the early 1990s, the state in each case has not adopted job creation as an explicit objective of macroeconomic policies. The state has also failed in terms of improving social services—in particular providing education, training and basic health-care—to a vast number of people. Without proper human development—a recurrent theme in these reports—South Asia will not be able to provide productive employment to its large population. The state has failed in particular in helping women and children to climb out of poverty.

Then there is the second kind of failure that we wish to underscore and that is on the part of multilateral organisations that have advised the South Asian nations and provided them with financial assistance for more than half a century. Even when they did focus on social development, their emphasis was sometimes misplaced. We know now from the experience of several developing countries that by simply emphasising the importance of primary education, states don't prepare their people either for productive employment or for attitudinal change—two imperatives of increase in earnings and, therefore, alleviation of poverty. Children have to stay in school for much longer periods of time—for as long as eight to ten years to prepare the workforce for the workplace.

The third and equally egregious failure in this area is that of the developed world, whose leaders have been participating in a series of global conferences, but have not shown the political will to hurt their domestic constituencies a little bit to help the poor and the unemployed in the

developing world a great deal. We notice these failures in a number of areas. Today, four decades after the developed world had pledged to transfer at least 0.7 per cent of its combined GDP to the developing countries as aid, it is prepared to extend less than two-fifths of that. United States, the world's richest country, gives only 0.1 per cent of its GDP as aid to the developing countries. And a significant proportion of this is provided to the nations in which Washington has strategic and political interests. The world's rich nations have also failed to open their markets to the goods and commodities produced by the poor of the developing world especially when such opening would come at the expense of their own producers.

These three failures—of the state in the developing world, of multilateral development agencies, and of the state in the developed world—need to be recognised and emphasised. If that happens, we have a rich agenda for policy action by policymakers all across the globe.

Chapter 2

A Profile of Employment Challenges in South Asia

The policy challenges that South Asia faces in providing employment opportunities to its masses have been briefly identified in Chapter 1. In this chapter we look at the profile of those challenges through some statistics and socio-economic characteristics of the region, in order to set the stage for discussions in the rest of this report.

The magnitude of employment challenges

A staggering array of economic and social problems have constrained the optimum utilisation of labour force in South Asia. It is not only the patterns of economic growth (both past and current) that have constrained employment generation, but also the social attitudes towards various groups (e.g. women), the systems of production and distribution (e.g. land ownership and distribution), education and training, and the pervasive nature of corruption at all levels of economic and political governance that have acted as

disincentives to savings, investment and work.

To briefly summarise the employment challenges of South Asia:

- South Asia is a hugely populated region with 1.4 billion people, 60 per cent of whom are in the working age group.
- Labour force participation is only about 66 per cent of working age population.¹
- Employment growth rates are lower than both GDP and Labour force growth rates.
- Agriculture is the predominant employer, although this sector has been suffering from lack of investment and low productivity since the Green Revolution during the 1960s.
- One-third of South Asia is in poverty; and, about half of the population—in four large countries—is illiterate.

Population and its growth rate

South Asia currently accounts for about 22 per cent of world's population. This is one of the fastest growing regions of the world. Except Sri Lanka, which has completed the demographic transition, the other countries are still in the midst of population explosion. Recently, however, Bangladesh and India have entered the fertility-declining phase of demographic transition (tables 2.1 & 2.2).

Due to the current age structure of the population in which the youth dominates, the working-age population growth rate will be higher than overall population growth rate. Thus, the addition to growth of labour force may not decline perceptibly in the near future though the population growth rate is projected to come down. Of course, if the bulk of the population is in the 15-64 age group,

Table 2.1 Population of South Asia

Years	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives
1990	846.4	110.9	109.4	18.6	16.8	1.6	0.22
2000	1016.9	142.6	137.9	23.5	18.5	2.1	0.29
2003	1065.4	153.5	146.7	25.2	19.1	2.25	0.32

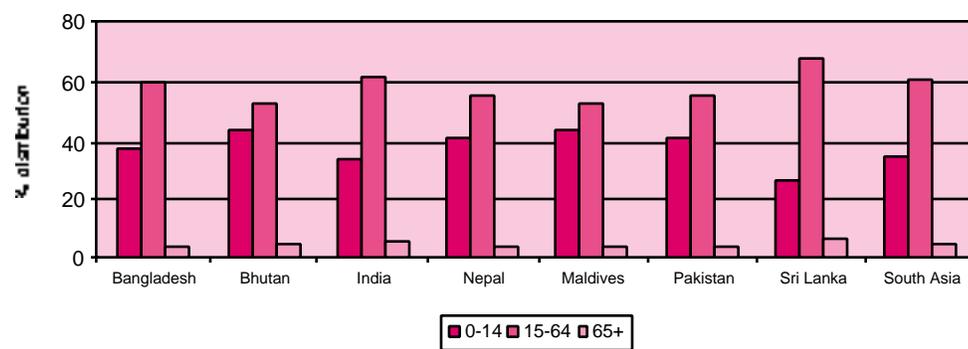
Source: UN 2003a.

Table 2.2 Population growth rates

Years	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives
1990-95	1.91	2.41	2.41	2.34	1.10	1.34	2.97
1995-00	1.76	2.62	2.23	2.32	0.90	2.57	3.02
2000-05	1.51	2.44	2.02	2.23	0.81	2.96	2.98

Source: UN 2003a.

Figure 2.1 Distribution of population by age groups, 2001



Source: World Bank 2003c.

as is the situation now in South Asia (figure 2.1), then this has the potential to increase the pace of economic growth, provided the pattern of economic growth is linked to employment generation and accelerated programs of human development.

Labour force participation rate

This is defined as the sum of the employed and unemployed as a ratio of working age population. In addition to the conceptual ambiguities regarding the definition of work and unemployment (box 2.1), the delimitation of working age population is another problem that complicates the estimation of labour force. In South Asia, children 10-14 years old, and senior citizens 65 years and over, are also engaged in economic activities. Labour force surveys of most South Asian countries provide information regarding these two groups. However, the information that we used for regional and international comparisons refers only to the working population of the 15-64 age group.

The Labour force participation rate (LFPR) of South Asia has been historically lower than those of Sub Saharan Africa, East Asia and the Pacific. Over the last two decades, LFPR in all of the regions, except for Latin America and the Caribbean, have shown a declining trend. In South Asia, LFPR has declined

from 76.6 per cent in 1980 to 73.6 per cent in 2001 (table 2.3).

In all South Asian countries labour force participation rates declined between

Table 2.3 Trends in labour force participation rates by regions (%)

	1980	1995	2001
East Asia & Pacific	88.4	85.0	85.4
Europe & Central Asia	79.1	75.1	73.8
Latin America and Caribbean	64.7	67.2	68.6
Middle East and North Africa	59.3	58.3	56.7
South Asia	76.6	72.7	73.6
Sub Saharan Africa	88.3	85.1	83.5
Europe EMU	...	...	69.2

Note: The LFPR of South Asia provided here is somewhat different than mentioned above due to different sources used for each indicator.

Source: World Bank 1997, 2003c.

Box 2.1 Employment statistics: How reliable are they?

Of all the problems related to data availability and reliability of any empirical study in a developing country, perhaps the most problematic are employment statistics. The definition of what constitutes as labour force and employment vary widely between countries. This is influenced not only by geographic location, age or gender, but is also dependent on varying time periods used as reference points for estimating employment figures.

Following the changes made in the United Nations Systems of National Accounts in 1993, the definition of what constitutes work

has changed in many countries. For example, the 55th Round of National Sample Survey (NSS) in India enlarged the coverage of Subsidiary Status activities. While this added more valuable information about the nature of rural economic activity, especially women's activity, it also meant that the data from this round could not be compared to those of earlier rounds. These changes in definition and measurement of labour force in recent years have raised labour force participation in Nepal, Pakistan and Bangladesh, especially participation of women in economic activities.

Years	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
1980	80.8	77.0	68.9	79.8	74.8	50.2	58.4
1995	78.6	75.6	66.4	52.1	72.6	49.3	58.9
1996	73.7
1999	88.4	50.8	61.9
2000	50.8	...

Source: ILO 2001b.

1980 to 1995 (the two years for which data is available for all countries). The reasons for this decline may include rising educational enrolment at the lower end (15-19), and withdrawal of 60-64 age group from the work force. But detailed country analyses (see chapter 3) point to other factors, including the impact of macroeconomic and trade policies on employment.

Global recession observed in late 1990s adversely affected the unemployment rates throughout the world. In South Asia, open unemployment rose from 2.9 in 1995 to 3.5 in 2001.² Although unemployment rate for South Asia is the lowest in the world (see table 2.5), it does not reflect the true labour market conditions in the region. The unemployment rates are higher for women, youth and educated in South Asia, reflecting the marginalisation of some groups in the labour market. In addition, high levels of underemployment characterised by low levels of productivity, a large informal sector and working poverty also indicate the underestimation of unemployment rates as well as the non-utilisation of South Asian labour force.

Employment growth during 1990s

The rates of growth of employment in Bangladesh, India and Pakistan have failed to keep pace with the growth rates of labour force and GDP. Sri Lanka's employment growth rate has also failed to match its GDP growth. In Nepal, employment growth rate seems to have been more than growth rates of both labour force and GDP (table 2.6).

In other words, the economic growth of the region, especially in India, Bangladesh and Pakistan, during this period failed to absorb even the incremental labour force for two reasons: first, economic growth itself had started faltering in the second half of the 1990s; and second, the pattern of the growth process—capital intensive and urban-oriented—did not help in generating better employment outcomes, even in countries that had experienced higher growth rates.

The sectoral distribution of employment reflects the overwhelming importance of agriculture, which accounts for over half of the employment in the region. The share of agriculture in total employment varies across the region ranging from 22 per cent in Maldives to

	Unemployment
Industrialized countries	6.4
Transition Economics	12.6
Europe EMU ^a	9.8
Latin America and the Caribbean ^{ba}	9.6
Middle East and North Africa	18.9
Sub Saharan Africa ^c	14.0
Asia and the Pacific	4.1
East Asia	3.6
South East Asia	6.8
South Asia	3.5

Note: a Source is World Bank 2003c and data is for 1998-2000.
 b Open urban unemployment.
 c Projection.

Source: ILO 2003a.

Country	Annual employment	Annual labour force	Annual GDP
	Growth rates (%)	Growth rates (%)	Growth rates (%)
	1995-LY	1995-2002	1995-2000
India	1.0	2.0	6.6
Pakistan	3.2	3.4	3.8
Bangladesh	1.6	2.6	5.1
Nepal	5.9	2.6	4.5
Sri Lanka	2.4	1.8	5.0
Bhutan	...	2.6	6.9
Maldives	4.2	3.4	6.7

Source: ILO 2003a.

Table 2.7 Employment in South Asia by sectors

Country	1980			1990			1995-LY		
	Agriculture	Industry	Services	Agriculture	Industry	Services	Agriculture	Industry	Services
Bangladesh	72.6	8.7	18.7	66.4	13.0	16.2	63.2	9.6	25.0
Bhutan	94.4	1.4	4.2	94.2	0.9	5.0	...	...	...
India	69.5	13.1	17.4	69.1	13.6	17.3	66.7	12.9	20.3
Maldives	49.3	29.3	21.3	25.2	22.4	48.5	22.2	23.9	50.4
Nepal	93.8	0.5	5.7	83.3	2.3	13.7	78.5	5.5	21.0
Pakistan	52.7	20.3	26.8	51.1	19.8	28.9	47.3	17.1	35.6
Sri Lanka	45.9	18.6	29.3	47.8	20.6	30.0	41.6	22.5	33.4

Source: ILO 2001b,c.

79 per cent in Nepal. Over the years there has been a reallocation of labour from agriculture to services rather than to industry. The share of industrial employment has fallen during 1990s in India, Pakistan and Bangladesh (table 2.7).

The rising share of the services sector in nearly all the countries of South Asia, particularly in the context where public sector employment tended to stagnate or even declined, indicates a rise in self employment and casual employment in the informal economy.

Low levels of human development

A summary of key indicators of human development is provided below (more detailed data are presented in the chapters that follow). The data shown in Table 2.8 reveal the dismal state of human development in the region. Only Sri Lanka and Maldives have made considerable progress in terms of eradicating illiteracy, lowering poverty, reducing gender disparity and improving health conditions. Much more needs to

be done in the region to improve the human condition.

Characteristics of South Asia's labour market

South Asia's labour market is characterised by pervasive unemployment and underemployment, especially among youth and the educated, working poor who do not get adequate wages to get out of poverty, working children, and among women who face discrimination across the labour market, reflecting prevailing social attitudes.

In South Asia, open unemployment is generally recorded to be low, due to the absence of social protection plans for the unemployed, and non-existence of employment agencies often used for identifying the unemployed. Furthermore, the pervasive nature of household enterprise system in South Asia acts as a labour market sponge. Also, the financial difficulty faced by an unemployed person forces her to engage in any kind of activity that may not be regarded as fully

Table 2.8 Key human development indicators

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives
Adult literacy rate (% age 15+)	58.0	44.0	40.6	42.9	91.9	47.0	97.0
Population below income poverty line (%)							
\$1 a day 1990-2001	34.7	13.4	36.0	37.7	6.6	...	...
National poverty line 1987-00	28.6	32.6	33.7	42.0	25.0	...	...
HDI 2001	0.590	0.499	0.502	0.499	0.730	0.510	0.751
GDI 2001	0.574	0.469	0.495	0.479	0.726	...	...
Adult illiteracy rate (% age 15+)	42.0	56.0	59.4	57.1	8.1	53.0	3.0

Source: UNDP 2003; World Bank 2003c.

Countries/Year	1990-2001
India	7.3
Pakistan	7.8
Bangladesh	3.3
Sri Lanka	8.2
Nepal	1.1
Bhutan	1.4
Maldives	2.0

Source: ILO 2002h; ADB 2003a.

productive use of time. It is in this context that underemployment and non-productive use of labour become the real employment issues in South Asia.

Unemployment rates in South Asia, based on national as well as international data sources, vary from one country to another, and are not very high compared to global standards. The region, as a whole, registered an unemployment rate of 3.4 per cent in 2002,³ the lowest among all other regions of the world. But as discussed above, it is not an adequate indicator of the labour market situation. Within the region some countries register higher levels of unemployment. For instance, in case of Pakistan, the unemployment rate for the year 2000 was 7.8 per cent. The unemployment rate in Sri Lanka was higher at 8.2 per cent. The other countries of the region display lower unemployment rates ranging from 1.1 to 7.3 per cent. However, unemployment rates in various countries of South Asia were higher in 2000-01 than in the early 1990s.

The national level unemployment rates hide variation within each country and among various groups. Women, for example, have higher unemployment rates than men. And, among all the groups, it is the young people, particularly the educated youth, who bear the brunt of joblessness.

Youth unemployment

Unemployment among the youth accounts for a major portion of the total unemployment. In fact, during 1997, youth accounted for 70 per cent of the total unemployed in Sri Lanka, 53 per cent in India and 45 per cent in Pakistan. Incidence of unemployment being higher for youth (15-24 years) than the remaining age groups is also revealed by age-specific unemployment rates of various countries. A study on India, for instance, reported the youth unemployment rate to be 7.55 per cent for 1999-2000, which was more than twice the overall unemployment rate.⁴ Stark

rural-urban differentials were reported by the study in which the urban youth were reported to be suffering from substantially higher levels of unemployment than their rural counterparts. Youth unemployment rate in South Asia appears to have gone up during the 1990s.⁵

Educated unemployed

South Asia, as a region, does not have enough educated people to meet the needs of its economic and social development, yet there is a high degree of unemployment among the educated. Tables 6.6, 6.7 and 6.8 of chapter six provide some statistics on this. In case of Sri Lanka, for instance, for the year 1999, in contrast to an unemployment rate of 1.9 per cent among those with primary education, those with secondary and higher secondary school education registered an unemployment rate of 17.9 per cent. Other countries in the region show similar findings. In case of urban India, in 1997, it was found that among those with higher secondary education, 41 per cent were unemployed. In general, unemployment rates among the educated (secondary and above) were higher in urban than in rural areas.

Employment prospects of the educated youth have worsened during the past decade or so because of low or negative growth in public sector employment that was the major employer of educated youth. Whatever employment had occurred within the private sector was mostly in the semi-skilled or low-skilled areas. Thus, very little employment was generated for the educated.

Failure to have jobs appears to have led the educated youth towards either inactivity or further involvement in education. Data on Pakistan and India reflect these tendencies. For instance, according to 1998-99 Labour Force Survey of Pakistan, 20 per cent of the post-graduate degree holders were out of labour force, who were neither working nor looking for work. Almost 50 per cent

of female doctors and 35 per cent of graduates in different disciplines were reported to be out of the labour force. In case of India,⁶ the study cited above provides evidence on withdrawal of educated youth from labour force.

Underemployment

Underemployment is defined variously in terms of the amount of time spent in work, or the amount of income earned. This is regarded as a major problem in contrast to open unemployment in South Asia, due to predominance of agriculture in livelihood and family-based enterprises. However, problems related to lack of data pose an enormous challenge towards the estimation of the number of underemployed. Using time criteria, those working less than 35 hours per week in case of Pakistan and 40 in case of Sri Lanka, for instance, around 15-20 per cent of the employed are recorded to be underemployed. In India too, those working less than 40 hours a week account for 34 per cent of the employed, while the corresponding number for Nepal was 47 per cent in 1996. The incidence of underemployment appears to be higher among women and youth.

Working poor

The number of working poor has been defined and estimated for different countries by ILO. An employed person living in a poor household is defined as working poor. Using this criterion, a recent report⁷ suggests that a substantial proportion of the employed can be characterised as working poor. For instance, in 1997 in India, 46 per cent of the employed were defined as working poor. With the exception of Sri Lanka, where the percentage of working poor was 7.3, the number of working poor in Pakistan, Bangladesh and Nepal ranged from 30 to 40 per cent. According to one estimate, currently 223 million people in South Asia, accounting for 47 per cent of the total employed in the informal sector,

were in the category of working poor. This high proportion of the employed, who failed to earn enough to get out of poverty, is reflective of the low as well as stagnating and declining levels of wages and incomes provided by the labour market.

Child labour

Besides the high levels of working poor, there are also other manifestations of the depressing nature of the labour market in South Asia. For instance, a substantial number of children between the ages of 10-14 participate in the labour force, despite the commitment made by the governments in the region to eliminate child labour. According to the World Development Indicators 2002, 41 per cent of the children of this group in Nepal were reported to be in the labour force; Bangladesh followed with 27 per cent. With the exception of Sri Lanka where it was reported to be only two per cent, labour force participation rate of children was over 12 per cent in the remaining countries. There has been a decline in labour force participation of children, but there is not much information about the time use of children out of labour market.

Employment of women

The prevalence of pervasive discrimination against women is reflected in a number of labour market indicators. Women do not get sufficient recognition for their contribution to the economy and society. This is reflected in the very low female labour force participation rates compared to those of male. In India, female labour force participation was half of that for males (in 2001), and in Pakistan the corresponding number was only 18 per cent (see table 5.2). The educational gaps between women and men in literacy and enrolment rates (see table 5.3) are regarded as significant factors for the low participation of women in the job market. There is also a

Women do not get sufficient recognition for their contribution to the economy and society

The impact of economic policies on employment, especially employment of the vast majority of people who live in rural areas and in urban slums, has not been very successful

segregation of female workforce in low-paying, low-productivity work (see table 5.11). In recent years, efforts to address the invisibility of women in the labour market, through expanding the definition of work, have resulted in greater participation of women in economic activity in the national income accounts of South Asia.

Characteristics of South Asian economy

The main features of South Asian economy, so far as employment of the poor is concerned, are:

- About 90 per cent of the economy is dominated by the informal sector, which means that the vast majority of workers are outside the scope of labour laws and social protection.
- Although the contribution of agriculture to GDP has gone down, agriculture still provides employment to more than half of the employed people in South Asia.
- Services sector has become an important contributor to GDP; about half the GDP in 2001 came from services sector.
- Although South Asia's economic growth rates were reasonably good in the context of the global economy, its impact on poverty and inequality was negative, underscoring the failure of economic policies to link economic growth with poverty reduction through employment generation.

As the following chapters will point out, since the 1980s, the economic policies of the South Asian governments (except Sri Lanka which started this process even earlier) have shifted from import-substitution to export-promotion, and from state-controlled to market-focused strategy. Yet the impact on employment, especially employment of the vast majority of people who live in rural areas and in urban slums, has not

been very successful. As a matter of fact, the impact of economic policies in recent years has mostly been negative on the poor. They have become poorer, and the inequality of income distribution between different groups of population has widened.

Economic indicators of South Asia

Table 2.10 provides some indicators on economic growth and its structural transformation. Compared to 1980s, real GDP per capita has increased. The contribution to GDP by various sectors shows the transformation that is taking place in the economies of South Asia. Agriculture's contribution to GDP has gone down, and services' contribution has increased. Poverty has increased in most countries or has remained stagnant (see chapter 3). Inequality of income distribution has become worse, which is a direct result of the lack of income earning opportunities for the masses in the context of an expanding economy (see figure 2.2).

Economic growth

Over the past decade and a half, South Asian countries have implemented IMF and World Bank stabilisation and structural adjustment programs with varying degrees of success. Sri Lanka was the first country to start these reform programmes and India was the last. Overall, the regional GDP grew at an annual average rate of 5.7 per cent during 1990-96, which was not very different from the one experienced during 1980-90.

Except in Pakistan, where GDP growth has been lower in 1990s compared to 1980s, other South Asian countries experienced gains in their GDP growth rates during 1990s. But if we look at the rate of GDP growth since 1997, there has been an overall deceleration of growth, as shown by country-specific experiences in the next chapter (in more detail).

Table 2.10 Economic indicators in South Asia, 1980-2001

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia weighted average
Real GDP per capita								
Per annum (PPP, US\$)								
1985-88	870.0	1790.0	720.0	77.0	2120.0	750.0	1050.0	677.6
1990	1072.0	1862.0	872.0	920.0	2405.0	800.0	1200.0	1150.0
2001	2840.0	1890.0	1610.0	1310.0	3180.0	4798.0	1833.0	2587.0
Agriculture as % of GDP								
1980	38.0	30.0	50.0	62.0	28.0	...	...	38.6
1990	31.0	26.0	29.0	52.0	26.0	...	...	30.5
2001	25.0	25.0	23.0	39.0	19.0	...	...	24.9
Industry as % of GDP								
1980	26.0	25.0	16.0	12.0	30.0	...	...	24.7
1990	28.0	25.0	21.0	16.0	26.0	...	...	26.7
2001	26.0	23.0	25.0	22.0	27.0	...	...	25.5
Services as % of GDP								
1980	36.0	46.0	34.0	26.0	43.0	...	...	36.4
1990	41.0	49.0	50.0	32.0	48.0	...	...	42.6
2001	48.0	52.0	52.0	39.0	54.0	...	...	48.7

Note: Population for the weighted average of South Asia is taken from UN 2003a.

Source: UN 2003a; UNDP 1991, 1993, 2003; World Bank 1998, 2003c.

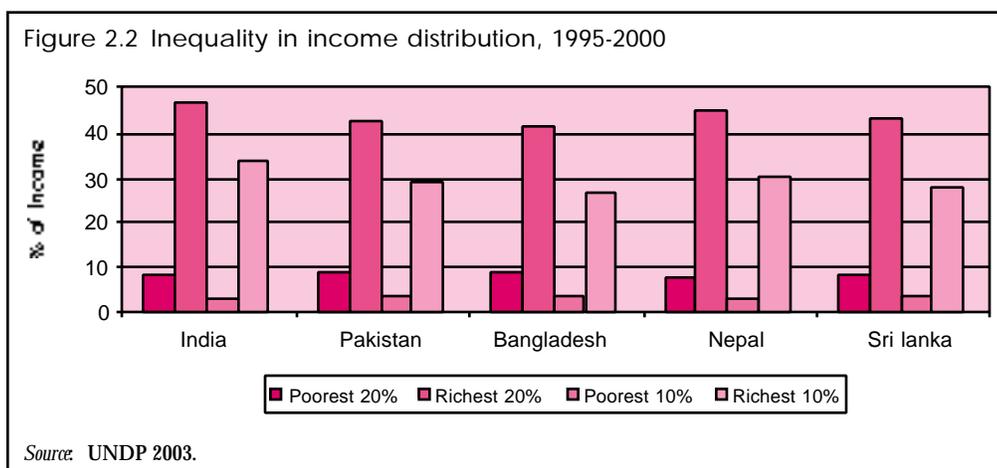


Table 2.11 Annual average GDP growth in South Asia, 1980-2000 (%)

Countries	1980-90	1990-2000
India	5.7	5.9
Pakistan	6.3	3.7
Bangladesh	4.3	4.9
Nepal	4.6	4.9
Sri Lanka	4.0	5.0
South Asia	5.6	5.5

Source: World Bank 2003c.

Chapter 3

Economic Growth and Employment in South Asia¹

It is not growth *per se* that matters, so much as the pattern of growth, which can determine both the quantity and quality of employment generation

This chapter deals with the relationship between economic growth and employment in South Asia. In the first section, some conceptual issues and theoretical possibilities in terms of the interaction between employment and growth are explored. The second section contains a brief evaluation of the past performance of South Asia in terms of growth patterns and their effects on poverty and employment. The third section analyses the apparent commonalities of experience across the region, and the effects of macroeconomic policies, trade liberalisation and technological choices on employment. Issues of current interest, such as the role of Information and Communication Technologies (ICT) in generating new employment, are also considered. The final section explores some policy implications.

Economic Growth and Employment: The Conceptual Issues

It may appear to be more than obvious to state that employment is related to economic growth. However, recent experience across the world, in which increases in income and economic activity have not been matched by commensurate increases in employment (the much talked about phenomenon of 'jobless growth'), have led to greater circumspection about the relationship. It is now more generally accepted that it is not growth *per se* that matters, so much as the *pattern* of growth, which effectively determines both the quantity and quality of employment generation.

There are various ways in which macroeconomic processes and policies affect labour market outcomes. In the short term, clearly, the level of

employment is a function of the level of aggregate demand in the system, which in turn is dependent upon autonomous expenditure such as private investment and government spending. Quite apart from the direct multiplier effect of public expenditure, the positive association between public and private investment is now well established at an empirical level for most developing countries.² This means that one major determinant of the level of employment is the level of public expenditure. Under conditions of unutilised capacity in the economy, it operates directly to improve capacity utilisation, output and employment through the multiplier process. Even in other circumstances, it can play a positive role in terms of directly generating employment—easing supply bottlenecks, for example, in building infrastructure, and through its positive linkage effects with private investment. Consequently, with a rise in aggregate employment, it usually becomes much less difficult for workers to demand higher wages and better working conditions.

However, openness to trade and capital flows changes this obvious 'closed economy' Keynesian relationship at several levels. First, it means that in most sectors, the level of activity gets affected by the relative degree of 'competitiveness', which is in turn determined by a combination of existing domestic costs and relative prices, the exchange rate, and trade policies affecting relative prices at the border. Trade and exchange rate policies can operate to shift private incentives, and therefore investment and employment, in favour of tradeables away from non-tradeables, or vice versa. Depending on the relative employment intensity of tradeables and non-tradeables, this can, in turn, change both the level of

aggregate employment, and its distribution across sectors. Similar outcomes can result from other policies, that serve to shift incentives, such as credit and financial policies that direct credit or provide special incentives to particular chosen sectors.

Second, openness to capital flows, and associated financial liberalisation, can lead to changes in output and employment levels quite independent of any government measures, besides putting constraints on government behaviour in various ways. Financial openness, and the resultant need to attract or maintain levels of capital inflow, imply constraints on fiscal and monetary behaviour of governments, and dramatically reduce the possibilities for earlier Keynesian style demand management policies. It also means that medium-term planning in the old style is no longer possible, since the level and direction of capital inflows cannot be predicted such as to allow for comprehensive investment allocation in socially desired directions. Further, in the past decade in particular, financial openness has been strongly associated with high levels of volatility and instability in the economies of several emerging markets. Periods of capital inflow-led booms may be reflected in real exchange rate appreciation. This can consequently change the domestic employment level and pattern through changes in domestic relative prices and, therefore, incentives. These outcomes can then, in turn, become the initial causes for a change in investor confidence that is followed by capital outflow resulting in a financial and economic crisis. It has been found that the workers tend to bear a disproportionate part of the burden of the subsequent adjustment that is necessitated in these economies, through falls in real wages and large losses in employment.

The point is that South Asia is now in an international context in which greater economic integration has drastically altered the contours of public policy as well as the requirements of employers. For most traded goods sectors, external

competitiveness has become the basic requirement of survival and expansion, and a key element of this is seen by employers to reside in labour market flexibility. This, in turn, is often seen by some commentators to have created a 'race to the bottom' in terms of wages and labour contracts, whereby even minimal labour standards are under threat because of the perceived adverse effects on employers through higher wage costs and rigidities. There is, of course, a two-way relationship here: just as outward orientation or the need to allow domestic producers greater flexibility and lower wage costs may determine patterns in the labour market, so too the labour market reform itself may become an important complement to macroeconomic policy. This can occur through the ways in which such policies change incentives for both employers and workers, and even in terms of providing a social cushion for shocks like inflation, cyclical behaviour etc., which emerge in the process of adjustment.³

A crucial link in the chain between investment and employment is the intermediating technological choice, which determines the pattern of labour use. It is often argued in developing countries that policies that raise the cost of labour through regulation for organised industry end up reducing employment because they encourage the greater use of labour saving technologies. This may in fact be a relevant concern. However, it must be recognised that in most developing countries, including those in South Asia, technological choices and changes do not reflect domestic resource availability as much as the factor proportion requirements of developed industrial economies. These changes, which come in the form of new products and changed processes, are typically more capital intensive. Such changes, therefore, generally imply improvements in labour productivity and the reduced number of workers per unit of output, quite independent of the relative price of labour in particular developing economies. The

In the past decade, financial openness has been strongly associated with high levels of volatility and instability in the economies of several emerging markets

South Asia, as a region, has so far experienced almost a total delink between economic growth and employment generation

relative price of labour and capital at any one time is, therefore, a relatively poor guide to the degree of capital intensity of production.

Just as macroeconomic processes determine labour market patterns, such patterns, in turn, also affect the macroeconomic outcomes. Low levels of employment generation do not only result from, but also contribute to, low aggregate demand, and can therefore intensify tendencies towards stagnation or recession. Strongly segmented labour markets, with very different conditions of work and remuneration, can also create very different and segmented patterns of demand for final goods. Such segmented markets can also determine patterns of labour supply that affect possibilities of expansion of particular industries or sectors of activity. In the absence of public intervention, low productivity patterns of economic activity tend to be associated with, and reinforce, low rates of employment expansion, creating a scenario of economic stagnation.

Because of all this, it can plausibly be argued that the primary determinant of both the volume of employment and the conditions of employment that prevail in most sectors of any economy, are determined by factors other than the labour market policies themselves. Indeed, typically policies that are addressed specifically to the labour market alone can be irrelevant or even counterproductive if other processes in the economy are moving in the opposite direction. If the aggregate demand for labour is low because the economy is operating in an unemployment equilibrium with unutilised capacity, or because of structural reasons such as the pattern of technology, then new employment generation will depend on policies which address these issues directly. Similarly, attempts to improve labour's bargaining position only through legislation are likely to be much less effective in contexts of labour surplus and low demand, in which individual employers do not see additional profits

to be gained through increased employment. Nevertheless, there is a tendency among policy makers in South Asia to attempt to deal with these macroeconomic employment outcomes through microeconomic changes, including changes in legislation that effectively reduce the rights of workers, in the expectation that this will somehow deal with the problem of inadequate employment generation.

Growth, employment and poverty in South Asia: Experiences of countries

A brief review of the patterns of economic development pursued in South Asia confirms the above theoretical analysis. The economic reform programmes of recent decades did not result in adequate economic growth, increased employment, or reduced poverty. South Asia, as a region, has so far experienced almost a total delink between economic growth and employment generation.

India

Advocates of economic reform have claimed that the decade of reform has witnessed India's transition to a new, higher growth trajectory. The typical claim has been that, as compared with the old 'Hindu rate of growth' of around 3.5 per cent per annum over the 1990s, the Indian economy was now set firmly on a trajectory involving a rate of growth of well over six per cent. It has been argued that despite the fiscal compression, resulting from the government's effort to contain the fiscal deficit in a period when the tax-GDP ratio was falling, liberalisation provided a stimulus to private 'animal spirits' so that increasing private investment more than compensated for the sharp deceleration in public capital formation during the 1990s. Optimistic projections, on the basis of this perception, have even suggested that the economy could easily achieve a nine per cent rate of growth in the near future.

But such optimism has not been borne out by the actual experience. By the end of the decade, official statistics had begun to reflect the slowing of economic growth in India. There was no area of economic activity in which GDP growth had not decelerated. Agriculture continued to stagnate, manufacturing growth fell from 6.8 to 5.6 per cent, and the services sector, which was responsible for raising aggregate growth even when the commodity-producing sectors were languishing, finally began to experience a degree of slackness.

Then, did the economic 'reforms' of the 1990s actually spur economic growth? In fact, it appears that the transition to a higher economic growth trajectory occurred well before the reforms of the 1990s. The 1980s were also a period when the rate of growth of GDP was close to six per cent overall, with an acceleration in the second half of the decade, as shown in table 3.1. This emerges from both of the two different series of national income estimates that use different base years. Thus the transition to a high rate of growth occurred during the 1980s, when liberalisation was limited and halting, and not from the 1990s, when the pace of liberalisation was substantially accelerated and was far more widespread.

Table 3.2 describes the growth performance of the three principal sectors over the last three decades. While the primary and secondary sectors registered a rise in the rate of growth during the 1970s and 1980s, that rate of growth

Table 3.1 Average annual rates of growth of GDP* (at factor cost) in India, 1980-2001 (%)

	Base year 1993-94	Base year 1980-81
1980-81 to 1984-85	5.5	5.3
1985-6 to 1989-90	5.8	7.0
1990-91 to 1995-96	5.6	4.2
1996-97 to 2000-01	6.2	...

Note: *In constant prices.

Source: GOI, National Accounts Statistics, various issues.

	Primary	Secondary	Tertiary
1971-72 to 1979-80	2.22	4.64	4.87
1981-82 to 1989-90	3.37	6.95	7.04
1991-92 to 1999-2000	3.30	6.98	8.35
1985-86 to 1989-90	5.72	8.66	8.83
1991-92 to 1994-95	3.77	8.04	6.40
1995-96 to 1999-2000	1.95	4.99	7.20

Note: Base year is 1993-94.

Source: GOI, National Accounts Statistics, various issues.

remained relatively constant in the 1990s when compared with the 1980s. Further, there was a deceleration in the rate of such growth during the second half of the 1990s when compared with the first half of the decade. Only the tertiary sector experienced a continuous rise in growth rates. But some services growth in the second half of the 1990s was affected by the increased government expenditure on salaries that was entailed in the Pay Commission award. Thus, the 1990s liberalisation was not accompanied by any new dynamism in the commodity-producing sectors of the economy.

While the reforms of the 1990s were not specifically directed at employment, the stated expectation of policy makers over this period was that liberalising markets, easing the conditions for entry and operation of foreign investors and encouraging exports, especially in agriculture, would all contribute towards more employment generation. And since the expansion and diversification of rural employment in particular was associated with declining levels of rural poverty over the 1980s, this was also expected to lead to a decline in poverty.

More than a decade after the initiation of this strategy, it is possible to assess how valid this argument has been for the Indian economy. The key results of the National Sample Survey's (NSS) 55th Round (over 1999-2000) regarding employment and unemployment can be combined with the 2001 Census of India data to give some idea of how employment trends have moved. Such an

Table 3.3 Growth rates of employment* in India, 1983-2000

	Rural	Urban
1983 to 1987-88	1.36	2.77
1987-88 to 1993-94	2.03	3.39
1993-94 to 1999-2000	0.58	2.27

Note: *Per annum employment here refers to all workers, Principal Status plus Subsidiary Status.

Source: Based on NSS employment rates and Census population figures.

exercise reveals a sharp, and even startling, decrease in the rate of employment generation across both rural and urban areas.

Based on the employment rates (as per cent of the population) emerging from the 55th Round of the NSS, it is possible to calculate the rate of growth of aggregate employment in rural and urban areas since the previous large sample conducted in 1993-94. Table 3.3 shows growth rates of employment that have been calculated by combining the NSS proportions of employment with the total population figures from the Census of India.

This shows a very significant deceleration for both rural and urban areas, with the annual rate of growth of rural employment falling to as low as two-thirds of one per cent over the period 1993-94 to 1999-2000. This was not only less than one-third the rate of the previous period from 1987-88 to 1993-94, it was also less than half the rate of growth of the labour force in the same period. In fact, it turns out that this was the lowest rate of growth of rural employment in post-Independence history. Even in urban areas, the rate of growth of employment was significantly lower than the previous periods since the early 1980s.

The Census of India also reveals this dramatic deceleration in employment in terms of main and marginal workers. Indeed, table 3.4 shows that census estimates an even sharper decline in rates of employment generation in terms of main activity, while marginal or subsidiary

activity may have increased, only because it forms a sort of survival strategy for households effectively denied the opportunities for 'decent work'.

The widening gap between incomes in agriculture and non-agriculture (such that the ratio of per worker domestic product in non-agriculture to that in agriculture which was about two in the 1950s was well over four in the 1990s) could be ascribed to insufficient productive employment generation in the countryside. But trends in urban areas also played a role in this. Thus, access to urban opportunities through migration and remittances could potentially be an important aspect of the diffusion of incomes to rural India. In fact, urban population grew more rapidly than rural population throughout the post-independence period, taking the urban population share up from 17 per cent in 1951 to 28 per cent in 2001. But the rate of increase in the urban share has been only between one and two per cent per annum for this period as a whole. More importantly, this rate slowed down to only 0.77 per cent per annum over 1991-2001, suggesting that over this decade there was not enough employment dynamism in the urban areas to generate increased rates of migration.

The other important data to be gleaned from NSS relates to the changing employment elasticity of sectoral output growth over the recent period. Table 3.5 presents these at the aggregative all-India level by major productive sectors. It is evident that there has been a substantial decline in employment elasticity of output

Table 3.4 Annual growth rates of aggregate employment in India, 1991-2001

	Annual growth rates of aggregate employment in India, 1991-2001 (%)	
	Male	Female
Main	0.31	0.49
Marginal	2.33	7.82
Total	1.73	3.18

Note: Per cent per annum.

Source: GOI 1991, 2001.

growth in almost all the major productive sectors except for transport and finance related activities. In agriculture, the employment elasticity has dropped to near zero, while it has turned negative for mining, utilities and social and community services. In most other sectors, including manufacturing, it has declined. The latter two reflect the impact of Pay Commission recommendations, which had increased public sector wages and restricted additional employment in the public sector over this period.

Within rural India, both agriculture and non-agriculture showed significant slowdowns in the rate of job generation. Using the NSS 'thin' sample results and marking the year 1990-91 as the break in terms of the introduction of neo-liberal economic reforms, the remarkable result that emerges is that agricultural employment growth increased while growth of non-agricultural employment decelerated very sharply, even though GDP growth has followed the opposite pattern. With this background, the decline in primary sector share of employment over the period 1993 to 1999-2000 was less a sign of rural dynamism than a reflection of the collapse of productive employment opportunities in the rural areas generally. Given the changes in macroeconomic strategy that have adversely affected the rural economy, this was not surprising.

Agricultural employment has shown the sharpest deceleration of all, with absolute declines in the number of those described as usually employed in agriculture, especially those working on household plots. There are several reasons that have been ascribed for this. The most common explanation has to do with technological and cropping pattern changes that have reduced labour demand in agriculture. These factors may certainly have played important roles. Much of the more recent technological change in Indian agriculture has taken the form of mechanisation that is labour-saving in nature. Indeed, the rate of labour-saving mechanisation appears to have increased

Sector	1983 to 1993-94	1993-94 to 1999-2000
Agriculture	0.70	0.01
Mining & quarrying	0.59	-0.41
Manufacturing	0.38	0.33
Electricity, gas & water supply	0.63	-0.52
Construction	0.86	0.82
Trade, hotels & restaurants	0.68	0.62
Transport, storage, communication	0.55	0.63
Financing, insurance, real estate & business services	0.45	0.64
Community, social & personal services	0.68	-0.25
All	0.52	0.16

Source: GOI, 2002b.

over the past decade, which has operated both to reduce labour demand and to make smaller farmers relatively worse off. Cropping pattern changes are also likely to have played a role. While cropping pattern changes can have divergent effects, the general thrust of the shifts (especially towards horticulture and floriculture at the margin in some areas) may be said to have reduced demand for labour.

However one additional, and important, reason for the slowdown in employment generation and the large fall in employment elasticity of agricultural output growth, may have to do with the pattern of land relations in rural India. It is now clear that this period witnessed a significant degree of concentration in terms of operated holdings, which reflected changes in both ownership and tenancy patterns. Many small and very marginal peasants have lost their land over this period, and have therefore been forced to search for work as landless labourers. There have been micro-level surveys that have reported increasing leasing-in by large farmers from small landowners. It is well-known that, for various reasons, those occupying small holdings tend to intensively use land and labour to achieve higher per land unit productivity than larger farms. Typically this means that they will be employing more household members at least in some agricultural work, whether in principal or subsidiary activity. If those who

previously occupied some land are now effectively dispossessed and are forced to hire themselves out as wage labour, the chances of similar level of household employment being achieved are low. Not all of this may be disguised unemployment, because the fact that small/marginal cultivators also use other non-land inputs more intensively, suggests that they would use this additional labour to increase per hectare productivity. Therefore, the phenomenon that is observed at the all-India level, of—increasing landlessness (even in terms of occupancy holdings) of the rural population—may also lead to less employment generation in agriculture.

For urban India, the deceleration, and even decline, in organised sector employment was one of the more disturbing features of the past decade, especially given that industrial output increased manifold, and the service sector in which much of the organised employment was based, was the most dynamic element in national income growth. Despite this, organised sector employment expansion slowed down considerably compared to the earlier decade, and barely increased at all for male workers. This was due to the collapse in public sector employment. While public sector employment fell especially in the latter part of the decade, private organised sector employment continued to increase, albeit very slowly. But this increase was not really enough

to compensate for the decline in public employment. Indeed, by the end of the decade, the organised sector accounted for only 8.3 per cent of total employment. For the private sector as a whole, it accounted for only 2.5 per cent of total employment. This, of course, creates a significant problem for labour policy because the traditional forms of regulation affecting workers' conditions, typically, can be effectively applied only to workers in the organised sector.

In India, formal feminisation of work force was still relatively less developed, although there is evidence that it was on the increase in the peak period of the 1990s. Instead, one of the more important forms of increase in women's work was in home-based work as part of subcontracting networks that extended all the way from large (often multinational) companies down through various subcontracted units to women working on a piece-rate basis at very low wages. This was possible because women were still seen as subsidiary earners in the households and the widespread prevalence of underemployment made any remuneration, however little and exploitative, seem attractive as part of the material survival strategy of the poor urban households.⁴

Table 3.6 shows that the growth rate of organised employment in manufacturing was pitifully low over this period—well below one per cent per annum between 1993 and 2000. The low and falling proportion of the organised sector in total private employment also questions the assumption that excessive regulation has restricted employers in Indian manufacturing activity in the aggregate, although it does suggest that employers are less likely to increase workforces in the organised sector.

Over this period, there was a marked increase in casual employment of male daily wage earners. This was not a new tendency—it has been noted in India, in both rural and urban areas, for several decades now—but the 1990s average was especially high in this regard. Such a

Table 3.6 Growth rates of employment in organised and unorganised manufacturing in India, 1993-94 and 1999-2000

Sector	Employment 1993-94 (millions)	Employment 1999-2000 (millions)	Rate of Growth (per cent per annum)
Organised manufacturing	6.40 (18.3)	6.74 (16.5)	0.87
Unorganised manufacturing	28.60 (81.7)	34.05 (83.48)	2.95
Total manufacturing	35.00	40.79	2.58

Note: Figures in brackets refer to share of total employment.

Source: GOI, NSS Surveys, 50th and 55th rounds.

feature would probably be welcomed by those who see in this an indication of greater 'flexibility' in the labour market, but in the context of the other trends already identified, it points to the fact that male workers were increasingly working in more fragile and vulnerable conditions and, despite this, urban employment generation remained inadequate at best and even less dynamic than in earlier periods.

With respect to female workers, by contrast, there was a slight increase in aggregate organised sector employment, in both public and private employment, although this still reflected a substantial deceleration in aggregate organised sector employment over the 1990s compared to the earlier decade. Secondary sector employment shares for women workers remained approximately stable, with, if anything, a slight decrease over the 1990s. While self-employment among women workers tended to decrease, there were increases in the share of both casual employment and regular employment.

In countries like India, as is well known, open unemployment rates are very poor indicators of the actual levels of job availability, because the material circumstances and absence of public social security systems mean that most workers have little choice but to find some employment, however unremunerative. Underemployment, or disguised unemployment, is far more difficult to estimate and measure, but is in fact a common feature of the Indian work place. It is true that there is more likely to be a recognition of open unemployment in urban areas where surplus labour is less easily disguised as is work in the fields. However, even here, the proliferation of informal activities, mostly in the service sector, can serve as a way of camouflaging the actual extent of underemployment. This is, of course, another reason why data on service sector employment in countries like India need to be viewed with some degree of caution.

Even given these caveats, the evidence from NSS shows that rates of

unemployment for both men and women were rather high over the 1990s at around seven per cent for men and 10 per cent for women using the 'weekly status' definition. It should be noted that these unemployment rates in the latter part of the period were still not enough to explain the overall decline in work force participation. It could be inferred from this that by the end of the decade, the 'discouraged worker effect' now so widely observed in developed countries with high rates of open unemployment, had some significance even in an economy like that of India, with little or no security in the form of unemployment benefits or insurance.

What all this suggests is that the pattern of growth over the 1990s did not generate sufficient employment even in the urban areas. This belies the expectations that deregulation and trade liberalisation would be adequate incentives to more employment-intensive economic activity. There are several reasons for this outcome, the most important being the economic policies that were pursued. These policies systematically worked against the interests of most small producers, who accounted for not only the most labour-intensive forms of urban production but also the dominant part of urban manufacturing employment. The reduction of priority sector credit allocation, the shift in emphasis in terms of financing investment from banks to the stock market (where most small players simply cannot enter), and the removal of various export subsidies from which small-scale exporters had benefited, all militated against the interests and viability of such enterprises. Meanwhile, public investment in vital urban infrastructure declined considerably, and public sector 'cost-cutting' and other practices reduced the efficiency and accessibility of the infrastructure because of inadequate maintenance. These not only created major bottlenecks for all producers, they also added to costs in general, which affected the economic viability of small enterprises.

The pattern of growth over the 1990s did not generate sufficient employment even in the urban areas

On top of all this, there was the pressure coming from newly freed imports becoming available at lower average rates of tariff. Such import competition was particularly difficult for small scale producers to meet, not only because of the greater control of many large companies over distributive networks, but also because small companies were typically unable to match the huge advertising budgets of larger companies, and multinationals in particular. The role played by such import competition in reducing the viability of small enterprises and, therefore, in exerting downward pressure on urban employment in particular, should not be underestimated. Meanwhile, as manufacturing exporters strove to become or remain competitive in an increasingly difficult international environment, they were forced not only to find various ways of making labour more 'flexible' than ever (through lower wages and more insecure working conditions), but also to adopt relatively capital-intensive new technologies that could ensure the quality and consistency that were required in world markets. This meant that even relatively small producers who were earlier the most labour-intensive employers, were no longer large sources of potential employment generation.

The evaluation of trends in poverty has been muddied and made more complex by certain changes in methodology in the main official consumer expenditure

surveys (the National Sample Surveys) which form the basis for poverty estimates in India. These have made the recent survey data non-comparable with earlier estimates. (The basic change was in terms of the reference period for a range of consumption items, from 30-days to 7-days and from 30-days to 365 days. These changes apparently had the effect of increasing estimates of consumption, as is clear from the data referring to 1993-94. While this may be a more accurate reflection of actual consumption, it does mean that the data so derived are not comparable with data from earlier surveys, so trend estimates cannot be made). Table 3.7 provides both the official estimates as well as the derivation of poverty ratios based on the earlier and new methodologies. This indicates the difficulty in comparing the data across various periods, but it does suggest that while the incidence of head-count poverty had been declining from the mid-1970s to 1990, subsequently that decline has been slowed or halted.

Other indicators point to disturbing changes in patterns of consumption. Thus, per capita food grain consumption declined from 476 grams per day in 1990 to only 418 grams per day in 2001.⁵ The National Sample Survey data also suggest that even aggregate calorific consumption per capita declined from just over 2200 calories per day in 1987-88 to around 2150 in 1999-2000. Given the aggregate growth rates and the evidence of

Table 3.7 Trends in poverty in India, 1977-2000

	Urban			Rural		
	Planning Commission estimate	Method 1	Method 2	Planning Commission estimate	Method 1	Method 2
1977-78	45.2	45.2	...	53.1	53.1	...
1983	40.8	40.8	...	45.7	45.6	...
1987-88	38.2	38.2	...	39.1	39.1	...
1993-94	32.4	32.6	27.9	37.3	37.0	31.6
1999-2000	23.6	...	24.8	27.1	...	28.4

Note: Method 1 refers to the earlier pattern of questioning with 30-day and 365-day reference periods, while Method 2 refers to the new pattern with 7-day questions also added, as well as different reference periods for particular commodities.

Source: GOI 2003a; Sen (forthcoming)

improved lifestyles among a minority, this points to substantially worsening income distribution, which is also confirmed by national survey data. Meanwhile, declining capital expenditure by the government has been associated with more infrastructural bottlenecks and worsening condition of basic public services. All these features, including deceleration in employment growth, diminished access to food for the lowest wage earners, and worsening coverage and quality of public services, have had particularly damaging impact upon the living condition of the poor masses of India.

Pakistan

For the period 1960-90, Pakistan's growth was high for a low-income country, at around six per cent per annum with a two per cent variation. However, in the decade of 1990s, significant deceleration of growth occurred in Pakistan, especially in certain sectors such as manufacturing. Further, such growth as has occurred, has been associated with very inadequate performance in terms of human development indicators. It has been argued,⁶ that the Pakistani pattern is indicative of 'growth without development', because despite its 'respectable' per capita growth over the second half of the 20th century, the country has 'systematically under-performed' on most social and political indicators, such as education, health, sanitation, fertility, gender equality, corruption, political instability and democracy. Significantly, such output growth has also been associated with much lower employment growth, at the trend rate of only two per cent per annum for the long period 1960-99.

In the recent period, a number of features of the economic growth process in Pakistan are worth noting:

- Firstly, there has been very high degree of volatility in growth, with very significant fluctuations over the years,

and a trend deceleration evident in the 1990s.

- Secondly, this growth itself has been based largely on unsustainable public expenditure using a build-up of public debt, which has already reached problematic levels. Total debt-servicing (of external and internal debt together) already accounts for five per cent of GDP,⁷ and future expansion cannot rely on similar debt-driven public spending alone.
- Thirdly, there is very high degree of underemployment or disguised unemployment. The Labour Force Survey data revealed underemployment at 13.3 per cent in rural areas and 6.3 per cent in urban areas in the mid-1990s, but these are likely to be underestimates.
- Fourthly, and finally, there appears to be a relatively less direct relationship between growth and employment generation than expected. As table 3.8 below indicates, output growth was relatively low in the 1970s, increased in the 1980s and dropped again in the 1990s. But employment growth followed the opposite pattern, being at its highest at three per cent over the 1970s and dropping to two per cent in the next two decades.⁸ It appears that there is a total break between growth and employment in the period after the mid-1980s, and particularly in the period after the imposition of an IMF Structural Adjustment Programme in 1987-88.

It is apparent from this table that in terms of output growth, manufacturing was the lead sector over all three periods (along with construction in the first phase only), and agriculture contributed progressively less over time. In terms of employment growth, manufacturing led during the low growth phase of the 1970s, and contributed to the slowdown in employment generation in the second period. In the 1990s, when output growth rates declined once again, employment growth in manufacturing was actually negative. The overall break between

Table 3.8 Growth rates of output, employment and productivity in Pakistan, 1970-1990s			
	(%)		
	1970s	1980s	1990s
Output			
Total (GDP)	4.70	6.30	4.20
Agriculture	2.00	3.90	3.30
Manufacturing	4.30	8.40	4.20
Construction	7.90	5.70	2.70
Electricity and Gas	8.50	9.90	7.40
Transport	5.50	6.60	3.70
Trade	4.90	7.50	4.10
Others	6.40	3.50	4.30
Employment			
Total	3.20	2.40	2.40
Agriculture	2.10	1.90	1.60
Manufacturing	3.00	1.40	-0.40
Construction	7.00	6.00	4.90
Electricity and Gas	12.80	-3.90	2.40
Transport	3.00	3.20	0.50
Trade	4.40	2.80	5.00
Others	6.40	3.50	4.30
Productivity			
Total	1.50	3.90	1.80
Agriculture	-0.10	2.00	1.70
Manufacturing	1.30	7.00	4.60
Construction	0.90	-0.30	-2.20
Transport	2.50	3.40	3.20
Trade	0.50	4.70	-0.90
Elasticity			
Total	0.68	0.38	0.57
Agriculture	1.05	0.49	0.48
Manufacturing	0.70	0.17	-0.10
Construction	0.89	1.05	1.81
Electricity and Gas	1.51	-0.39	0.32
Transport	0.55	0.48	0.14
Trade	0.90	0.37	1.22

Note: The growth rates are based on OLS regression coefficients.

Source: Majid 2000.

output and employment, therefore, seems to be more associated with the manufacturing sector, and agriculture and construction may have become residual 'refuge' sectors in the most recent period. This would also explain why there was relatively high employment growth, associated with declining labour productivity, in construction over the 1990s.

This analysis⁹ implies that the manufacturing sector is the key to the

explanation of the past poor employment performance. Manufacturing in Pakistan, as in most other developing nations, is characterised by a high degree of dualism, with a large-scale sector that dominates output (producing two-thirds of the value added in manufacturing) but employs only 17 per cent of manufacturing workers, and a small-scale sector that dominates employment (with 83 per cent of the manufacturing workforce) but accounts for only one-third of the manufacturing value added. The output and employment shares of these two categories have been remarkably stable over time. The small-scale sector, operating under major and increasingly severe constraints, and with huge disadvantages vis-à-vis large scale sector, has been relatively dormant in the past decade, and shows all the characteristics of a refuge labour sector. Meanwhile, the large-scale sector has been plagued by excess capacity (due to deficient aggregate demand resulting from deflationary structural adjustment policies, and import penetration) as well as by increasing capital intensity and productivity due to newer technologies, which have had the effect of reducing labour demand. Here, much as in India over the same period, investment and output growth in manufacturing in Pakistan tended to be capital-augmenting and labour-displacing. As manufacturing has been the lead sector in employment generation, this has affected the employment possibilities elsewhere in the economy, and explains both the persistence of low-productivity employment in the residual sectors and the low and declining rates of labour force participation in Pakistan.

The impact of deflationary macro-policies has not led to either increased growth or employment in Pakistan. A very major and direct role was played in this case by the constraints imposed on public investment. The investment-GDP ratio declined from 17.3 per cent in 1998-99 to 14.7 per cent in 2000-01, which was entirely due to the collapse in public investment from 8.5 per cent of

GDP to 5.6 per cent over the same period. Private investment, which is strongly interlinked with public investment and expenditure, faced a deficiency of demand as a result, and did not rise to meet the emerging slack. In addition, various other elements of the structural adjustment programme operated to reduce average growth rates, accelerate inflation, and thereby increase unemployment and poverty. The standard package of structural reforms included privatisation of public assets, ceilings on wages and employment in the public sector, cuts in subsidies, cuts in development expenditure including 'social sectors', increases in user charges for public utilities and services, and frequent devaluation. This last feature also had the unintended consequence of reducing the inflow of remittances from foreign workers, which to date has been an important and consistent source of sustenance of Pakistan's balance of payments.¹⁰ Thus, ironically, the macro-economic strategy based on Structural Adjustment Programmes, imposed and approved by the IMF and World Bank, supposedly to change the structure of the economy so as to improve the balance of payments, control inflation and revive growth, had the opposite effects in practice.

Inadequate employment generation and persistence of low productivity employment in most sectors, inevitably feeds into the persistence and even increase in levels of poverty. In Pakistan, there is general agreement that the incidence of poverty has increased over

the 1990s, as the combination of deflationary macro-economic measures and de-industrialisation following upon trade liberalisation has made itself felt. Table 3.9 describes the broad trends in poverty measured by the head count ratio.

It is noteworthy that the incidence of poverty started rising after the structural adjustment programme began in 1987-88. There are various reasons for this most of which relate to the direct and indirect effects of the macro-economic strategy itself. This intertwining of low employment generation and increasing poverty has been an important outcome of the experience of the past decade and a half in Pakistan.

Bangladesh

Much like the other countries in the region, Bangladesh also adopted the standard range of economic reforms beginning in the 1980s and much more comprehensively in the 1990s. These included the usual combination of expenditure-reducing and expenditure-switching policies, along with institutional and legislative changes aimed at ensuring greater freedom of market functioning. The results of this strategy appear to have been mixed. There was clearly greater macroeconomic stability in terms of reduced rates of inflation (from an average of 9.9 per cent per annum in the early 1980s to an average of 5.6 per cent per annum by the end of the 1990s). However, the rate of growth of GDP in constant prices appears to have been remarkably stable, at around four per cent, suggesting that the reforms package had very little effect on the trend rate of growth. Also, trends in the fiscal deficit (as share of GDP) appear to have been substantially post reform, in the 1990s, compared to the 1980s. This also reflects the decline in tax revenues consequent upon fiscal reforms and trade liberalisation.¹¹ While the 'fundamentals' of the economy have improved, these have failed to increase rates of investment and growth. However, growth rates per

Table 3.9 Trends in Poverty in Pakistan, 1969-99 (%)

Year	Rural	Urban	All Pakistan
1969-70	49.1	38.8	46.5
1979	32.5	25.9	30.7
1987-88	18.3	14.9	17.3
1990-91	23.6	18.6	22.1
1998-99	34.8	25.9	32.6

Source: Amjad and Kemal (1997) and Qureshi and Arif (1999), as quoted in Anwar 2001.

Years	Agriculture Total	Industry Total	Manufacturing	Services Total
1980-85	42.2	16.5	10.7	41.3
1986-90	37.3	16.3	9.6	46.4
1991-95	26.6	22.6	14.1	50.8
1996-2000	24.9	24.4	15.1	50.7

Note: Based on data from ILO 2001c; Rashid 2002; World Bank 2002f.

Source: Muqtada 2003.

capita do show significant increase, mainly because of the demographic transition involving declines in rates of population growth (from 2.1 per cent in 1990 to only 1.6 per cent in 2000).

The most recent Labour Force Survey suggests that employment grew at around three per cent per annum in the period 1995-2000. While this is still below the rate of increase of the labour force (estimated to be 3.4 per cent by the same survey) it is higher than in the earlier period. However, there are doubts about how and in which sectors such a jump in employment occurred. While the new export sector of readymade garments has provided an important source of new employment (especially for women), total employment in aggregate manufacturing has actually declined, in both relative and absolute terms. There has been significant de-industrialisation, particularly in the traditional sectors, which have suffered from import penetration. Open unemployment has risen from 1.8 per cent of the labour force to 4.9 per cent, while underemployment in 2000 was estimated to be very high at around 31 per cent.

Years	Agriculture Total	Industry Total	Manufacturing	Services Total
1980-85	58.8	11.0	...	24.2
1986-90	57.1	12.5	9.3	26.5
1991-95	65.9	12.9	13.0	21.2
1996-2000	63.2	9.5	7.5	27.3

Note: Based on data from ILO 2001c; Rashid 2002; World Bank 2002f.

Source: Muqtada 2003.

What is more remarkable in the case of Bangladesh is the fact that changes in the structure of output of the economy have been completely different from changes in the sectoral composition of employment. These are shown in table 3.10 and 3.11.

It is apparent from these tables that while the GDP share of agriculture fell by nearly half, its share of employment actually increased, completely contrary to the standard expectation with respect to the process of development. Indeed, the distribution of employment reflects hardly any structural change in the economy, while the composition of GDP indicates a more usual process of declining agriculture and increasing industry, albeit with a very large role played by services. Average productivity in agriculture remains low and wages in that sector have been lower than in manufacturing, with the gap widening. Agriculture, therefore, is clearly a residual sector in the Bangladeshi context, absorbing labour that cannot obtain productive employment elsewhere. It is possible that services have been playing a similar role.

The poor employment generation in manufacturing reflects a combination of declines in the traditional manufacturing sectors and (given the rising share of aggregate output) increases in labour productivity, which are the result of sectoral shifts and changing technology. The latter tends to be confirmed by the rising real wages in manufacturing. This conforms to the pattern we have already observed in other South Asian countries, where the competitive pressures resulting from greater openness have involved labour-displacing technological changes.

Poverty is estimated to have declined in the latter part of the 1990s, although the rural incidence remains high at around 30 per cent of the rural population. There is a common perception that the presence of micro-credit delivery systems in Bangladesh has operated to provide a cushion for poor households in case of shocks such as crop failures, floods and other natural disasters, etc. It has also

helped to improve the relative position of women. However, the features of micro-credit (short-term, relatively small amounts, groups lending pressure for prompt repayment) mean that it has not contributed as much to asset creation among the poor, or to sustained employment generation as expected.¹² The expansion of public transport infrastructure, especially road networks in the 1980s, may have contributed to subsequent rural development, which, in turn, assisted the reduction of poverty in that later period. However, trade liberalisation had the counter effect of reducing the viability of many small producers, so the net effect of all the policy changes over the period is not clear. It is likely that some of the effects of openness were adverse for livelihoods and therefore increased poverty, and these were, to some extent, mitigated by the spread of public transport networks and the availability of micro-credit.

Sri Lanka

At first glance, Sri Lanka apparently shows reasonably good economic growth and employment generation performance from the early 1990s onwards. This is somewhat surprising, since the country was among the least stable in terms of the intensification of internal conflict, and had also undergone policies of adjustment and privatisation from the 1980s onwards. The country had to suffer violent eruptions of conflict over the past decade, amounting at times to an almost civil war-like situation, especially in the northern Tamil-dominated region. This not only meant destruction of many lives and of physical and social infrastructure, but also created gravely uncertain conditions for private investment besides involving diversion of public funds for massive increases in military spending by the government.

In fact, the growth of the Sri Lankan economy—at an average of more than five per cent per annum over the 1990s—exhibited substantial volatility and has

also been associated with a large build-up of public debt. In fact, by the turn of the decade, the fragile nature of the growth process and the increased external vulnerability of the Sri Lankan economy were exposed, when there was a mini-balance of payments crisis, resulting from a temporary decline in aid inflows and export receipts. In 2001, GDP fell by 1.3 per cent.

Sri Lanka underwent similar economic reform packages to those of other countries in South Asia, but from an even earlier period, starting in the late 1970s. The process was marked in the 1980s with the replacement of a universal system of food distribution with targeted food stamps and other changes designed to reduce the welfare redistributive schemes of the state, and continued with an intensified programme of fiscal retrenchment and privatisation of state assets, including plantations, from the early 1990s.

The economic policies adopted during the last two decades were oriented towards accelerating ‘growth’ through liberalisation, export orientation and privatisation, with the assumption that the beneficial effects of growth would trickle down and reduce poverty. However, even the World Bank, which was actively associated with promoting these policies, now admits that neither adequate growth nor poverty reduction has been achieved during this period.¹³ While the rate of growth of output increased in the 1990s, it was associated with *lower* rates of employment expansion than in the previous two decades (table 3.12). This is precisely the same pattern which we have

Trade liberalisation had the counter effect of reducing the viability of many small producers

	1971 to 1980/81	1980-81 to 1990	1990 to 1999
GDP (const prices)	4.5	3.6	5.1
Population	1.7	1.4	1.2
Employment	2.9	2.3	2.1

Note: *Percentage change per annum, Based on data from Central Bank of Sri Lanka and Department of Census and Statistics.

Source: Richards *et al.* 2002.

	1980	1990	1999
Agriculture, forestry, fishing	28	26	21
Industry, incl. mining & construction	30	26	26
Services	43	48	53

Note: Based on data from Central Bank of Sri Lanka.

Source: Richards *et al.* 2002.

already observed in Pakistan, and to a somewhat lesser extent in India.

In terms of structural change, the Sri Lankan economy experienced what can be described as the standard process of relative decline in the share of the primary sector. However, the share of the secondary sector remained broadly stable over the past two decades after declining in the 1970s, and services now account for more than half of the GDP. In fact, there is more to this structural change than is immediately apparent, since it is the result of a significantly changing profile in agriculture, with a steady decline in the traditional export crops. The share of such crops (tea, rubber and coconut) declined from 34 per cent of value added in agriculture in 1980 to only 20 per cent in 1999. Even rice, the mainstay of traditional agriculture, declined from 27 per cent of value added in agriculture to 18 per cent over the same period, as a range of 'other crops' emerged to dominate. The decline in the plantation crops was reflected in the declining share of the processing of tea, rubber and coconut in total manufacturing, from 34 to 15 per cent, and a corresponding rise in the share of factory industry.

This was also reflected in the changing composition of exports. The share of agricultural exports experienced a steep fall from 62 per cent in 1980 to 21 per

cent in 1999, while industrial exports registered an increase from 33 to 77 per cent. However, these massive shifts in production structure did not get reflected in employment patterns: while the share of agriculture in total employment declined from 42 to 36 per cent, the share of manufacturing employment remained absolutely stagnant at only 15 per cent, between 1990 and 1999. As in other South Asian countries, the increase has been in services employment, which is likely to have been operating as the residual or refuge sector once again.

It is true that open unemployment rates have declined substantially. But this is likely to reflect more of the discouraged worker effect than an actual increase in job availability, given the deceleration in employment expansion that was already noted. Further, as the Government of Sri Lanka¹⁴ has also noted, 'Among the so-called "employed" are people that have worked for as little as one hour per week in paid employment. This definition hides many who are significantly under-employed and are in need of full time productive jobs. (It has been estimated that the number of 'under-employed' amount to as many as 20 per cent of the total workforce, or approximately 1.3 million people). Also included as 'employed' are approximately 673,000 people that are classified as 'unpaid family workers', many of whom would no doubt welcome full-time, paid work if it were available.'

The official estimates for Sri Lanka suggest fluctuations and no downward trend in the incidence of poverty by the head count ratio. Further, there is substantial difference across the regions: if the more prosperous western region is excluded, aggregate poverty figures would be much higher (around 41-55 per cent, according to the higher poverty line). Poverty incidence is highest in the estate sector, at 45 per cent, and lowest in urban Sri Lanka at 25 per cent—but in all of these categories, it has stubbornly persisted at its earlier levels despite the more than five per cent growth of the

	1990/91	1995/96	1996/97
Lower poverty line	20	25	19
Higher poverty line	33	39	31

Source: GOS 2002b.

economy. There is little doubt that this persistence of poverty is related not only to various measures of the government which have reduced access to basic needs and public goods over the period from the mid-1980s onwards, but also because the process of liberalisation and privatisation thus far has simply not generated enough productive employment.

Nepal

Nepal remains a predominantly poor agrarian economy, and there has been very little in terms of either structural change or substantial development that would have caused shifts in the pattern of employment or in labour productivity in general. While the labour force participation rates are high compared to other similar countries, this may be due to better recognition and enumeration of work by the National Labour Force Surveys. Most of the workforce is employed in agriculture, with the remaining in services, and there has been little industrialisation. Table 3.15 provides the labour force participation rates and structure of employment in Nepal over the 1990s.

It is evident that most of those in the labour force are employed in agriculture, and that the overwhelming majority is in subsistence agriculture. The other important category is 'elementary occupations' which is a catchall category that includes mining, construction, transport, manufacturing, porters, street vendors, domestic workers, and also includes such activities as firewood collection and fetching of water. It is clear that a relatively small proportion (less than one-fourth) of all workers are paid employees. However, irregular and casual wage workers, especially in agriculture and construction, are not covered under paid employees but are mostly listed as self-employed. Informal employment is dominant in Nepal, both in urban and rural areas.

Table 3.15 Labour force participation and employment structure in Nepal, 1995-96 and 1998-99						
	1995-96			1998-99		
	Male	Female	Total	Male	Female	Total
Labour force participation rate	75.2	66.4	70.6	73.3	71.3	72.3
Share of persons employed (15+) by occupation (per cent)						
Agriculture				60.1	80.5	70.3
Elementary occupations				16.1	11.0	13.6
Service workers				6.9	3.5	5.2
Craft and related trade				8.4	3.5	5.9
Others				8.6	1.5	5.1
Total (000s)				4736	4727	9463
Structure of employment (15+) (per cent)						
Paid employees				24.3	7.7	16.0
Self-employed				52.0	28.7	40.4
Unpaid family workers				23.3	63.4	43.3

Note: Based on data from Nepal Labour Force 1995-96 and 1998-99.

Source: GEFONT 2001.

Underemployment is a very serious problem in Nepal as well.¹⁵ It is estimated to be approximately 45 per cent of total mandays, which is extremely high. According to National Labour Force Survey, underemployment (as a percentage of the labour force) is 4.1-4.8 per cent in urban areas and four per cent in rural Nepal. While open unemployment rates are low, ranging from 1.7 to two per cent for women and men, this reflects the absence of social security and the broad definitions of employment rather than any tightness in the labour market. This occurs in combination with a very high proportion (38.6 per cent) of children in the age-group 10-14 years, being involved in work, which is also a characteristic of subsistence economies. They are dominantly employed in agriculture, as unpaid family workers.

The economy of Nepal is not only poor, it has also had to deal with a very significant amount of domestic political turmoil, some of which is directly related to poverty and lack of development. The political, social and economic uncertainties created by the growth of the violent Maoist movement, and their control of increasing portions of territory,

have affected the government's ability to undertake developmental activities. The past decade, however, has also witnessed growing attempts at decentralisation and devolution of both administrative and financial authority, with some favourable implications for public services at least in some rural areas. However, general fiscal constraints, along with the effects of the open border with India, which have meant that Indian trade liberalisation necessarily affects Nepal's economy as well, have been associated with relatively low rates of growth and even lower rates of employment expansion.

There is no evidence of a decline in poverty for Nepal as a whole between 1976 and 1995-96 (the date of the most recent Household Budget Survey). Poverty is widespread and most estimates put it at just under half of the population. The Nepal Living Standards Survey (1995-96) found 42 per cent of the population to be below the poverty line (44 per cent of urban and only 23 per cent of rural populations). The difference between Kathmandu and the rest of Nepal, including other urban areas, is very marked: the poverty ratio in the urban Kathmandu Valley was estimated to be only four per cent. What is very clear is that, despite the low level of development and different nature of Nepal's economy, it shares one characteristic with other countries of South Asia: growth over the decade 1984-85 to 1995-96 did not translate into reduction in the incidence of poverty. Rather, the survey data indicate that inequalities increased over this period.¹⁶

Economic policies and employment

Commonality of experience in South Asia

One striking feature of the previous discussion is the apparent commonality of economic experience across the very disparate countries of the region, which differ in size, resource endowment, particular social and political configurations, and patterns of

constraints. Despite these differences, there are some significant similarities in both the types of economic strategy that have been pursued, and the ensuing economic processes, especially in terms of the employment outcomes. Thus, all of these economies share certain structural characteristics. These include:

- the presence of a high degree of underemployment;
- a strong dualism between organised and unorganised sectors, especially in manufacturing, which sometimes (but not always) translates into the dualism between large-scale and small-scale;
- the continuing significance of agriculture as a major employer;
- the emergence of services as one of the largest employers, often as a refuge sector; and
- the involvement of by far the larger share of the workforce in, what is essentially, low productivity employment.

But in addition to these, what is more remarkable is the apparent synchronicity of policies and processes across the region, despite very differing social and political pressures. All the economies of the region had import-substituting industrialisation strategies, with the attendant development of some industry and associated dualism in the economy, as well as regulation of much economic activity, for the first few decades after independence. From the 1980s onwards, all of them moved, to varying degrees, to a strategy of development based on export-orientation, liberalisation and privatisation based on the market-based economic paradigm. The process could be said to have started in South Asia with the Sri Lankan government of Jayawardene moving towards liberalisation and dismantling of the earlier universal food security system, in the late 1970s and early 1980s. Subsequently, and more strongly in the early 1990s, all the governments in the region (barring that of Nepal, which had

a very different position) went through fairly comprehensive policies of internal and external liberalisation, reduction of direct state responsibility for a range of goods and services, and privatisation. By the turn of the century, most of the important economies in South Asia had undergone:

- very substantial reduction in direct state control in terms of administered prices, regulation of economic activity;
- privatisation of state assets, often in controversial circumstances;
- rationalisation (usually also a euphemism for reduction) of direct and indirect tax rates, which became associated with declining tax-GDP ratios;
- attempts (typically unsuccessful) to reduce fiscal deficits which usually involved cutting back on public productive investment as well as certain types of social expenditure, reducing subsidies to farmers and increasing user charges for public services and utilities;
- trade liberalisation, involving shifts from quantitative restrictions to tariffs and typically sharp reductions in the average rate of tariff protection;
- financial liberalisation involving reductions in directed credit, freeing of interest rate ceilings and other measures which raised the cost of borrowing, including for the government;
- movement toward market determined exchange rates and liberalisation of current account transactions; and
- some degree of capital account liberalisation, including easing rules for Foreign Direct Investment, allowing non-residents to hold domestic financial assets and providing easier access to foreign commercial borrowing by domestic firms.

This commonality of policy experience meant in turn that the outcomes were also quite similar, despite the very different initial conditions in the different

economies. Some of these outcomes are discussed in the following sections, but before that, certain common processes that are quite noticeable and significant, are identified here.

First, the evidence points to increasing inequalities of income in all the economies of the region. These growing inequalities are evident in terms of differences between rural and urban residents; between households of various sizes and classes of expenditure; and between sub-regions within countries. The widening of income gaps have also, in some cases, been associated with increased social and political tensions in the region, which may be expressed not so much as direct demands for redressal of income imbalances, but in terms of other ethnic, social, cultural or regional demands.

Second, across all the countries in the region there has been a deceleration of employment generation, compared to previous periods. This has occurred despite a slight improvement, or at least the same trend level, of growth in aggregate economic activity. In all the countries in South Asia, employment generation has not kept pace with the increase in population, and in several countries (such as India and Pakistan, for example), this has expressed itself not only in higher rates of unemployment and underemployment, but also in declining labour force participation, which is not fully explained by increased involvement in education.

Third, in most of the countries in the region, there has been either stagnation or increase in levels of poverty as defined by the head count ratio. India is the only country where the data are ambiguous on this matter, but even here, plausible estimates suggest that while poverty has declined somewhat over this period, the rate of decline has reduced compared to the earlier periods. Such evidence on poverty across the region is broadly in conformity with the evidence on widening inequality and decelerating employment.

Across all the countries in the region there has been deceleration of employment generation, compared to previous periods

The quality of employment appears to have deteriorated, with an increase in casual and part-time work

Fourth, the relative decline of manufacturing, especially in the small-scale sector, and the stagnation or decline of manufacturing employment, is marked across the region, with the exception of Sri Lanka. In different countries of the region, agriculture and/or services appear to have become residual refuge sectors for workers who cannot find productive employment in industry; in India, however, even agricultural employment has declined. Across the region, there appears to be relatively little link between rates of aggregate economic growth and total employment generation in the recent past.

Fifth, in all countries of the region, the quality of employment appears to have deteriorated, with an increase in casual and part-time work, as well as greater fragility of contracts and indications that day labourers find fewer days of work. Real wage rates have typically stagnated, and wage shares of income have typically declined.

Macroeconomic policies and employment

The patterns of growth and employment, observed in the different economies of South Asia since the early 1990s, call into question the arguments advanced by the advocates of reform that there is a direct link between such reform and economic growth. Such a link tends to be based on the premises that both internal deregulation and external liberalisation spur private investment; that curbing public investment is beneficial for aggregate growth because otherwise it tends to 'crowd out' private investment; that privatisation delivers assets to those who are likely to make socially more desirable use of them; and, that private agents, acting on their own, will deliver both more efficient and more dynamic outcomes.

This optimistic perception ignores the widespread evidence of market failure, at both microeconomic and macroeconomic levels, as well as the strong evidence of close positive links between public and

private investment. There are obvious reasons why such an argument, therefore, would not hold over either in short-run or long-run time horizons, especially in developing economies such as those in South Asia. Given the unequal asset and income distribution that exists and the consequent limited nature of the home market, private investment would come up against a demand constraint fairly rapidly. This would be aggravated when the type of private investment that occurs does not generate that much employment, as is likely when the investment is in sectors catering to rich consumers with production involving high import content or more capital-intensive technology. Public investment in developing countries tends to have strong positive linkages with private investment, not only because of the standard Keynesian mechanism, but also because it operates to ease infrastructure and other supply constraints, making private production easier and cheaper. Therefore, a strategy based on reducing public investment and deregulating private investment to fill the gap could well be expected to generate lower aggregate investment and growth.

This argument is actually borne out by the experience of almost all the countries of South Asia. By the turn of the decade, governments in the region had already achieved major liberalisation and deregulation in many important areas of the economy. Thus, internal and external trade was almost completely liberalised in all the countries of the region by 2001. Domestic deregulation—especially for large capital—was extensive and provided much greater freedom to private investors in general. Attempts to control the fiscal deficit in order to prevent 'crowding out' of private investment meant cuts in the regional governments productive expenditures and substantial reduction in the 'primary deficits' (that is, net of interest payments). Many cases of privatisation of public assets were pushed through even at rock bottom prices. Despite all this, if growth still tended to slacken, the problem obviously lay to a

substantial extent with the reform process itself. And this was manifested in the fact that in aggregate terms, the reform process did not generate either higher rates of investment in the aggregate or increases in the productivity of such investment.

All the governments in the region now recognise that employment generation has been a major failure of the reform process so far. In fact, increasing employment generation is now an explicit concern in most recent planning and policy documents. It is strange, however, that while the explicit goal has changed from growth itself to employment generation, the strategies that are supposed to achieve this essentially involve further doses of same reform, rather than policies that would directly affect employment. Thus, most of the policy statements refer to further privatisation, further deregulation of domestic economic activity, further financial liberalisation and external capital account liberalisation, and further restrictions on fiscal policies. These are precisely the set of policies that, as observed already, have been associated with deceleration of employment in the past decade. If employment generation were to be the focus of the new policy thrust in the region, then it would actually require a rethinking of these policies, towards more active state intervention in terms of supporting employment-intensive activities through a range of trade, fiscal and financial measures. Without such active involvement, aggregate employment in the region is likely to continue to stagnate, and may even deteriorate with further doses of reform.

Trade liberalisation and technology choice

All the economies in the South Asian region underwent very substantial trade liberalisation, and effective rates of protection across the region reduced very sharply from the early 1990s onwards. The expectation was that there would be a consequential shift from capital-

intensive production to more labour-intensive production that would be more in keeping with the perceived static comparative advantage. This, in turn, was expected to lead to increased employment generation because of the greater incentives afforded to labour intensive exports in particular.

However, thus far the experience seems to have belied this optimistic expectation. It is true that in each of the economies in South Asia, there has been a spurt in employment in a particular export sector: readymade garments in Bangladesh; cotton cultivation in Pakistan; clothing, software and IT-enabled services in India; and some miscellaneous manufactured exports in Sri Lanka. However, this has been more than counterbalanced by the decline in employment in traditional sectors and in the industries catering to the domestic market that have faced import competition consequent upon trade liberalisation. This is why, across the region, aggregate rates of employment show deceleration in growth, and in manufacturing, even declines. It is noteworthy that for all of South Asia, the manufacturing trade balance is still negative, so it is not surprising that there has been a net employment loss through trade liberalisation. Two features that are significant for employment need to be emphasised here. First, the worst affected by import penetration tend to be small producers, who are by far the most labour-intensive employers, and they are often displaced by imports produced through more capital-intensive techniques. Second, the effect of import competition on output and employment need not be measured only through the actual level of imports; often, the mere threat of imports is sufficient to reduce domestic prices such that the higher cost or smaller producers become unviable. This has been observed, for instance, in agriculture and small-scale manufactures in both India and Bangladesh.

Another aspect of greater openness and the consequent increase in the level

All the governments in the region now recognise that employment generation has been a major failure of the reform process so far

of competition is that it also affects patterns of technological choice of domestic producers, independent of whether they are producing for the home market or the export market. We have already observed that the need to compete in both domestic and international markets, with large multinational producers able to achieve certain quality and cost standards, means that local producers are required to adopt relatively capital-intensive new technologies simply in order to survive. Even small-scale producers are not immune to this trend, as the products of multinational companies become more widely available, even in relatively remote or rural markets in South Asia. One notable feature of most of the manufacturing sectors in this region is an increase in labour productivity (or conversely, declines in the employment elasticity of production), reflecting mainly changes in technology. These technologies are copied from the models developed in advanced capitalist nations where labour-saving is more of a concern, but they impose quality and homogeneity standards for products that become increasingly necessary even to retain consumers in the developing world.

ICT and employment in South Asia

In many official discussions across the region, information and communication technology (ICT) is seen as the great new hope, the expansion of which will employ a substantial portion of the educated workforce and increase the value added per worker, besides acting as an engine of growth within the economy in general. Software and IT-enabled services in the 1990s emerged as the fastest growing segment of Indian exports, and this has continued into the current decade. The recent success of Indian software and IT-enabled services has been a source of optimism in India and in other countries of South Asia, all of which are now anxious to capture some of this potential market. Much has been made of the

growth potential of this sector and its ability to absorb increasing number of the educated, as well as the important potential it offers, especially for urban educated women, to enter employment on relatively advantageous terms. There is no doubt that these new sectors offer a very promising combination of employment opportunities and export revenues from hardware, software and IT-enabled services. Projections by both private industry and government of the likely trends in output, exports and employment, are extremely optimistic. Also, recent trends confirm that there has been a decline in open unemployment among the urban educated groups in India, which has been attributed by many to the employment expansion in IT-enabled services in particular.

According to one study¹⁷, India alone has the potential of raising export revenues from software and IT-enabled services from its 1999-2000 level of \$4 billion to \$50 billion in 2008, involving an annual rate of growth of 40 per cent in the output of the industry. As a result, the IT sector's contribution to GDP growth is expected to touch 7.5 per cent and its share in India's exports to reach 30 per cent as compared with around five per cent currently. Such growth is expected to have substantial employment implications, with employment in the software industry alone projected to rise from its 1997-98 level of 180,000 to 2.2 million in 2008. This makes the projected increase in employment in the software sector greater than the increase in total organised public and private sector employment of 181,300 between 1990 and 1998. To this should be added the projection that direct and indirect employment in the hardware sector is expected to touch 1.6 million and 3.2 million respectively, which would take total IT employment to seven million in 2008. And, of course, this still does not include the employment potential of a wide range of IT-enabled services, including data entry and processing, medical transcription and back-office

work subcontracted by multinational companies, where it is often argued that the scope for job expansion is even greater.

As always, however, there is a need for caution in interpreting such optimistic figures. The first problem relates to the digital divide, in terms of both availability of, and access to, even the hardware necessary, as well as the levels of education required to make use of the technology even at a relatively basic level. The penetration of PCs in India and in South Asia as a whole is among the lowest in the world. Telephone connectivity is also low, although it has been growing more rapidly recently. Even after taking account of the optimistic projections of IT growth to the year 2008, PC penetration in India is expected to touch only 20 per thousand and fixed telephone penetration just 100 per thousand. In these circumstances, the impact of IT on the nation as a whole can only be marginal, and generally confined to urban India.¹⁸

The ability to make use of the technology is critically determined by levels of education. And here, of course, most of South Asia is woefully lacking. The literacy requirement for official figures is set so low that in most cases being literate would be inadequate to be competent enough to become digitally literate, as a minimum of school education would be a prerequisite beyond a point. And in terms of this criterion, the picture is quite depressing, according to a recent report on the state of public education. Even in India, which is supposedly the frontrunner in the region for software and related activities, one estimate (relating to the 1990s) is that half of the country's population (61 per cent of women and 36 per cent of men, aged seven and above) is functionally unable to read and write; less than 30 per cent of all adults have completed eight years of schooling; and, one-third of all children aged 6-14 years (about 23 million boys and 36 million girls) are out of school.¹⁹

Similarly, since much of the activity is in English, the employment generated by both the software and IT-enabled services sectors is currently concentrated among the richer and English-educated sections of urban (and even metropolitan) South Asia, and is likely to remain so.

It is also true that the impact of IT on growth and employment is uncertain. The remarkable rates of growth recently recorded are from very small bases, and the sector typically remains very small relative to the rest of the economy, in India as elsewhere in the region. Also, because this industry is characterised by substantial dependence on imported capital goods, components and software, this substantially reduces the domestic multiplier effects of such spending.

A study²⁰ points out that there are at least three prerequisites for full realisation of the growth potential in this sector. First, software exports need to diversify in term of sources and destinations. Currently the US market dominates, which is why the recent slowdown in the US has generated apprehensions about the sustainability of the Indian IT boom. Second, software service providers should be able to sustain the quality of services offered by inducting appropriately qualified and skilled personnel to not merely write code but design systems. Third, Indian firms should be able to migrate up the value chain, so as to ensure a growing share of the market as well as enter into segments that offer higher value per employee. In all these areas the availability of personnel is bound to prove a constraint. The inadequacy of training services resulting from the proliferation of poorly-staffed, profit-hungry teaching shops, and the limited base for training and skilled-development in the domestic software services segment are already evident. As a result even as an outsourcer, India still remains a lower-end supplier of software and IT-enabled services.

Further, it is not clear how much of this export revenue is little more than the sale of cheap skilled and not-so-skilled

The ability to make use of technology is critically determined by levels of education

All the countries in the region need to rethink, modify and revise at least some of the economic strategy that has been broadly common to all of them

IT-enabled labour services, whose output is transmitted via modern communication technologies to sites where those services are required. The possibility of such service delivery has helped India circumvent the obstacle to service exports created by immigration laws in the developed countries. This means that a large part of software exports is not very different from the exports of nursing, carpentry, masonry and other such services, except for the fact that unlike those exports, the presence of the service provider at the point of sale is not required in the case of IT-enabled services. This will generate more employment for the educated which is certainly a good thing for the region, but that does not necessarily translate into an improvement in aggregate labour productivity or a rise in employment conditions for the mass of workers in the region.

This sector shows clear signs of labour market segmentation by gender, caste and class. As almost all of those involved are from the urban upper caste English-speaking elite of South Asian society, it has been argued that the pattern of development of the software and IT-enabled services sector brings into sharp relief the tendency of the market to reinforce or aggravate existing socio-economic inequities.²¹ While it will certainly draw more of the educated young persons into paid jobs and reduce the problem of unemployment of the educated youth to some extent, it would not bring about any major transformation in aggregate employment patterns in the near future.

Policy implications

It is clear from the above discussion that, despite their diversity of context and experience, South Asian economies share a number of problems with respect to employment generation. Many of the current commonalities in this regard stem not only from structural features, which are shared across countries, but also from

the similar set of macroeconomic, trade and financial liberalisation policies that have been adopted, and which have had a net deleterious effect on employment generation, notwithstanding expectations to the contrary. It would be correct to state that productive employment generation is probably the single most critical economic issue in all of these countries, and should be the primary focus of future government policies. Several policy implications clearly emerge from our analysis:

1. The first important policy implication that emerges from the preceding discussion is that all the countries in the region need to rethink, modify and revise at least some of the economic strategy that has been broadly common to all of them. This refers most specifically to the supposed emphasis on fiscal discipline, which has not been reflected so much in actual declines in the fiscal deficit to GDP ratios, as in compression of important productive public expenditure with high linkage and multiplier effects. Across South Asia, rates of public investment have come down. This process very definitely needs to be reversed. In addition, there should be a greater emphasis on public expenditure with high direct and indirect effects on employment generation. Some obvious examples are:
 - (a) public expenditure on rural employment schemes that are used to build rural infrastructure and therefore improve future supply conditions, and
 - (b) urban employment schemes which are used to provide important public services (including repair of existing infrastructure), thereby improving both welfare and the conditions for future growth.
2. In addition, it was evident above that trade liberalisation, while it may have been associated with some expansion

in exports in certain countries, has meant a loss of employment in the net, because of the effects of import competition on domestic producers, especially on the employment-intensive small-scale producers. It is imperative for this region to counter some of the adverse effects of trade liberalisation on employment. Possible interventions include:

- (a) some special measures, including marketing assistance and some degree of protection, for small-scale producers competing with large multinational producers;
- (b) a system of variable tariffs to preserve some degree of stability in domestic output prices, especially for perishable goods; and
- (c) ensuring adequate infrastructure conditions especially for small producers.

While WTO membership currently precludes use of the protection measures that were historically a standard feature of late industrialisation across the world, it is possible to use even the existing GATT provisions in a way so as to ensure some degree of protection to industries that are considered important for the economy, either from the strategic or the employment perspective.

3. As the pressures of import competition have had the effect of forcing more capital-intensive techniques upon domestic producers (even on small-scale producers) simply to comply with quality standards that are increasingly imposed by consumers, some public policy measures are required to counteract this trend and make more 'appropriate' (in terms of labour-using) technologies more widely accepted. These could include fiscal and credit incentives to producers who choose employment more labour.

4. The one sector which has been the worst affected because of greater trade openness in the recent past is agriculture, and there is no question that agriculture is facing a severe crisis across the region. Since this sector remains the most important employer in South Asia, much more needs to be done to protect livelihood and food security in agriculture. The measures that should be considered here include:

- (a) continuing and even expanding some degree of price support operations to ensure stable output prices for cultivators of important crops;
- (b) expansion of public agricultural extension activities, which have declined in all countries, so as to counteract the growing power of multinational seed and input suppliers in determining cropping patterns and input use, and increasing the risk of cultivation;
- (c) variable tariff on agricultural output, to smoothen the volatility of world prices for domestic cultivators and prevent dumping of subsidised crop production from USA and Europe;
- (d) reversing the trend towards cutting all subsidies on agriculture, especially when huge subsidies to American and European farmers continue unabated; and
- (e) insisting (in international trade negotiations) upon the equal right to protect domestic cultivators as long as high subsidies and problems of market access persist in the developed countries.

5. Financial liberalisation has had an indirect but profound impact upon employment generation possibilities by reducing the viability of the largest employers—agriculture and small-scale producers in manufacturing and services. It is important to revive the

Much more needs to be done to protect livelihood and food security in agriculture

Growth in itself is not an adequate means of ensuring a rise in labour demand; other related processes must occur

possibility of directed credit, which has been reduced or removed across the region, so as to provide a means of ensuring the continued economic viability of small-scale producers, who are unable to access other capital markets for finance.

6. A problem that exists throughout the region is that of strong dualism in labour markets, with a large-scale sector that employs relatively few but more protected workers, and a small-scale (or unorganised) sector that employs the bulk of the workforce but provides little or no protection to workers, who are typically engaged in low-productivity operations. Obviously, for genuine progress on the employment front, this dualism must be broken. However, the current approach appears to be that of levelling downwards, that is of denying workers in the large or organised sector their basic rights, rather than attempting to improve the wages and working conditions of all workers. The problem is not a simple one of legislation, although, of course, that is also a necessary condition for improving the ability of workers to bargain for better conditions and to ensure their basic socio-economic rights. But a reduction or removal of labour market dualism can only come about through an increase in labour demand that dramatically improves the bargaining power of workers. Growth in itself is not an adequate means of ensuring such a rise in labour demand; other related processes must occur.
7. Similarly, the endemic problem of underemployment that was mentioned in this chapter, cannot be addressed through legislation alone. It requires a certain increase in labour demand that employs all labour productively. The policy focus, therefore, must be on employment diversification, on identifying sectors with a potentially large use of labour, and systematically promoting them through a variety of measures. Sectors like IT-enabled services do have some promise for increasing employment among the educated groups, but equally, other diversified forms of employment generation must urgently be found for less skilled workers, especially in rural areas.
8. Finally, it is apparent that in this region, where the problems are so similar, there is tremendous scope for regional co-operation. The potential for economic integration in the region through South Asian Association for Regional Cooperation (SAARC) has thus far been bogged down by mutual distrust, especially between the two large members, India and Pakistan. If this can be overcome, and trade within the region is widened, as well as expansion in other forms of South-South trade (as indeed is the case currently between India and the Mercosur countries, or India and Africa), there are genuine and huge possibilities of embarking on a mutually beneficial path of growth *with* employment generation.

WTO Rules and Employment in South Asia¹

Till the 1980s, all the countries of South Asia were following import-substituting industrialisation strategies and were among the least globally integrated economies in the world. However, since the mid-1980s, most of these countries (with the possible exception of Nepal) moved away from inward-looking economic policies and adopted a strategy of development based on export-orientation, liberalisation and privatisation. To make their economies more globally integrated, these countries initiated trade liberalisation, started moving away from a regime of quantitative restrictions to tariff-based regime, and started reducing their average levels of protection.

If trade to GDP ratio can be considered as a measure of openness or trade integration, then from table 4.1, it can be seen that South Asian countries are currently more globally integrated than they were in 1990. But, table 4.1 also shows that South Asia still remains the least globally integrated region in the world. However, the trade to GDP ratio of the region masks considerable variation in trade integration among the countries of this region. While India has the lowest trade/GDP ratio in the region, smaller economies like Bhutan, Nepal and Sri Lanka have much higher dependence on trade.² Figure 4.1 shows trade/GDP ratios for five South Asian countries. In all these countries, trade/GDP ratio has improved since 1990.

This period of increased openness of the South Asian countries coincided with the establishment of the World Trade Organization (WTO) in 1995. In fact, the establishment of the WTO was one of the motivating factors behind the open economic policy pursued by the policymakers of these countries. Among

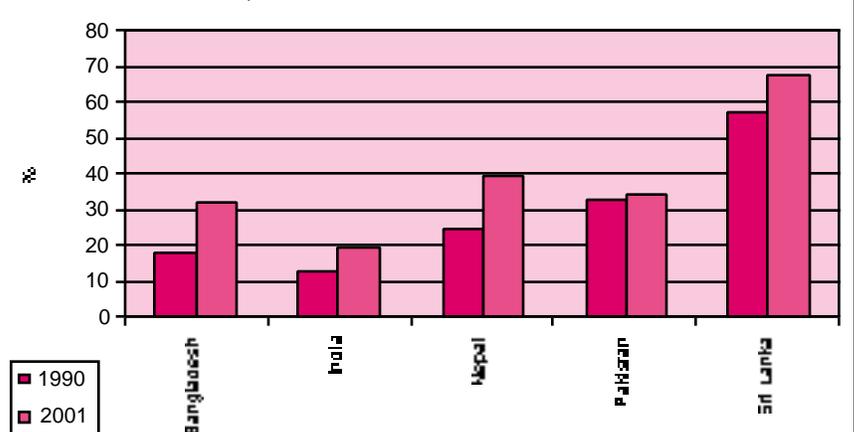
Table 4.1 Trade in goods to GDP ratio, 1990 & 2001

	1990		2001	
	%			
Low income	27.4	39.8		
Middle income	35.5	50.8		
Lower middle income	37.6	50.3		
Upper middle income	33.4	51.3		
Low & middle income	33.8	48.9		
East Asia & Pacific	47.0	61.0		
Europe & Central Asia	...	65.9		
Latin America & Caribbean	23.3	37.6		
Middle East & N. Africa	48.1	45.4		
South Asia	16.5	23.4		
Sub-Saharan Africa	42.3	56.0		
High income	32.3	37.9		
Europe EMU	44.9	56.3		
World	32.5	40.6		

Source: World Bank 2003c.

the South Asian countries, Bangladesh, India, Pakistan, Sri Lanka and Maldives are members of WTO. Currently, Bhutan and Nepal are trying to accede to WTO. Among these countries, according to the UN definition, Bangladesh, Maldives, Nepal and Bhutan belong to the category of least developed countries, while the

Figure 4.1 Trade in goods to GDP ratio for selected South Asian countries, 1990 & 2001



Source: World Bank 2003c.

other countries of this region are included in developing countries.

Unfulfilled promises of WTO

When WTO was set up, it was widely believed that it would be a vast improvement over its predecessor GATT (General Agreement on Tariff and Trade), and that the imposition of the new multilateral trading system would help developing countries to pursue export-led growth. There were three main reasons behind this optimism.

Firstly, in WTO, agriculture was brought in for the first time under the effective purview of a multilateral trading system. Though agriculture was included in the original 1947 GATT agreement, too many exemptions were allowed for this sector rendering the GATT rules operationally ineffective. Thus it was believed that the new WTO rules would bring about a structural change in the global agricultural trade, such that more efficient agricultural producers would stand to benefit from the WTO. As most South Asian countries are low cost producers of agricultural goods, it was expected that these countries would significantly benefit from a more open and less distorted global agricultural trade regime.

Secondly, prior to WTO, market access for textile products in developed countries was constrained by the extremely restrictive Multi Fibre Arrangement (MFA), which allowed the developed countries to selectively impose quantitative restrictions on imports of textiles and clothing from developing countries. WTO Agreement on Textiles and Clothing (ATC) intended to phase out MFA, and integrate textiles and clothing within the general WTO rules that govern trade in manufactured goods. It was projected that removal of quotas on exports of textiles and clothing would act as a big fillip for developing countries, because the low labour cost of these countries makes them efficient producers of these goods. Given the fact that labour

cost in South Asia is among the lowest in the world, almost all the countries of this region expected to benefit from the phasing out of MFA.

Thirdly, another aspect of WTO, which raised the hopes of developing countries, was the promise to liberalise trade in services. Traditionally, trade in services was under a very high level of protection and was kept out of any multilateral trading system. The General Agreement in Trade in Services (GATS) was considered to be a first step towards the eventual liberalisation of trade in services. GATS was supposed to open up a huge market for developing countries. As GATS covers a broad range of services like tourism, education, consultancy services and manpower exports, the South Asian countries with abundant supply of skilled and unskilled labour were expected to benefit from such an agreement.

In exchange of the promise of liberalisation in these three key areas, developing countries had to give two crucial concessions to developed countries. Firstly, they had to accept the WTO Trade Related Intellectual Property Rights (TRIPS) agreement, which proposed to impose much stricter patent laws globally. Secondly, they also had to remove all non-tariff barriers on industrial goods and reduce tariff barriers on these products substantially. It was feared that these two agreements would have a negative effect on the industrialisation process of developing countries.

But on balance, it was projected that developing countries would be net gainers as the benefits accruing to them from the liberalisation of the three key sectors agriculture, textiles and services were likely to more than offset the expected losses from the other two areas.

As almost all the South Asian countries possess comparative advantage in the three key areas, policymakers of these countries expected that increased market access in agriculture, textiles and services would allow these countries to follow an open and export-led development policy.

As an overwhelming proportion of workers in South Asia are involved in agriculture, textiles and services sectors, it was also expected that there would be a significant boost in employment. Any possible negative effect of the WTO agreement on the industrial sector of the countries was expected to be more than compensated for by the gains in the three key sectors.

However, after seven years of implementation of WTO rules, most expectations remain unfulfilled. The dejection of South Asian countries with WTO is well summarised in the latest trade policy review of Pakistan. It says:

*'... Uruguay Round had not brought fundamental changes, and the disadvantages faced by developing countries had been further exacerbated; these countries had not gained any meaningful increase in market access in the key areas where they have a clear comparative advantage (textiles and agriculture). Services had been liberalised in sectors of primary interest to developed countries (e.g. telecoms, financial services). The costs to developing countries of the WTO Agreement on Intellectual Property (TRIPS) Agreement were becoming evident, and the Agreement on Trade-Related Investment Measures (TRIMs) was having an equally harmful effect on the endeavours of developing countries to build their industrial base. The asymmetries in the multilateral trading system had contributed to the growing inequalities and asymmetric benefits between countries.'*³

The failure of WTO to generate the expected level of benefits is also reflected in the employment figures for South Asia. According to ILO,⁴ for South Asia unemployment level has increased from 2.9 per cent in 1995 to 3.4 per cent in 2001, and annual employment growth rate has also come down during the second half of the 1990s as compared to the first half. Data from Asian Development Bank (ADB)⁵ show that unemployment has increased in Pakistan, Bangladesh, and Maldives while it has decreased only in Sri Lanka during this period (figure 4.2).

Though the ADB data do not report India's unemployment rates, Economic Survey of the Government of India shows that the unemployment rate in India has increased from 5.99 per cent in 1993-94 to 7.32 per cent in 1999-2000.

The figures reveal that in most South Asian countries the employment scenario has worsened in the post-WTO period. Given this worsening employment scenario and the fact that more than seven years have passed since the WTO rules were implemented, it is important to analyse whether and how globalisation and WTO has affected the employment scenario in South Asia. That is what we are going to explore in this chapter. Section one briefly reviews the theoretical arguments about how trade liberalisation can affect employment in developing countries. Section two investigates the impact of WTO Agreement on Agriculture on employment in South Asia. Section three analyses the Agreement on Textiles and Clothing and its employment implications for South Asia. Section four examines the impact of WTO rules on other manufacturing goods. Section five reviews the GATS agreement and its implications for South Asia. The final section draws some conclusions from the analysis in this chapter.

Trade liberalisation and employment in developing countries

The debate on trade as an engine of growth is probably one of the most widely argued topics in development literature. Proponents of trade liberalisation generally argue that a liberalised trade regime is likely to have a favourable impact on employment in a developing country. For example, the World Development Report of 1995,⁶ while discussing the likely impact of WTO on developing countries, concludes that workers stand to gain from trade liberalisation on the following counts:

In most South Asian countries the employment scenario has worsened in the post-WTO period

Figure 4.2 Trend in unemployment rates in selected South Asian countries



Source: ADB 2003b.

1. Trade liberalisation leads to cheaper imports. Apart from increasing consumer choice, cheaper imports may allow reallocation of production factors towards higher productivity activities.
2. Trade opens up a much larger market and frees workers from the constraints imposed by domestic demand. Reduction in trade barriers and increased international demand fuels growth in the sectors where a country is competitive. High growth of these sectors increases employment and, in most cases, increases the real wage rates.
3. Apart from these static gains, there are dynamic gains from free trade. A liberalised trade regime enables a country to expand its domestic capacity by investing in human and

physical capital, and allows it to go up the value chain by shifting from low-value products to higher-value exports. Free trade and access to international market helps this transition by allowing the benefits of scale economy. This not only increases employment opportunities but also allows the workers to move from low-skilled to high-skilled jobs.

However, it is also recognised that trade liberalisation is not an unmixed blessing for all the workers. A recently published special study by WTO⁷ recognises that trade liberalisation in developing countries leads to significant changes in the pattern of production and resource use among firms, industries and regions. As inefficient industries in the import-competing sector face increased

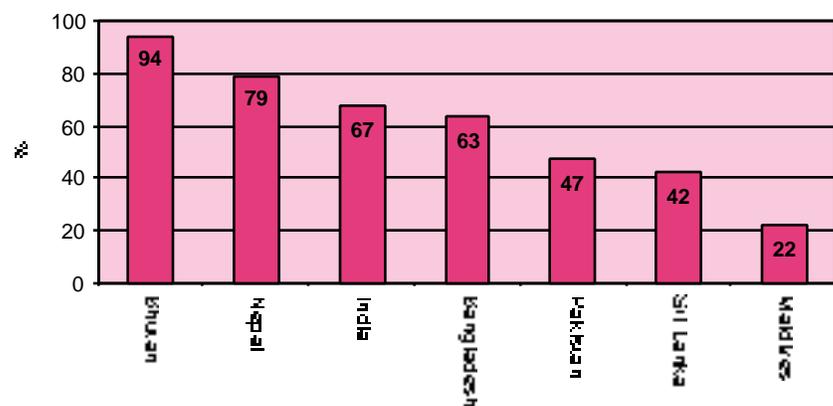
global competition, there usually tend to be job losses and wage cuts in these industries. Though it is generally assumed that increased activity in the export industries absorb most of the displaced workers, in reality these transitions are far from easy. Displaced workers are likely to go through long phases of unemployment and incur significant adjustment costs. Adjustment costs include costs of displacement and movement, costs of new skill building and of acquiring information about new job opportunities. Similarly, firms in import competing industries also face the threat of closure. As with workers, it is not easy for firms to readjust themselves to join the export sector. There can be very high costs to enter the market. As these require significant investment, small firms are at a considerable disadvantage to make this transition. Trade liberalisation thus leads to an uneven distribution of gains and pains, where the gains are distributed across the economy, while the burdens of adjustments are borne mainly by a particular group.

A study⁸ investigating the impact of trade liberalisation on manufacturing employment in developing countries gives a somewhat similar picture. Basic neoclassical theories of gains from trade, utilising comparative advantage, assume full employment. Recent theoretical works suggest that the results of these theories are significantly altered once it is taken into account that the economy may not necessarily be at full employment,⁹ which is the case with most developing countries.

Agreement on Agriculture and its impact on employment

The importance of the agricultural sector in the South Asian economies cannot be overemphasised as it provides employment and is a source of livelihood for a significant percentage of population in almost all the economies in the region. Figure 4.3 shows that, apart from

Figure 4.3 Employment in agriculture as a % of total employment in South Asian countries, 1995-99*



Source: ILO 2003a.

Maldives, agriculture is an extremely important source of employment for all other countries of this region.

Till 1995, the agriculture sector in almost all South Asian countries was inward looking in nature, and was mostly insulated from the global economy. But in 1995, WTO member countries of this region signed up the Agreement on Agriculture (AoA) and committed to liberalise and open up their agricultural sector.

The Agreement on Agriculture

Prior to the Uruguay Round (UR), trade in agriculture was highly distorted. Market access for agricultural products was limited, as most markets were restricted by physical import barriers. The presence of massive domestic subsidies led to the overproduction of temperate crops in developed countries. Export subsidies were used in developed countries to dump the surplus agricultural output in the international markets. This resulted in depressed market prices, and despite being low cost producers of agricultural items, agricultural exporters from developing countries could not compete with the subsidised exports from developed countries. Only a handful of players were active in the global market,

It was expected that free and fair trade in agriculture could spur strong growth of the agricultural sector in South Asia

and the thinness of the global farm trade resulted in high price fluctuations of agricultural commodities.

The AoA tried to bring discipline in global agricultural trade by removing trade distortions resulting from unrestricted use of production and export subsidies and import barriers, both tariffs and non-tariff. During the Uruguay Round, initial projections suggested that the reform measures initiated by the AoA would open up new opportunities for developing countries. Early analysis of the likely effect of the AoA on world markets predicted that reduction in domestic support and export subsidies in the developed countries would lead to a deepening of world trade in agriculture, a spatial redistribution of agricultural production, an increase in the share of developing countries in global agricultural exports and more transparency in agricultural trade.

Implications of AoA for South Asia

As predominantly agricultural countries, with abundant supply of cheap labour, it was expected that free and fair trade in agriculture would spur strong growth of the agricultural sector in South Asia. A vibrant and growing agricultural sector might improve rural employment because in the South Asian countries, agriculture is a very labour intensive process. Any significant increase in agricultural production should generally result in an increase in rural labour demand and rural real wages.¹⁰ Also, the construction of the infrastructural support for agriculture is highly labour intensive in nature. Along with these, agricultural growth and rural development is likely to generate rural demand for relatively labour intensive consumer goods and services.

However, the effects of the liberalisation of agricultural trade on rural employment are, at best, uncertain, because of many reasons, some of which are structural in nature, while others are due to the way the AoA is being implemented. For example:

1. In South Asia, agricultural land holdings are, on average, quite small. These lands are generally heavily dependent on the monsoons. Also, because of less capital and relatively low intensity of other farm inputs, farm productivity is quite low. A significant section of the farming community is engaged in subsistence land farming with the result that their ability to participate in international trade is limited. The supposed benefits of a free trade regime are likely to bypass, if not adversely affect, these farmers.
2. The small and medium estate holding farmers also face commercial problems in marketing their produce themselves and are often dependent upon middlemen. It has been observed that in most South Asian countries the intermediaries add substantial mark-up to the prices of agricultural commodities. This price hike negatively affects international competitiveness of these products. A recent study¹¹ observes that though India is competitive in a number of crops at the farmgate level, at the port most of these commodities lose their competitiveness as the middlemen push up the prices. Although AoA does not allow developing countries to provide subsidies on their agricultural exports, some export subsidies are allowed, for example:
 - a) provision of subsidies to reduce the costs of marketing exports of agricultural products (other than widely available export promotion and advisory services) including handling, upgrading and other processing costs, and the costs of international transport and freight; and
 - b) internal transport and freight charges on export shipments, provided or mandated by governments, on terms more favourable than for domestic shipments.

However, the bureaucratic and procedural problems make it difficult for small farmers to take advantage of these provisions.

3. In the presence of disguised unemployment in most countries of South Asia, it is possible to increase production without any commensurate increase in employment. For example,¹² the Labour Force Survey data of Pakistan suggests that as much as 13.3 per cent of the workforce in rural Pakistan was underemployed in the mid-1990s. In fact, it can be seen from table 4.2 that in almost all the South Asian countries, employment elasticity in agriculture is extremely low. In some countries like Nepal and Sri Lanka, the elasticity is negative. Therefore, the one to one correspondence between output growth and employment growth may not happen in practice in the agricultural sector of these countries.

4. In an open trade regime and increased commercialisation of the agricultural sector, particularly with increased private investment, there is a possibility that bigger farmers might switch to more capital-intensive modes of cultivation. This move quite possibly would lead to a decline in the demand for agricultural workers. Commercialisation of agriculture also leads to greater use of a range of monetized inputs, including new varieties of seed and related inputs, some of which are marketed by major multinational companies. It is difficult for small farmers to incur this kind of investment without proper access to rural credit. The formal rural credit system has been suffering from financial liberalisation, imposition of strict banking norms and poor fiscal condition in recent years. The informal credit sources charge very high rates of interest. In India it has been observed that with the decline in formal rural credit system, and with

Table 4.2 Employment and output growth rate in agricultural sector in South Asia, 1990-2000

	Employment growth	Output growth	Employment elasticity to output growth
Bangladesh	0.60	2.90	0.21
India	0.05	3.10	0.02
Maldives	1.00	...	...
Nepal	-0.50	2.50	-2.19
Pakistan	1.60	4.40	0.36
Sri Lanka	-1.80	1.90	-0.94

Note: Data for growth rate of agricultural output for Pakistan and employment elasticity given here are somewhat different from those given in Chapter 3, table 3.8. The difference is due to different time periods used in calculating the numbers.

Source: ILO 2003a.

continued decline in international commodity prices, the proportion of landless rural households has increased significantly in the last few years.

5. During a transition from a protected regime to a free trade regime, there will always be gainers and losers depending on the international competitiveness of the crops. In any given country, the gains will accrue to the farmers producing crops which are internationally competitive. On the other hand, trade liberalisation can create problems for producers of non-competitive crops. Therefore, in the event of opening up, there would be an intra-sectoral redistribution of demand for agricultural workers. In such a scenario, the net effect on employment is at best uncertain.

6. According to the AoA stipulation, agricultural subsidies in developed countries were to be reduced by 36 per cent during the implementation period. In fact, in most of the OECD countries, subsidisation of the agricultural sector has increased in the post-WTO period. Also there are no signs of elimination of these distortions. Table 4.3 shows that subsidies (Total Support Estimate or TSE) given by the OECD to their agricultural sector in 1999-2001 has increased by about nine per cent from 1986-88 level. This has been achieved through shifting of subsidies from the prohibitive Amber Box to the permissive categories of Blue and Green

In most of the OECD countries, subsidisation of the agricultural sector has increased in the post-WTO period

	(million US\$)		
	Average for 1986-88	Average for 1999-2002	% change
Australia	1,674	1,376	-17.82
Canada	7,161	5,231	-26.95
Czech Republic	1,705	760	-55.43
European Union	109,654	112,628	2.71
Hungary	988	1,080	9.34
Iceland	257	156	-39.43
Japan	58,165	64,775	11.36
Korea	14,204	21,489	51.29
Mexico	1,287	6,999	443.93
New Zealand	580	162	-72.02
Norway	2,977	2,489	-16.39
Poland	775	1,934	149.67
Slovak Republic	747	332	-55.49
Switzerland	6,151	5,047	-17.95
Turkey	3,092	9,649	212.11
United States	68,540	95,455	39.27
OECD	302,078	329,564	9.10

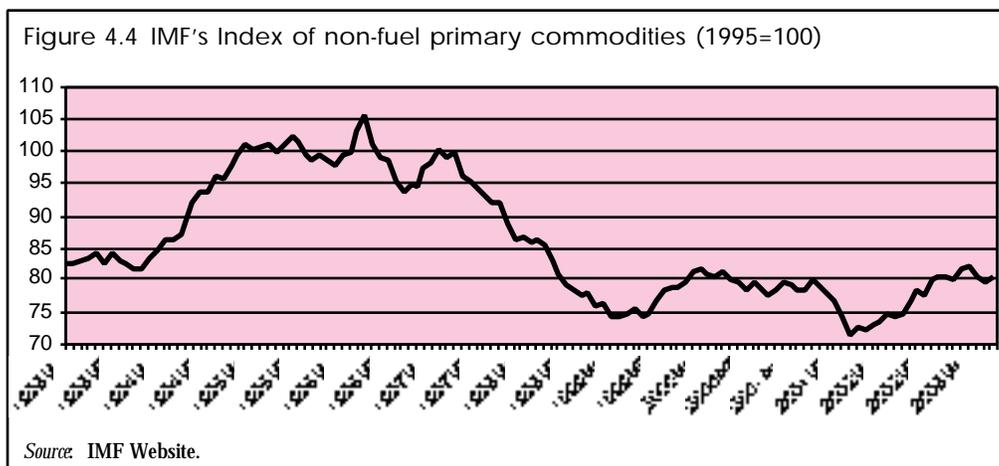
Source: OECD website.

Boxes. Blue and Green Box policies were exempted from reduction commitments on the ground that they have a minimal distorting effect on production and trade. However, the concept of 'minimal effect' has not been explained or quantified in the agreement. The dividing line between subsidies given under this category and 'distorting' measures is not clear in many cases. Studies¹³ seem to suggest that many Blue Box measures and some of the Green Box measures indeed have trade distorting effect and by providing exemptions to these types of subsidies, the agreement has allowed the

distortion in agricultural trade to continue. What is even more disturbing is that there are indications¹⁴ that developed countries are looking to further increase domestic subsidies.

7. Because of continued subsidisation of the agricultural sector by the developed countries, the international commodity prices, contrary to the pre-UR expectations, are on a steady decline since 1996 (figure 4.4).

As a result of this steep decline in prices, producers of a large number of agricultural crops in the South Asian countries are becoming increasingly uncompetitive at the international level. Though imports of these cheap and subsidised foodgrains can be beneficial for buyers of agricultural commodities in the short run, in the medium run, it will threaten the livelihood of a very large number of small and medium farmers of this region. After the abolition of quantitative restrictions (QRs), the only instrument of protection available to the domestic governments is the tariff rate. If the price decline continues, it is quite possible that the tariff adjusted prices of these imports can make the local production uncompetitive even at the domestic level. This is likely to lead to an erosion of the domestic production base, and will have serious consequences for food security and rural employment in South Asia in the long run.



It can be argued that in a free trade regime, producers of uncompetitive commodities should shift to the commodities in which the country is internationally competitive. Under the current set of circumstances, this basically suggests that farmers of South Asia should diversify towards the cultivation of cash crops. However, this argument does not take into account the fact that for small and medium farmers of poor developing countries, it is not easy to shift from one crop to another. Low capital, inadequate rural credit and lack of information about the international commodity market conditions make it difficult for the farmers to make this transition. Also it is important to recognise that diversification is crucially dependent on food security. Unless a basic cushion of food security is assured, it will be extremely risky for small and medium farmers to diversify into non-foodgrain crops.

Furthermore, as export competitiveness of agricultural commodities is a derivative of the complex interaction of domestic supply parameters, policy regime and external market conditions, it is subject to frequent changes. Coupled with this, the volatility of commodity prices in the international market can shift the export competitiveness of a product in a very unpredictable manner. Given less than perfect transmission of information to farmers in a developing country, this makes it extremely difficult for farmers to plan their output both for domestic as well as international markets. For a number of crops, price volatility has actually increased in the post-UR period.

Most of the pre-UR projections estimated large gains for developing countries from agricultural trade liberalisation because it was assumed that market access in developed countries for agricultural goods would increase substantially in the post-UR period. However, data show that in reality, agricultural trade is still highly protected. A study¹⁵ reports that the world average

of agricultural tariffs is as high as 62 per cent. Also there are problems of tariff peaks and tariff escalations. As a result, in the post-Uruguay Round period, agricultural exports from developing countries showed only sluggish growth rates. In fact, a WTO secretariat paper published in 2000,¹⁶ shows that the average annual growth of the value of agricultural exports of Developing Asia has declined from 8.2 per cent during 1990-94 to 0.5 per cent for the period 1994-98. Lack of market access for agricultural goods in developed countries is said to be the reason behind this poor performance.

Also, taking advantage of the WTO agreement on Sanitary and Phytosanitary Measures (SPS), developed countries are often imposing irrationally high food standards. There have also been instances where the SPS standards are made stricter without giving proper scientific reasoning. These are acting as non-tariff barriers for exporters from developing countries as they are finding it increasingly difficult to match the high SPS standards adopted by the developed countries. Marine products, fishery products, peanuts and tea exporters of South Asia have faced considerable market access barriers in developed countries.

To sum up, it can be said that the initial expectation that AoA would induce higher production of agricultural goods in developing countries and thereby, would promote rural development and employment, has not materialised in practice. On the other hand, a shift to a tariff only regime and opening up of the agricultural sector has made the small and medium farmers of South Asia vulnerable to external shocks. However, investment in rural infrastructure is labour intensive in nature, and WTO imposes no ceilings on expenditures incurred by governments towards building or improving rural infrastructure as these come under the 'Green Box' category of subsidies in AoA. Increased expenditure on rural infrastructure can not only boost rural employment in the short run, but it also

The initial expectation that AoA would induce higher production of agricultural goods in developing countries and, thereby, would promote rural development and employment, has not materialised in practice

Figure 4.5 Share of exports of textiles and clothing in total exports in selected South Asian countries, 2000



contributes to make the agricultural sector more internationally competitive in the medium to long run.

WTO Agreement on Textiles and Clothing (ATC)

For the WTO Member countries of South Asia, the 'Textiles and Clothing' (T&C) sector is one of the biggest and most rapidly growing sources of export earning. For Bangladesh, India, Pakistan and Sri Lanka, exports of textiles and clothing accounts for a very high percentage of total exports. For example, in 2000, textiles and clothing sector was responsible for more than 83 per cent of total export earnings of Bangladesh (figure 4.5). Also, after agriculture, this sector provides employment to the maximum number of semi-skilled and skilled workers in these countries. The importance of this sector can be further gauged from the fact that according to the WTO Trade Policy Reports, in 2000, textiles and clothing accounted for about five per cent of GDP and around 50 per cent of the industrial employment in Bangladesh. In Pakistan, the textiles and clothing sector accounted for 23.7 per cent of value added in the manufacturing sector, 40 per cent of manufacturing employment, and 72.8 per cent of total exports. In India, the textile and clothing industry contributed almost four per cent

to national GDP, and 20 per cent of manufacturing value added. Providing employment to 38 million people, it was the largest employer in India after agriculture. In Sri Lanka, the garment sector alone provided employment for more than 375,000 persons.¹⁷

Since 1974, international trade in textiles and clothing has been governed by the Multi Fibre Arrangement (MFA). Under this arrangement, many industrial countries, through bilateral agreements or unilateral actions, established quotas on imports of textiles and clothing from more competitive developing countries. MFA was initially introduced for a limited period of time and was primarily meant to provide breathing time to the textile industries of the developed countries to make structural readjustments. However, the quota regime of MFA got extended time and again for varying periods till 1994. During the Uruguay Round negotiations, WTO members decided to phase out MFA and bring textile and clothing at par with all other industrial products in WTO by 1 January 2005.

Implementation of ATC

The Uruguay Round promise to reduce trade restrictions in textile and clothing sector led to the expectation that developing countries would gain significantly in this area. It was an area where these countries had competitive advantage, and it was perceived by these countries that the concessions they had to make in other areas would be more than offset by benefits accruing in the areas of textiles and agriculture. It was projected that the removal of quotas in developed-country markets would initiate rapid growth of exports of textile and clothing from developing countries. Given the labour intensive nature of this sector, it was expected that increased textile exports would create sufficient employment opportunities in this sector. It was also expected that among the developing countries, ATC would lead to a redistribution of gains from trade in

Box 4.1 Phasing out of MFA

Article 2 of ATC stipulates that the phasing-out of MFA will be done according to the following schedule:

- The MFA is to be phased out in four stages over a 10 year period (1/1/1995; 1/1/1998; 1/1/2002; 1/1/2005), encompassing 16 per cent, 17 per cent, 18 per cent and 49 per cent of imports of all specified T&C products based on volumes in the year 1990. At the end of the 10-year period, the ATC will cease to exist and normal WTO rules for manufacturing goods will be applied to this sector.
- Remaining quotas, meanwhile, are increased each year at a faster rate of growth than applied in the previous phase (column four in table 4.4).
- Each of the four groups into which the entire spectrum of textile products had been broken down (i.e. tops/yarns, fabrics, made-ups and clothing), must be included in each of the liberalisation phases during the 10 year period).

Table 4.4 Schedule of quota integration and growth uplift under the WTO transition phase

State rates	Scheduled	% of 1990 import volume integrated	% uplift on growth for remaining quotas
I	01.01.1995	10 per cent	16 per cent
II	01.01.1998	17 per cent	25 per cent
III	01.01.2002	18 per cent	27 per cent
IV (End of transition)	01.01.2005	49 per cent	

textile and clothing. The perception was that higher-cost exporting countries (i.e. Hong Kong, South Korea and Taiwan), which controlled the largest share of exports to developed-country markets under MFA, would lose out to lower-cost suppliers such as India and Pakistan.

However, after eight years of implementation of ATC, it appears that the actual gains from ATC have been much more limited. There is a built-in provision (Article 8.11) in ATC which mandates WTO to oversee the implementation of the Agreement on Textiles and Clothing and to conduct a major review before the end of each stage of the integration process. The 'Second Major Review of the Implementation of the Agreement on Textiles and Clothing by the Council for Trade in Goods'¹⁸ reveals that implementation of ATC has largely been notional and little actual liberalisation is expected before the end of the 10-year transition period. As a result, implementation of ATC has not led to the expected benefits for developing countries. The report underscores three points:

1. The integration programmes of the US, EU and Canada have not been implemented in keeping with the object and purpose of 'progressive' elimination of quota restrictions. Even with the implementation of Stage 3 programmes, the large bulk of quotas carried over from MFA will still remain in place: 701 quotas out of a total of 757 in the case of the US; 164 out of a total of 219 in the case the EU; 241 out of a total of 295 in the case of Canada (Table 4.5). Except for Norway, other countries have retained large percentage of their quotas in this sector.
2. Data show that from amongst trade in products that were under specific quota restrictions, USA and EU have only integrated 19.52 per cent and 20.98 per cent of trade that was actually under quota restriction. The developed countries managed to attain the level of 51 per cent stipulated in ATC by integrating products which were never under quota restrictions before 1995.

Table 4.5 Implementation of ATC (Pace of quota phase-out)

	USA	EU	Canada	Norway
Total number of quotas at start of ATC ^a	757	219	295	54
Of which phased-out ^b :				
(i) Stage 1				
By integration under Art. 2.6	0	0	6	0
By early elimination under Art. 2:15	0	0	0	46
(ii) Stage 2				
By integration under Art. 2.8(a)	3	14	23	0
By early elimination under Art. 2:15	10 ^c	0	0	8
(iii) Stage 3				
By integration under Art. 2.8(b)	43	38 ^d	25	0
Stages 1 + 2 + 3	56	52	54	54
Quotas to liberalise only on 1/1/2005 ^e	701	164	241	0

a. Including specific limits and sub-limits.

b. Numbers do not include product categories on which quotas have been eliminated only partially.

c. Eliminated only for Romania, not for any other restrained Member.

d. Does not include another three quotas that EU has suspended in respect of one WTO member.

e. The comparable numbers in the TMB report are 701 for the US, 167 for EU, 239 for Canada.

3. The products on which quotas have been abolished were not commercially significant for developing countries. Quota utilisation was extremely low for these products. Also, integration programmes are concentrated in low value-added products, i.e., yarns, fabrics and made-ups.¹⁹

This shows that little actual liberalisation of trade in textiles and

clothing has taken place so far. A basic structural problem of the ATC phase-out programme is that it is heavily back-loaded. As a result, products accounting for as much as 49 per cent of the value of 1990 imports could still be under quota restrictions as of 31 December 2004, just a day prior to the phase out. A study²⁰ points out that leaving nearly half of all imports to be integrated at the end of the transition period does not ensure a smooth process of integration and thereby contradicts one of the basic purposes of having a transition period. As a result, many countries have benefited only marginally from this phase-out. Moreover, along with lack of liberalisation, there remain a number of impediments that restrict the textile exporters from developing countries to fully reap the benefits of trade in textiles and clothing.²¹ For example:

1. Even after the phase-out of quotas, significant tariff barriers would still remain in developed countries on their imports of textiles and clothing. Textile and clothing remains the most protected sector both in developed and developing countries (table 4.6). It is observed²² that while France, with its US\$24 billion worth of exports to USA pays US\$331 million as import duties, Bangladesh with its garment exports of only US\$2.4 billion pays almost an equal amount. The simple post-Uruguay Round average bound tariff on textiles and clothing is approximately nine per cent for the United States, eight per cent for the European Union and just below seven per cent for Japan.²³ There are, moreover, many tariff peaks within these averages. It is also observed that in most developed countries tariffs increase with the level of processing. Tariff escalation biases the production structure towards less value added products and thus represents a major impediment to the industrialisation of developing countries.

Table 4.6 Post Uruguay Round average tariff by sectors

Product group	Developed		Developing	
	Applied	Bound	Applied	Bound
Agriculture exc. Fish	5.2	7.2	18.6	19.9
Fish & fish products	4.2	4.9	8.6	25.9
Petroleum	0.7	0.9	7.9	8.4
Wood, pulp, paper & furniture	0.5	0.9	8.9	10.3
Textiles & clothing	8.4	11.0	21.2	25.5
Leather, rubber, footwear	5.5	6.5	14.9	15.4
Metals	0.9	1.6	10.8	10.4
Chemical & photo. supplies	2.2	3.6	12.4	16.8
Transport equipment	4.2	5.6	19.9	13.2
Non-electric machinery	1.1	1.9	13.5	14.5
Electric machinery	2.3	3.7	14.6	17.2
Mineral prods., precious stones & metals	0.7	1.0	7.8	8.1
Manufactures, n.e.s.	1.4	2.0	12.1	9.2
Industrial Goods (Rows 4-13)	2.5	3.5	13.3	13.3
All merchandise trade	2.6	3.7	13.3	13.0

Source: Larid 2002.

2. The positive effect of liberalisation of quotas on this sector by developed countries has been largely offset by various disguised trade barriers imposed by these countries. The EU had pre-empted the impact of the ATC by accelerating the anti-dumping drive in the textile sector during 1994. A number of anti-dumping and anti-subsidy actions were initiated by the EU on imports of textiles and clothing from the developing countries. Cases on anti-dumping were initiated by the EU against imports of textiles and clothing from both India and Pakistan. It is strange that anti-dumping duties were initiated against products whose imports were subject to bilaterally negotiated MFA quotas. Given the quantitative restrictions on these products, it is difficult to understand how exporters can possibly increase their sales by dumping.²⁴

3. Since 1996, USA has unilaterally changed its Rules of Origin. According to the old US Rules of Origin for processed fabrics and made-ups (e.g. sheets, pillow cases, terry towels, toilets & kitchen linen), the country of origin was the country where transformation of the fabric into processed fabric/made-ups took place (i.e. the country where the processing of the grey fabric or the stitching operation for conversion into made-ups took place). For garments, it was the country where the fabric was cut (but not necessarily stitched). But now, for processed fabrics and made-ups, the country of origin is the country where the fabric is made. For garments, it is the country where the fabric was substantially converted into a garment and not necessarily where it was cut. This change of rules is likely to have a negative impact on market access for countries like Bangladesh and Sri Lanka, which primarily depend on other countries for the supply of the fabric. For more self-sufficient countries like India and Pakistan,

which currently have zero or negligible off-shore production, the change in the US Rules of Origin may not have any direct effect. But these countries may get affected by the application of the new rules if the exports of clothing from other countries (which use fabric from India and Pakistan) get debited against quota utilisation of India and Pakistan.²⁵

4. For textiles and clothing, preferential trade through regional trading blocks has increased significantly in two of the biggest markets for these goods, namely USA and the EU. For the EU, it has been the growth in apparel imports from the Central and East European countries. Most of this trade is free of quota restraints and enjoys preferential tariffs. As a result, in the EU, most Asian countries are losing market share to East European countries. However, it is to be noted that among the South Asian countries, Bangladesh being a 'least developed country,' has duty free access to the EU market and has benefited immensely from this arrangement. This is evident from the fact that between 1990 and 1997, Bangladesh's Ready Made Garments (RMG) exports grew by 200 per cent in terms of volume and 370 per cent in terms of value.²⁶

5. As far as USA is concerned, the US Trade Development Act 2000 provides duty-free and quota-free access to 48 African countries and 24 countries of the Caribbean Basin for exporting textile and apparel products to the US market, provided they meet certain eligibility criteria. Also the US imports of apparels from NAFTA enjoy preferential treatment and are subject to NAFTA rules of origin but not to MFA quotas. As a result, in USA, there has been a rapid growth of apparel imports from Mexico, Jamaica and Caribbean countries like Dominican Republic, Honduras, El Salvador, Guatemala, Costa Rica, Jamaica, Nicaragua and Haiti.

The positive effect of liberalisation of quotas on the textile sector by developed countries has been largely offset by various disguised trade barriers imposed by these countries

According to ATC, MFA will cease to exist on 31 December 2004. After that, all quotas on textiles will be abolished and trade in textiles and clothing will be treated at par with other manufactured goods in WTO. This new scenario will be a mixed blessing for the South Asian countries as it will create new market access opportunities, but will also expose them to global competition. To face these new challenges, the competitiveness of this industry has to be strengthened. In South Asia, a significant percentage of textile mills are small and medium enterprises, and suffer from outdated machinery, power failures, poor management, and low labour productivity. Modernisation of these plants and improved management techniques will be essential factors in improving the competitiveness of these countries. For Bangladesh and Sri Lanka, lack of backward linkages to the ready-made garments industry is another major concern for the post-2005 period. Also, to improve competitiveness, infra-structural support in the key areas, like ports, power (availability, reliability and price), highways and telecommunications need to be in place.

For India, Pakistan, Bangladesh and Sri Lanka, textiles and clothing industry provides employment to the highest number of people in the manufacturing sector. If in the post-MFA era (assuming fair-play in the global trading system) these countries can reap the benefits of improved market access, then increased exports may lead to even higher employment generation in this sector. However, there is also a possibility that foreign competition, greater export drive, increased cost of labour and lower tariffs on capital imports may encourage capital intensive industrialisation. It is also possible that in this sector, there will be a shift from handlooms and low-tech power looms towards more technologically advanced bigger production

facilities. In such cases, employment gains will be more moderate, at least in the short run.

If the T&C sector, in any of these countries, fails to cope with the global competition, not only will there be sharp reduction in exports, but the domestic industry will also face competition from the other international suppliers. Tariffs may provide some protection but it should be kept in mind that in a free trade world without quantitative restrictions, uncompetitive industries will be threatened and ruined by foreign competition. If that happens to the textile sector of any of these countries, there can be large scale job losses which will have serious socio-economic consequences.

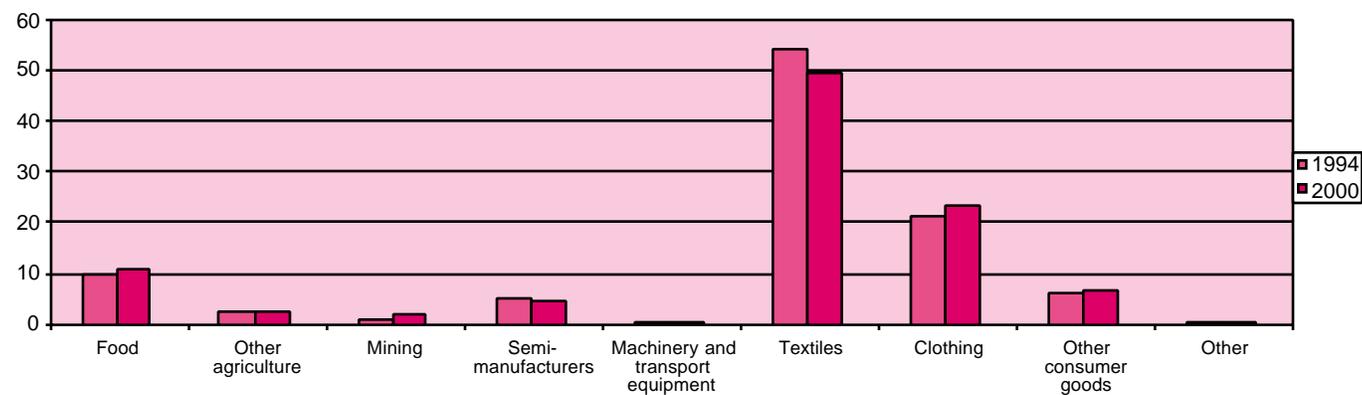
Other manufacturing goods

A look at the export structure of the region shows that for Bangladesh and Pakistan, other manufacturing goods account for about five per cent of their total export revenue (figures 4.6 and 4.7). Exports of other manufactured items are also minimal for Nepal and Bhutan.

Sri Lanka and India have more diversified export baskets. Other manufactured goods account for about 40-50 per cent of India's total exports. Other than textiles and clothing, India's major manufacturing sector exports are leather goods, chemicals (including pharmaceutical products), gems and jewellery, machinery and transport equipment, and iron and steel.

One possible source of growth in employment in the manufacturing sector can be through the Foreign Direct Investment (FDI) route. Since the labour cost in South Asia is typically much less than in many other developing countries—provided infrastructure and logistical support is present, the competitiveness in the manufacturing sector can be developed through global relocation of capital. It is argued that as multinational companies move to areas characterised by cheap labour, an open

Figure 4.6 Composition of Pakistan's exports, 1994 and 2000 (%)



Source: WTO Trade Policy Review of the country.

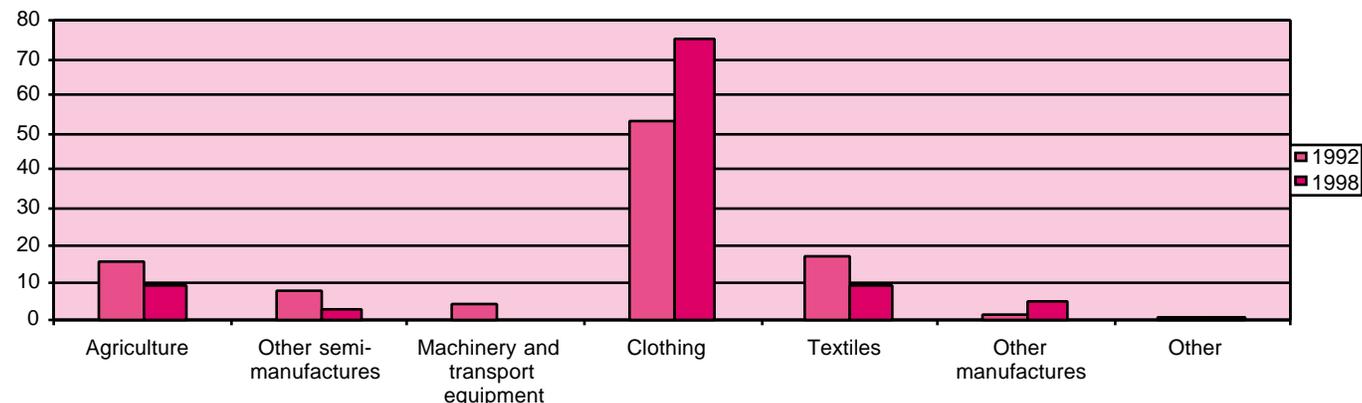
and liberalised trade regime will allow manufactured goods produced in the Southern locations to penetrate the Northern markets. Such relocations supposedly result in a net loss of manufacturing jobs in the North and an increase in such jobs in the South.

However, it is not clear whether in reality the developing countries can increase employment and develop competitiveness through this route. This is because firstly, the empirical evidence does not fully support this causality between global relocation of capital and growth in manufacturing export and employment, reflecting technological changes which lead to greater use of labour-saving devices in order to increase productivity and competitiveness.²⁷

Secondly, removal of quantitative restrictions, prohibition of export subsidies, lowering of industrial tariffs, stricter competition policies, anti-dumping policies and imposition of new intellectual property measures have made it difficult for developing countries to develop and foster their manufacturing sectors.

It is generally argued that removal of non-tariff barriers (NTBs) and across the board reduction of industrial tariffs have made market access easier for exporting countries. It is indeed true that removal of explicit NTBs is one of the positive outcomes of WTO, but as could be seen in the discussion on textiles and agricultural goods, in the sectors of export interest for South Asia, barriers to market

Figure 4.7 Composition of Bangladesh's exports, 1992 and 1998 (%)



Source: WTO Trade Policy Reviews of the country.

Tariffs are much higher in sectors where developing countries have export interest

access are still present in various guises. As far as other industrial goods are concerned, empirical studies have revealed that tariffs are much higher in sectors where developing countries have export interest. Currently, the most protected manufacturing sectors in international trade are:

- 1) fish and fish products
- 2) leather, rubber, footwear and travel goods
- 3) textiles and clothing and
- 4) transport equipment.

It is no coincidence that the developing countries have more export interest in these sectors than other manufacturing goods.²⁸

Also, the low average tariff rate hides both the problems of tariff escalation and tariff peaks. A special study by the WTO reveals that in most industrialised countries, including USA and Canada, the largest share of peaks can be found in textiles and clothing, leather and, to a lesser extent, in transport equipment categories. The European Union and Norway are exceptions, with no tariff peaks in the textile and clothing sector, but a high concentration of peaks in the fish and fish products category.

Similarly, tariff escalation is also found to occur in sectors where the developing countries have export interest. Tariff escalation refers to a situation in which tariff rates increase with the level of processing. The problems of tariff escalation for developing countries have been explained well in a submission to the WTO by a group of developing countries:

*'Tariff escalation prohibits diversification, which is very important for developing countries' economies, particularly as most of the value added is created at the latter stages of production. Unfortunately, to date, due to the tariff structures in OECD countries, the value-added from processing is largely captured by the developed countries.'*²⁹

The Article 27.2 of the Subsidies and Countervailing Measures (SCM) Agreement exempts least developed countries and certain developing countries with per-capita income of less than US\$1000 from the prohibition of export subsidies. All the WTO Member countries of South Asia are covered by this article. Therefore, WTO rules do not prevent these countries to subsidise their non-agricultural exports. However, the SCM agreement imposes two restrictions on the use of export subsidies by these countries. If a country reaches 'export competitiveness' in a certain product, the SCM agreement requires that the export subsidy on that product should be phased out over a period of eight years. Export competitiveness in a product exists if a developing country member's exports of that product have reached a share of at least 3.25 per cent in world trade of that product for two consecutive calendar years.

The second category of prohibited subsidy for developing countries is that of import substitution or local content subsidy. This subsidy did not apply to developing country members for a period of 5-years ending on 31 December 1999. For the least developing country members, the exemption period is 8 years.

It should, however, be emphasised that even if the WTO SCM Agreement allows developing countries to have export subsidies, this does not make these countries immune from the countervailing duties (CVD). If the conditions for imposing CVD on certain products are met, the other member countries can impose CVD on those subsidised imports from the developing countries mentioned in Article 27.2.

As most of the South Asian countries have extremely low level of manufacturing exports, subsidisation of manufacturing industries to promote exports, growth and employment can be a possible strategy for these countries. The WTO rules do not impose much restriction on these countries regarding

export subsidies of non-agricultural goods. However, the fiscal compulsions of these countries impose severe constraints on the governments' abilities to promote an industry through high export subsidies. This limitation and the extent of uncompetitiveness of the manufacturing sector in the South Asian countries implies that it will be difficult for the governments of these countries to take advantage of this WTO clause and use export subsidies to promote manufacturing export growth.

Employment impact of ATC and other WTO rules on manufacturing goods

A significant portion of manufacturing output is produced in small and medium scale enterprises (SMEs) in the informal or semi-formal sectors. These units are generally technologically backward, work with very little capital and are characterised by extremely low labour and factor productivity. Being small units, they also lack the advantages of scale economies. Until recently, these units were given protection from foreign competition by an array of policy instruments, including tariff and non-tariff barriers.³⁰ In a liberalised environment, these firms will be the hardest hit as they will find it extremely difficult to compete with imports from foreign firms which are much more efficient. Absence of any safeguard mechanisms and further reduction of tariff rates will only make the matter worse for these firms. As an overwhelming majority of workers in South Asia are working in SMEs and informal sectors,³¹ employment of a very large number of people will be threatened if drastic tariff reductions in non-agricultural goods are carried out in the current round of negotiations.

A study³² showing the effect of import liberalisation on domestic industry and employment in India concludes:

'Trade has over the years shrunk India's manufacturing base, both in terms of value

addition and employment. There is a distinct irony here. Traditional classical theory argues in favour of free trade; yet, in the Indian case, its role has been more of deprivation than providing a stimulus to growth.'

Given the fact that India has a stronger manufacturing base than the other South Asian countries, it is only likely that free trade and low tariff on manufacturing goods will have an even more damaging effect on its manufacturing base and employment than in other South Asian countries.

It is also unlikely that the large-scale manufacturing sector in South Asia, which is in general much more capital intensive than SMEs, will be able to absorb the workers from informal and semi-formal sectors. The large-scale sector in South Asia, which probably has the potential to fight foreign competition, at least in their domestic market, employs a very small percentage of manufacturing workers. Large scale downsizing of public sector enterprises in almost all the South Asian countries has further reduced the ability of the formal sector to generate employment. It will be extremely difficult for this sector to generate enough employment for the displaced workers as well as for millions of new workers who enter the labour force every year. It is also unlikely that growth in exports will generate sufficient employment as the export sector is not well developed and trade in manufacturers is extremely limited in these countries. Therefore, given lower industrial tariffs and a freer trade regime, the prospect of higher employment generation in the manufacturing sector seems unlikely in the short to medium run in South Asia (box 4.2).

GATS and employment

Why GATS is important for South Asian countries

The services sector is currently the most dominant sector in most economies of

In a liberalised environment, smaller firms will be the hardest hit as they will find it extremely difficult to compete with imports from foreign firms which are much more efficient

Box 4.2 Impact of TRIPS on pharmaceutical industry in India

India is one of the few developing countries to have a viable pharmaceutical industry. The current Indian Patent Act (IPA) recognises process patents (patenting the process used to make a particular drug formulation), but not product patents (patenting the product itself). According to the Trade Related Intellectual Property Rights (TRIPS), India will have to implement a new patents law by 2005. The patents law prescribed under the TRIPS agreement is much more strict than the current patents law prevailing in India. The new patents law will have to recognise both product patents and process patents to become TRIPS compatible. Implementation of this new patents law is likely to have a significant effect on the future of the pharmaceutical industry in India. It is expected that the new law will not only increase drug prices in India, but will also pave the path for the MNCs to enter, consolidate and dominate the Indian pharmaceutical industry.

Apart from price increase, there are two other factors which are crucial for the future of the pharmaceutical industry in India. It is expected that the dominance of the MNCs in the Indian pharmaceutical industry will increase once again. After 1970, a large number of multinational pharmaceutical firms

had moved out of India or had only limited presence in the market. It is expected that a number of MNCs would seek to enter the Indian market once the regime of product patents is introduced. The effect of the introduction of product patents and re-entry of the MNCs is expected to be severe on the smaller Indian firms.

On the positive side, it has been pointed out that for the bigger Indian pharmaceutical firms new opportunities to extend their markets exist. For these firms there already exists fairly advanced level of technology and trained manpower, which allows these firms to produce world standard drugs at a cheaper price. If these companies can cheaply produce the drugs that are going off patent in the coming years, then a sufficiently big market for these companies will open up.

The employment aspect of restructuring of the pharmaceutical sector will depend on how well the smaller firms of the Indian pharmaceutical sector can cope with the changing scenario. Statistics show that more than 2.8 million workers are engaged, directly or indirectly, in the pharmaceutical sector in India (table 4.7). If the predicted consolidation of the industry takes place, then there is surely going to be large-scale job losses as it is feared that

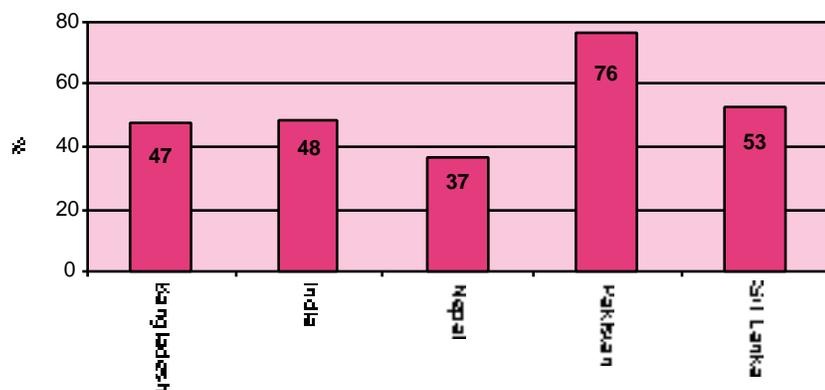
most small firms will be closed down or acquired by the bigger firms. Secondly, as the MNCs use much more mechanised and sophisticated logistical support system, increased dominance of MNC firms will also drastically reduce the number of people indirectly involved in the pharmaceutical industry through the logistics and distribution channels. In sum, the introduction of the new TRIPS laws will increase the capital intensity of the firms and is likely to have a negative impact on the employment prospect of the pharmaceutical industry in India.

Table 4.7 Employment in the pharmaceutical industry*

<i>(in thousand)</i>	
Direct:	
Organised Sector	290
Small Scale Units	170
Total:	460
Indirect:	
Distribution Trade	1,650
Ancillary Industry	750
Total:	2,400
Grand Total (Direct & Indirect)	2,860

Note: *Estimates.
Source: OPPI website.

Figure 4.8 Value added in services as a % of GDP in selected South Asian countries, 2000



Source: World Bank 2002e.

South Asia. The services sector accounts for about 49 per cent of the GDP of this region. This sector is also responsible for significant percentages of employment in South Asia (figures 4.8 and 4.9).

The dominance of the services sector in South Asian countries is part of a global trend in which the contribution of services is increasing steadily in both developed and developing economies. Between 1990 and 2000, growth of world services output was 2.9 per cent, twice as much as in agriculture which was only 1.4 per cent. The contribution of the service sector to world GDP was 64 per cent in the year 2000, compared to 57 per cent in 1990.

Services sector could provide as much as \$6 trillion in additional income in the developing world by 2015, four times the gains that would come from trade in goods liberalisation.³³ During the last decade, exports of services were among the top five sources of foreign currency in 90 developing countries. Travel and tourism appears to be the most dynamic services sector for most developing countries and the top currency earner for 40 of the developing countries. Other exports of services showing high dynamism include communication, construction, business services and cultural services. However, the biggest potential gain that can accrue to the developing countries is likely to come from free movement of workers, as these countries have a vast pool of employable workers. Given the increased importance of the services sector, the WTO General Agreement on Trade in Services (GATS) is crucial for the developing countries.

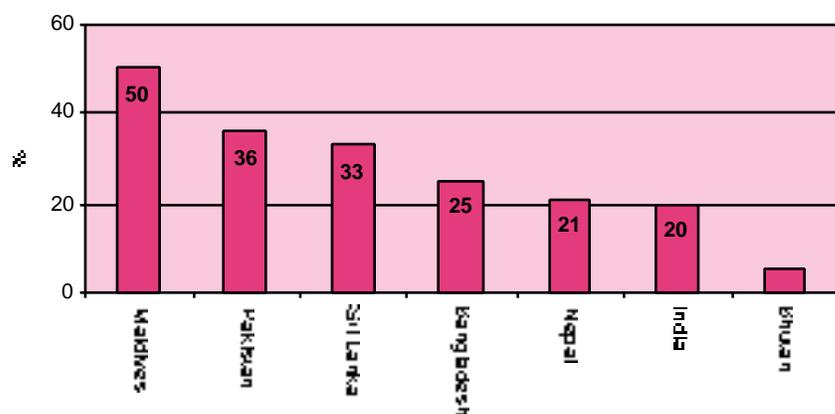
Overview of GATS

Like the Agreement on Agriculture, trade in services was brought under the purview of a multilateral trading system for the first time during the Uruguay Round negotiations (1986-94). The outcome of these negotiations is the General Agreement on Trade in Services (GATS), which came into force on 1 January 1995, with a set of binding rules and disciplines to govern services trade.

In GATS, countries make commitments in market access and national treatment for four modes of supply of trade in services. These modes are:

- Mode 1 or 'Cross-border supply' refers to a situation in which the service flows from the territory of one member country into the territory of another member country. For example, an architect can send his architectural plan through electronic means or an instructor can send teaching material to students in any other country.

Figure 4.9 Employment in services as a % of total employment in South Asian countries, 2000



Source: World Bank 2002e.

- Mode 2 or 'Consumption abroad' refers to a situation in which the consumer of a service moves into the territory of another member country to obtain the service. For example, a tourist using hotel or restaurant services abroad; a ship or aircraft undergoing repair or maintenance services abroad.
- Mode 3 or 'Commercial presence' implies that service suppliers of a member country establish a territorial presence (a legal presence) in another member country with a view to providing their services. In this case, the service supplier establishes a legal presence in the form of a joint venture/subsidiary/representative/branch office in the host country and starts supplying services.
- Mode 4 or 'Presence or movement of natural persons' (this only refers to export of manpower) covers situations in which a service is delivered through persons of a member country temporarily entering the territory of another member country. Examples include independent service suppliers (e.g. doctors, engineers, individual consultants, accountants, etc.) However, GATS covers only temporary movement and not citizenship, residence or employment

on a permanent basis in the host country.

Based on these four categories of services exports, GATS rules are formalised. The GATS rules are somewhat different from the GATT rules. The first important difference is that under GATS, WTO Members do not have to give Most Favoured Nation (MFN) status to trading partners in all service sectors. Countries are free to decide which service sectors they wish to open up. If countries are unwilling or unprepared to open up a particular service sector, they have the discretion to do so. This voluntary approach to the commitment process is an important distinguishing feature of GATS. Secondly, in the GATS commitment structure, countries can specify their schedules, the limitations and exceptions they wish to maintain on market access and national treatment. As a result, though GATS marked a first step in a longer-term process of services liberalisation, its direct impact on services trade currently suffers from modest liberalisation commitments.

Even when commitments have been made, the coverage of commitments in terms of liberalising obligations is very low with many limitations on market access and national treatment. The market access barriers could be in various forms such as,

- (a) quantitative restrictions (quota, local content etc.);
- (b) price-based instruments (visa fees, entry/exit taxes);
- (c) standards, licensing and procurement; and
- (d) discriminatory access to distribution networks.

Empirical evidence shows that though trade in services has grown faster than trade in merchandise for the period 1990-99, after the implementation of GATS, growth of trade in services has slowed down. For example, for the period 1990-95, trade in services grew at an annual rate of 8.7 per cent. But during 1995-99, the corresponding figure was only 3.3 per cent (table 4.8). For the Asian countries, growth rate of services exports declined from 14.8 per cent during 1990-95 to 0.2 per cent during 1995-99.

Employment implications of GATS for South Asia

MODE 1 OR 'CROSS-BORDER SUPPLY': Rapid integration of telecommunications and computer technologies has made trade through Mode 1 extremely important for the developing countries. A big source of employment generation through this mode of services exports is likely to come to the South Asian countries through back-office processing, call centres and medical transcription industries. These businesses are labour intensive in nature and do not require very highly skilled personnel. A large pool of adequately trained labour, low wage rate, better knowledge of English and the time differences with USA give South Asian countries an edge over many other developing countries in these areas. If these business opportunities are properly tapped, they have the potential to generate significant employment in South Asian countries.

On a higher value segment, services exports through software development and business process outsourcing is another potential growth area for the

Table 4.8 Average annual growth of services and merchandise trade, 1990-99

	Exports			Imports		
	1990-99	1990-95	1995-99	1990-99	1990-95	1995-99
(%)						
World						
Services	6.2	8.7	3.3	5.8	7.9	3.2
Merchandise	5.5	7.8	2.6	5.7	7.8	3.1
Industrial Countries						
Services	5.6	7.1	3.7	5.2	6.6	3.6
Merchandise	4.7	7.0	1.8	5.0	6.3	3.5
Developing Countries						
Services	8.2	13.3	2.2	7.2	11.0	2.7
Merchandise	7.4	10.1	4.0	7.4	12.4	1.4

Source: WTO.

economies of this region. The Indian software industry has already gained substantially, both in revenue and employment terms, from these services.³⁴ Given the similarities of cost structure among the economies of South Asia, it is likely that the other South Asian countries can replicate India's success in this area.

Apart from the software and information technology related services, financial service providers are increasingly using Mode 1 for their business. Also, long distance consultancy services in legal services, accounting, architecture and engineering are also possible through this channel. Considerable employment opportunities exist in these areas. However, export of these services faces significant market access barriers as most developed countries do not recognise the professional qualifications acquired in these fields in the developing countries. To improve export and employment opportunities in these areas, it would be necessary to work for the establishment and adoption of minimum international standards and criteria for recognition.

MODE 2 OR 'CONSUMPTION ABROAD': For South Asian countries, Mode 2 services are extremely important for employment generation. Mode 2 services cover tourism, transport, medical and educational services. Among these services, tourism is an extremely important source of exports of services for all the South Asian countries. Particularly for countries like Maldives and Nepal, tourism is the most important source of revenue. As a WTO Secretariat Report points out, Nepal and Maldives have one of the highest dependence on tourism in the world. Tourism is highly labour intensive, and growth in this sector will definitely help to boost employment in the South Asian countries.

MODE 3 OR 'COMMERCIAL PRESENCE': Mode 3 refers to services sold in the territory of a member by foreign entities that have established a commercial presence. Liberalisation of this sector has received maximum attention in GATS. From the definition,

it is easy to understand that this mode of services is analogous to Foreign Direct Investment (FDI). According to WTO Annual Reports, Mode 3 accounts for about 40 per cent of the global annual stock of FDI, at about \$30 billion, and for 50 per cent of the world's annual FDI flows, with the developed countries again accounting for the majority of this FDI. Therefore, the advantages of this mode of services trade are similar to those associated with FDI.

Increased commercial presence through Mode 3 can bring new capital into a country, which can generate new employment possibilities, reduce dependence on foreign exchange, increase competition, which can lead to efficiency gains. Dynamic innovation gains through knowledge spillovers and transfer of technology can open up areas for potential trade opportunities. It is also expected to boost employment and develop human capital because foreign entrants will employ significant numbers of the local work force.

FDI, if properly regulated, can be helpful for the South Asian countries. Countries like Nepal and Bhutan, which are now trying to get a membership in WTO, have extremely limited exportable sector. Unless these countries build up export competitiveness in some areas, they will find it difficult to gain much from WTO membership. Proper identification of the sectors of potential competitiveness, and allowing FDI in those areas can help these countries to develop core competitiveness. Also, for countries like Bangladesh, which have an extremely skewed export basket, FDI can be used to diversify their export baskets. As most South Asian countries suffer from chronic capital shortage, foreign capital inflow through Mode 3 can bring in much needed investible resources to these countries.

Currently, most of the countries in South Asia are going through a liberalisation and privatisation drive and are allowing entry of foreign companies in previously reserved sectors like

infrastructure, banks, insurance and financial services, energy, transport and telecommunications. On account of huge initial capital investment and technology requirements, foreign companies are deemed to be better suited for these sectors. It is argued that FDI in these sectors has the capacity to generate demand for goods and services in other sectors following an increase in their own output.

However, increased commercial presence of foreign companies may not guarantee increased welfare and employment for the economy. Very often commercial presence is established through mergers and acquisitions instead of greenfield investments in new markets. According to the United Nations Conference on Trade and Development (UNCTAD), the services sector accounted for over 60 per cent of global mergers and acquisitions (M&A) and as much as 90 per cent of those in the developing countries. M&A, in fact, can have a negative impact on employment, because, in most cases, foreign capital brings in more capital intensive technologies of production, which, by definition, use less labour.

Secondly, in most cases, international services markets are dominated by only a few large firms from the developed countries. These large foreign firms are technologically superior and financially more powerful than their developing country counterparts. Competition from these large companies in their domestic markets can make the developing country firms (mostly Small and Medium Enterprises) extremely vulnerable and can lead to closure and massive job losses.

Thirdly, increased liberalisation of banking and financial services without creating a proper set of prudential regulations can lead to serious problems for an economy. Since 1997, a large number of developing countries have suffered from financial crisis and, in most cases, the major problem was premature and excessively rapid capital account liberalisation and the failure to put into

place adequate regulatory frameworks. As it has been observed in a number of countries, financial crises can have a serious negative impact on the employment scenario of any developing country.

However, it is fair to mention here that GATS, *per se*, does not impose privatisation and deregulation on developing countries. In GATS, governments are given complete flexibility of choosing the sectors, sub-sectors and mode of services they want to open up. Developing countries face pressures for privatisation through conditionality in structural adjustment programs or because of their fiscal compulsions. GATS only facilitates the commercialisation of services.

MODE 4 OR 'PRESENCE OR MOVEMENT OF NATURAL PERSONS': Mode 4 refers to GATS Members' commitment to temporary admission of foreign nationals or foreign permanent residents as services providers in their territory. For developing countries, with abundant supply of labour, this mode of supply of services holds huge potential. All South Asian countries have significant potential for exporting many services through temporary movement of professionals, as well as semi-skilled and unskilled workers. For these countries, the benefit from labour migration becomes maximum when the migration is temporary. In that case, these countries gain financially as well as from the knowledge and human capital of the service suppliers returning home after a certain period abroad.

The potential of South Asian countries to improve employment through this mode of services exports is huge. This is evident from workers' remittances figure, which gives only a poor approximation of income of migrant workers. According to the Global Development Finance Report of 2003, India, Bangladesh, Pakistan and Sri Lanka are among the top 20 developing country recipients of workers' remittances in 2001 (figure 4.10). As a percentage of GDP, the share of

workers' remittances was around 2.5 per cent of GDP for South Asian countries which is much higher than any other region of the world (table 4.9).

What is more important is that the workers of South Asian countries have managed this feat without any significant liberalisation of movements of temporary workers after the implementation of GATS. A look at the commitments made by member countries reveals why Mode 4 liberalisation under GATS has not been effective.

- a) **Limited sectoral coverage of Mode 4 commitments:** It is noteworthy that countries have made the least number of commitments under Mode 4 in GATS. High income countries have scheduled 50 per cent of service sectors while developing countries have scheduled only 11 per cent of all service sectors. In both cases, these commitments remain subject to restrictions on market access and national treatment.
- b) **Limitations on commitments:** Sectoral commitments in Mode 4 show that trade conditions are most restrictive for Mode 4, where virtually all entries carry significant limitations.

Table 4.9 Workers' remittances as a percentage of GDP, 1999-2002

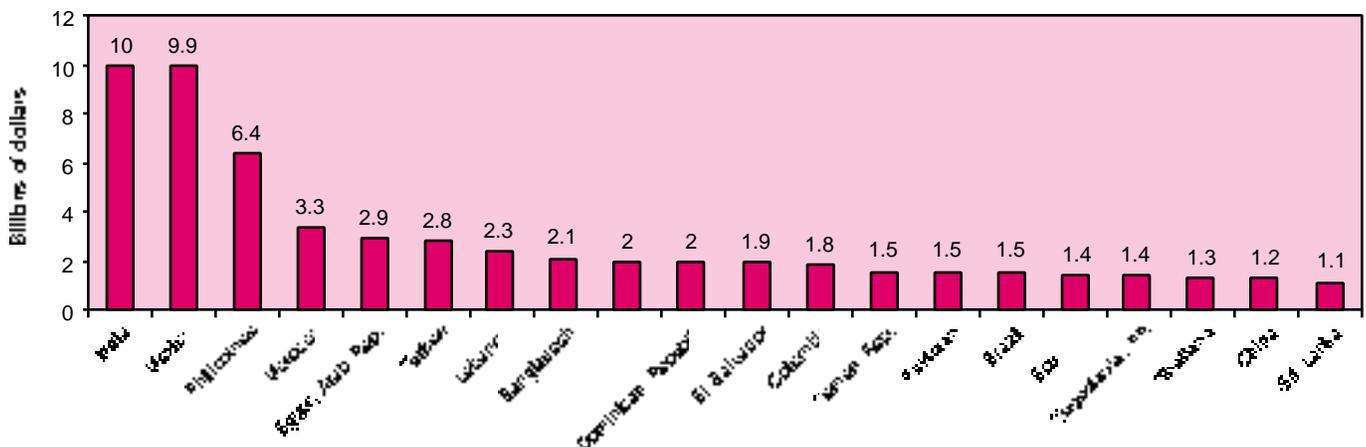
	1999	2000	2001	2002
East Asia and Pacific	1.2	1.1	1.3	1.3
Europe and Central Asia	0.7	0.7	0.6	0.6
Latin America and the Caribbean	1.0	1.0	1.2	1.5
Middle East and North Africa	2.3	1.9	2.2	2.2
South Asia	2.6	2.3	2.5	2.5
Sub-Saharan Africa	1.3	0.8	1.0	1.3

Source: World Bank 2003b.

The Mode 4 commitments are subject to many kinds of conditions and limitations, including:

- Entry restrictions for certain sectors and categories of personnel;
- Limits on the duration of stay of natural persons;
- Quantitative restrictions by numerical quotas for entry;
- Specifications concerning the proportion of total employment that can be met by foreigners;
- Specifications concerning the proportion of total wages;
- Pre-employment conditions and related requirements; and
- Economic, labour market, and management needs tests.

Figure 4.10 Top 20 developing-country recipients of workers' remittances, 2001



Source: World Bank 2003b.

Employment generation in South Asian countries has so far not benefited much from WTO

- c) Bias towards higher-level services personnel and intra-corporate movements: Most members have only allowed entry of specialists and higher-level management staff, significantly curtailing the scope for cross-border (non-establishment related) trade in services. Recent data from WTO show that there is a strong bias towards liberalising the movement of higher level services personnel.
- d) Structural problems: A fundamental problem is that there is no separation of temporary and permanent labour under the existing framework of commitments, even though GATS is meant to cover only temporary labour flows in services.

In sum, GATS thus far has limited implications for liberalising service trade through this mode. Market access commitments by high-income countries tend to be restrictive with respect to activities in which developing countries have a comparative advantage—both low and high skill labour intensive activities that require either temporary entry or establishment or work permits. Developing countries have made substantial commitments under GATS with respect to many service industries. In contrast, as far as movements of natural persons are concerned, they have not received concessions of any meaningful economic value.

For South Asian countries, it will be important to ensure a more meaningful implementation of GATS in the coming rounds. These countries stand to benefit a lot from a trade regime in which movements of workers are less restricted. If the restrictions on the movements of natural persons are eased, given the quality and the quantity of manpower available to the South Asian countries, exporting manpower will be a significant source of employment for these countries.

WTO and South Asia: Concluding remarks

The South Asian countries expected to gain from WTO rules in three key areas: agriculture, textiles and services. It was expected that increased market access and a less distorted trade regime would allow these countries to take advantage of their cheap labour to increase their exports. It was also expected that increased export would generate high employment growth in these sectors. But as the discussions in the previous sections have shown, continued presence of high level of subsidies in agriculture, backloading of quotas in textiles and lack of meaningful liberalisation in the services sector ensured that the benefits accruing to developing countries are much less than anticipated.

Though the WTO managed to dismantle most of the explicit non-tariff barriers that were prevalent in international trade, new instruments like anti-dumping duties, SPS and TBT regulations are increasingly used by the developed countries as new forms of protectionist devices against imports from developing countries. On the other hand, declining industrial tariffs, stricter implementation of TRIPS and removal of all quantitative restrictions available to developing countries have resulted in increased imports of industrial goods in these countries. This has threatened the viability of their domestic industrial sector and resulted in increased job losses in the manufacturing sector.

Overall, it can be concluded that employment generation in South Asian countries has so far not benefited much from WTO. The example of the success of textile sector in Bangladesh, which is often cited as an example of the success of WTO, is more due to preferential market access allowed to Bangladesh by the developed countries. On the other hand, there is a strong possibility that once MFA is totally withdrawn, Bangladesh will face increased

competition in the international market. Estimates suggest that there will be large scale job losses in the textiles sector of that country.

Since 2000, new round of negotiations are going on in AoA and GATS. However, in the Doha Ministerial Meeting, a comprehensive new round of negotiations was launched. Though these negotiations are still at an early stage, some disturbing trends can be discerned:

1. More than one year after the Doha Declaration, lack of progress in negotiations on most fronts indicates that most deadlines are going to slip without any firm commitments. It is now expected these will be decided in the Cancun Ministerial Meeting in September 2003.
2. Secondly, non-trade issues like labour standards, environmental standards and multifunctionality are increasingly being discussed in the WTO. Although these issues are important, WTO may not be the proper forum to discuss these issues.

3. The so-called Singapore Issues like (i) Competition Policy, (ii) Investment Policy, (iii) Transparency in Government Procurement, and (iv) Trade Facilitation are so far on the backburner in the WTO. Developed countries are likely to raise these issues in the Cancun Ministerial Meeting. These measures have the potential to further restrict the policy options available to the developing countries.
4. Lately some developed countries have started taking unilateral trade measures which violate the spirit of the WTO. For example, USA has changed its Rules of Origin Policy for the textiles sector, unilaterally imposed additional duty on steel imports and proposed enormous increase in its farm subsidy outlays. Though some of these steps have been challenged in the WTO, so far no action has been taken.

If these issues are not addressed, then it will become even more difficult for the developing countries to reap any benefits from WTO.

Chapter 5

Gender Discrimination in Employment

The employment challenge in South Asia is not only huge, it is also highly discriminatory as far as the female half of the population is concerned. No matter how poor, deprived and unemployed South Asia's men are, the burden of deprivation and degradation, and the inhuman conditions that the South Asian women suffer in the world of work are far worse and, as has been documented by numerous studies, cannot be redressed by legislation alone. It requires a whole paradigm shift in development philosophy and social policy.

Owing the embedded system of patriarchy in South Asia, discrimination against women in South Asia is far worse than in most other developing countries. It begins from the time they are born and continues through the unequal provision of education, healthcare and nutrition, to

the world of work in terms of providing opportunities to women to earn a living. This chapter presents a brief profile of women's labour force participation to underscore the constraints that women face in terms of segregation of women by sector and occupation, and lower earnings relative to men. The chapter also analyses the nature and pattern of women's work that has changed in recent decades as a result of demographic transition, increasing educational opportunities for both men and women, and changing job opportunities for women as a result of globalisation. Gender discrimination in employment is explored in the South Asian Systems of National Accounts (SNA); in the informal agricultural and non-agricultural sectors, where most South Asian women earn their livelihoods; in the formal sector employment, where women are segregated by occupation, location, wages and other incentive structures that are in place in South Asia; and finally, with regard to globalisation's positive and negative impacts on women's employment and poverty.

Women in labour force

Some basic information on South Asian women in labour force is presented in table 5.1. Among the South Asian countries, Pakistan has the lowest participation of women in the labour force and employment. This is not surprising considering the strong feudalistic and patriarchal structure of Pakistani society. But what is surprising is that, even compared to Africa, South Asia as a region records the lowest share of women in both labour force and employment, despite South Asia's better economic performance.

Table 5.1 Some indicators of female participation in economic activity and employment in South Asia and selected regions of the world, 1995-2001^a

	Female economic activity rate ^b	Female % of labour force	Female % of total employment (%)
India	43.5	32.4	26.8
Pakistan	15.4	29.0	14.0
Bangladesh	57.2	42.4	37.5
Nepal ^c	85.0	40.5	50.0
Sri Lanka	41.6	36.8	35.2
Bhutan ^d	59.6	32.0	...
Maldives ^d	28.6	22.0	33.5
South Asia	42.7	33.5	27.0
Sub Saharan Africa	62.3	42.0	...
East-Asia and Pacific	68.9	44.5	...

Notes: Col. 1 refers to % of total women of age 15 and over.

Col. 2 refers to women labour force as % of total labour force.

Col. 3 refers to female employment as % of total employment.

a. Latest available year.

b. Data sources for South Asian countries and regions are different.

c. Nepal LFPR given here is somewhat different than that given in table 3.15 because data for the latter table has been derived from national source and data for the above from international source.

d. 1994 for the second column.

Source: GOI 2003c; GON 2001; ILO 2001b, 2001c; World Bank 2003c.

Table 5.2 shows the interesting trend of female labour force participation as a percentage of male labour force participation. Comparing with the data of 1980, in 2001, the gap between female and male labour force participation has gone up in India, Bangladesh and Maldives, whereas in other countries the gap between female and male labour force participation has narrowed. But whether the gap has widened or narrowed, women still have a long way to go before receiving full recognition for their more than full-time occupation with productive, reproductive and household maintenance work.

The gaps in female/male labour force participation and employment are in part a reflection of the educational gaps between women and men in South Asia. Table 5.3 shows literacy, enrolment and average years of schooling of women as percentages of men's achievements in these areas. Once again, the very fact that such gaps exist in educational attainment testifies to the existence of gender discrimination in building capability of women and providing them with equal opportunities for jobs and earnings.

Women's limited access to employment opportunities is best reflected in the gap between the unemployment rates of men and women. Table 5.4 provides the unemployment rates for men and women. For instance, women are 3.5 times more likely than men to be unemployed in Pakistan, while in Sri Lanka women's unemployment rate is more than double the men's rate.

Table 5.2 Female LFPR as a percentage of male in South Asia, 1980-2000

	1980	1990	2000
India	54	48	50
Pakistan	8	14	18
Bangladesh	77	75	64
Nepal	65	64	92
Sri Lanka	39	59	50
Bhutan	65	65	65
Maldives	70	26	38

Source: ILO 1999a, 2001b, 2001c.

Table 5.3 Female-male gaps in education in South Asia, 2000-01

	Female literacy as % of male literacy	Average years of schooling		Female to male enrolments in primary and secondary school (%)
		Male	Female	
India	67	6.3	3.7	78
Pakistan	50	5.1	2.5	61
Bangladesh	62	3.3	1.8	103
Nepal	41	3.4	1.5	82
Sri Lanka	94	7.2	6.6	102
South Asia	67	5.8	3.4	81
Sub-Saharan Africa	57	...	...	82
East Asia and Pacific	87	7.3	5.2	97

Source: World Bank 2003c.

However, education in itself is no guarantee for women to get employed. As we have seen in chapter 2, unemployment among the educated has become a rising concern for policy makers in South Asia. But owing to the pervasive nature of gender discrimination, educated women in South Asia face more barriers in entering the job market—even more than the uneducated ones. In India, Pakistan, Bangladesh and Sri Lanka, the unemployment rates of women tend to

Table 5.4 Female and male unemployment rates in selected South Asian countries, 1990-2000^a

	Female and male unemployment rates in selected South Asian countries, 1990-2000 ^a (%)		
	Female	Male	F/M ratio
India ^b	10.0	7.0	1.4
Pakistan	14.9	4.2	3.5
Bangladesh ^c	2.3	2.7	0.9
Nepal ^d	0.7	1.5	0.5
Sri Lanka	16.2	7.1	2.3
Maldives	2.7	1.6	1.7

Notes: Data calculated as a percentage of total unemployed for the relevant group for the ages 10 and above, except for Nepal where ages 15 and above has been used.

a. Latest available year.

b. In 1990s.

c. 1996 for the latest available year.

d. According to GON 2001, unemployment rate for women was 1.7 per cent while that of men was 2.0 per cent in 1998-99.

Source: Anant *et al.* 1999; GOM 2002; ILO 1999a, 2001b, 2001c.

Table 5.6 Unemployment rates by education levels in Pakistan, 1999-2000 (%)

	Male	Female
Illiterate	4.6	15.1
<Primary	7.4	13.9
<Matric	7.6	33.7
<Inter	7.7	27.0
<BA	7.3	22.6
BA	5.4	13.7
Master	6.1	14.4

Note: Tabulations based on raw data.
Source: GOP 2002a.

Table 5.7 Unemployment rates by education levels in Sri Lanka, 2002 (%)

	Male	Female
<Grade 5	1.5	2.0
Grade 5-9	6.9	11.4
GCE O/L	10.2	26.1
GCE A/L	15.0	25.8

Source: GOS 2002a.

Table 5.8 Unemployment rates among the educated* in India, 1999-2000 (%)

	Female	Male
Rural	20.5	6.9
Urban	16.1	6.9

Note: *Secondary level and above.
Source: GOI 2003b.

be much higher for the educated women (tables 5.5, 5.6, 5.7 and 5.8).

The tables above highlight the following points:

- In Bangladesh, unemployment of women is higher than men's at all levels of education and increases for both sexes as the level of education increases. The gap between the unemployment rates for men and women also widens with the increase in educational levels.
- In Pakistan, unemployment rates for women are higher than those for men at all levels of education. For men, the unemployment rate ranges from 4.6 per cent for the illiterate to 7.7 per cent for the below intermediate level. For women, unemployment levels are lower for those without any education because these women are not officially in the job market, as there is no social protection available for the unemployed. On the other hand, women with higher levels of education expect to earn, and thus enter the job market. That is why unemployment among the educated is higher.
- In Sri Lanka, both women and men with an education level below grade five have the lowest and almost the same levels of unemployment. After Grade 5, the gap between female and male unemployment rates widens.
- In India too, educated women have much higher unemployment rates than educated men. The unemployment rate for men with education levels above secondary is 6.9 per cent in both urban and rural areas; but for women with the same level of education, the rates are 20.5 per cent in rural and 16.1 per cent in urban areas.

Although there are differences among the South Asian countries, and within each country, some key conclusions emerge from the discussion above, highlighting gender discrimination in the labour market:

Table 5.5 Unemployment by educational levels in Bangladesh, 1995-96 (%)

	Male	Female
No education	0.6	0.7
Class I-X	2.9	3.3
Secondary School Certificate, Higher Secondary School Certificate or Equivalent	9.7	12.9
Degree and above	8.4	15.2

Source: Masum 2000.

- South Asia's labour market is predominantly male. The female face is visible only in one-third of labour force, and in one-fifth of employment.
- The low participation of women in economic activity is not a daily reality for South Asian women; it is a myth created by statistics and socio-cultural prejudice against women's work.
- Women work harder and for longer hours than men in agriculture, industry and services; in informal as well as formal sectors; in rural as well as in urban settings; in public and private sectors. But in all these sectors, locations and capacities, women, in general, occupy the lower rank, earn the lower wages and have little recognition of their significant contribution to family, society and to the economy.
- Women's employment in export-oriented industries, although critical for income and empowerment of women, may have created conditions that need to be investigated seriously for the sake of both equality and equity.

Counting women's work

As described in chapter 2 (box 2.1), methodological and definitional problems abound in employment statistics. As a result, these statistics in South Asia are not sufficiently representative of the actual employment situation in the region. But women's employment statistics are doubly flawed because of the gender

insensitive nature of data collection and interpretation.

Human Development in South Asia 2000 analyses the issues of the statistical invisibility of women in South Asia's systems of national accounts (SNA). According to that analysis, some degree of statistical invisibility of women in the economy is a worldwide phenomenon, but in South Asia, it is particularly pervasive because of historical, traditional and cultural reasons. In recent years, all the countries of South Asia have attempted to expand the definition of economically active women in line with the UN definition of SNA boundary. But large gaps still remain. For example, in India the census estimates of workforce participation are lower by as much as three per cent than the estimates of National Sample Survey (NSS) for male workers and 10 to 15 per cent lower for female workers. In Pakistan, latest surveys include 14 household activities in the definition of economic activity for women, leading to an increase in female labour force participation, from 13.7 per cent by earlier definition to 39.2 per cent by the new expanded definition (table 5.9). In Bangladesh too, the extended definition raised the female labour force participation from 18.1 to 50.6 per cent in 1996 (table 5.10). These statistics prove that there has been systematic discrimination against women to keep their contributions not only out of statistical valuation but out of social recognition as well.

Table 5.9 LFPR of women in Pakistan by old and new definitions, 1999-2000
(as % of total female working-age population)

	Female LFPR	Improved Female Participation Rate*
Total	13.7	39.2
Rural	16.1	51.7
Urban	8.8	13.4

Note: *Includes females spending time on 14 agricultural/non-agricultural activities.

Source: GOP 2001a.

Table 5.10 LFPR in Bangladesh by conventional and extended definitions, 1996

(as % of total male and female)

	Conventional Definition		Extended Definition	
	Male	Female	Male	Female
National	77.0	18.1	78.3	50.6
Urban	71.1	20.5	71.6	28.6
Rural	78.8	17.4	80.4	57.3

Source: MHHDC 2003.

Many reasons have been cited in the development literature for not counting women's work in national accounts. Some of the reasons are due to poor methodology on the part of data collection agencies, or inadequate definition, as mentioned above. Others include the nature of women's work, for example, the dominance of domestic work compared to women's other work; culture, tradition and perceptions about women's economic roles; and, the intermingling of production for self-consumption with production for sale. Many national and micro-level studies in the region have highlighted the contributions of women to national economy. Yet, to date, national statistics in no South Asian country reveal the true extent of women's contribution.

Gender discrimination in employment

In employment, gender discrimination is pervasive in specific sectors, occupations and wage rates. In South Asia, women are mostly concentrated in the low productivity parts of all three sectors: agriculture, industry and services. Women workers are the majority in the informal sector where they are either self-employed or wage-workers, or free contributors to family labour. Women also play a predominant role in home-based (mostly piece-rate) work for global production chains.

Table 5.11 Employment by sectors in South Asia (age 10+), 1980-99 (%)

	1980-1990*			1991-1999*		
	Agriculture	Industry	Services	Agriculture	Industry	Services
India						
Male	62.9	15.0	22.1	57.6	16.6	25.8
Female	82.6	9.2	8.2	77.7	11.1	11.3
Pakistan						
Male	48.4	20.6	31.0	40.7	20.2	39.0
Female	72.2	14.1	13.5	66.3	10.5	23.1
Bangladesh						
Male	54.2	15.6	25.6	54.4	10.8	33.7
Female	84.9	8.8	2.1	77.5	7.6	11.0
Nepal						
Male	91.1	0.8	8.1	74.9	3.6	21.4
Female	98.0	0.1	1.9	90.5	1.3	8.2
Sri Lanka						
Male	36.7	19.1	38.4	37.7	22.6	36.7
Female	42.6	22.4	31.6	48.8	22.2	27.3
Bhutan						
Male	91.6	1.2	7.2	...	...	...
Female	98.1	0.3	1.5	...	...	...
Maldives						
Male	35.3	15.7	49.0	...	...	...
Female	28.2	51.3	20.5	...	...	...

Notes: *Latest available year. Persons not classified are not included in the tables.

Source: ILO 1999a, 2001b, 2001c; Unni 2000; Unni and Rani 2000.

Women in agriculture

Looking at the sectoral distribution of employment (table 5.11), agriculture is by far the major employer of both men and women, but women lead the way in all countries. Except in Sri Lanka, the decade of the 1990s saw a declining trend of women's employment in agriculture in all South Asian countries. Notwithstanding this declining trend, the fact is that almost two-thirds of women are still employed in agriculture or agriculture-related activities.

The critical and extensive role of South Asian women in agriculture and rural areas has been documented in *Human Development in South Asia 2002*. Women are the invisible and unrecognised backbone of South Asian agriculture. In their varied roles as agricultural labourers, managers of homesteads, and sometimes even as landowners, women are actively engaged in all facets of agricultural activities and production cycles. Women participate in all operations related to livestock management, crop production

such as sowing, transplanting, weeding, harvesting as well as post-harvest operations. Unlike their male counterparts their tasks are not only limited to agricultural activities, they are responsible for a whole range of household maintenance work. Yet they continue to face discrimination in access to credit and other inputs such as seeds, fertilisers, water and extension service, and of course differential wage rates. Agricultural workers are the lowest paid employees in South Asia, and women's wages are lower than those of their male counterparts. Women are often used as unpaid helpers in family farms. Women also receive lower income than men when they market their produce themselves in order to have some control over their income. Several non-government, as well as some government organisations in South Asia have been working for years with some success to improve women's income and employment situation, particularly in rural areas, through provision of micro credit and other services. But the magnitude of the problem is such that these are but drops in the ocean.

Women in informal sector

In large parts of South Asia, the informal sector has been the main source of livelihood for the majority of its workers, both male and female. However, women, by far, form the majority of informal sector workers. It is in the informal sector where most South Asian women work, but because of the nature of women's work in this sector, any estimation of the magnitude of their contribution becomes a very difficult, if not an impossible, task.

The informal sector is defined as comprising small enterprises of one or more persons, with casual or regular employees of less than 10 people (this definition varies from one country to another within South Asia). There are informal workers in agriculture, industry and in the services sector. The workers in this sector fall into three categories:

self-employed, casual worker and home-based worker.

Due to non-availability of data, irregularity of data collection and publication, and the heterogeneous character of South Asia's labour markets, available statistics usually underestimate the size and contribution of informal sector workers, especially the contribution of women. However, attempts have been made by various studies to estimate the size of the informal sector in South Asia. For example, some analysts put the size of the informal sector in India, Bangladesh and Pakistan at 90 per cent of total employment (including non-agricultural employment). Even when the estimation of the informal employment is limited to the non-agricultural sector, the size is still very high. Around 50 per cent of all non-agricultural workers in South Asian countries belong to the informal sector and the trend is increasing, especially for women.

For many informal-sector workers—perhaps for the majority—working conditions and the terms of labour are exploitative. The conditions of informal sector employment are characterised by low wages and long hours of work for low returns. As there is little legislation concerning working conditions, workplace safety or minimum wage rates, and particularly little enforcement of existing laws, there is very little legal protection for women against exploitation.

A very large number of women are engaged in the informal sector activities and their numbers are continuously on the increase. The main factors contributing to this increase have been the declining share of women workers in agriculture (table 5.11), and the increasing demand for female labour in export-related manufacturing and service sectors. Women workers from the agricultural sector usually end up in low-paying occupations in the informal sector. The competition for increasing profits and lowering costs in the globalising world has also caused higher demand for female

labour, which is cheaper and more flexible than male labour, and puts up with poor working conditions.

SELF-EMPLOYMENT: Globally, self-employment represents around one-third of total non-agricultural employment. But in the developing countries, about one-half to three-quarters of total non-agricultural employment is in the category of self-employment.¹ In 1990/2000, the share of the informal sector in total non-agricultural employment was the highest in the world for South Asia, followed by Africa, Latin America, and South-eastern Asia. Compared to 1980-89, this share went up by 25 per cent, with 55 per cent women and 48 per cent men self-employed in 1990-2000 (table 5.12). The reason for this sharp increase in self-employment is generally attributed to the structural adjustment programmes of the 1990s that led to the reduction of public investment, the cutting back of public-sector jobs, and an increase in the demand for sub-contracted flexible labour to produce goods for global markets.

Table 5.13 indicates that outside of agriculture, self-employment was more important in industry and trade than in services. The difference between female and male self-employment by economic sectors is very high in South Asia. The social norms that chain women's mobility and limit them to home-based work in manufacturing are reflected in the higher

For many informal sector workers working conditions and the terms of labour are exploitative

Region	1980-1989			1990-2000		
	Total	Women	Men	Total	Women	Men
World	26	28	25	32	34	27
Developed regions	13	11	14	12	10	14
Africa	44	58	37	48	53	57
Latin America	29	30	27	44	54	35
Asia	26	24	26	32	32	30
Eastern Asia	23	20	24	18	26	16
South-eastern Asia	34	38	31	33	40	24
Southern Asia*	40	38	40	50	55	48
Western Asia	13	6	14	24	10	22

Note: *includes Bangladesh, India, Iran, Nepal, Pakistan and Sri Lanka.

Source: ILO 2002g.

	Industry	Trade	Services
Total	38	38	24
Women	61	17	23
Men	34	42	24

Source: ILO 2002g.

percentage of women in industry than that of men.

Within the region² in 1980-90, the share of women in non-agricultural self-employment was the highest in Nepal, followed by India, Bangladesh, and Pakistan. By 1990-2000, women's share in self-employment had declined in India and Pakistan, while it increased considerably in Bangladesh. This reflects women's increased employment in the export-oriented garment factories in Bangladesh (table 5.14).

CASUAL EMPLOYMENT: Informal wage employment is estimated to be about 30 to 40 per cent of informal

employment in the non-agricultural sector. Informal wage employment includes casual day labourers, part-time or temporary workers without proper contracts or social protection, domestic workers, industrial outworkers (such as homeworkers), undeclared workers etc. However, collecting data on this component of informal sector is extremely difficult since most of the workers, especially women, are invisible or not included in surveys. As only India and Bangladesh collect data on casual workers, tables 5.15 and 5.16 below indicate the increasing trend of female casual workers in these two countries.

HOME-BASED WORK: Home-based workers represent a significant proportion of informal sector workers, yet they are mostly invisible in South Asia. Although their exact numbers and contribution to national economy are unknown, some studies provide rough estimates:

- In India, according to one study in 2000,³ some 30 million workers were engaged in home-based work, of which 75 to 80 per cent were women.
- For the manufacture of specific items, such as *agarbatti* (incense stick) and *bidi* (a tobacco product) in India, football in Pakistan, and *coir* making in Sri Lanka,⁴ home-based women workers account for 60 to 90 per cent of the workers.
- Most home-based workers are without any formal education, which make them prone to exploitation.
- Despite the existence of legislation, especially in India, that guarantees minimum wage, in the case of home-based workers contractors set their

	1980-1990			1990-2000		
	Total	Female	Male	Total	Female	Male
India	44	55	42	37	41	38
Pakistan	51	40	51	43	34	44
Bangladesh	53	53	53	75	83	73
Nepal	59	80	49
Sri Lanka	17	9	19

Source: ILO 2002g.

	1983		1993-1994		1999-2000	
	Rural	Urban	Rural	Urban	Rural	Urban
Male	29.2	43.7	15.7	16.2	36.6	16.9
Female	35.3	28.4	38.8	26.0	46.1	23.1

Source: Unni 2000; Unni and Rani 2000; GOI 2003b.

	Total	Male	Female
1989	15.1	23.8	2.8
1995-96	17.9	25.2	6.2

Source: Unni 2000; Unni and Rani 2000.

own piece-rate wage, which is much lower than the minimum wage (box 5.1).

Women in formal sector

In the formal, organised sector, women play a very limited role in South Asia. Except in Sri Lanka, which has achieved near parity (45% of total formal sector employment), in other countries women occupy less than one-fifth of total public sector employment. The situation in the private sector has improved in recent years due to export-oriented manufacturing and service sectors, which have seen increasing demand for women workers. Nevertheless in all these sectors, whether public or private, women in general are at the lower end of the ladder, concentrated in education, health and community services.

At the higher echelon of decision-making and management hierarchy, female share of representation as legislators, managers, and technical and professional advisors or consultants is extremely low, reflecting the limited participation and influence of women in the economy, in particular, and in the overall society in general. Table 5.17 presents a summary of the overall situation of women in the economy.⁵ Gender Development Index (GDI) and

Box 5.1 Home-based women workers and export earnings

Contribution of home-based women workers in South Asian economies is not as invisible as the women themselves. Agarbatti industry in India contributes about US \$ 352 million annually to national income, of which 32 per cent form exports. About half a million workers were involved in this area in 1993-94, of which 90 per cent were women. The garment industry of Bangladesh, with 80 per cent female workers, is the principal export earner of the country. Sri Lanka is the second largest producer of coir fibre in the world. Although the employment of women as home-based workers is only 10 per cent, the export earning from this was US \$ 26.24 million in 1995. In Pakistan, it is estimated that 58 per cent of the stitchers in the football and leather industry (the industry that exported goods valued at US \$ 719 million in 1994) are home-based female workers. The value of exports of the herb collection and its trade industry in Nepal is US \$ 8.6 million annually. Women's employment share is above 50 per cent.

Source: Bajaj 1999.

Gender Empowerment Measure (GEM) underscore the pervasive nature of gender discrimination and the need to develop counter measures in building women's capability, and in providing them equal job opportunities with equal pay.

Table 5.18 highlights the last point. It reflects the type of jobs for which women are hired, which are typically at the lower skill and lower wage level. This is mostly due to women's lower levels of education and training, and their greater need for flexible working hours in order to tend to their reproductive and caring work in the household. It also reflects gender

Table 5.17 Women in South Asian economy, 2001

	Sri Lanka	India	Bangladesh	Nepal	Pakistan
Female economic activity rate					
As % of women	43.1	42.2	66.4	56.8	35.8
As % of male economic activity rate	55.0	50.0	76.0	66.0	43.0
Employment by economic activity (%)					
Agriculture Female/Male	49/38	...	78/54	...	66/41
Industry Female/Male	22/23	...	8/11	...	11/20
Services Female/Male	27/37	...	11/34	...	23/39
Gender Empowerment Measure (GEM)	0.272	...	0.218	...	0.414
Seats in parliament held by women (%)	4.4	9.3	2.0	7.9	20.6
Female legislators, senior officials and managers (%)	4.0	...	8.0	...	9.0
Female professionals and technical workers (%)	49.0	...	25.0	...	26.0
Ratio of Estimated Female/Male Earned Income	0.50	0.38	0.56	0.50	0.32
Gender-related Development Index (GDI)	0.726	0.574	0.495	0.479	0.469

Source: UNDP 2003.

Table 5.18 Estimated wage differentials between women and men (PPP US \$^a) in 2001^b

	Female	Male	Wage differential in %
Bangladesh	1153	2044	56.41
India	1531	4070	37.62
Maldives	3329	5582	59.64
Nepal	887	1734	59.64
Pakistan	909	2824	32.19
Sri Lanka	2295	4189	50.01

Notes: a. Base year is 1996.

b. Latest available year between 1991-2000.

Source: UNDP 2002, 2003.

discrimination in wages even for similar or identical jobs.

Employment status

Gender discrimination is also manifested by the employment status of women. In most countries the share of female contributing family workers countries is about three times as high as that for males. Thus, even though women work to provide far more for their families, they do not have the status and power that go with paid employment.

Women in export-oriented industry⁶

Globalisation-led economic growth has not yielded expected benefits particularly in job creation, except in some highly specialised sectors like information and communication (see chapter 3). But it has

expanded employment opportunities for women, especially in export-oriented manufacturing and service sectors. There has been a phenomenal increase in exports, and consequently in employment, especially of females, in the textile and garment industry, particularly during the last decade in South Asia. Expansion of the export sector and the increased demand for cheap and informal labour has enhanced women's employment opportunities. As a result, garments sector has been one of the fastest growing export-related sectors providing employment for thousands of women in South Asia, particularly in Bangladesh, where women's employment share in the sector is as high as 90 per cent and in Sri Lanka.

In Bangladesh, the share of garments in total exports increased from four per cent in 1983-94 to 76 per cent in 1999-2000, creating employment for 1.5 million workers, of which 90 per cent were women. The contribution of the garments sector to the Sri Lankan GDP increased from 3.88 per cent in 1985 to 6.64 per cent in 1997, while the share of export earnings from this sector accounted for half of the total exports. By the end of 1998, 14.3 per cent of the total labour force in Sri Lanka was employed in the manufacturing sector, of which 87 per cent was female. In India too, millions of women are employed in numerous export-oriented activities, but are

Table 5.19 Employment status of workers in South Asian Countries, 1995-2000^a

	(%)							
	Wage and salaried workers		Self-employed		Contributing family workers		Other	
	Male	Female	Male	Female	Male	Female	Male	Female
Bangladesh ^b	14.7	8.7	43.0	7.8	17.1	77.3	25.1	6.2
Pakistan ^c	36.0	33.1	47.3	16.2	16.7	50.1	...	...
Nepal	24.3	7.7	52.0	28.7	23.3	63.4	0.4	0.2
Sri Lanka ^d	60.0	67.6	34.3	16.2	5.7	16.2	...	...

Notes: a. latest available year.

b. year ending in June.

c. excluding Jammu and Kashmir, Gilgit and Baltistan, Junagarg and Manadavar.

d. 1995 data, excluding northern and eastern provinces. Data refer the first quarter.

Source: GON 2001; GOP 2001a; ILO1999a, 2001b, 2001c.

dominant in the knitted garments industry. The garments sector is also the largest employer for the industrial labour force in Pakistan. However, the employment share of women in this sector is no more than 10 per cent. The garment sector in Nepal has shown an increasing trend during the last decade; export earnings from this sector have increased threefold, and the total export volume has increased by 61 per cent. The employment share of women in the sector is 15 per cent.⁷

Women workers are preferred by employers primarily because of the inferior conditions of work and pay that women are more willing to accept, including longer hours and unhealthy and often hazardous factory conditions. In addition, women usually do not ask for permanent contracts. They are thus easier to hire and fire at will, according to external demand conditions, and life cycle changes such as marriage and childbirth that could be used to terminate employment. Also the nature of the assembly line work, which is repetitive and detailed, is more suited to young women who can be more easily replaced.

Women's employment in such activities has provided them better outlets and opportunities for earning an income, and as women become an important part of the export economy, they also gain some social recognition for their work. This can easily be appreciated particularly in the case of Bangladesh, where women's contribution to export sector has gained worldwide recognition. This has also reduced poverty among women from the poorest villages who came to urban centres to work for the garment industry related work, either in home-based settings or in garment factories.

The very process of women's increased participation in employment has set in motion social and political changes that are improving the bargaining position of women, not only within their households but also within the society and the economy. As more women are joining the

paid workforce, there is a greater social pressure for improving their conditions of work and security of contract. However, the features which have made women workers preferable to men in export-oriented activities—increasing profitability, flexibility of contract regarding hiring and firing, and no responsibility on the part of employer to improve the conditions of work—are the ones which may make women less cheap and attractive as women workers become a social force to be reckoned with. At a time when export industries are facing a declining world demand for South Asia's textile products, women's employment in this sector might decline as the terms of their employment improve.⁸

The reversal of feminisation of employment has been observed in other parts of the developing world, especially in Latin America and East Asia. The declining rate of increase in female employment relative to men is often found to be associated with an overall decline in employment opportunities or a shift in the nature of new employment requirements toward more skilled activities. But in case of South Asia, the rising relative cost of women workers may become an additional reason. In Bangladesh, for example, the wage gap between men and women is already narrowing in this sector. In India, during late 1990s, women's employment in the manufacturing sector declined during a period of high growth of exports. Various studies showed that home-based subcontracting activities, often on piece-rate basis, might have substituted for self-employment or regular wage employment of women in India.⁹

In South Asia, there has been a phenomenal increase in subcontracting due to technology change that has allowed disintegration of production processes, leading to the outsourcing of parts of a product. This also allows the employer to avoid the country's labour laws that apply only in factory settings. Home-based workers, on the other hand,

Under the current world economic downturn, it is not easy to prescribe policies that could be implemented to enhance women's participation in employment

bear all costs of production from site, machinery, and utilities to health and safety.

The most visible sign of feminisation of paid work and export orientation is in the export processing zones (EPZs) of South Asia. EPZs clearly show the employers preference for female workers of a certain age group. The numerical dominance of women workers is a characteristic feature of EPZs. Officially, EPZs are governed by the country's labour laws, although they are outside the custom territory. But if the EPZs are declared as public utilities, as they are in most countries, country's labour laws can be breached with impunity.

Is it possible to ensure a minimum provision of basic rights and privileges to women workers and to improve the conditions of their work without eroding their attractiveness to employers, and thus reducing the extent of female wage employment? How can such rights and basic labour standards be assured in the current phase of globalisation in which

intense export competition is combined with a declining world economy? The issues related to labour laws and labour standards, are discussed in chapter 7.

Policy implications

Under the current world economic downturn, it is not easy to prescribe policies that could be implemented to enhance women's participation in employment with better pay and working conditions. In our previous reports we had addressed some of these policy issues and offered suggestions such as legislative actions to establish the principle of affirmative action in building women's capability, and providing them earning opportunities, as well as ensuring enforcement of such actions. But the important issue is a much bigger one—it is how to improve women's status in South Asian society. These and other policy issues will be discussed in chapter 9.

Education, Skill-training and Employment in South Asia

The 1998 report on *Human Development in South Asia* focused on *The Education Challenge*. That report made a detailed analysis of the systems of education and training in South Asia and of their impact on economic growth, employment and poverty alleviation. Its conclusions were stark: South Asia emerged, from that analysis, as ‘the most illiterate region in the world with (at that time) 395 million adult illiterates and 50 million out-of-school children’. Since then, although the literacy rate has gone up, the absolute number of illiterates has gone up to 616 million in 2001, 379 million of which are women.¹ About 45 per cent adults in South Asia are illiterate, 39 per cent of children who enrol in primary school drop out before grade five, and combined enrolment at all levels is only 56 per cent.² This frames the background for our discussion in this chapter.

Education is the passport to accelerated economic growth, particularly in the current context of a rapidly globalising world economy. Only those societies that have acquired relevant knowledge and skills can compete successfully in the global markets. This has been the experience of the East Asian countries. By combining their low wages with relevant education and skills, they converted their population into an asset and increased their economic productivity and growth. The contribution of education to economic growth is not a matter of controversy. But education without adequate, remunerative and productive jobs rarely leads to sustainable economic growth.

Over the past three decades, South Asia has made considerable progress in providing education to its citizens. The rate of adult literacy has increased in the region to 55 per cent compared to 32 per

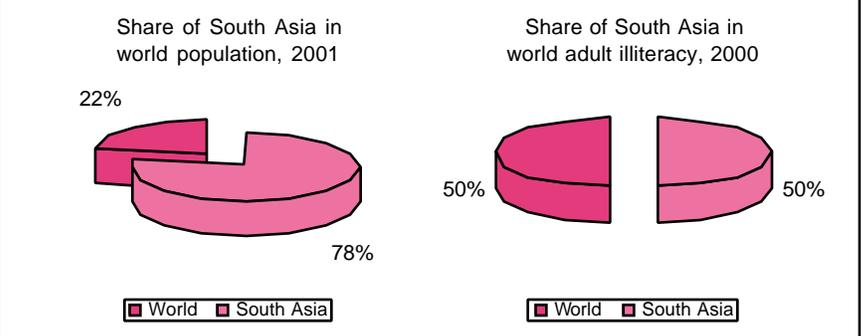
cent in 1970. The gross primary enrolment rate has risen from 68 per cent in 1970 to 99 per cent in 2000. Girls’ enrolment rates have gone up faster than those for boys. There has also been a rapid rise in enrolment at the secondary levels.

Yet South Asia, as a region, still has the largest illiterate population in the world: half of the world’s illiterate people live in South Asia (figure 6.1). Also, educational progress in South Asia has not been even between and within countries, between different regions and states. Sri Lanka and Maldives have always outperformed the rest of South Asia. Now, India and Bangladesh have joined their ranks in increasing enrolment and reducing gender gaps in education.

The state of education in South Asia

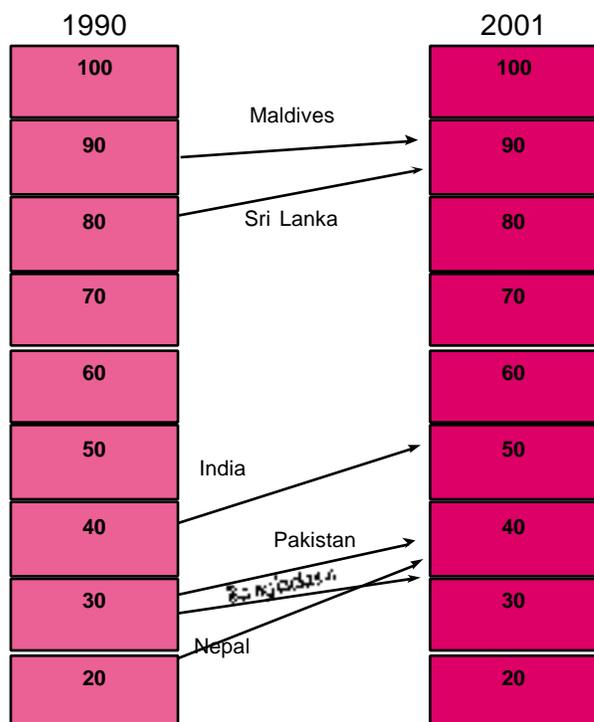
As documented in the *Human Development in South Asia* report of 1998, the current educational system in South Asia is characterised by low enrolment among poor and vulnerable groups, high dropout and repetition rates, and very poor quality of education. These problems are prevalent at all levels, but are most critical at the primary level. Though most South

Figure 6.1 Share of South Asia in world population and adult illiteracy



Source: UN 2003a and UNICEF 2002.

Figure 6.2 Trends in literacy rates in South Asia, 1990-2001



Source: UNDP 2003.

Asian countries have achieved universal enrolment, universal primary completion is yet to be achieved by all countries. Fewer children in South Asia entering grade one survive till grade five than in any other region of the world. Low completion rates are the result of high rates of early dropout.

One of the key reasons for the sustained economic growth in the economies of East Asia is the excellent quality of schooling at all levels. In order to raise not only economic growth but also to improve the social well-being of the majority of its population, South Asia has to address the quantitative challenge of improving enrolment at all levels. This has to happen particularly at the primary, secondary and technical education levels. In addition, the quality of education has to be improved substantially at all these levels, and gender disparity has to be reduced.

Comparing the performance of South Asia with other developing regions, table 6.1 shows that in reaching the quantitative goals of enrolment, South Asia is just above Sub-Saharan Africa. However, the literacy rate in South Asia is below that of Sub-Saharan Africa (table 6.1), a region that is economically far behind South Asia. Since the performance of individual countries varies within the region, table 6.2 provides data on literacy rates and enrolment (net) by country. Table 6.3 provides gross enrolment rate (GER) for different levels by country over two periods. GERs for all countries, for all levels, have gone up except for Maldives, which had already achieved the goal of universal primary education. But Pakistan among this group of countries shows its poor performance at both primary and secondary levels. Pakistan's poor performance underscores this Centre's consistent argument that education is not about money, but is about political commitment and participation of people in the decision-making process. Pakistan is far behind other South Asian countries on both counts.

Table 6.1 Enrolment and literacy in selected regions of the world, 2000 (%)

World Regions	Gross enrolment rates		Adult literacy rate
	Primary	Secondary	
Middle East/ North Africa	95	76	65
Sub-Saharan Africa	86	27	61
South Asia	98	48	53
East Asia & Pacific	106	61	87
Latin America & Caribbean	130	86	88

Source: UNICEF 2002; World Bank 2003c.

Table 6.2 Trend of literacy and enrolment in South Asia, 1990-2001 (%)

	Adult literacy		Youth literacy rate		Net primary enrolment rate	
	1990	2001	1990	2001	1990	2000-2001
Bangladesh	34.2	40.6	42.0	49.1	64.0	89.0
India	49.3	58.0	64.3	73.3	*...	[...]
Nepal	30.4	42.9	46.6	61.6	[...]	72.0
Pakistan	35.4	44.0	47.4	57.8	[...]	66.0
Sri Lanka	88.7	91.9	95.1	96.9	[...]	97.0

Source: UNDP 2003.

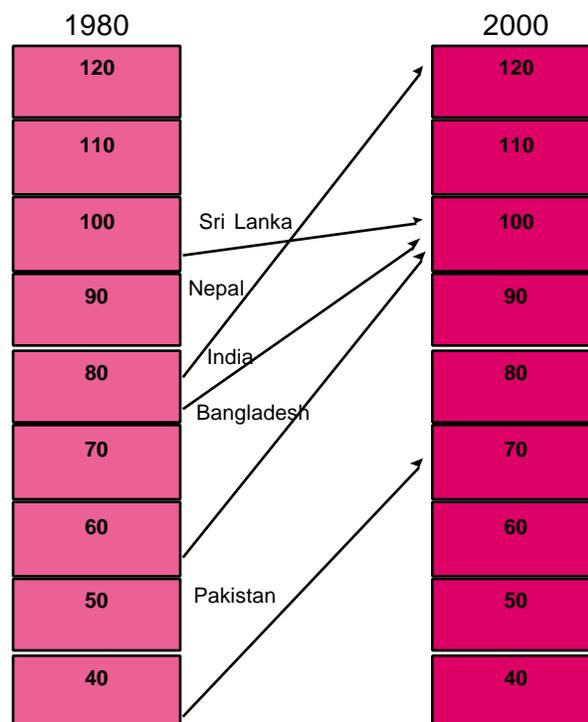
The poor quality of education delivered by the public education system is reflected in high pupil-teacher ratios and high rates of repetition as shown in tables 6.4 and 6.5 below. Compared to other developing regions, including Sub-Saharan Africa, South Asia has the highest pupil-teacher ratio and very high rates of repetition, especially in countries such as Nepal and Bhutan. Compared to China and Myanmar, the repetition rates in some South Asian countries are very high, showing the wastage of scarce resources and low level of human capacity building.

Apart from the high pupil-teacher ratios in South Asia, most teachers are untrained or poorly trained, especially in public schools, which are the main providers of education for the bulk of the children. The limited teacher training that is offered does not give teachers sufficient understanding of the material they have to teach. Most teachers have fewer than ten years of schooling themselves. Often they do not study core subjects, such as mathematics, beyond grade eight or ten.

The educational gaps between girls and boys are still wide despite efforts made by all governments after the 1990 Jomtien Conference on Education, and 1995 Beijing Conference on Women. As described in chapter 5, gender gaps in education are high in all countries except Sri Lanka, as reflected in female literacy, average years of schooling, and enrolments rates as shown in figures 6.4 and 6.5.

Public expenditure on education as a percentage of GDP is very low, despite commitments at various conferences. Recently, the commitment to achieve the minimum recommended allocation of 4.0 per cent of GDP was discussed in May 2003 at a ministerial conference of South Asia on Education for All held in Islamabad. In 1998-2000, India achieved that level and Bangladesh surpassed it by allocating 5.2 per cent of GDP to education. Pakistan's record is the worst in this, as well as in all other aspects of

Figure 6.3 Trends in primary gross enrolment 1980-2000



Source: World Bank 2003c.

Table 6.3 Gross enrolment ratios in South Asia, 1990-1 and 1999-2000 (%)

Country	GER in primary		GER in secondary		GER for all levels	
	1990-91	1999-2000	1990-91	1999-2000	1990	1999
Bangladesh	71.6	100.3	19.0	44.7	32.0	37.0
Bhutana ^a	73.0	...	5.0	...	11.0	33.0
India	97.2	101.6	44.4	48.7	50.0	55.0
Maldives ^a	134.0	133.7	49.0	42.8	...	77.0
Nepal	107.7	117.9	33.1	50.8	41.0	60.0
Pakistan	60.7	73.1	22.7	26.4	24.0	40.0
Sri Lanka ^b	102.9	105.9	73.8	72.1	68.0	70.0

Notes: a. 1990-91 data is of 1992-93.

b. 1999-2000 data is of 1998-99.

Source: MHHDC 1998; UNDP 1995, 2002.

Table 6.4 Pupil-Teacher ratios in selected regions of the world

	1975	1990	1997
Arab states	32	23	22
Sub-Saharan Africa	39	37	40
Southern Asia*	42	46	44
East Asia/Oceania	30	23	25
Latin America & Caribbean	27	25	25

Note: *Southern Asia includes Iran and Turkey besides South Asia but pupil-teacher ratio is 25 for Iran (2000) and for Turkey, it is 32(1996-7). This means that ratio for South Asia would be even higher than what is shown above.

Source: GOT 2003; UNESCO 2002; World Bank 2003c.

Table 6.5 Repetition rate by grade in Primary Education in selected Asian countries, 1999-2000

Country	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5
Bhutan	14.9	14.1	12.5	9.8	13.2
Nepal	41.9	18.9	17.0	16.9	17.4
India	4.0	2.9	5.0	4.4	3.9
Myanmar	1.0	0.5	0.4	0.3	0.2
China	2.1	0.7	0.5	0.4	0.2

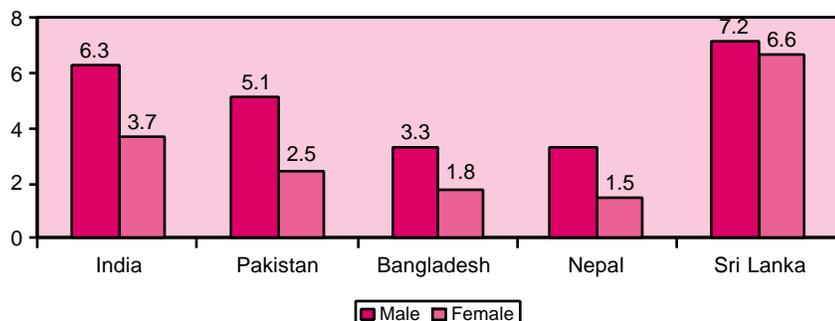
Source: UNDP 1998b; UNESCO 2002.

Table 6.6 Public expenditure on education as % of GDP

Country	1990	1998-2000
Sri Lanka	2.6	3.1
India	3.9	4.1
Bangladesh	1.5	2.5
Nepal	2.0	3.7
Pakistan	2.6	1.8

Source: UNDP 2003.

Figure 6.4 Average years of schooling for the selected countries of South Asia, 2000



Source: World Bank 2003c.

Figure 6.5 Male and female gaps in gross primary enrolment ratio, 1998-2001*



Source: UNESCO 2003.

human development (table 6.6). In three South Asian countries out of five, public expenditures as a percentage of budgetary allocation have gone up above 10 per cent, and expenditures on primary and secondary education have gone up over the 1990s (table 6.7).

The challenge of educated unemployed

Over the past three decades, South Asia has made substantial progress in providing education to its citizens. The rate of adult literacy has gone up and so have the enrolment rates at all levels, as we have just noted. But these improved educational achievements have not been translated into better job opportunities for the South Asians. The unemployment rates among the educated, particularly at the higher levels of education, have gone up, as has been mentioned in chapters 1, 2 and 3. This has created a new concern about the relevance of education, as well as of the macro-economic policies, to provide job opportunities to the educated.

As tables 6.8, 6.9 and 6.10 below suggest, the higher the levels of

Table 6.7 Trends of public expenditure on education by levels

Country	Public expenditure as % of				Public expenditure on education by level as % of total education budget					
	GDP		Government Expenditure		Pre-Primary and Primary		Secondary		Tertiary	
	1990	1998-2000	1990	1998-2000	1990	1998-2000	1990	1998-2000	1990	1998-2000
Sri Lanka	2.6	3.1	8.1	...	...	...	84.3	...	13.4	...
India	3.9	4.1	12.2	12.7	38.9	39.4	27.0	40.5	14.9	20.1
Bangladesh	...	5.2	...	12.9	..	26.9	...	47.9	...	19.6
Nepal	2.0	3.7	8.5	14.1	48.2	60.0	15.7	24.6	23.3	11.9
Pakistan	2.6	1.8	7.4	7.8	...	...	...	...	...	...

Source: UNDP 2003.

education, the higher is the rate of unemployment in Sri Lanka, Pakistan and India. In Sri Lanka, the highest unemployment rate is among those that had finished secondary education in 1999, although the trend rate of unemployment was going down. In Pakistan, unemployment rates in 1999-2000 were high among the student groups between high school and degree levels. In India, the highest rate of unemployment was among the urban educated females who had higher secondary and above education in 1997.

As evident by the data on the sectoral distribution of employment (chapter 2), the services sector absorbs the bulk of educated labour force in South Asia. During the nineties, a major increase in employment in the services sector was observed in all the countries of South Asia. The services which showed a large increase in employment, for example in Nepal, were trade and hotel services, and financial, social and personal services. These services employ educated people. According to Nepal Labour Force Survey (1998-99), even after the increase in services, the occupations in which the educated can be employed comes to only 13 per cent of the total employed.

This was the reason that upgrading skills did not result in solving the educated unemployment problem in India and Sri Lanka.³ South Asian economies, or particularly those sectors of economies that employ educated people, did not expand much. There was also a mismatch between the qualities of labour force demanded by the market and those that were supplied by the systems of education and training. Before the nineties, the public sector usually absorbed most of the educated people in South Asia but in the nineties, this situation changed. Instead of employing new graduates, reducing the size of the public sector employment was the policy. This withdrawal of the public sector from the labour market did not result in a large expansion in the private sector, as was expected (see chapter 3). The expectation

	1990	1995	1997	1998	1999
No School	3.3	1.8	2.0	1.0	0.4
Primary & pre-primary	5.1	3.4	2.4	2.4	1.9
Secondary & pre-secondary	17.2	12.8	10.6	9.0	8.2
O Level & above	23.9	18.4	15.9	13.7	17.9

Source: CBS 2001.

Education status	1990-1	1994-5	1999-2000
Illiterate	5.6	4.5	7.1
Pre-Matric	6.0	5.0	8.9
B/w Matric & Degree	18.6	15.9	...
Degree	6.2	6.2	...
Post Graduate	5.9	7.0	7.4

Source: GOP 2001a, 2001c; Majid 2000.

Educational level	Rural			Urban		
	Total	Male	Female	Total	Male	Female
Illiterate	7.5	6.1	13.1	3.7	4.5	2.1
Below primary	3.4	3.4	3.6	3.9	4.6	2.2
Above primary and secondary	53.4	54.7	48.5	51.2	54.3	43.2
Higher secondary & above	35.7	35.8	34.8	41.2	36.6	52.5

Source: Sharma et al. 2000.

that the retreat of the public sector from the job market would be filled by job-creating activities of the private sector and civil society did not materialise. There is also a kind of 'waiting' nature of unemployment or 'voluntary unemployment' in South Asia.⁴ Young people extend their unemployment and do not accept available jobs if they cannot find jobs that match their expectations. They remain dependent on their parents or extended family.⁵

Technical and vocational education

An obvious solution to solving the problems of unemployment seems to be the building of technical skills to suit the job market, as well as to improve the capacity for self-employment. But South

Table 6.11 Vocational education enrolment as per cent of total secondary enrolment by regions

Regions	1980	1990	1995
Arab States	10.5	12.0	16.0
Latin America	24.0	24.5	25.5
East Asia/Pacific	4.0	9.0	13.0
Sub-Saharan Africa	6.5	6.0	6.5
South Asia	2.0	2.0	1.7
Least Developed Countries	4.0	5.2	6.5

Source: ILO 1998.

Technical and vocational skills can be developed only on a strong foundation of basic skills such as reading, writing, numeracy, and a problem-solving attitude

Asia seems to lag behind the global markets where technology rules, despite India's Silicon Valley. South Asia produces very few technically trained people, compared to its requirements. Modern vocational and technical skills have become more vital for the South Asian economies as they experience structural transformations reflected in the relative importance of the shares of GDP in agriculture, manufacturing and services.

The current profile of technical and vocational education (TVE) in South Asia is a matter of concern. Less than two per cent of secondary school enrolment goes for vocational education, compared to over 10 per cent in East Asia and the Pacific, and 6.5 per cent in Sub-Saharan Africa (table 6.11). While the enrolment rate in technical training institutes is already low, even more alarming is the high dropout rate among those who enrol for technical education.

Technical and vocational skills can be developed only on a strong foundation of basic skills such as reading, writing, numeracy, and a problem-solving attitude. These are acquired from a sound system of primary and secondary education. The most important vocational skills that today's workers need are the basic skills of literacy and numeracy at a functionally useful level.

There are several reasons for such a poor state of technical education in South Asia: meagre financial allocations by governments for technical and vocational education, severe shortage of qualified teachers, and proper facilities at technical training institutes.

Box 6.1 identifies six principles of a successful technical and vocational training system derived from the experiences of East Asia. Box 6.2 describes the training systems of the world. Together these two boxes provide the guidelines to assess the training system of South Asia.

In South Asia, formal training is provided in schools, vocational institutes and at polytechnics. The training in schools is very basic. The post-secondary school training is more professional but suffers from being a non-priority area for most South Asian governments. In Bangladesh, the allocation for technical education in the development budget for education actually decreased from 14.5 per cent in 1988-9 to 1.3 per cent in 1993-4.⁶ Lack of finances, laboratories, workshops, trained teachers, links with the industry and research all contribute to its low productivity.⁷ Another reason for the low quality of vocational education in South Asia is that, unlike general education, vocational education is divided between various departments, ministries, and organisations. As there is no single body responsible for it, there is sometimes a clash between policies, while at other times repetition (see box 6.3).

Other sources of training are big public and private organisations. There is legislation in almost all the South Asian countries that commits large organisations to train a specific portion of their employees.⁸ Training is also provided by various professional bodies. Informal training for the informal sector is significant in South Asian economies. The traditional '*ustad-shagird*' (teacher-apprentice) system helps reduce the skills gap in South Asia. It is better than the formal system in at least one major respect. Due to its closeness with the market, very few persons trained under this system ever remain unemployed.

However, there are some basic challenges faced by the training systems of South Asia. The following are a few:

Box 6.1 A successful vocational and technical training system

From the experience of East Asia, six core principles of a successful vocational and technical training system could be identified:

- **Importance of primary education:** East Asian governments gave priority to universal primary education, because primary education is the base on which a productive technical education system is built. Although most of these countries were ahead of other developing countries in education standards even in the sixties, they spent much more on primary education than other developing regions of Asia. In fact, many East Asian governments restricted entrance to higher education to keep the education level of their labour force pertinent to the requirements of their economies.
- **Allocations to technical education:** East Asian governments gave priority to technical education by higher financial allocations to technical education over a longer period of time. Malaysia allocated around 18 per cent of its education budget to technical education during 1986-90. South Asian governments, in comparison, have rarely spent above five percent of total education expenditure.
- **Planning:** In East Asia, technical education was a planned activity. The future demand in various technical fields was anticipated. This demand was then conveyed to technical training institutions, which then produced technicians required by the economy. Policy makers in East Asia, during the last three decades, showed their ability to link training and education with the labour market requirements.
- **Teacher Training:** East Asia gave importance to teacher training. There are many institutes which train teachers in East Asia. For example, in Malaysia, a special polytechnic staff training centre, known as Tun Hussein Onn Institute of Technology was built to provide staff to polytechnics, and was later given the status of a degree awarding institution. In other regions of Asia, as technical education was not considered important, the requirement of teachers was also ignored, which resulted in severe shortage of quality instruction.
- **Public sector role:** Although East Asia had private sector involvement in the technical education, the governments' role was critical. Through the influence of powerful ministries and institutions, the demand and supply of technical skills was carefully co-ordinated. In Korea, this was done by the Economic Planning Board, while in Singapore the Ministry of Trade and Industry and the Economic Development Board led the way.

- **Vertical mobility:** Clear link between general and technical education existed in East Asia. Students could progress from a technical institute to tertiary level learning. This opened avenues for both financial and social improvement for technical trainees. This mobility increased the prestige of technical education in the society, and was an important factor in getting talented and motivated people in technical education.

The East Asian training systems have shown how a training system should respond to the labour market and change and grow with it. Initially, there was an emphasis on skilled manpower with some basic secondary education as labour market required personnel to produce/assemble products already developed in Japan and other developed countries. So, there was much emphasis on TVE and less on higher education. Then, as the economies moved up on the technology scale and needed people who could develop their own technology, the countries required people with higher education. These were people who could do cutting edge research to compete with the developed countries. Therefore, the emphasis on higher education has increased over the years. Tertiary enrolment, which was less than 10 per cent in 1975, increased to 16 per cent in 1980, and then to 39 per cent in 1990 and to 68 per cent in 1996.

Source: ILO 1999b; Ishikawa 1993; Lee 1993; MHHDC 1998; Sipon 2001 and UNDP 2001a.

Box 6.2 Training systems of the world

There are four broad categories of training systems: cooperative, enterprise-based, voluntarist and state-driven. Cooperative system is one in which all the stakeholders sit together and decide what is required and how it can be achieved. Governments, employers and trade unions all have a say. Germany is the best example of cooperative system. In the enterprise based training system, which is practised in Japan, the main

responsibility of the training is on the employer. A new entrant in a company only comes with basic education and training and it is the company which turns him or her into a professional. As people usually don't leave their companies, the companies have an incentive to give training to their employees. Voluntarist system is, in many ways, opposite of the enterprise based system, since in this system the

individuals are responsible for their own training. Businesses don't train many people. Individuals have basic training when they enter employment and then keep on training themselves whenever they find time, to get a pay raise or to move on to a better job. In the state-driven training system, the state makes all the decisions. Interaction with other stakeholders is there, but ultimately it is the government that decides.

Source: ILO 1998.

Box 6.3 Responsibility for TVE in South Asia: A Fragmented Scene

A list of some of the organisations involved in technical and vocational training in South Asian countries is given below:

- **PAKISTAN:** Ministry of Labour, provincial Department of Education, provincial Department of Social Welfare, provincial Department of Manpower and Training, Small Industry Corporations, Overseas Pakistanis Foundation.
- **SRI LANKA:** Ministry of Vocational Training and Rural Industries, Vocational Training Authority, National Apprentice and Industrial Development Authority, National Youth Services Council.
- **INDIA:** Ministry of Rural Areas and Employment, Ministry of Industry, Department of Women and Child Development, State Education Departments, Directorate General Employment and Training, Department of Education, Department of Youth Affairs and Sports, Khadi and Village Industries Commission etc.
- **BANGLADESH:** Ministry of Education, Ministry of Labour and Employment, Ministry of Youth and Sports, Ministry of Women affairs, Ministry of Social Welfare, Bangladesh Small and Cottage Industries Corporation, Institute of Marine Technology.
- **NEPAL:** Ministries of Industry, Health, Land Reform, Communication, Labour & Agriculture, Council of Technical Education and Vocational Training, Department of Civil Administration etc.

Source: Chettri 2000; Irfan 2000; Lakhman 2000; Masum 2000; Sharma et al. 2000.

LACK OF ADEQUATE FINANCE: Currently, training systems are not adequately funded, and most of what is budgeted is spent on the salaries of the trainers, which leaves only a small amount for research, laboratories and workshops. Both the adequacy and efficiency of public sector education training institutions are questionable. Public sector educational institutions are found to cost more and achieve less than their private counterparts.⁹ The South Asian countries have been experimenting with various ways of dealing with the challenge of providing education cost-effectively to dispersed populations, such as distance education, an outstanding model of the Allama Iqbal Open University in Pakistan. There are others in the region (see box 6.4)

LOW SOCIAL STATUS OF TECHNICAL EDUCATION: Vocational and technical education has always been at the bottom of the educational hierarchy in South Asia. Technical education graduates are considered to be less qualified and less competent. The view is, however, not limited to South Asia. It led the Second International Congress on Technical and Vocational Education to recommend to all countries to make concerted efforts to enhance the prestige of TVE in the community and media. Unless this problem is rectified, outstanding and ambitious people will not be attracted to technical education. The low social standing of TVE can be increased by measures such as: providing TVE students opportunities to attain higher education; appropriate career guidance so that they can get good employment; and, establishing a wide network of training facilities for the employed as well as unemployed vocationally trained people so that they can move ahead in their careers.¹⁰

CONSTANT CONSULTATION AND RESEARCH: The South Asian state-driven training system has performed poorly because it was static, conservative

Box 6.4 Distance education and training

Distance education and training, by using communication technologies, is one way of dealing with the financing problem. Distance learning is cheaper as compared to regular schools, and is very effective in far-flung areas, where the population density is low and children have to cover large distances to reach schools. It also works well with the cultural sensitivities associated with girls going out of their homes.

Nowadays when one hears the word 'communication technologies', the image which forms in the mind is that of computers and the internet. But communication technologies are much older and diverse than computers. Radio and television are communication technologies and are being used in the world and in South

Asia to increase education and training. What is to be done now is to imitate and expand the small but successful programmes so that large number of South Asians can benefit from them.

Nepal's Radio Education Teacher Training Programme (RETTP I) is an example of the successful use of communication technology for training untrained rural primary teachers. It was started in 1978 and consisted of radio lessons with self-instructional materials and workshops. In view of RETTP I's success in achieving its goals, in 1987/88, RETTP II was initiated, which along with teachers' training also started to work towards the universalisation of education.

Source: Khatri 1996; MHHDC 1998.

and closed. What is required now is a system in which there is constant monitoring, evaluation and research.

The state should be a player in assessing and providing the training needs of the population. However, it should not be the only one. The state is liable to make mistakes if it does not consult other stakeholders. As in a cooperative system, everyone's input has to be valued and then the costs may also be distributed. In this way, decisions are based on a large amount of information and as the burden is not huge, everyone is ready to bear their share. What should be emulated from the South East Asian system is a commitment to vocational education and constant research. The South Asian governments should commit themselves to producing a competent workforce by having regular comprehensive audits of their training system to make it relevant to the domestic and world market. The Curriculum should be constantly evaluated and should emphasise on multiple skills.

In addition to TVE, another important area which requires the attention of South Asian policy-makers is the retraining of people who lose their jobs as a result of privatisation (see box 6.5).

CREATIVITY AND QUALITY: The workplace is changing fast. The skills learnt in one year may not be useful in the next, and what is learnt next year may be redundant after another six months. As technology changes, the skills required to operate it also change. Innovation is the order of the day. Unless one is creative and innovative, it will be difficult to survive in this new world. Therefore, today's training systems have to train people not only in suitable skills but also in being creative.¹¹

Quality of training is important because it directly affects the quality of products made. There are many reasons for the low quality of South Asian goods, but one of the most important ones is that the South Asian training systems do not produce quality workers. What is

Box 6.5 Need for retraining after privatisation

Training of adults should be an important part of overall training programme. This is because of two new factors: firstly, privatisation and downsizing policies in the region are making many older people unemployed; and secondly, the types and modes of employment are changing very fast, making some skills useless and others highly desirable. A lifelong learning culture has become essential for success in the globalised world.

South Asia had a large re-trenchment of labour because of privatisation in the 1990s. There was, however, no emphasis on retraining of these workers. In India, National Renewable Fund (NRF) was set up in 1992 for helping employees of privatised industries, with retraining as one of the objectives. But it was mainly used for paying compensation packages rather than for redeploying or retraining workers. Out of the total

re-trenched employees benefiting from NRF, only one-third were retrained. Pakistan also went for the short-term measure of paying money rather than retraining workers. In Bangladesh, only few thousand workers were trained and that too after a long gap of three years (1993 to 1996) between the re-trenching of workers and the starting of the retraining programme. Retraining has also failed to live up to its potential in Sri Lanka.

Retraining should be provided before privatisation so that break in employment and relocation, which is disastrous for the poor, is minimal. Secondly, more emphasis should be paid toward self-employment, as opportunities for wage employment in South Asia are shrinking. Thirdly, retraining should be linked with a proper market-information system so that people are trained in skills that are required.

Source: Joshi 2000.

required is better quality education and training for the trainers, and continuous monitoring and evaluation to improving the techniques. Trainers should be well educated as it is difficult to see how low educated trainers can impart skills of a knowledge-based economy to trainees.

MONITORING AND EVALUATION: These are critical for improvement in technical education.¹² Trainers in South Asia are not required to update themselves with the changes in the industry. They continue teaching outmoded skills and practices to their students, which has resulted in low quality of trainees and low employability. In a study on vocational education in India, students stated that the biggest shortcoming of the faculty was that they were not properly qualified.¹³ The South Asian trainers should have a better pay structure and incentives so that suitably qualified people are attracted to become

One of the most important changes that can be brought in the South Asian training system is to promote the spirit of entrepreneurship among students

trainers. In addition, it should be binding on them to have industrial experience. Trainees' quality can also be augmented by increasing their workshop/lab time and by attaching them to industrial units for some time. This on the job experience will help them know the latest technology and increase their relevance to the market.¹⁴

ADAPTABILITY TO LOCAL NEEDS:

The technical education curricula should be developed and applied according to local needs. While the training related to maintenance of fish breeding ponds would benefit Sri Lanka and Bangladesh, it would be useless in Nepal and Bhutan. However, training trekking guides will benefit Nepal and Bhutan but not Sri Lanka and Bangladesh. Vocational training institutes have to keep close liaison with the local communities, industrialists and government departments to change the curricula as and when the need arises. This is especially essential for rural districts so that young people can find jobs in the local economy and stop the rural to urban migration.

Developing entrepreneurship as a way to promote employment

One of the most important changes that can be brought in the South Asian training system is to promote the spirit of entrepreneurship among students. Entrepreneurship is defined as the starting of a new business, bringing innovation in an old one, or more broadly, as a process of change.

In South Asia, small and medium enterprises (SME) are a major source of employment. In India, after agriculture, SME is the biggest source of employment, since this sector has high per unit employment, with much faster growth than the overall Indian industrial growth.¹⁵ Moreover, the entire growth in employment from 1993-94 to 1999-2000 has been in the unorganised sector, while growth of employment in the organised

sector has been sluggish. This has happened at a time when the Indian economy has been growing at a rate of 6.1 per cent annually.¹⁶ In Nepal, 87 per cent of the total employment in the manufacturing sector was generated by SMEs in the year 2000.¹⁷ For Pakistan, the share of the small-scale sector in manufacturing was around 80 per cent.¹⁸ It is clear that the SME sector is generating the bulk of employment in the manufacturing sector in South Asia.

How to increase entrepreneurship in South Asia?

To increase entrepreneurship in South Asia, both supply and demand factors have to be strengthened. Demand factors include availability of credit, business incubation and an enabling environment including good infrastructure, less corruption and encouraging government policies. Supply factors consist of personality and education system.

AVAILABILITY OF CREDIT:

The availability of credit for new businesses is an area in which the South Asian governments have tried to aid entrepreneurial activity. However, this has been less successful than was expected. Although banks and other organisations exist to fund and help new entrepreneurs, the loans do not seem to have reached the people they were meant for. Most funds were wasted because of corruption or negligence.¹⁹ The recovery rate of these loans is very low, resulting in the closure of some of the financing institutions. The tale of the development finance institutions in Pakistan is one example of good intentions producing bad results (box 6.6).

In contrast to governments' efforts, some programmes disbursing micro-credit have been much more successful. Bangladesh's Grameen Bank and some other institutions that have followed, have increased employment and reduced poverty by following an innovative strategy of organising communities and

making them responsible for repayment of loans (box 6.7).²⁰

CORRUPTION: *Human Development in South Asia 1999* focused on the crisis of governance in South Asia. All the countries of South Asia are found at the end of the corruption index. New entrepreneurs have few resources and many times corruption increases the costs to a prohibitive level. Moreover, it distorts decision-making such that the meagre resources of South Asia, which should be benefiting the poor people of this region, are wasted. No matter how good a policy is devised, corruption skews its results.

INCENTIVES FOR NEW ENTREPRENEURS: Governmental policies in South Asia with regard to new firms are disappointing, and new entrepreneurs have to face various kinds of bottlenecks from different government offices when starting a business. For example, in Pakistan, a person has to take permission from eighteen different government offices if he wants to set up a compressed natural gas station.²¹ Government programmes for new SMEs exist, such as 'easy credit' and 'easy licensing' etc., but these are wasted and do not reach the target group.²² India has a policy of reservation under which more than eight hundred products have been reserved for exclusive production in the small-scale sector. Although governments of South Asia have accepted that they should decrease unnecessary laws, taxes and regulations, so far there have been few incentives for the new firms in the tax system.²³

BUSINESS INCUBATION: The basic problem for the start-ups in South Asia is that they are inexperienced in an environment that is not very business-friendly. If they are not guided, there is a strong possibility that they will not succeed. A survey carried out in Sri Lanka revealed that the survival rate of SMEs after five years is only 4.5 per cent.²⁴ This not only discourages those already in

Box 6.6 Rise and fall of Development Finance Institutions (DFIs) in Pakistan

The decades of the sixties and seventies were times of the mushrooming of DFIs in Pakistan. Some of them were sector-specific like Agricultural Development Bank of Pakistan; others were restricted by the amount of loans they could give, like Small Business Finance Corporation (SBFC) and Youth Investment Promotion Society (YIPS). Industrial development was the priority so there was Industrial Development Bank of Pakistan (IDBP), National Development Finance Corporation (NDFC), Regional Development Finance Corporation (RDFC), Equity Participation Fund (EPF) etc. Provinces had their own loan giving agencies. The idea was that if someone wants to start/expand a business, financing should not be

denied. Security and collateral requirements were lowered to allow more and more people to avail the opportunity of starting or expanding a business. This may have resulted in providing financing to a number of genuine entrepreneurs, but many undeserving people benefited too. In 1996, it was found out that these institutions have twenty billion rupees of bad loans. This prompted the government to restructure and merge these institutions. So, initially RDFC was merged with NDFC, EPF with IDBP and YIPS with SBFC. Even this consolidation was not enough. Later on, NDFC due to its financial problems, had to be merged into the National Bank of Pakistan. By 2003, DFIs have been reduced from twelve to only six.

Source: Hussain 2003.

Box 6.7 Lessons from four successful programmes for increasing employment in rural areas in South Asia

Small Farmers' Development Programme in Nepal, Grameen Bank in Bangladesh, Self-employed Women's Association (SEWA) and Working Women's Forum in India have all succeeded in enabling rural poor to obtain credit, increase employment and thereby increase their incomes. These initiatives have many common features, some of which are given below:

i) Active participation by the community in the programme;

- ii) Credit to the poor on the basis of collective responsibility;
- iii) Life of the credit programme conditional, including other things, on its capacity to generate savings;
- iv) Grant of loans at very low interest rates, with full authority to borrowers to use it anywhere they like;
- v) Repayments and other rules to be made by the community concerned.

Source: Srinivas 2003.

business, but also others who are planning to start a new one. Help to new entrepreneurs does not only mean giving easy credit facilities (although they are important). Research has shown that if new entrepreneurs are not helped in other areas as well, they are likely to fail.²⁵ These

Box 6.8 Bharatiya Yuva Shakti Trust (BYST): An initiative to help new entrepreneurs

BYST was formed in 1991, with the help of Confederation of Indian Industry, to tackle the youth unemployment problem and the resulting poverty, by nurturing entrepreneurial tendencies in Indian youth. It mostly concentrates on impoverished sections of the society. It started its work in urban areas but soon expanded to rural areas as well. Budding entrepreneurs are not only provided financial support like loans without collateral, but other services as well. These services include mentoring by successful businessmen, training through workshops, seminars and marketing opportunities like displaying their products at BYST

stalls at international and local trade fairs.

BYST has been quite successful in this initiative. Its success has been recognised internationally and many multinationals like American Insurance Group are helping BYST. Till October 2000, it has supported 570 entrepreneurs, which includes 117 women. In the Indian context, the number does not appear to be large but the success rate is very high. Five percent of BYST entrepreneurs have become millionaires. This also includes men like Arjun Kumar, a handicap, who not long ago was begging in the day and sleeping on railway station at night in New Delhi.

Source: BYST 2003; CSRF 2003.

(National Business Incubators Association) estimates that the North American incubator clients and graduates have created approximately half a million jobs since 1980.²⁶ India has one example of a successful initiative to help new entrepreneurs (box 6.8).

The World Bank realised the critical importance of incubation, and therefore established a business development service (BDS) in 1995 to assist in the provision of 'a wide array of non-financial services critical to the entry, survival, productivity, competitiveness and growth of small enterprises'.²⁷

INFRASTRUCTURE: South Asian governments have long accepted the importance of investment in transport, communication and other infrastructure in promoting economic growth²⁸. However, the quality of infrastructure is very low compared to international standards, and the prices are too high compared to the average income in South Asia. Many people who want to start their own business, do not take initiative due to unreliability and high costs of infrastructure. Electricity supply, which is the main energy source, is not readily available across the countries. A major portion of population remains without electricity²⁹. It is difficult for an entrepreneur to start a business, if he is uncertain of the reliability of electricity supply. Moreover, the rates are very high. If a new firm has to compete in the domestic or international market, it has to keep its costs low. Compared to other developing regions, South Asia, except Sub-Saharan Africa, has the lowest percentage of population with access to electricity (table 6.12). There is, of course, huge variation within South Asia, with Sri Lanka providing the highest percentage of population with electricity and Nepal the lowest (table 6.13). Despite these bottlenecks, we see some great examples of entrepreneurial cities that have emerged in South Asia. Box 6.9 gives two examples.

Table 6.12 Population having electricity in selected regions of the world

Region	% of population having electricity
East Asia	87.3
Latin America & Caribbean	86.6
Middle East & North Africa	90.4
South Asia	40.8
Sub-Saharan Africa	24.6

Source: World Bank 2003c.

areas include quality of raw material, management, technical and marketing problems, information, and labour problems. South Asian government departments, set up for helping small businesses, work only as banks, i.e. as credit providing institutions, leaving everything else to the new entrepreneur. Even in the developed countries, where everything is standardised and few problems arise, business incubation is considered necessary. United States acknowledged the business incubation concept quite early. At present, there are more than eight hundred business incubators in North America, which, according to studies, are playing an important role in the US economy. NBIA

Table 6.13 Electricity production and access to electricity

Country	Electricity production (bkwh*)		% of population having electricity
	1980	2000	
Bangladesh	2.4	15.8	20.4
India	119.3	542.3	43.0
Nepal	0.2	1.7	15.4
Pakistan	15.0	68.1	52.9
Sri Lanka	1.7	6.8	62.0

Note: *Billion kilowatt hour.

Source: World Bank 2003c.

Box 6.9 Entrepreneurial cities: Surat and Sialkot

Surat (India) and Sialkot (Pakistan) are classic examples of entrepreneurial innovation cities. Figures below show how these small cities are contributing to the exports of their respective countries. The annual exports of diamond and gem industry based in Surat have increased from 1.5 billion dollars in 1986-7 to more than six billion dollars in 1997-8, which was about 16 per cent of all Indian exports in 1997-8. It is the largest in the world by number of employees and value. Sialkot specialises in sports goods, leather goods and surgical instruments. Exports of these goods have increased from around five hundred million dollars in 1991-2 to around seven hundred million dollars in 2001-2, which was more than seven per cent of Pakistan's total exports in that year. What these figures do not show is that these small cities are the best in the world in their fields. More than 60 per cent of all the diamonds processed in the world are from Surat. Sialkot's position in hand-made football can be gauged from the fact that it has provided most of the footballs for the last two world cups held in France and South Korea-Japan. It also has one-fifth of the global market in surgical instruments. It is important to consider why these small cities are much more

successful than much bigger cities with better facilities and opportunities. Research has come up with the following special characteristics:

SELF-DEPENDENCE: People in Surat and Sialkot depend on themselves. They prefer projects in which they can work without depending on external support. They try to work with their environment and use its strengths. They do not wait for the governments' help. Most of the new entrepreneurs start their business by using their own money, or with the help of family and friends.

ORGANIC GROWTH: Most of the businesses in these cities are family business which have grown over the years. Entrepreneurs start working in their family concerns and then expand it or start a new one.

LEARNING BY DOING: New entrepreneurs learn their trade in their family concerns. Workers' children also follow their parents and usually join the same firms at an early age. Thus, skills are passed from one generation to next.

EXPORT MARKET NICHE: Both cities have developed a niche in the world market and are good at anti-

cipating demand and marketing so that they are retaining their share. An important factor in this regard is the link between external buyers and local business concerns. Multinationals like Adidas, Puma, Nike, Reebok have successful relationships with Sialkot manufacturers. Similarly, De Beers and Antwerp have business partners in Surat.

SMALL-SCALE COTTAGE INDUSTRIES: There are some seven hundred units of diamond processing in Surat. Similarly, in Sialkot, only in surgical instruments industry, there are about two thousand five hundred manufacturing units. The case of leather and sports goods is the same, with a large number of small concerns. There are a few big players but they do not dominate the market.

IMPORTANCE OF CLUSTER: Almost 90 per cent of the diamond polishing industry in India is in Surat. Similarly, Sialkot also has more than 90 per cent of surgical instruments and hand-made football factories. Majority of leather factories are also in Sialkot. This shows that external economies of agglomeration can help small cottage industries keep their niches in the increasingly competitive global market.

Source: Feldman and Francis 2001; Kuriyan 2002; Nadvi and Halder 2002; Purani 2000.

EDUCATION SYSTEM IN SOUTH ASIA: The psychological, societal and cultural characteristics of a population may boost entrepreneurial activity. In considering these characteristics, one of the most important factors to note is whether the education system is working toward equipping people with self-reliance, or towards promoting dependence. Here, we have direct data only for India, which shows a low score by global standards.

ENTREPRENEURIAL PERSONALITY: Personality character-

istics of a population influence the supply of entrepreneurs. To nurture this talent, in the short term, South Asian governments can establish special institutes for promoting entrepreneurship. A good example is Entrepreneurship Development Institute (EDI) in Gujrat, India, which is now serving not only India but other developing countries as well.³⁰

Potential of ICT for employment generation in South Asia

Developing countries can ease the pressure of unemployment by exporting

Table 6.14 National Entrepreneurship Framework Conditions in India, 2001

	India's score	GEM 2001 average*	Lowest score	Highest score	India's Level
Respect for entrepreneurship	3.26	3.38	2.87	4.45	Below average
Entrepreneurial capacity	2.62	2.44	1.78	3.13	Above average
Quality and access of physical infrastructure	2.90	3.66	2.90	4.46	Lowest
Ease of entry by new firms	2.72	2.78	2.38	3.33	Average
Adequacy of education system	2.13	2.29	1.65	2.84	Below average
Appropriateness of taxation, regulation etc	2.30	2.50	1.30	3.45	Below average
Appropriateness of programmes for supporting new firms	2.27	2.67	1.43	3.57	Below average
Availability of equity and debt funds	3.18	3.08	1.99	4.30	Marginally above average

Note: *Average of all the countries which have Global Entrepreneurship Monitor reports.

Source: GEM 2001.

their ICT trained workforce. Although this may be termed as brain drain, keeping a valuable ICT professional unemployed serves no one. Manpower export can earn

much needed foreign exchange and create a diaspora which can be of help to labour-exporting countries in many ways (see chapter 8). In South Asia, India is already benefiting from exporting its ICT graduates. At the same time, however, the employment prospects for the ICT graduates are also improving at home as the Indian experience shows. ICT also has great potential for providing services and training people in numerous ways. Grameen Bank in Bangladesh provides one example of how useful ICT can be, even in the villages of a poor country (box 6.10).

The South Asian countries must benefit from this ICT boom. However, much depends on what condition the South Asian countries are with regard to ICT diffusion, which is measured by the number of internet users (pervasiveness), geographic dispersion, sectoral absorption, sophistication of use, connectivity infrastructure and organisational infrastructure.

Box 6.10 Poor people of South Asia and ICT

Various organisations in South Asia (like Grameen Bank in Bangladesh) are proving that ICT has relevance even for the poor. The village phone programme of Grameen Phone Limited, a subsidiary of Grameen Telecom, is providing telephone services to poor villagers of Bangladesh, who had rarely seen telephones in their village before. Currently, more than five thousand village phones are operating, which are providing access to around 12.5 million people. These rural people now have access to latest market information, which stops middlemen from cheating them. These telephones are also useful in times of disaster. When a tornado struck in 1997, many people from outside Bangladesh were able to call their families at home because of these telephones. A network of cell broadcast facility can be used as a distress signal e.g. in times of cyclone,

flood etc. Moreover, Grameen Telecom is also providing employment to poor people. Grameen phone operators, most of whom are women, earn more than a thousand dollars a year, which is three times the annual average income of the country. It is the second biggest corporate taxpayer in Bangladesh and livelihoods of 30,000 people are linked with it.

Grameen software, Grameen communications, with the help of Grameen Shakti, are opening village telecom and computing centres in Bangladesh. Village telecom centres, when they are fully operational, will offer phone, internet, fax, e-mail, health assistance, adult education etc. thus helping poor villagers to develop. Grameen Software is making people computer literate. The village computing centres will provide basic computer training to villagers, thus reducing the digital divide.

Source: Grameen 2003; Hermida 2002.

- Regarding pervasiveness, in different countries of South Asia, Pakistan, India and Sri Lanka have reached level 2, which means that internet users are still less than one per cent. Other countries are at level 1. This shows that South Asia is still far behind developed countries where internet connectivity is more than 50 per cent.
- In geographic dispersion, South Asian countries are at different levels. While India and Pakistan are at level 3 (highly dispersed internet access), Maldives and Bangladesh are at level 1 (very low level of internet access).
- Internet usage for commercial, health, academic and public sectors, including military, ranges from minimal (having one point), medium (having two points), and great majority (having three points). South Asia does not score high on sectoral absorption, since some of the sectors (e.g. health) still have a long way to go to use internet effectively. Public sector is also lagging behind, except in India.

Academic sector, although on the priority list of all South Asian governments, is still to be fully connected. An important development in India in this sector is the plan of a high-speed inter-university data network.³¹ The Higher Education Commission in Pakistan is also contemplating such a network.

- Sophistication of use indicates the quality of usage. Except for India, South Asian countries are still mainly using the internet as an e-mail or fax tool, which actually means that internet is not being utilised to its full potential. Although most of the Indian ICT firms are still doing basic programming jobs, some of the Indian software companies have started developing complex software. In addition, many Indian commercial concerns have started using e-commerce. An important factor in increasing sophistication of usage is presence of high quality tertiary institutes.³² India has many centres of excellence (e.g. Indian Institutes of Technology [IITs]), and Pakistan has a couple of good computer universities (including National University of Computer Science set up by Dr Mahbub-ul-Haq), but other countries in South Asia have very few. Without an increase in such quality institutes, it is difficult to foresee any increase in the sophistication of use in these countries.
- Connectivity infrastructure is the vehicle for advancement and information exchange. An internet connection which takes ten minutes to connect, and downloads a picture in half an hour is of limited use. Software development, e-commerce, web designing, and in short everything that will generate employment, ultimately depends on speedy links. It is, therefore, important for other countries to follow India's example and invest in enhancing connectivity infrastructure.
- Organisational infrastructure must also become extensive to reach the largest

number of people. This dimension measures the strength of the internet market and the organisations supporting it. It is based mainly on the competitiveness of Internet Service Provider (ISP) and telecom markets. Competitiveness attracts investment and reduces costs, thereby increasing connectivity infrastructure and pervasiveness. While the ISP market is competitive in most South Asian countries, it is the telecom market that still consists of a single public-owned monopoly. India is ahead of others in this dimension, as it has a competitive ISP market and domestic infrastructure provision is also open to competition. Pakistan and Sri Lanka also have competitive ISP markets but domestic infrastructure provision is still a monopoly.

The proficiency in English language gives a headstart to South Asia. Almost 80 per cent of the web sites on the internet are in English, despite the fact that most of the users of internet are not English-speaking people.³³ It is unlikely that this dominance of English language will change in the near future. South Asians use English as their language of instruction in academic institutions, in offices and in courts. Therefore, most of the people who have an education higher than secondary school can read, write and speak English.

For the best practice in ICT development, South Asians do not have to look outside their region. India had begun moving toward the goal of capturing the global software market in the early fifties when high quality universities and institutes were established and higher education was given preference. Most of the graduates of these institutions joined public service. However, in the eighties, as employment opportunities in public sector declined, and India began to open up, many university graduates went to the United States. There they proved their competence, and were soon working in

To prevent a mismatch between training and employment, a market-oriented planning approach has to be adopted

leading firms like IBM, Microsoft, Apple, Intel etc. With the advent of the internet, distances and barriers became unimportant. Also, India opened up its economy and implemented policies that helped in the formation of software houses in India.³⁴

Policies for promoting education and training for employment

Human Development in South Asia 1998 presented a ten-point agenda for educational reform in South Asia in order to empower the South Asians with quality education and skills to compete in the global marketplace. Many changes have taken place in the educational systems in South Asia. Many private and non-governmental organizations are engaged in education and training activities. South Asian cities are dotted with computer literacy institutes. Yet that ten-point agenda of 1998 still seems to be as relevant today as it was then. So we need to revisit some of those policies recommendations and add some more in view of changing needs and concerns.

(1) A conducive macroeconomic policy environment must be created for the promotion of education. There is not going to be much demand for the educated, or even technically trained people, if industrial and agricultural growth is sluggish, if exports do not expand, or if the macroeconomic management is not concerned about people. Economic managers must work on both economic growth and employment generation.

(2) To prevent a mismatch between training and employment, and to steer training priorities and programmes in the right direction, a market-oriented planning approach has to be adopted that relies on analyses of trends in the labour market, and the economy as a whole. In this regard, comprehensive surveys and tracer studies are useful tools for employers.

(3) Universal primary education of acceptable quality is the most important contribution that can be made for preparing young people for the world of work. Expansion of eventual universal access to secondary education constitutes the foundation for technical and vocational skills.

(4) There is an urgent need to ensure equivalency of degrees of technical institutes and general education universities. Malaysia offers a model in which vocational certificates are considered at par with degrees from prestigious general education schools and colleges.

(5) The coverage of technical education needs to be extended in South Asia to women and to neglected rural areas. The East Asian experience has demonstrated that women excel at new technologies. Women already constitute 80-90 per cent of workers in export-related industries in South Asia (see chapter 5).

(6) Education must have adequate budgetary support. Education budgets in South Asia need to be at least twice of their current allocations, and technical education should have at least 25 per cent of the total education budget.

(7) A closer alliance needs to be forged between the public and private sectors in South Asia for the promotion of general as well as technical and vocational education. The South Asian countries need to set up tripartite councils involving government, private sector and labour unions to identify technical needs and to design relevant training programmes.

(8) An enabling environment must be created for the promotion of entrepreneurship in South Asia. To that end, investment in infrastructure of transportation, telecommunication and power generation needs to be accelerated, along with appropriate organisational and management structure.

(9) ICT should be promoted for employment generation, and not only for the urban elite. South Asia must close the digital divide between the rich and the poor and use the potential of ICT for the vast majority of South Asians.

Chapter 7

Rights of Workers in South Asia

The laws to protect workers' rights form one of the foundations of modern welfare society. The Universal Declaration of Human Rights constitutes the basis for national and international legislation to ensure workers' rights, including the right to protect them from exploitation at workplace. In this chapter, we assess the rights of South Asian workers compared to international as well as national standards and practices.

International regulatory system

There are various international instruments for protecting rights of individuals, including rights of workers (see box 7.1). International Labour Organization (ILO),

with 175 member countries, is the most important entity dealing with international labour standards. It is the first specialised agency of the United Nations (UN). Throughout its history, ILO has introduced standards to improve working conditions and employment practices, and has worked at detecting problems and finding solutions in this regard. As an entity, it has a tripartite structure in which employers, workers and governments make decisions together.

ILO was established to serve three main purposes: (i) to prevent workers from the harms that may result from unfair international competition; (ii) to prevent the member countries from a possibility of social unrest in case of

Box 7.1 UN instruments to protect rights of people

The first instrument providing labour standards on behalf of the United Nations is the Universal Declaration of Human Rights. Article 23 of the Universal Declaration of Human Rights affirms the rights of everyone to work, to choose employment freely, to receive equal remuneration for equal work, to work under the conditions of human dignity and to form and join trade unions.

International Covenant on Economic, Social and Cultural Rights came into force in 1976. Articles six to eight recognise the rights to work, to organise and strike, to receive equal pay for equal work, access to equal promotion opportunities and leisure time and to work in a healthy and safe workplace. As of May 2003, India, Bangladesh, Nepal and Sri Lanka have ratified it.

International Covenant on Civil and Political Rights also came into force in 1976 which committed the state parties

to ensure equal rights for men and women in political and civil life (Article 3), ban slavery, slave trade, forced or compulsory labour (Article 8) and provide everyone the right to form and join unions (Article 22). As of May 2003, India, Bangladesh, Nepal and Sri Lanka have ratified it.

Convention on the Elimination of All Forms of Racial Discrimination, which came into force on 4 January 1969, states that every person has the right to free choice of employment, equal pay for equal work and the right to form and join trade unions (Article 5[e]). This convention has been ratified by all of the South Asian Countries.

Convention on the elimination of All Forms of Discrimination against Women was adopted in 1979 by the UN General Assembly. Generally, it defines what constitutes discrimination and sets up a national agenda to end discrimination in all spheres of life. Article 11 of the Convention requires

the countries to take appropriate measures to end discrimination against women in employment and assure the same rights as men in the right to work, equal remuneration, equal treatment in respect of work of equal value, right to promotion etc. It also obliges states to protect women workers from discrimination on the grounds of marriage and maternity. As of May 2003, all South Asian countries have made commitments to observe the provisions of the Convention.

Convention on the Rights of the Child was adopted in 1990. Article 32 provides children with the right to be protected from economic exploitation and any work that can be harmful for their health and development. It requires states to take appropriate legal, administrative, social and educational measures to protect children. All South Asian countries have ratified this convention.

workers' revolution caused by deteriorating working conditions; and (iii) to remedy any unacceptable working conditions of the growing industrial workforce.

In practice, ILO formulates policies and programmes to protect and promote basic human rights at work, improve working conditions and enhance employment opportunities. To attain these objectives, ILO establishes international standards through its instruments, monitors their implementation and supports its members through technical assistance/cooperation whenever it is necessary.

The instruments of ILO consist of its Conventions, Recommendations and Declarations. The implementation of Conventions are monitored and supervised by regular ILO bodies such as the Committee of Experts on the Application of Conventions and Recommendations (CEACR),¹ and the Conference Committee on the Application of Conventions and Recommendations (CCACR).² With regard to technical assistance, the governing body of ILO identifies the areas of priority every year.

ILO instruments for International Labour Law

ILO instruments of labour standards can be found in its numerous Conventions and Recommendations.³ ILO Conventions carry the legal status of international treaties. They are flexible in nature allowing the countries to create laws and implement standards conforming to the needs of their individual societies. However, the government, which ratifies a convention, has to agree to all of the articles comprising the Convention.

The Organisation has adopted more than 180 Conventions and 185 Recommendations covering a broad range of subjects. In 1998, the Governing Body of ILO had decided that seven (which later increased to eight) Conventions should be considered as fundamental to

the rights at work, and should be ratified and implemented by all 175 members of the Organisation. This has been codified into written form by the Declaration⁴ on Fundamental Principles and Rights at Work and its follow-up.

ILO Declaration on Fundamental Principles and Rights at Work, and its follow-up

The work on the Declaration began in 1994, on the 75th anniversary of ILO, with discussions on the mandate and mission of ILO in the twenty-first century. After the conference, the ILO governing body formed a working party on the 'Social Dimension of the Liberalisation of International Trade' to analyse the social impact of globalisation. On the 87th Session of the International Labour Conference (ILC), the 'Declaration on Fundamental Principles and Rights at Work' was proposed. Consequently, the Declaration was adopted in June 1998 committing ILO members to respect, promote and realise the rights of workers and employers to freedom of association and collective bargaining, and to work towards the elimination of all forms of forced or compulsory labour, the abolition of child labour and the elimination of discrimination in employment or occupation. The Declaration defines seven of the ILO Conventions as Core Labour Standards. Later, the Convention relating to the worst forms of child labour was included as the eighth core labour standard.

The Declaration also includes a follow-up, aimed at helping countries through monitoring and supervision of ILO. The follow up mechanism requires all member countries that have not ratified one or more of the core Conventions to prepare and submit reports, including actions taken by governments to promote the principles of the core standards.

Eight of the ILO Conventions which are declared as Core or Fundamental Principles are (see Annex 7.1 for detailed description of these Conventions):

Principle 1: Rights of Association and Collective Bargaining

- Freedom of Association and Protection of the Rights to Organise Convention (No: 87), 1948
- Right to Organise and Collective Bargaining Convention (No: 98), 1949

Principle 2: Elimination of Forced Labour

- Forced Labour Convention (No: 29), 1930
- Abolition of Forced Labour Convention (No: 105), 1957

Principle 3: Elimination of Discrimination in Employment or Occupation

- Discrimination (Employment and Occupation) Convention (No: 111), 1958
- Equal Remuneration Convention (No: 100), 1951

Principle 4: Elimination of Child Labour

- Minimum Age Convention (No: 138), 1973
- Worst Forms of Child Labour Convention (No: 182), 1999

Core labour standards in South Asia

The ratification of ILO Conventions has been very low in South Asian countries. Each country (except Maldives and Bhutan that are not members of ILO) has ratified only about five per cent of the total ILO Conventions. Also the South Asian countries have been more

willing to ratify than to implement these Conventions. Ratification of core labour standards by the South Asian countries is provided in table 7.1.

India has ratified only four of the fundamental Conventions. It has not ratified the Conventions preventing child labour and protecting trade union rights. The total number of ILO ratifications for India is 39.

Pakistan and Bangladesh have ratified seven of the eight fundamental Conventions. The Convention that they have not ratified is related to child labour. Bangladesh and Pakistan have ratified a total of 33 and 34 ILO Conventions respectively.

Nepal has ratified six of the fundamental Conventions. The total number of ILO ratifications for Nepal is only nine.

Sri Lanka, by ratifying Convention 105 in January 2003, became the first South Asian country that ratified all of the fundamental Conventions. The total number of ILO Conventions ratified by Sri Lanka is 40.

Fundamental Rights and their enforcement in South Asia

Ratification does not necessarily imply that the core labour standards will be implemented. The implementation process of the Convention that is ratified starts with legislative and regulatory changes, and requires effective monitoring and enforcement. Although

Table 7.1 Ratification of the ILO Fundamental Conventions by date*

	Forced Labour		Freedom of Association		Discrimination		Child Labour	
	C.29	C.105	C.87	C.98	C.100	C.111	C.138	C.182
Year adopted	1930	1957	1948	1949	1951	1958	1973	1999
India	30/11/1954	18/05/2000	NR	NR	25/09/1958	03/06/1960	NR	NR
Pakistan	23/12/1957	15/02/1960	14/02/1951	26/05/1952	11/10/2001	24/01/1961	NR	11/10/2001
Bangladesh	22/06/1972	22/06/1972	22/06/1972	22/06/1972	28/01/1998	22/06/1972	NR	12/03/2001
Nepal	03/01/2002	NR	NR	11/11/1996	10/06/1976	19/09/1974	30/05/1997	03/01/2002
Sri Lanka	05/04/1950	07/01/2003	15/09/1995	13/12/1972	01/04/1993	27/11/1998	11/02/2000	01/03/2001

Notes: *As of April 8th 2003.

NR - Not Ratified.

Source: ILO 2002e, 2003l, m.

India, Pakistan, Bangladesh and Sri Lanka have created fairly extensive frameworks for the protection of their workers, the formal coverage of the workers has been minuscule—not more than 10 per cent (except in Sri Lanka). This has been due to the minimum-size restrictions applied on the establishments in order to benefit from these laws,⁵ as well as the exclusion of the agricultural sector. Unfortunately, the predominance of informal sector and increasing flexibility of labour in the region has worsened the situation.

Some of the labour legislation in South Asian countries, particularly in India, Pakistan and Bangladesh and partly in Sri Lanka, date back to the colonial period.⁶ At the time of independence in 1947, India and Pakistan had inherited a number of labour related legislations from the British. Later, in 1971, Bangladesh inherited a number of laws from Pakistan including those inherited from the British.

Principle 1. Freedom of association and collective bargaining

According to ILO, freedom of association and collective bargaining are crucial elements of long-term competitiveness and sustained development of a country.⁷ All the South Asian countries (except Bhutan and Maldives) recognise the right to freedom of association and collective bargaining of their workers. However, they limit these rights by excluding some groups, mainly workers of Export Processing Zones (EPZs) in India, Pakistan, Bangladesh and Sri Lanka, and government servants in India and Pakistan from the coverage of these legislation. In addition, the rights get limited by declaring particular industries as essential services (in India, Pakistan, Bangladesh, Nepal and Sri Lanka) in order to prevent strikes. India, Pakistan and Bangladesh have almost a similar background in providing trade union rights. Pakistan and Bangladesh have another common factor that impacts negatively on the right to organise, strike and collective bargaining: both these

countries have been subjected to martial law several times after their independence. Therefore, trade union activities are significantly curtailed in Pakistan and Bangladesh.

Over the past ten years, the Committee on Freedom of Association of ILO has received several complaints regarding the violations of trade union rights. The allegations included: in India, murders and/or disappearances of trade unionists and the limitation to freedom of demonstration; in Pakistan, arrests and detentions; and in Bangladesh, restriction on freedom of movement.⁸ Denial of civil liberties to public sector workers has been observed in India and Nepal, anti-union discriminations in Bangladesh and India, and restrictions on the right to strike in Pakistan. The limitations to the rights of freedom of association and collective bargaining have also resulted from discrepancies between national laws and the Conventions (see box 7.2).

An assessment of the status of implementation of core principle one in South Asia is given below:

INDIA: Although India has not ratified the fundamental Convention on the freedom of association, the right to freedom of association in trade unions is guaranteed in Article 19 of the Indian Constitution.⁹ In addition, the rights of the industrial workers are defined and protected, and the discrimination against union members and organisers is forbidden by the Trade Unions Act of 1926.¹⁰ The union membership is not limited only to formal sector workers. However, unionisation in the informal sector is not common.¹¹ In the formal sector, trade union rights are highly respected and employers may be penalised if they discriminate against employees regarding trade union activities. Outside the formal sector, the enforcement of laws and collective bargaining is almost non-existent.¹² Wages are set and disputes settled through collective bargaining in the unionised industrial sectors only. The rules

Box 7.2 Discrepancies between the national law and the Conventions

Ratification of a Convention requires countries to act in order to reach minimum standards in their respective labour markets. The compliance of national labour laws with the provisions of Conventions has to be the starting point for the countries, in order to assure the rights legally and to provide remedies if any conflict arises. South Asian countries, which ratified Conventions 87 and 98 many years ago, still fail to provide appropriate legislation. CEACR has reported the following discrepancies between the national legislation of Pakistan and Bangladesh, with the provisions of ILO Conventions on freedom of association and collective bargaining.

Pakistan

- Restricted coverage of the available legislation (IRO, Civil Servants Act etc.)
- Denial of free collective bargaining in public banking and financial sectors (IRO 1969, sections 38-A and 38-I)
- Denial of the rights of EPZ workers (Export Processing Zones Authority Ordinance, 1980)
- Imprisonment of bank officers in case of being an officer in a bank

union (27-B Banking Companies Ordinance, 1962)

- Imprisonment up to seven years for the creation of civil commotion, including illegal strikes (Presidential Ordinance No. IV of 1999)

Bangladesh

- Exclusion of managerial and administrative employees from the right of association (IRO, 1969)
- Denial of the right to organise in the EPZs (EPZ Authority Act, 1980)
- Restrictions on the activities of public servant associations (Government Servants [Conduct] Rules, 1979)
- Minimum requirement (30 per cent) for the registration and continuation of a trade union (IRO, Sections 7(2) and 10[1] [g])
- Restrictions on membership and election of union officers (IRO section 7-A [1][b], Act No: 22, 1990 section 3)
- Restrictions on right to strike (IRO, Sections 28, 32[2], 32[4], 33[1], 57 and 59)
- Excessive external supervision of the internal affairs of trade unions. (Industrial Relations Rules, 1977, Rule 10).

Sources: ILO 2003f, I, p.

regarding the freedom of association apply to workers in the EPZs as well. However, unionisation in these zones is rare due to the limited access of union organisers to the zones. For instance, in Andhra Pradesh, inspections in the zones have been stopped, indicating the tendency to exempt the zones from the coverage of labour laws.

Although workers in all sectors are covered in India legislatively, there are instances of barriers indicating violations of the right of freedom of association and of collective bargaining. Above all, the Conduct Rules of India prohibits government servants to organise strikes,

which has been shown as one of the reasons of India not ratifying ILO Conventions 87 and 98. Unionisation rights of public sector workers (such as firemen, officials of law enforcement, judiciary, defence forces, and all other public sector workers) have been denied in India.¹³ Furthermore, the Essential Services Maintenance Act of 1968 provides the government a legal cover to ban strikes.¹⁴ Recently, the Government of India has declared the EPZs and Special Economic Zones as public services requiring a 45 days notice prior to a strike.¹⁵

India is one of the countries which provides, or at least does not limit, the legal rights of freedom of association and collective bargaining as much as the other countries of South Asia. Despite the rights provided extensively in its legislations, India has been unsuccessful in the implementation of these laws. Furthermore, it shows a tendency to limit these rights by amending the existing laws.

There are numerous central and state laws. However, intra-state variations in definitions and coverage, as well as in recognition of trade unions, complicates the application of the laws. Application is further restricted by the size of the establishment (10 for industrial and 20 for non-industrial organisations), limiting the number of persons benefiting from these laws. The collective bargaining process in India, which requires state involvement, delays the results and complicates the procedure. Furthermore, the multiplicity and the association of trade unions with political groups have also weakened the process of collective bargaining.¹⁶

PAKISTAN: The framework of Pakistan's legislation is similar to India's. In Pakistan, Industrial Relations Ordinance (IRO) of 1969 provides for the rights of freedom of association and collective bargaining. IRO applies to establishments employing at least 50 workers. Thus, it cannot cover most of

the workers, especially those working in the informal sector. The railway and defence workers' rights are denied, and the agricultural and educational workers are not included in the scope of this ordinance. IRO also excludes the workers at supervisory levels and those who earn more than a predetermined amount. All of these limitations are against the provisions of ILO Conventions. The government announced IRO 2002 in October 2002. The new IRO further curtails rights by allowing the government to end a strike that has lasted for more than 15 days (30 days previously), and decreasing the penalties for the anti-union actions.

The Essential Services Management Act of 1952 was the first hurdle in the history of the unionisation process of Pakistan. It restricts the freedom of association and collective bargaining rights of various groups of workers. For instance, workers in hospitals and in various civil and defence services cannot form unions. Employees of Pakistan International Airlines (PIA), Pakistan Television Corporation and the Civil Aviation Authority (CAA), as well as workers in postal, teaching, electric supply and radio stations can form unions but cannot join a strike.

The workers in the EPZs are also denied their trade union rights in Pakistan. Export Processing Zones Authority Ordinance (EPZAO) of 1980 and Export Processing Zone Rules (EPZR) of 1982 exempt the workers in EPZs from the provisions of IRO. Workers in EPZs cannot establish trade unions, bargain collectively or organise a strike.¹⁷

BANGLADESH: The Constitution of Bangladesh provides for the freedom of assembly and association.¹⁸ In addition, Industrial Ordinance of 1969 provides for the freedom of association and allows strikes and lockouts. However, it also gives the government authority to prohibit the action if the strike lasts more than 30 days.¹⁹

Coverage of workers as well as trade union participation is very low in Bangladesh. According to the International Confederation of Free Trade Union's (ICFTU) report regarding the core labour standards in Bangladesh, in 2000, the total number of trade unions in the country was 5450, and only 1.8 million out of five million formal sector workers—or out of 58 million labour force—were unionised. The reasons behind the low participation are the inadequacies of the enforcement institutions in which violations remain pending for years, the weak information systems at the factory level, and the political abduction of the trade unionists.²⁰

Unionisation rights of workers are limited for some groups in Bangladesh (against C87 and C98). For example, public servants, teachers and nurses, workers in EPZs, workers in co-operatives, security personnel and workers at the Rural Electrification Board, and Security Printing and Ordnance factories are prohibited from joining trade unions. The minimum limit to establish a trade union is 30 per cent of the workforce of the establishment and registration of the trade union is obligatory.

The right to strike has not been defined by the law specifically. There are serious constraints on the rights to strike, since the government has the right to ban a strike under the provisions of Essential Services Ordinance, and since 75 per cent of the workers' commitment is necessary for a strike.

In 1992, the government had made a commitment to end the restrictions regarding freedom of association in EPZs by 1997, and to include them in all labour legislations by 2000. However, the government did not implement this until 2000, despite threats from USA and Canada of removing Bangladesh's trade privilege under the Generalised System of Preferences.²¹ Recently, the Government of Bangladesh has announced that the

The reasons behind the low participation in unions are inadequacies of the enforcement institutions

zone workers will be allowed to form unions from January 2004.

SRI LANKA: According to ICFTU, violations of trade union rights are common in Sri Lanka, especially in Free Trade Zones (FTZs). The Government's Board of Investments (BOI) manages FTZs and discourages trade union activities and collective bargaining. Industrial Disputes Act (Amendment) of 1999 has provisions on protecting anti-unionism acts such as prohibiting employers from interfering in trade union activities and requiring recognition of the workers' rights by employers, and also forbidding employers from firing a worker because of trade union activities. However, there have been various complaints of anti-union activities, especially in FTZs. Recently, the Employment and Industrial Relations Bill, establishing the preconditions for collective bargaining in line with ILO standards, has been proposed in Sri Lanka (box 7.3).

NEPAL: Article 12 of the Constitution of Nepal provides the right to freedom of association for all citizens. But rights to unionise and collective bargaining are provided in the Labour Act 1992 and Trade Union Act of 1993. Organisations with 10 or more employees are covered by legislation, and the government has the right to stop a strike or suspend trade union activities. A strike is legal if 60 per cent of the members vote in favour of it, but is prohibited for essential services. In practice, the implementation of these laws is rare. Nepal is in the process of amending the Police and Military Act to comply with the Conventions. Its Ministry of Labour has formed a Technical Committee, and a National Plan of Action has already been formulated to initiate the ratification of the core standards. In 2002, the ongoing terrorism by Maoist guerrillas caused the declaration of state of emergency in the country. This has curtailed trade union activities.

MALDIVES AND BHUTAN: Maldives and Bhutan are not members of ILO. However, Maldives has committed to comply with the internationally recognised core labour standards in the Ministerial Conferences of WTO over 1996-2001.

An ICFTU report of 2003 indicated that there were no trade unions in Maldives. Neither the right to form or join trade unions nor the right to strike is recognised in practice. There is no recognition of collective bargaining rights, and wages are set by bilateral contracts between employees and employers in the private sector. In Bhutan, trade unionism is not permitted and does not appear to exist.²²

Principle 2. Elimination of all forms of Discrimination

In India, the existence of equal remuneration Act (1976) does not provide women a means of protection from discriminative wages.²³ Estimation of *Human Development Report (HDR) 2003* has shown that women workers generally earn lower than their male colleagues (see Chapter 5). Caste and ethnic discrimination is also common in India. In order to provide a remedy for the disadvantaged castes and ethnic groups, the government offers affirmative action in employment (hiring quotas and special training programmes), and other benefits such as special development funds. The Government of India has reserved three per cent of jobs in the public sector for the disabled. However, a caste-based discrimination is widely known to exist in India.

There is discrimination based on gender and religion in Pakistan. Lack of education, especially for girls in Pakistan, causes de facto discrimination in access to employment; women do not receive equal treatment with their male counterparts in terms of pay, working conditions, promotion etc.²⁴ The two per cent quota for the disabled persons in public and private employment is not fulfilled most

Box 7.3 EPZs and freedom of association in South Asia

An EPZ is a geographical area for an export-oriented manufacturing or service enterprise in a country, benefiting from special investment promotion incentives such as tax exemptions. EPZs are created to promote export sector, increase transfer of technology and to spur economic development in poorly developed parts of a country. However, sometimes the efforts to attract investments take the form of violations of labour rights, especially of the freedom of association in EPZs.

In India, Pakistan, Bangladesh and Sri Lanka EPZs have become one of the major features of labour markets. A total of 850,000 workers were employed in the zones of South Asia in 2001. In order to achieve better economic growth and employment creation through increased investment, these countries have started competing with each other by offering special incentives. In Bangladesh and Pakistan, EPZs are excluded from existing labour laws. In India, although all labour laws apply to the EPZs, public utility status in some states limits the rights. In Sri

Lanka, labour laws can be applied to the EPZs; however trade unionism in the zones is not common.

In Bangladesh, Bangladesh Export Processing Zones Authority (BEPZA) is the official organ responsible for the creation, development, operation, management and control of EPZs. Since 1986 EPZs are under the BEPZA act of 1980. There are two EPZs in Bangladesh and four are under construction. The total workforce in 1989-1999 was 84,074. In order to compensate the suspension of labour laws in EPZs, the Government has passed two instructions dealing with the terms and working conditions in employment and minimum wages. The concerns and threats of the US, a major market for Bangladeshi exports, has forced Bangladesh to reach an understanding with the US government in extending the labour laws to EPZs, and towards promoting workers' rights in EPZs by 2004.

In India all labour laws apply to EPZs. However, state governments have the power to designate the EPZs as public utility services, and thus to

limit the rights of freedom of association and collective bargaining. In 1999, Maharashtra government declared the zones as public utility and banned strikes and lockouts. The Government of India introduced a new Special Economic Zone (SEZ) scheme in 2001. SEZ is declared as public utility zones, which implies that labour laws cannot be applied there.

In Pakistan, Export Processing Zone Authority (EPZA) is responsible for the operations of EPZs. The labour laws of the country are not applicable to the EPZs. Recently, the Government has asked EPZA to formulate some provisions covering the ILO Conventions on freedom of association and collective bargaining.

In Sri Lanka, under the Industrial Disputes Act and Factories Ordinance, the enforcement of labour laws is in the purview of the department of labour. However, Board of Investments (BOI) creates a kind of control over the labour issues in Free Trade Zones (FTZs) by preventing surprise inspection or helping the employers to stop workers from forming unions.

Source: Thamarajaksh 2001.

of the time.²⁵ Although the numbers are not high, discrimination on religious grounds is known to exist as well.

A report of ICFTU states that, in Bangladesh, the workers in private sector and the women in EPZs are very vulnerable to discrimination. As an example, it states that the wages and/or maternity leave rights of women are denied in garment manufacturing EPZs, in which 90 per cent of the workers are women. Religious discrimination in public jobs and discrimination against the disabled is also observed in practice.

Nepal formed a tripartite Minimum Wages Fixation Committee in 1997 in order to prevent wage discrimination in tea plantations, where women work extensively. Equal remuneration for equal work is provided in the legislation.

However, the implementation of the law seems weak. General Federation of Nepalese Trade Unions (GEFONT) pronounced the existence of wage discrimination between men and women in the government-run agricultural farms, in carpet and garment industries and in manufacturing activities.²⁶

Although National Workers' Chapter of 1995 defines providing equal rights for employees in public, private and informal sectors as a duty of the government of Sri Lanka, the protection against discrimination is low in the private sector. Women are usually paid less and face discrimination in promotion.²⁷

Discrimination of any form is not prohibited in the Constitution of Maldives. However, wage discrimination is not common in Maldives.

Principle 3. Elimination of Forced Labour

In South Asia, forced labour is mostly observed in the form of bonded labour. Some analysts associate bonded labour observed in the region with the structures of land-ownership or caste, which can continue from generation to generation. Sharecropping, a common feature in the region, has some specific characteristics which sometimes promote bonded labour. The recent trends in commercial agriculture are also creating more casual and migrant workers. Bonded labour is particularly pervasive in brick kilns, mines, leather and fish processing, and carpet factories. According to a global report on forced labour prepared by ILO, millions of people in South Asia live and work under debt bondage. Various initiatives are underway to provide support to families to get out of bondage (see box 7.4)

Box 7.4 South Asian project against Debt Bondage

Started in 2000, the Debt Bondage Programme is a part of ILO's Social Finance Programme in India, Pakistan, Bangladesh and Nepal. The Programme aims at reducing vulnerability of families by providing micro-finance and other necessary services to the families that are vulnerable to the risk of becoming bonded labourers. Apart from micro-finance, the programme also provides support in education, health care, income generating activities, organising and empowerment of people and public sensitisation.

The programme in India focuses on vulnerable families in Andhra Pradesh, and research in Karnataka and Tamil Nadu. In Pakistan, the *haris* in Sindh and brick kiln workers in Punjab are the two groups which are provided support. In Nepal, the traditional bonded labourers—*kamaiyas*—are targeted whereas, in Bangladesh, the targeted groups are handloom weavers, agricultural workers, sex workers etc.

Source: Ercelawn and Ali 2002.

In India, an NGO, Ankuram-Sangamam-Poram, provides support in the fight against debt bondage to 750 agricultural labourers in the state of Andhra Pradesh. The project has been expanded to Tamil Nadu in 2002 to support the rice-mill and quarry workers.

National Rural Support Programme (NRSP) of Pakistan helped 750 agricultural bonded labourers (*haris*) in Sindh, and the programme is expanding to cover the brick kiln workers in Punjab.

In Serajganj district of Bangladesh, 375 agricultural workers are supported through an NGO, Thengamara Mohila Sabuj Sangha. Another NGO, the Society for Social Services, provides support to 250 handloom weavers and 125 sex workers in Tangail.

In Nepal, two NGOs, Mahila Upakar Munch and Rural Reconstruction Nepal, are providing support to 750 bonded labourers (*kamaiyas*) and 250 other families in Banke district.

INDIA: In India, official results indicated a total of 2,617,000 bonded labourers in ten states in 1990.²⁸ In 1995, it was estimated that only in the state of Tamil Nadu there were 1,250,000 bonded labourers.²⁹ Under the Bonded System (Abolition) Act of 1976, Government of India identified 280,411 bonded labourers till March 2000, of which 251,569 had been released and rehabilitated.³⁰ The ineffectiveness of law enforcement machinery to prosecute the violators is one of the main factors contributing to forced labour in India.³¹

Indian laws regarding forced labour conform with the ILO Conventions. Article 23 of the Constitution prohibits forced labour except for the public services. National Services Act of 1972 requires the services of doctors, engineers or technologists in national emergencies for a specific period of time. Bonded System (Abolition) Act of 1976 prohibits the bonded labour system, and eliminates the previous debts of the labourers. Under the Act, vigilance committees have been established with the duties of monitoring, surveying and rehabilitation. Necessary legal provisions also exist to deal with the violations of forced labour.

PAKISTAN: The exact scale and scope of bonded labour in Pakistan is unknown. According to an estimate, in 2000, there were 1.8 million sharecroppers in debt bondage, of which 0.75 million were in the Sindh province.³² Bonded labour is pervasive in brick making in Punjab, where 75 per cent of Pakistan's brick kilns are situated. It is estimated that 700,000 people could be in the grip of the bonded labour system in the Pakistani brick kilns.³³

In 1989, a Supreme Court judgement ordering the abolition of bonded labour was one of the biggest steps that Pakistan took towards abolition of forced labour. Bonded Labour (Abolition) Act of 1992 defines bonded labour, cancels all debts of bonded labourers and provides imprisonment of not less than two years and/or financial penalties of not less than

50,000 rupees to the violators. Rules for enforcement came into force after three years. Bonded Labour System (Abolition) Rules 1995 include procedures for implementation and direct the provincial government to confer particular powers upon the district magistrate.

However, the enforcement of these laws remains ineffective. Also, there are some laws that contradict the ILO Conventions. For example, public employees, and especially army personnel, are prevented to leave their jobs freely. Some provisions of IRO, the Merchant Shipping Act and Security of Pakistan Act also contradict the banning of forced prison labour.

In practice, bonded labourers are not protected properly by the old Tenancy Laws. Even these laws themselves have been shown to be the root cause of the bonded labour problem.³⁴ There are claims by landlords and brick kiln owners that the bonded labour law is not applicable to agricultural and brick kiln labourers.

BANGLADESH: The constitution prohibits forced labour, which is not widespread in Bangladesh. However, various legislative instruments such as Penal Code, Special Powers Act No: XIV of 1974, Industrial Relations Ordinance, No: XIII of 1969, Bangladesh Merchant Shipping Ordinance No: XXVI of 1983 contain provisions which are not in conformity with the ILO Conventions.³⁵ Under these provisions compulsory labour may be imposed as a means of political coercion, punishment for political views or view against government or as a punishment in labour disputes such as strikes. Although in Bangladesh forced labour is not as common as in India, Pakistan and Nepal, domestic servants and trafficking of women and children for prostitution to other countries are the two types of compulsory labour that are observed.

NEPAL: Article 20 of the Constitution of Nepal prohibits the trafficking of

human beings, slavery or forced labour in any form and provides punishment for violation. Chapter 4.1 of the Civil Code of the country also provides that no one shall engage in employment against their will. However, verbal debt bondage in agriculture, especially in mid-western and far-western districts, is common. The Government of Nepal, trade unions, donors and NGOs are involved in programmes to eliminate the bonded labour known as '*kamaiya* system' (see box 7.5). In 2000, Government of Nepal declared that *Kamaiya* system of bonded labour has to be eradicated immediately. The government is now working on other measures, including legislative ones, to eliminate this system.

SRI LANKA: The principle of the elimination of all forms of forced or compulsory labour is recognised in Sri Lanka. There are no definitions of forced or compulsory labour in legislation or judicial decisions. However, all forms of forced or compulsory labour are prohibited. Although there is no national policy to accomplish the principle of the elimination of all forms of forced or compulsory labour, there are various examples of good incentives. Recently, the government intended to adopt a

Old Tenancy laws have been shown to be the root cause of the bonded labour in Pakistan

Box 7.5 *Kamaiya* system in Nepal

The *Kamaiya* system affects only the disadvantaged Tharu ethnic group in Terai region of Western Nepal. The number involved in the *kamaiya* system was approximately 1.2 million in the early 1990s. It has been observed that half of all *kamaiyas* are under debt bondage, while almost 10 per cent of them are bonded over generations. A *kamaiya* agrees to work for a particular landowner on the basis of an oral contract for a specific period of time, generally for a remuneration in kind such as grains, lentils, oilseeds and salt, or output share of land (usually one-third of the crop).

Source: ILO 2001f and Kafle 2000.

Children of the *kamaiya* start to work from the age of seven or eight. The boys usually take care of the livestock while the girls work as domestic servants. The *kamaiya* is expected to bring at least one other family member to work for the landowner, which causes the whole family to enter into the system. The *kamaiya* who receives credit from the landowner may be tied to one landowner for years or decades through an accumulated debt burden. The *kamaiya* can be transferred to other landowners who pay for the debt.

Table 7.2 Economically active children (aged 5-14) by regions, 2000

	Economically active children (in millions)	Share of region in total (%)	Work ratio of children (as % of total child population in the region)
Industrialised Economies	2.5	1.2	2.0
Transition Economies	2.4	1.1	4.0
Middle East and North Africa	13.4	6.4	15.0
Latin America and The Caribbean	17.4	8.2	16.0
Sub-Saharan Africa	48.0	22.8	29.0
Asia and the Pacific	127.3	60.3	19.0
Total	211.0	100.0	15.0

Source: ILO 2002c.

policy on this subject and is currently in the process of working with ILO to make the necessary changes in the legislation and practices. A tripartite workshop was held with the financial and technical assistance of ILO in July 2002 to determine the difficulties faced in the ratification of ILO Convention 105.

MALDIVES: In Maldives, despite the absence of protective laws regarding forced labour, there are no cases of its occurrence.³⁶

Principle 4. Child Labour

Even more alarming than the presence of forced labour in South Asia is the fact of employment of children, sometimes as young as five years old and in hazardous conditions. Children often end up working in a bonded situation where they are treated like animals and sometimes sent to distant places to work without their parents. A majority of working children employed in agriculture, are mainly the victims of an entrenched system of bonded labour in which the whole family is enslaved to pay a debt that may have been created a long time ago. Other children work in hazardous industries, such as mining, brick-making, fireworks, brass handicrafts, carpet weaving and gem polishing.

However, child labour is not only a South Asian phenomenon. Children work for a living throughout the world

(table 7.2). Globally, about 211 million children of 5 to 14 years of age were economically active in 2000,³⁷ 60 per cent of whom were in Asia and the Pacific region, including South Asia, and over half of these were engaged in hazardous work. In addition, in the age group of 15 to 17 years, 59 million were child labourers.³⁸

The Conventions 138 and 182 of ILO define child labour as constituting all children of 5-10 years who are at work, of 12-14 years who do heavy work, and children of 15-17 years who are engaged in hazardous work. However, no exact estimation of the number of child labourers has been made. In this chapter, we try to give some approximation of the numbers involved that we could glean from various sources.

During the last two decades, economic participation of children of 10-14 years has declined in all of the South Asian countries as a result of pressures from both governments and civil societies within and outside South Asia (table 7.3). The carpet industry is a prime example of demand-driven reform where India, Pakistan and Bangladesh have observed a decline in export orders following a media outcry about the violations of children's rights in the industry. As a result, in January 1996, carpet exporters and human rights groups in India launched the Rugmark label that certifies that carpets have been made without child labour (see section on product labelling).

All governments in South Asia have ratified the Convention on the Rights of the Child (CRC), adopted by the UN

Table 7.3 Children aged 10-14 in the South Asian labour force (% of age group) in 1980 & 2000

Countries	1980	2000
India	21	12
Pakistan	23	15
Bangladesh	35	27
Nepal	56	41
Sri Lanka	4	2

Source: World Bank 2003c.

General Assembly, which sets the minimum standards for children's rights. Some governments are now devising stricter child labour regulations. But results thus far are generally poor, due to lack of effective implementation and monitoring.

INDIA: In India, except for hazardous sectors³⁹ defined by the Child Labour (Prohibition and Regulation) Act of 1986, child labour is legal. Children can work six hours daily for six days a week. There is no minimum age for employment. Primary school education has become compulsory since 2001. Forced and bonded labour of children is banned. But, in general, implementation of the Act is very poor, and children are found in hazardous sectors and occupations.⁴⁰ ILO estimates that there are at least 44 million child workers in India, but the government estimates only 11 million.⁴¹

PAKISTAN: The minimum age for employment has been defined by various laws in Pakistan. The national minimum age is 14, which conforms to the requirement of C138. Children Pledging of Labour Act (1933)⁴² prohibits the agreements pledging the labour of children and employment of children under the age of 15, except in cases in which they are paid a reasonable wage. Factories Act of 1934⁴³ prohibits the work of children in factories under the age of 14 and decrees a fine of Rs. 500 for the violators. Employment of Children Act (Amendment) of 1991 prohibits employment of children under the age of 14 in workshops or listed manufacturing sectors such as carpet weaving, construction and building industry etc. But family-based enterprises are excluded.

In reality, however, child labour is widespread in Pakistan. According to an estimate by the government in 1996, 3.3 million children were economically active. However, several NGOs have quoted a much higher figure. The Human Rights Commission of Pakistan (HRCP) has estimated the number to be between

11 to 12 million, with at least half of them being under the age of 10.

BANGLADESH: In Bangladesh, the principle of the abolition of child labour is recognised in the constitution and legislation. National legislation has not established a minimum age in general, but Bangladesh Export Processing Zones Authority (BEPZA) has restricted the minimum age to 14 for employment in EPZs.

The hazardous sectors are defined and the age limit is provided in national legislations of Bangladesh. The minimum age for these jobs complies with C182. Factories Rules (1979) and Employment of Children Act (1938)⁴⁴ list the operations which constitute hazardous work.⁴⁵

Official statistics of child workers aged 5 to 14 years was estimated to be 6.3 million. Eighty-three per cent of all working children were found in rural areas.⁴⁶ Since 1995, the government has been trying to eliminate child labour through the ILO-International Programme on the Elimination of Child Labour (IPEC), and 76 Action Programmes have been implemented successfully through government agencies, employers' organisations, trade unions and NGOs in Bangladesh. About 50,000 children and their families benefited from these programmes. Government is also working with the United States Agency for International Development (USAID) on the elimination of child labour in hazardous work. The project is titled as Eradication of Hazardous Child Labour in Bangladesh, and aims at providing Non-Formal Education and Skills Development Training for 10,000 working children, and micro-credit for 5,000 parents of child labour in Dhaka and Chittagong metropolitan areas.

NEPAL: Nepal is the country that has the highest percentage share of child labour within the region. The number of working children was 2.6 million in 1997,

The results of child labour regulations are generally poor due to lack of effective implementation and monitoring

Child prostitution has become a global phenomenon as the most inhuman face of increased cross-border mobility of people

of which 127,000 were found in the worst forms of child labour.⁴⁷

SRI LANKA: According to IPEC, in 1999, there were 475,531 economically active children of 5-14 years old in Sri Lanka. These children were mainly working in domestic service, coconut fibre production, brick making, fishing, cigarette rolling, street vending and in farming. The worst form of child labour—child prostitution—is also common in Sri Lanka. According to government sources, there were around 30,000 victims in 1991.

MALDIVES: There is no compulsory education and requirement of minimum age for employment in Maldives. Although numbers are not available, child labour is widespread in agriculture and fishing.

Trafficking of children

Another shocking problem in South Asia is the sexual exploitation of children for profit. Child prostitution has become a global phenomenon as the most inhuman face of increased cross-border mobility of people. But, in South Asia, this has a special import as it is mostly an outcome of poverty.

The available research indicates that the number of children involved in trafficking for the purpose of prostitution, within and outside South Asia, has increased in recent years. In India, the trafficking of children takes place mostly within the country: the children from Karnataka, Maharashtra, West Bengal and Tamil Nadu are brought to Mumbai, Calcutta and Delhi. The estimates of the children trafficked for prostitution vary between 25,000 to 500,000, of which around five per cent are from the neighbouring countries, such as Nepal and Bangladesh.

Pakistan is one of the receiving countries of the region. The children brought from Bangladesh and India work

in farming and fishing and in prostitution in Pakistan. There is no exact data on the children trafficked for prostitution.

In Bangladesh, child trafficking occurred both within and outside the country. Bangladeshi children are usually trafficked for prostitution, forced or bonded labour, marriage, and for the sale of organs. Between 1993 and 1997, 13,320 children were trafficked out of Bangladesh.

Many children are trafficked to Kathmandu, Nepal every year. These children work in manufacturing, sweatshops, and hotels, or as domestic servants and in prostitution. Approximately, 5000 children leave their families due to trafficking or labour migration. Nepal is also a sending country. Most of the children trafficked out of Nepal end up in India to work on construction sites, brick kilns, tea plantations, and in manufacturing and prostitution. It is estimated that around 5000 to 7000 girls are trafficked from Nepal to India every year just for prostitution.

The network of child trafficking is well organised in the region. Rather than kidnapping, children are promised good wages, education or marriage. Children trafficked from India and Nepal are more likely to belong to lower castes and classes. Poverty, lack of food and security, and poor educational backgrounds are factors contributing to child trafficking in the region. Being a victim of sexual abuse also increases their chances of being trafficked in India, Bangladesh and Nepal. It is also suggested that globalisation, which increased the demand for cheap labour, has also led to an increase in the numbers of children being trafficked.

Because of the regional dimension of the problem, as most trafficking takes place within the region, this has received the attention of the policy makers in South Asia and SAARC has been engaged in recent years to combat this problem within a regional framework (box 7.6).

Various alternative ways of eliminating child labour have emerged during the last decade, the most notable of these being workplace monitoring and product labelling. Voluntary agreements, supported by technical assistance and other measures, like product labelling and codes of conduct for Multinational Enterprises (MNE) operating in developing countries, have proven to be better and more supportive actions than complete bans or trade sanctions. Following are some of the voluntary efforts aiming to eliminate child labour from South Asia:

Work place monitoring in Bangladesh and Pakistan

The International Programme on the Elimination of Child Labour (IPEC) has been using monitoring as a tool in its projects since 1996. Two projects in the South Asia region, namely, Child Labour Verification and Monitoring System in Garment Factories in Bangladesh and Elimination of Child Labour in the Soccer Ball Industry in Sialkot, Pakistan, have been very successful in achieving results.

In 1993 and 1994, Bangladesh garment manufacturing sector faced the threat of losing its export volume and earnings. Harkin Bill,⁴⁸ which was adopted in the United States threatened to boycott Bangladeshi products due to extensive use of child labour. The Bangladesh Garments Manufacturers' and Exporters' Association (BGMEA) then signed a Memorandum of Understanding (MoU) with the ILO and the United Nations Children's Fund (UNICEF) in 1995. ILO was responsible for verifying and monitoring the presence of children in textile and garment factories, UNICEF for school attendance of children in non-formal education (NFE) centres. The project was focused on the informal sector for about 1800 garment factories in Dhaka and 400 in Chittagong. The children removed from workplace were compensated with a stipend if they were only receiving education in NFE Centres.

Box 7.6 SAARC initiative to combat child trafficking

Member countries of the South Asian Association for Regional Cooperation (SAARC) put the issue of child and women trafficking into their agenda as a priority issue in 1996. The Rawalpindi Resolution of 1996 committed the countries to combat inter and intra-country trafficking of children and women. In 1997, Male Declaration expressed the need for a regional convention on child trafficking in South Asia, while member states promised to improve regional coordination of efforts to stop child trafficking. The foundation of the Convention has been laid by the SAARC meeting in Colombo,

1998. After consultations the Convention on Preventing and Combating Trafficking in Women and Children for Prostitution has been adopted by the member countries in 2002. The Convention defines a person below 18 years of age as a child and requires members to take necessary measures for combating trafficking regionally. The legal framework covering the issue exists in all South Asian countries. However, these are limited or complicated. Furthermore, lack of enforcement is a serious issue in the region.

Source: Tumlin 2000 and Sharma 1999.

From July 1995 to September 2000, a total of 27,320 children were identified and withdrawn from the factories. The percentages of factories employing children had a notable decline from 43.5 per cent in 1995 to five per cent in 2000. This has demonstrated that UN agencies, government, employers and NGOs can work together effectively. The project has shown that this partnership can be used in other countries as well. The programme was replicated in several countries including Pakistan (box 7.7).

Workplace monitoring in Pakistan has been introduced in soccer ball industry, surgical instruments industry and the carpet-weaving sectors. The programme, Elimination of Child Labour in the Soccer Ball Industry, was based on the Atlanta Agreement signed in 1997 by the Sialkot Chamber of Commerce and Industry (SCCI), UNICEF and ILO. It targeted children under the age of 14 who were working in the industry, not enrolled in primary schools, or still in school but whose work interfered with their education. Both internal and external monitoring units were established to monitor 1000 stitching centres once every five weeks. All the registered stitching centres were free from child labour at the

Flexibility and informality of labour markets have lowered labour standards

end of the first phase that ended in 1999. The second phase of the project has started in 2000. The current programme has two components, Prevention and Monitoring Programme and Social Protection and Rehabilitation Programme. Under the former, 360,002 monitoring visits were carried out. Establishments of non-formal education centres, village and family education committees and training are some other activities provided under the Social Protection and Rehabilitation Programme. The exact number of children involved is not known. The Pakistan Carpet Manufacturers and Exporters Association (PCMEA) estimates it to be around 20,000 to 30,000, while Human Rights Commission of Pakistan provides a larger figure of 500,000.⁴⁹

Product labeling in South Asia

During the decade of 1990s, awareness about child labour in export industries increased and the consumers in developed countries demanded a means of guarantee that the products they were importing from developing countries were not produced by children. Thus labelling initiatives got started. In South Asia, the labelled products are mainly hand-knotted carpets and garments.

Rugmark is the famous initiative dealing with product labelling to eliminate child labour from the hand-knotted carpets industry in South Asia. It is an initiative of a number of consumers and humanitarian organisations. It started in 1994 when the European consumers became aware of the use of child labour in the production of carpets. It has foundations in India, Pakistan and Nepal. The carpet producing sites were monitored to guarantee that all the carpets were being produced without child labour. It is a voluntary effort and it is open to every producer or exporter who wants to comply with the standards on child labour.

Care & Fare is an initiative of a trade association of carpet importers and

retailers in Germany. Instead of labelling each carpet, the entire stock of the retailer is labelled. It started in 1994 and has member dealers in India, Pakistan and Nepal. Every member retailer has to pay a levy to be used in the rehabilitation of children who had been working in the industry. Also, the members who do not obey the rules are subject to penalties. In 1997, there were six schools built by Care & Fare in India, Pakistan and Nepal, where along with education, free lunches were provided.

STEP was another small programme aiming at the elimination of child labour from the carpet manufacturing in India and Nepal. STEP also does not have individual carpet labelling, but it has members who are carpet traders. There are two on-site monitors in India and Nepal.

The Double Income Project (DIP) was founded in 1995 in Zurich. It labels the textile and garment products produced by factories in Kenya and India and marketed in Switzerland. The manufacturers have to pay levies, which are used for the welfare of the factory's workers or for the education of children, who would otherwise be in the workforce.⁵⁰

Impact of globalization on workers' rights

Human Development in South Asia 2001 documented the social consequences of globalisation in South Asia. The previous chapters of this report have also underscored the point that globalisation has not led to gains in employment in South Asia as compared to growth rates of GDP and labour force. During the last decade, when the countries were integrating fast with the global economy, there had been a trend to move away from large enterprises, stable work forces and work systems toward flexible production processes, and flexible employment and payments. This flexibility and informality of labour markets have lowered labour standards

and increased the vulnerability of about ninety per cent of the workforce engaged in the informal sector. This has lowered the wage rates and, as a result, led to increasing poverty and income inequality.

The trade unions in South Asia lost some of their power, particularly after mid-1990s, as the freedom of association and collective bargaining rights of the South Asian workers were greatly constrained in export-oriented industries. The loss of power of the trade unions can be observed by looking at the trends of the number of strikes and lockouts, number of workers involved, and the number of days lost due to strikes (tables 7.4, 7.5, 7.6).

In most South Asian countries, the employment scenario has worsened in the post-WTO period. Trade liberalisation has led to an uneven distribution of gains and losses; the burden of losses are mostly being borne by the poor. The issue of linking trade with labour standards was discussed during the Uruguay Round of trade liberalisation. To better protect the rights of workers, it was argued that WTO was the appropriate organisation by imposing trade sanctions against a violating country. But the WTO social clause was discussed mostly in the context of job losses of developed country workers that were due to cheaper imports from the developing countries. But, from the point of view of developing countries, it was argued that international trade was a stimulating factor to contribute to economic growth, and that a social clause in the form of trade sanctions might worsen the economic conditions, and therefore labour standards. For example, in mid-1990s the threat of the US sanctions on garment industries led to the banning of child labour in Bangladesh. However, the children leaving the garment industry re-emerged in workshops and factories that were not export-oriented, and mostly in prostitution, brick-making and on the street, occupations that were more hazardous than the previous ones.⁵¹

Box 7.7 ILO-IPEC in Pakistan

In 1994 ILO-IPEC initiated its activities in Pakistan for providing support in various areas such as awareness rising, advocacy, legislation, training and capacity building. The major achievements in specific areas were as follows:

Carpet Industry

As of March 2002, 24,192 children have been found in carpet weaving activities in the 306 villages of Sheikhpura and Gujranwala, which were surveyed. The programme organised 230 village education and 224 family education committees. 304 non-formal education centres, providing education to 10,175 children, have been established. 190 children have been mainstreamed to formal education system. A survey conducted in 20 tehsils of Punjab by the Programme estimated 107,065 child weavers. Another survey related with occupational safety and health in the industry has been completed. In April 2002, First Women Bank Ltd. and ILO-IPEC have signed a Memorandum of Understanding (MoU) to combat child labour in the carpet industry by providing micro-credit to the families of children involved in carpet weaving (initially

in the Lahore, Sheikhpura and Gujranwala districts).

Surgical Instrument Industry, Sialkot

The survey conducted by Sudhaar, in collaboration with ILO-IPEC and Surgical Instrument Manufacturers Association of Pakistan (SIMAP) in April 2001, have indicated the existence of 3203 children in surgical instruments manufacturing. The direct action of ILO succeeded in the enrolment of 604 of them in non-formal education centres.

Soccerball Project, Sialkot,

(Discussed under 'Workplace monitoring in Bangladesh and Pakistan').

Combating Child Labour through Education and Training in Peshawar

In order to support the efforts of government to make basic education universal and to develop a skilled labour force, ILO-IPEC has established nine rehabilitation centres. Over one thousand children enrolled the rehabilitation centres and received non-formal education and 363 children have been provided pre-vocational training.

Source: ILO 2002b.

In conclusion, the rights of South Asian workers are enshrined in their constitutions, labour legislation, and these are mostly in conformity with international norms and standards set by

Table 7.4 Number of strikes and lock-outs, 1992-2001

	1992	1995	1997	2000-01 ^a
India	1714	1066	1305	656
Pakistan ^b	25	24	30	4
Bangladesh	11	5	1	4
Sri Lanka	103	183	156	92

Notes: a. latest available year.

b. 1998 data has been used instead of 1997.

Source: ILO 2003d.

Table 7.5 Trends in days not worked ^a			
	1995	1997	2000-01 ^b
India	0.52	0.54	0.53
Pakistan ^c	0.19	0.83	0.02
Bangladesh ^d	3.69	7.66	0.11
Sri Lanka	1.08	1.20	0.26

Notes: a. base year 1992=100.
b. latest available year.
c. 1998 data has been used instead of 1997.
d. base year 1994=100.

Source: ILO 2003d.

Table 7.6 Trends in workers involved ^a			
	1995	1997	2000-01 ^b
India	0.79	0.78	0.55
Pakistan ^c	0.71	0.51	0.05
Bangladesh ^d	3.98	1.05	0.27
Sri Lanka	1.27	1.15	0.85

Notes: a. base year 1992=100.
b. latest available year.
c. 1998 data has been used instead of 1997.
d. base year 1994=100.

Source: ILO 2003d.

the United Nations and its specialised agencies. Yet the vast majority of workers in the informal sector are not covered by these laws, or even when they are, these laws are not enforced. Our analysis in previous chapters shows that labour markets for the poor and vulnerable in South Asia are dominated by women, forced labour, children and home-based workers. The protection of human rights of these people must be one of the objectives of South Asian policy makers if economic growth is to be accompanied by social justice. This is the theme of the concluding chapter 9.

Annex 7.1 ILO Core Labour Standards

Freedom of Association and Protection of the Rights to Organise Convention (No: 87), 1948

Article 2 provides the workers and employers the right to establish and join organisations of their own will and without previous authorisation. Article 11 requires the governments, which ratify this Convention, to take all appropriate measures to protect the workers and employers to exercise their right to organise freely. It also provides guarantees for the free functioning of organisations without interference by the public authorities. In April 2003, 141 countries had ratified this Convention.

Right to Organise and Collective Bargaining Convention (No: 98), 1949

The Convention mainly provides protection against anti-union discrimination, 'particularly in respect of acts calculated to make the employment of a worker subject to the condition that he shall not join a union or shall relinquish trade union membership; cause the dismissal of or otherwise prejudice a worker by reason of union membership or because of participation in union activities outside working hours or, with the consent of the employer, within working hours'.⁵² It also provides necessary measures to promote collective bargaining. In April 2003, 152 countries had ratified this convention.

Forced Labour Convention (No: 29), 1930

This requires the abolition of all forms of forced or compulsory labour and defines the exceptional cases. Article 1, asks member states which ratify this convention to eliminate all forms of forced or compulsory labour within the shortest possible time. Article 2 defines forced or compulsory labour as 'all work or service which is exacted from any person under the menace of any penalty and for which the said person has not

offered himself voluntarily' and excludes 'any work or service exacted in virtue of compulsory military service laws for work of a purely military character; any work or service which forms part of the normal civic obligations of the citizens of a fully self-governing country; any work or service exacted from any person as a consequence of a conviction in a court of law, provided that the said work or service is carried out under the supervision and control of a public authority and that the said person is not hired to or placed at the disposal of private individuals, companies or associations; any work or service exacted in cases of emergency, that is to say, in the event of war or of a calamity or threatened calamity, such as fire, flood, famine, earthquake, violent epidemic or epizootic diseases, invasion by animal, insect or vegetable pests, and in general any circumstance that would endanger the existence or the well-being of the whole or part of the population; minor communal services of a kind which, being performed by the members of the community in the direct interest of the said community, can therefore be considered as normal civic obligations incumbent upon the members of the community, provided that the members of the community or their direct representatives shall have the right to be consulted in regard to the need for such services'.⁵³

In April 2003, 161 countries had ratified this Convention.

Abolition of Forced Labour, Convention (No: 105), 1957

The Convention strictly prohibits the use of compulsory or forced labour in any form namely 'as a means of political coercion or education or as a punishment for holding or expressing political views or views ideologically opposed to the established political, social or economic system; as a method of mobilising and using labour for purposes of economic development; as a means of labour

discipline; as a punishment for having participated in strikes and as a means of racial, social, national or religious discrimination' (ILOLEX). In April 2003, 159 countries had ratified this Convention.

Discrimination (Employment and Occupation) Convention (No: 111), 1958

The Convention calls for a national policy to eliminate discrimination based on race, colour, sex, religion, political opinion, national extraction or social origin in access to employment, training and working conditions. It also requires the states to promote equal opportunity and treatment. In April 2003, 158 countries had ratified this Convention.

Equal Remuneration Convention (No: 100), 1951

The Convention calls for equal pay for men and women for work of equal value. Article 2, asks member states to appropriate their national laws or regulations; legally established or recognised machinery for wage determination; collective agreements between employers and workers; or a combination of these various means to ensure the application to all workers the principle of equal remuneration for men and women for work of equal value.

In April 2003, 160 countries had ratified this Convention.

Minimum Age Convention (No: 138), 1973

The Convention defines the minimum age of admission to employment as the

age of completion of the compulsory education, provided that it is not less than 15 years. The minimum age for the developing countries is 14 years. It permits the employment or work of persons 13 to 15 years of age on light work—the work not harmful to the health and development of the child and not affecting attendance to school negatively. Article 8 permits artistic performances but requires time limits for the work of the child. In April 2003, 124 countries had ratified this Convention.

Worst Forms of Child Labour Convention (No: 182), 1999

The Convention requires the immediate and effective measures to secure the prohibition and elimination of the worst forms of child labour. Article 2, defines children as all persons under the age of 18. The worst forms of child labour are defined as 'all forms of slavery or practices similar to slavery, such as the sale and trafficking of children, debt bondage and serfdom and forced or compulsory labour, including forced or compulsory recruitment of children for use in armed conflict; the use, procuring or offering of a child for prostitution, for the production of pornography or for pornographic performances; the use, procuring or offering of a child for illicit activities, in particular for the production and trafficking of drugs as defined in the relevant international treaties; work which, by its nature or the circumstances in which it is carried out, is likely to harm the health, safety or morals of children'.⁵⁴

Population Growth, Employment and Emigration¹

In this chapter, we explore one further solution to the problems of unemployment and underemployment being faced by so many populous countries in South Asia. The conventional approach contained in most of the academic and policy work on employment focuses on the policies directed at these various sectors of the domestic economy that can help absorb additional workers. This approach has also been adopted in the preceding chapters of this report, except in chapter 4, where we discussed international trade policies. In this chapter, however, we offer the view that South Asia's populous countries must consider emigration as one of the possible solutions to the persistent problems of unemployment and underemployment. These problems will be around for a while even if the region manages to attain a high level of GDP growth. Although fertility in the countries of the region has declined at rates not anticipated by most policymakers, demographic inertia will ensure that the ranks of the workforce will continue to increase. For the next two decades, South Asia will add over 500 million new entrants to its already very large pool of people seeking productive employment.

In making the suggestion that emigration could serve to provide a safety valve, we are mindful of the conventional wisdom that holds that one type of migration—the departure of skilled workers—can inflict heavy damage on the labour-exporting country. This line of thinking that goes under the name of 'brain drain' needs to be described and then countered before we make the case that the large and populous countries of South Asia should seriously view population as an asset to be developed to maximise the return from it.

Emigration as a safety valve

We begin by asking three questions:

- Is brain drain bad for the developing world, or does it provide benefits to the labour exporting countries that are greater than the cost to the society of losing trained workers?
- What is the importance of remittances sent in by workers for the development—both economic and social but sometimes also political—of their homelands?
- How can the benefits of migration be maximised?

We address these questions below.

The brain drain: Is it all that bad?

The 'brain drain' argument goes back to the early days of development economics as a new discipline. It was then argued that the developing world was deficient in many things needed for promoting economic development. Capital and human skills were identified as two of the more important shortages that needed to be overcome. The term 'human capital' had still to gain common currency. It was suggested that it would be an extremely perverse development if either capital or human skills began to flow in the opposite directions—from developing to developed countries rather than the other way around. 'Capital flight' and 'brain drain,' therefore, earned bad names in the early days of development economics.

A number of serious economists and development practitioners spent time calculating the extent of loss to the developing world as a result of brain drain. These analysts put their faith in simple cost-benefit analysis. The cost of

South Asia's populous countries should seriously consider emigration as one of the possible solutions to the persistent problems of unemployment and underemployment

developing human skills was calculated by adding expenditures by the public sector on schools and the financial commitments made by the parents in educating their children. More sophisticated analyses included not only direct costs by parents on fees, books, transport, etc., but also the opportunity cost to them of the time their children were spending in school. While the public sector treated education as a public good—something to be undertaken since there were large externalities associated with it—parents were considered to be more conscious of cost-benefit calculations. Even if such calculations were done implicitly, the parents had in their minds a rough notion of the present value of the stream of future incomes that would result from education and weighed it against the cost of providing it. If the ratio was palpably positive, parents were prepared to make the needed investment in education.

Relying on this kind of arithmetic, the people who worried about the phenomenon of brain drain could provide reasonable quantification of the associated costs. The assumption was that people, by leaving the country that had spent precious resources on giving them education and imparting them with marketable skills, were causing a measurable loss to the society. The benefit cost ratio was effectively zero for the migrant's homeland and infinite for the host country. Brain drain, in other words, left zero benefits for the poor labour exporting country while providing infinite benefits to the country receiving the migrant and playing host to him. It is not too difficult to understand why the movement of skilled people from developing to developed countries was regarded as such a perverse event.

But is it really perverse? Are there no benefits to the labour exporting countries to mitigate, if not balance and outweigh, the costs associated with developing the skills carried by the migrants to the host countries? We argue that the concerns about brain drain are based on static analysis. The assumption is that once a

skilled or semi-skilled person leaves, he or she does not pay back anything to the homeland. However, as we review the way the various diasporas, which formed in the developed world by the citizens of the developing world, interacted with the homelands, the argument based on zero benefit to the exporting country does not hold ground. It needs to be revised to accommodate all the benefits that flow to the homelands from the diaspora communities. We will look below at three such benefits—remittances, foreign direct investment and contribution to the social modernisation of the homeland.

Diasporas help in developing their homelands

The diasporas formed by the migrants in the developed countries have a long history of support for their homelands. The most significant examples of this are the Jewish and Chinese diasporas. The Jewish presence in the United States has been tremendously successful for the state of Israel. A lot of capital flows on a regular basis from the United States to Israel through public as well as private channels. For decades, Israel has been the largest recipient of official development assistance (ODA) from the United States. Even though the amount of total ODA as a proportion of American GDP has declined over time, its flow to Israel has been protected by the country's many friends in the Congress. The importance attached to Israel as a recipient of American foreign aid is the result of the enormous political clout the Jewish community now has in Washington. The American Jewish community has also provided Israel with material support through private channels. Several Jewish owned firms in the United States have formed alliances with firms in Israel. This was particularly the case in the IT sector.² The role played by the Jewish diaspora in America will be hard to replicate by other communities of foreigners living and working in developed countries.

The assistance provided by the Chinese living abroad to the development of their

homeland is more typical of the behaviour of developing countries' diasporas. The older developing countries' diasporas have involved themselves in helping the development of their home countries in three phases. Sending remittances to the families in the homeland is the first phase, followed by foreign direct investment sponsored by the diasporas and, finally, as the members of the diasporas acquire wealth, by assisting non-government organisations doing charity work in the countries of origin. Each of these different types of capital flows from the diasporas to the homelands is briefly reviewed below.

REMITTANCES: Remittances in the early years of the formation of the diasporas are usually large. Workers tend to save a significant proportion of their incomes and remit to their homelands the bulk of their savings. During this early period, links with the homeland are strong. There is an inverse relationship between the proportion remitted and the anticipated time of stay in the country. The large communities of construction workers imported by the Middle East in the late seventies and the eighties mostly from South Asia—in particular from Pakistan—had very large rates of savings and substantial proportions of savings were sent back home. For instance, the workers from Pakistan in the Middle East did not expect to stay for more than five years in the countries in which they were working. They saved between 60 to 70 per cent of their gross incomes and remitted back 70 to 80 per cent of their savings. Both the rates of saving and the proportion of savings remitted decline significantly with the length of stay. As migrants throw roots into the soil of the host country and develop families of their own, the amounts they can afford to send back home declines, particularly in terms of the proportion of total earnings.

The channel of transmission typically used for remittances depends on two things. First, on the level of education of the migrant workforce. And, second, on

the openness of the financial sector. The channels used range from the formal banking system to the 'hundi or huwala systems' as used by the South Asian workers. For well-educated migrants, who belong to the countries with open financial systems, the preferred channel for transmission is the formal banking system. However, semi-skilled and unskilled workers tend to avoid the formal system even where they are open. In open systems, they are likely to opt for semi-formal systems. For instance, the State Bank of Pakistan has estimated that 80 to 90 per cent of the remittances sent by the Pakistanis working in the Middle East—most of whom are semi-literate—flows through a combination of formal and informal channels. The Bank's report identifies the system as a combination of officially sanctioned retail moneychangers, foreign exchange companies, and *hundiwalas* (money couriers). For the migrants sending back money to the countries with closed financial system, the only available choice is to work with the informal system.

The remittances sent back by the developing countries' citizens working in Europe and North America now constitute a significant proportion of total external savings received by the labour exporting nations. For example, in 2002, 2.5 per cent of South Asia's GDP came from workers' remittances (see chapter 4, table 4.10). However, it appears that these amounts represent only a fraction of the total resource transfer made by the diasporas. The State Bank of Pakistan report cited above estimates that Pakistan receives \$8-10 billion a year in the form of remittances, of which only one billion dollars flows came in through formal channels in the late 1990s. But the difference between total flows, and flows through formal channels, is not unique to Pakistan. In 1996, Mexico is estimated to have received \$6.7 billion from its citizens working in the United States, 57 per cent more than the amount recognised as having come through formal channels.

Workers tend to save a significant proportion of their incomes and remit back to their homelands the bulk of their savings

Diasporas tend to support the activities of the NGOs when homeland governments are weak

The controls placed on informal remittances following ‘nine-eleven’ have significantly changed the channels through which they flow. The authorities in the United States were concerned that informal capital flows from that country to the Middle East and South Asia were aiding the numerous terrorist groups operating in these parts of the world. New regulations were imposed on these transfers and they were strictly enforced. One major consequence of these regulations was to increase the amount of capital received by labour exporting countries through formal channels.

The data in table 8.1 places remittances in the context of total capital flows to developing countries. In 1996—the only year for which we have data for flows to most labour exporting countries—remittances were five times net official flows. However, 1996 was a bad year for official flows since a number of countries made large payments to the IMF. Looking at the average amount of official flows for the 1990s, we reach the conclusion that remittances constitute a multiple of developing countries’ receipts from official sources.

FOREIGN DIRECT INVESTMENT (FDI): The second phase starts after the diasporas have established themselves in the host countries. In this stage, significant economic assets are at the command of the members of the diasporas. Income from these assets, along with current incomes, are used for making long-term investments in the

home country if conditions permit. This is precisely what was done by the Chinese diaspora in the east coast of China and what is currently being done by the overseas Indians in developing their country’s sectors of information technology and health sciences. The foreign direct investment that originates with the diasporas may or may not substitute for remittances. The migrants who have left behind poor relatives and friends will continue to remit money even when they have begun to make investments in the homeland.

We do not have estimates available for the proportion of FDI that can be attributed to the members of the diasporas. Anecdotal evidence from China and India suggests that after these countries began to open to the world, outside FDI flows associated with the diasporas became quite significant. In estimating these numbers we should not only look at the amounts of investment that come directly from the diasporas, but should also count the investment that is motivated by the members of these communities. For instance, the fact that Indians hold a number of senior positions in several large IT firms based in the United States must have prompted some of the investments made in India by these firms.

HELPING NON-GOVERNMENTAL ORGANIZATIONS (NGOs): The third phase involves the association of the diasporas with charity giving which is done mostly through non-governmental organisations. Diasporas tend to support the activities of the NGOs when homeland governments are weak. Once again, taking Pakistan as an example, the amounts of money committed by the members of the diasporas in Europe and North America has increased enormously in recent years. Most of the large NGOs working in Pakistan raise the bulk of their resources in the diaspora communities in the United States.

The Pakistani communities living and working in North America have

	(\$ billion)	
	1996	1990s
Balance on current account	-74.3	-80.1
Capital Flows		
– Total capital flows, net	187.7	141.3
– Net official flows	8.4	29.1
– Net private flows	179.4	112.2
(Foreign direct investment)		
(Remittances)	50.0	50.0

Source: IMF and author’s estimates.

established a number of organisations that are now actively engaged in providing education and health services to the citizens of their homeland. Some of this activity is associated with the professional organisations that are now well established. The Association of Pakistani Physicians in North America (APPNA) is by far the most successful professional organisation in the United States and Canada. The APPNA has established an NGO called APPNA-Sehat (health) that is actively engaged in providing basic health care and primary education to the people living in Pakistan's impoverished northern areas.

There are many other examples of the support provided by the diasporas through NGOs for the social development of homelands. The Filipinos resident in the United States have 'village twinning' arrangements when people from one particular village come together to provide assistance to the people living in the places of their origin. The Salvadoreans and Mexicans in the United States are similarly engaged.

Each of the three phases has different development impacts. In the first phase, when diasporas are sending money back to the homeland mostly through remittances, development gains come to the government through the availability of untied foreign flows to finance balance of payments deficits. There is also benefit to the families supported by remittances. The bulk of these remittances is invested in small businesses or is used for improving the level of social development of the members of the families that have stayed behind. In the second phase, when significant proportions of capital flows from the diasporas go to the homelands in the form of foreign direct investment, there is an even greater assurance of benefits to the society. This is also the case when the diasporas support NGO activities in their homelands.

Maximising the benefits of migration

Looking at the benefit of migration in a dynamic sense—the approach suggested

in our discussion of the phenomenon of brain drain—it is possible to draw conclusions different from those who worry about brain drain. Large developing countries such as those in South Asia that have had high rates of population growth have an opportunity that could be exploited for their benefit. They have young populations that can be educated and trained to yield a supply of workers that is much greater than the rate at which they could be productively employed at home. In such a situation, it is advantageous for them to plan to obtain the maximum benefits that can accrue from large populations.

Public policy should be directed, therefore, at developing human capital for use both at home and abroad. Public policy should also aim to maximise the returns from the capital flows that originate with the diasporas. Governments are sometimes tempted to force the flow of remittances into the channels it controls. Attempts to make people send remittances through public sector banks can be counter-productive. One reason why in closed financial systems people turn to informal channels for transmitting money to the homeland is the fear of excessive government interference. In final analysis, it is more open economies that will draw benefits from the diasporas created by their citizens in Europe and North America.

Demographic asymmetry

For the first time in human history, demographic developments in two parts of the globe—in developed and developing countries—are moving in opposite directions. Fertility has collapsed in Europe, North America and Japan—the regions of the world in which incomes per capita of the population now exceed \$25,000. Fertility rates have also—and quite unexpectedly—declined in many parts of the developing world. Demographers from around the world met in March 2002 at the United Nations 'to discuss and celebrate the surprising

Public policy should be directed at developing human capital for use both at home and abroad

finding that the world's population has not grown as fast as had been feared. Just a few years ago the expectation was that the planet would have 10 billion people by the end of the 21st century. Now it looks as if the true figure will be nine billion, up from six billion' at the beginning of the century.³

Reductions in fertility in many poor and middle income countries are occurring at income levels much lower than those at which today's rich countries turned the demographic corner. Three things may have contributed to quickening the pace of fertility decline. One is improved levels of schooling—educated families tend to have fewer children. Education is spreading much faster among the populations of the developing world than was generally expected. Another is that children are now more likely to survive than they were in the past, which allows families to have only the number of children they want. Finally, the countries in which fertility dropped most were those that provided easy access to contraceptives. In the 1960s, virtually everywhere in the developing world women had, on average, six children. Today the rate is closer to three in Bangladesh, Egypt, the Philippines and Peru. An average fertility rate of 2.2 children per woman brings the population to the level of 'replacement.' This is the level at which population does not increase, but only replaces itself. A number of developing countries are reaching this point. Some of them have gone beyond to the sub-replacement level where women produce fewer children than needed to keep the population from declining.

One demographer who has studied the changes in the levels of fertility across the globe has termed this phenomenon 'population implosion' contrasting it with the fears of population explosion that occupied so many development economists and development practitioners not too long ago. According to him: 'Simply put, the era of the worldwide 'population explosion,' the only

demographic era within living memory, is coming to a close...In place of the population explosion, a new era of demographic trends—each historically unprecedented in its own right—is poised to reshape, and recast, the world's population profile over the coming quarter century.'⁴

While there will be a fairly sharp reduction in the size of the population in the developed world in the next fifty years, 'demographic inertia'—the fact that fertility rates were fairly high not so long ago and will, therefore, continue to feed population growth—will ensure a steady increase in population size in most parts of the developing world. For several decades to come, the number of people entering the reproductive age will be large enough to sustain a growing population. Consequently, the centre of gravity of the world's population, already located in the developing world, will move deeper into it in the next quarter century. This continuing shift has produced what we would like to term the phenomenon of 'demographic asymmetry' in the world—a phenomenon which will see population declines among most rich countries and continuing increase in most developing countries.

These marked differences in fertility trends not only ensure different rates of population growth in developed and developing countries, they also mean very different age profiles of the populations in these two parts of the world. Populations in developing countries are very young—for most of them, people under the age of 20 account from two-fifths to more than one-half of the total population. On the other hand, populations in developed parts of the world are ageing rapidly. The population structure in most of the developing world retains its pyramidal shape. In many developed countries, it has lost this shape, becoming more of a cylinder than a pyramid. In some of them, the structure may be moving towards a 'reverse pyramid.' In rich countries, the fastest growing segment of the population is that

of the 'senior citizens,' those over the age of 65 years.

The enormous differences in the demographic profiles of developed and developing countries will profoundly affect the way these two parts of the world will interact with one another. This is the main purpose of this chapter—to explore how both developed and developing countries could benefit from the window of opportunity that has opened for a number of populous developing countries. Some of these countries are in South Asia.

Trends in global population have been carefully analysed by international agencies, governments in both developed and developing countries, development economists and demographers.⁵ It is worth repeating some basic facts about demographic change across the globe to place the discussion in proper context. Most of these facts are well known:

- As a consequence of sweeping reductions in mortality, world population nearly quadrupled in just 100 years, increasing from 1.6 billion in 1900 to about six billion in 2000.
- However, there have been equally sweeping declines in the rate of fertility in many parts of the world. Without these changes in fertility, world population today would have been nine billion rather than six billion. As a result of these changes, world population will increase to only 7.8 billion by 2025. It is likely to stabilise at nine billion by the end of the century.
- Fertility levels for the world fell by more than 40 per cent in the last half century—a decline equivalent to over two births per woman per lifetime. Fertility will continue to decline in the coming years; more rapidly in developing countries since in many parts of the developed world, it has already dropped below the replacement level (see below).

- As a result of declines in fertility, a number of countries have arrived at 'sub-replacement' levels. A sub-replacement level means that the current population is not having enough children to replace itself. This development is not confined to developed countries, however. The largest concentration of sub-replacement population now is in East Asia—not only in Japan, Asia's most developed country, but in several other less prosperous countries. China has seen a sharp reduction in fertility levels in recent decades. It is now close to reaching the stage at which fertility will only be at the replacement level. Later, the Chinese population may also begin to decline.
- While fertility is declining in developing countries as well, demographic inertia will continue to increase their populations for several decades to come. As shown in table 8.2, the combined population of developing countries is likely to increase by 35 per cent in the next 25 years, implying a growth rate of 1.2 per cent a year. As against this, developed countries will see only a minuscule increase in their population in this 25-year period—of only four per cent or less than 0.2 per cent a year. All of this small increase will occur in the United States where the population will continue to grow because of migration into the country and higher rates of fertility among the migrants settling in America. However, even in the United States restrictions on migration following the terrorist attacks of 11 September 2001 may slow down the rate of population increase.
- The growth in world population will decline steadily from 1.6 per cent a year in 1980-99 to 1.1 per cent in 1999-2015. The rate of population increase will also decline in poor

While fertility is declining in developing countries as well, demographic inertia will continue to increase their populations for several decades to come

Table 8.2 Population projections from 2000

Region	Projected midyear 2000 population		Projected 2025 population		Absolute change 2000-2025	% change 2000-2025
	(in millions)	%	(in millions)	%	(in millions)	
World	6,080	100.0	7,841	100.0	1,761	29
More Developed Countries	1,186	19.5	1,239	15.8	53	4
Less Developed Countries	4,895	80.5	6,602	84.2	1,707	35
Sub-Saharan Africa	661	10.9	1,071	13.7	410	62
North Africa	145	2.4	203	2.6	58	40
Middle East	171	2.8	280	3.5	109	64
Asia (excluding Middle East)	3,444	56.6	4,387	55.9	943	27
Latin America and the Caribbean	520	8.6	671	8.6	151	29

Source: US Bureau of the Census 2003.

countries, from 2.1 per cent a year in 1980-99 to 1.2 per cent in 1999-2015.

- A combination of changes in mortality and fertility rates in various parts of the world will further increase the share of the developing world in total population, from 80.5 per cent in 2000 to an estimated 84.2 per cent in 2025.
- Only one rich country of today—the United States—will be among the ten largest countries in the world in 2050. By then India, with a population of 1,572 million will be the largest country followed by China with 1,462 million. (See table 8.3.)

- Further advances in health sciences and health care will close the age-expectancy gap between rich and poor countries. Of the most populous countries, Japan with 88 years will have the highest life expectancy, Nigeria with 69.3 years the lowest. This means that the developing countries will also begin to see the ageing of their populations.

Fertility and mortality declines began to occur much earlier in the developed world as compared to the developing countries. Some analysts maintain that the collapse of fertility in the developed countries occurred as a consequence of the concerns pertaining to an explosion in world population. Bjorn Lomborg, a Danish scientist, has argued in an important but controversial book, published recently, that environmental and population experts have 'regularly tried to scare us out of our wits with doomsday chants... In the 1960s, overpopulation was going to cause massive world-wide famine.'⁶ That, of course, did not occur. Instead, having been made conscious of the ill-effects of large family sizes, people all over the world became interested in family planning. This increased awareness, no doubt, contributed to the declines in fertility. But these would have occurred in any case because of social and economic developments in many parts of

Table 8.3 World's largest countries now and in 2050

Country	Population 2001 (million)	Population 2050 (million)	Growth, 2001-2050 (%)	Life expectancy in 2050 (years)
1. India	1,032	1,572	52.3	75.4
2. China	1,272	1,462	15.0	79.0
3. United States	285	397	39.3	82.6
4. Pakistan	141	344	144.0	73.7
5. Indonesia	209	311	48.8	77.4
6. Nigeria	130	279	115.0	69.3
7. Brazil	172	247	44.0	76.9
8. Bangladesh	133	155	16.5	72.6
9. Mexico	99	147	48.5	78.8
10. Iran	65	121	86.1	78.5
11. Japan	127	109	-14.2	88.0
12. Russia	145	104	-28.3	76.9

Source: World Bank 2003c.

the world, in particular, in developed countries.

The sharp decline in fertility in Europe, North America and Japan means that there is a growing difference in the age profiles of the population in these two parts of the world. Table 8.4 below, and table 8.5 in the following section, provide some numbers for a selected group of countries to indicate the differences that are already apparent in these two population profiles. Europe has rapidly ageing populations with those over the age of 65 already accounting for one-sixth of the total in many countries in the continent. The presence of old people in the populations of developed countries will continue to increase steadily. By 2025, most European nations will have close to one-fourth of their populations over 65 years old. Japan with an estimated 27.6 per cent of its population above the age of 65 will have one of the oldest populations in the world. The United States, because of immigrant population, will continue to have a relatively young population compared to other parts of the developed world.

As against this, the populations of developing countries will continue to remain relatively young. For instance, India will have less than eight per cent of its population at over 65 years old, one-fourth the proportion of the old population in Europe. Compared to

South Asia, the Latin American populations will be older—the proportion of older people in Brazil will be half as much as in Europe.

Table 8.5 compares the age profiles of two countries, the United States and Pakistan. We have selected these two countries for making this comparison since one, the United States, is already faced with serious shortages of workers all across the skill spectrum while the other, Pakistan, has the potential of meeting the current and potential labour shortages in developed countries. In 2000, the US had a population of 282 million; in Pakistan, the size of the population for the same year was estimated at 140 million. In 2000, 28.6 per cent of the American population was under the age of 19; in Pakistan, the proportion of this cohort was almost twice as high, at 53.5 per cent. In 2000, therefore, the US had 81 million people under the age of 19. In Pakistan, those in the same age group numbered 75 million. In other words, Pakistan with one-half of the US population, had nearly as many young people as the United States. As we will suggest later in this chapter, it is the heavy representation of the young in their populations that provides a tremendous opportunity to the populous developing countries. This is an opportunity some of them had already begun to exploit before the terrorist attacks of 11 September 2001.

It is only in the 25 to 34 years cohort that the American and Pakistani populations have roughly the same proportion of people—14.2 per cent in the case of the US, and 13.8 per cent in the case of Pakistan. Beyond this cohort, as we go towards the older segments of the population, the proportion in the US increases quite dramatically compared to that of the Pakistani population. In the United States, senior citizens—those above 65 years—account for 12.4 per cent of the total population. For Pakistan the population in this age group is only one-third of the US. There are 35 million older citizens in the US population, in

Table 8.4 Percentage of population 65 and above (projected)

Country	2000	2025
Algeria	4.0	7.1
Brazil	5.3	11.3
China	7.0	13.5
Ethiopia	2.8	2.7
India	4.6	7.8
Iraq	3.1	4.3
Saudi Arabia	2.6	5.6
South Africa	4.8	9.6
Germany	16.2	23.1
Japan	17.0	27.6
Russia	12.6	18.5
Spain	16.9	23.5
United States	12.6	18.5

Source: US Bureau of the Census 2003.

Table 8.5 Age profiles of populations of US and Pakistan

Age—Years	US (2000)		Pakistan		
	% of Total	Cumulative	Age	% of Total	Cumulative
Less than 5	6.8	—	less than 5	14.6	—
5—9	7.3	14.1	5—9	15.6	30.2
10—14	7.3	21.4	10—14	12.9	43.1
15—19	7.2	28.6	15—19	10.4	53.5
20—24	6.7	35.3	20—24	9.0	62.5
25—34	14.2	49.5	25—34	13.8	76.3
35—44	16.0	65.5	35—44	9.2	85.5
45—54	13.4	78.9	45—54	6.7	92.2
55—59	4.8	83.7	55—59	2.1	94.3
60—64	3.8	85.7	60—64	2.1	96.4
65—74	6.5	94.0	65—74	2.2	98.6
75—84	4.4	98.4	75 and older	1.2	99.1
85 and older	1.5	99.9			
Median age	35.3 years		17.2 years		

Sources: GOP 2001d; US Bureau of the Census 2003.

Pakistan there are only 4.8 million people in this age group. While the US and Pakistan have about the same number of young people (those below the age of 19), the Americans have seven times the number of older people (those more than the age of 65) compared to Pakistan. The median age of the American population is 35.3 years; that of Pakistan's only 17.2 years.

A comparison of the age profile of the populations of the United States and Pakistan clearly demonstrates the demographic asymmetry that has developed between the populations of rich and poor countries. This asymmetry is the consequence of the much more rapid decline in fertility and mortality in the developed world when compared to the developing world. However, since the

developing countries are also entering the phase of rapid fertility declines, as they are also benefiting from the spectacular advances in health care, demographic asymmetry will gradually become less of a feature in world population. If there are advantages to be drawn from this asymmetry, then the window of opportunity available is fairly narrow—it will last for only a few decades. By the middle of this century, the age profiles of the populations in the developing world will begin to resemble those of rich countries.

Demographic decline and possible loss of economic dynamism in developed countries

As discussed above, by 2014, Europe's entire population will be shrinking, as will Japan's. As shown in table 8.6, all large countries of Europe will suffer significant declines in their populations over the next fifty years. The sharpest decline will occur in Italy where the population is set to decrease by nearly a third, from the present 58 million to an expected 44 million. Germany's population is likely to decline from 82 million in 2000 to an expected 63 million in 2050; and that of France from 59 million to 50 million. The smallest decline in Europe will be in the UK, which, like the US, is likely to be helped by migration. The four most populous members of the European Union will see a decline of 43 million in their combined populations, from 302 million to 259 million over a period of 50 years. Japan will also see the size of its population decline by a fifth. Of the rich countries, only the United States is likely to see a significant increase in the size of its population, from 282 million in 2000 to an expected 397 million in 2050. A significant part of this increase will be the result of international migration and of higher fertility among the US residents who have recently arrived in the country.

There are two significant aspects of this demographic change in Europe and

Table 8.6 Population change in selected developed countries, 2000-2050

Country	Change in population size	Change in the size of working population	Change in the size of population over 65 years old
France	-18	-26	+60
Germany	-30	-43	+53
Italy	-32	-47	+41
Japan	-20	-36	+51
UK	-9	-15	+61
US	+43	+29	+27

Source: UN 2003a.

Japan. It is for the first time in human history that a change of this magnitude is being caused by a change in behaviour and not by war, disease and pestilence. Wars ultimately end and disease and pestilence can be overcome, but human behaviour affecting changes in fertility, has proven difficult to reverse. Societies that have tried to adopt pro-natalist policies focused on monetary incentives and moral persuasion have invariably discovered that such a behavioural change is impossible to bring about. Accordingly, it does not seem possible that the Europeans—or Japanese for that matter—will be able to use public policy to rebuild their populations.

The second important aspect of the anticipated demographic change is the rapid ageing of the population of rich countries. This has been caused by declines in the rates of fertility, which have seriously depleted the proportion of young people and, consequently, resulted in a virtual explosion in the proportion of older people. In Europe, the proportion of people over 65 years will increase by between 40 and 60 per cent in the fifty year period between 2000 and 2050 (see table 8.7). As we discussed in the preceding section, the demographic situation of developing countries is very different from that in the developed world.

One important consequence of this dramatic demographic change, in turn, will be on the structure and rates of growth of the economies of the developed world. Unless developed countries take some action to stop the decline in population growth and arrest the ageing of their population, the anticipated demographic change will cause most of the countries to grow slowly economically. Among the factors responsible for slowing down the rate of economic growth are the likely pressures on the fiscal systems, a serious shortage of workers, and a possible loss in productivity. The only practical approach is to allow large-scale migration, a subject to which we will return later in this

Table 8.7 Changes in the proportion of population over 60 in selected advanced countries

Country	1990	2000	2010*	2020*	2030*	2040*
France	18.9	20.2	23.1	26.8	30.1	31.2
Germany	20.3	23.7	26.5	30.3	35.3	32.5
Italy	20.6	24.2	27.4	30.6	35.9	36.5
Japan	17.3	22.7	29.0	31.4	33.0	34.4
UK	20.8	20.7	23.0	25.5	29.6	29.5
US	16.6	16.5	19.2	24.5	28.2	28.9

*Projections.

Sources: Merrill Lynch and Watson Wyatt 2000.

chapter. As we will see below, not taking any action to deal with the worsening demographic situation will undoubtedly prove to be very costly for the world's rich countries.

As the size of the working populations declines by between 15 and 47 per cent in the large countries of Europe, there will be a corresponding pressure on pension payments. These payments are projected to rise as a proportion of GDP in all developed countries (see table 8.8). By 2040, more than one-fifth of the Italian GDP and slightly less than one-fifth of the German and Finnish GDP will be used up for pension payments. The UK and US are the only developed countries that will not see such a sharp increase in the burden of pension payments. This is happening for different reasons. The UK is in the process of privatising pension payments while the US will continue to see an increase in its working age population. With large proportions of GDP committed to pension payments in most developed countries, there will necessarily be a squeeze on both public and private savings. This, in turn, will have a profound effect on economic growth.

Economic growth rates will also come under strain because of a serious shortage of workers in all of the developed countries, particularly in the countries that are reluctant to allow large-scale migration. One study, carried out in 2000, predicted a shortage of 1.7 million workers in Europe by 2003.⁷ This shortage probably did not materialise as a

Table 8.8 Public pension expenditure in the different OECD countries
(as a % of GDP*)

Country	1995	2020*	2040*	2070*
Austria	8.8	12.1	15.0	13.5
Belgium	10.4	10.7	15.0	14.3
Denmark	6.8	9.3	11.6	11.7
Finland	10.1	15.2	18.0	17.8
France	10.6	11.6	14.3	14.0
Germany	11.1	12.3	18.4	15.5
Ireland	3.6	2.7	2.9	2.2
Italy	13.3	15.3	21.4	17.0
Netherlands	6.0	8.4	12.1	11.0
Norway	5.2	8.6	11.8	11.1
Portugal	7.1	9.6	15.2	14.8
Spain	10.0	11.3	16.8	16.0
Sweden	11.8	13.9	14.9	15.1
UK	4.5	5.1	5.0	3.1
US	4.1	5.2	7.1	7.4
Japan	6.6	12.4	14.9	14.4

Note: *In 1994 prices.

Source: Merrill Lynch and Watson Wyatt 2000.

result of the economic slowdown in Europe not anticipated when the study was conducted. That, notwithstanding, this phenomenon will not be postponed for long. And, what is also important is that the anticipated shortage is not likely to be compensated by movements within Europe. In spite of the legal right of all European Union citizens to live and work together in another member state, mobility across the European Union is very low. Less than two per cent of people resident in Europe come from other member states. A much smaller proportion—less than 0.5 per cent—moves between member states each year. To take one example, it is estimated that in the six years to 2006, about 336,000 workers are likely to move to the Republic of Ireland, attracted to that country by its rapidly growing information technology industry. However, at the same time 112,000 workers are expected to leave the country. With the population ageing quickly, it will be difficult to sustain the rapid productivity increases that sustained the enormous economic expansion in the US in the 1990s and to a lesser extent in Europe. US productivity accelerated and grew by an average annual rate of 2.6 per cent in 1995-2000 compared to 1.6 per cent in 1973-1995 and only 0.7 per cent

in the European Union. There is a virtual consensus—but not total agreement—among economists that the sharp increase in productivity in the US was the result of the investments made in information technology by businesses. According to some economists, technological developments would bring savings of \$100-250 billion to various sectors: health profession \$20 billion, trucking \$75 billion, etc. Retail trade saw its average annual productivity growth rate rise by 4.25 percentage points annually from 1995 to 1999 compared with 1989 to 1995. According to another group of economists, productivity growth is far higher in industries that are intense users of technology than in those that are not. They have found twice as much technology-related productivity growth as in the non-tech part of the economy.⁸

It is clear, therefore, that unless the developed world seriously addresses the problems posed by the rapid demographic change, its economies will begin to lose dynamism, productivity increases will slow down, and economic growth will stagnate. As fertility levels are not likely to increase in the foreseeable future, the only real option available is to allow migration from the world's populous countries that have labour surpluses at this time. Will Europe and Japan overcome their concern about cultural dilution that migration will inevitably bring? Will the United States, concerned with homeland security after the events of 11 September, keep its borders open? The answers to these questions will profoundly affect the future of the global economy. We turn to finding some answers below.

Migration from developing countries as a compensation for population declines in developed countries

Developed countries have followed different policies towards migration—migration policies have been shaped by domestic considerations and consequently no two systems are alike. Nonetheless, it

is possible to distinguish five features shared across OECD countries.⁹ These are: acceptance of foreigners to visit for a short period of time for business or tourism purposes (sometimes requiring a visa); rules which allow spouses and close relatives of citizens to enter the country on a permanent basis (family reunion); the possibility for individuals who claim social and political persecution in their country to apply for asylum (asylum seekers); mechanisms for individuals to enter largely for the purpose of employment and business ('skill-based' migration) and naturalisation rules which enable foreign citizens to acquire national citizenship. It is also convenient to distinguish between 'temporary' permit systems, common in European countries, Japan and Korea and 'permanent' resident or settlement systems as in Australia, Canada, New Zealand and the United States.¹⁰ While there are common features found in all OECD countries' immigration policies, the institutional arrangement used for their application and the relative importance of their features vary widely. In European

countries, most entrants arrive via family reunification or as asylum seekers, with different government bodies charged with administering requests for family reunion, asylum and 'skill-based' migration. In contrast, settlement systems such as those of North America are typically based on specific selection criteria and are usually managed through a single government agency, which typically provides a more holistic—and perhaps transparent—policy.

As shown in table 8.9, foreign or foreign born populations in selected OECD countries now account for 6.9 per cent of their combined total with the highest proportion in Australia (21.1 per cent) and the lowest in Japan (1.1 per cent). In terms of numbers, the largest foreign population resides in the US—in 1998 there were 56.7 million foreigners living in that country. North America—the United States and Canada—have between them more than one-half of the OECD migrant population. Of all the major world economies, Japan has the smallest proportion of migrants in its population—only 1.2 per cent of the total

Table 8.9 Foreign or foreign-born population in selected OECD countries

Country	Thousands		% of total population		Yearly % increase	
	1988	1998	1988	1998	1988-98	1988-98
Australia	3,753	3,908	22.3	21.1	4.0	0.4
Austria	344	737	4.5	9.1	114.2	8.0
Belgium	869	892	8.8	8.7	2.6	0.2
Canada	4,343	4,971	16.1	17.4	14.5	1.4
Denmark	142	256	2.8	4.8	80.3	6.1
Finland	19	85	0.4	1.6	347.4	16.1
France	3,714	3,597	6.8	6.3	-3.2	-0.3
Germany	4,489	7,320	7.3	8.9	63.1	5.0
Ireland	82	111	2.4	3.0	35.4	3.1
Italy	645	1,250	1.1	2.1	93.8	6.8
Japan	941	1,512	0.8	1.2	61.0	4.9
Netherlands	624	662	4.2	4.4	60.7	4.9
Norway	136	165	3.2	3.7	21.3	2.0
Portugal	95	178	1.0	1.8	87.4	4.5
Spain	360	720	0.9	1.5	100.0	7.2
Sweden	421	500	5.0	5.6	18.8	1.7
Switzerland	1,007	1,348	15.2	19.0	33.8	2.9
United Kingdom	1,821	2,207	3.2	3.8	21.2	2.0
United States	19,767	26,300	7.9	9.8	33.1	2.9
Total	43,571	56,719	5.7	6.9	30.2	2.7

Source: Data provided to the author by the Organisation for Economic Cooperation and Development, Paris.

Table 8.10 Countries of origin for the five largest migrant receiving nations, 1997-98

	Inflows of foreigners by country of origin (as % of total)	Stock of foreigners by country of origin (as % of total)
1. United States		
(i) Mexico	19.9	21.7
(ii) China	5.6	2.7
(iii) India	5.5	2.3
(iv) Philippines	5.2	4.6
(v) Dominican Republic	3.1	1.8
2. Canada		
(i) China	11.3	4.6
(ii) India	8.8	4.7
(iii) Philippines	4.7	3.7
(iv) Hong Kong	4.6	4.8
(v) Pakistan	4.6	–
3. Germany		
(i) Poland	10.9	3.8
(ii) Yugoslavia	10.2	9.8
(iii) Turkey	8.0	28.6
(iv) Italy	5.9	8.3
(v) Russia	4.7	2.3
4. Australia		
(i) New Zealand	22.2	7.5
(ii) UK	10.4	27.4
(iii) China	7.3	2.8
(iv) South Africa	6.0	1.4
(v) Philippines	3.9	2.4
5. France		
(i) Algeria	14.3	16.4
(ii) Morocco	13.8	16.9
(iii) Turkey	5.8	5.2
(iv) China	4.9	0.3
(v) Tunisia	4.6	6.3

Source: Data provided to the author by the Organisation for Economic Cooperation and Development, Paris.

in 1998. However, as we will see below, there has been a fairly sharp increase in the size of the immigrant population in Japan in the last decade and a half, the consequence of the government's recognition that a steady decline in fertility and the resultant decline in working-age population had begun to pose serious economic problems for the country.

The table also shows that the number of foreign or foreign-born people in OECD countries has increased at 2.7 per cent a year, some four times the rate of increase in domestic population. The sharpest increase of all OECD countries was in Finland and Austria. The Finnish

increase was the result of the expansion of its high-tech industry which needed highly skilled workers. A stagnant domestic population was not able to meet the skill requirement of a very vibrant technology sector. The Austrian increase was the result of a 'push' from the relatively under-developed countries of Eastern Europe rather than the pull exercised by local industry. The size of the immigrant population more than doubled in the ten-year period between 1988 and 1998. This explains, in part, the success of a xenophobic right-wing party in the 1999 elections in Austria. The party's main attraction for the Austrian voters was its 'no-immigration' stance in the manifesto. France is the only rich country to witness a slight decline in the size of the immigrant population—by 3.2 per cent in the ten year period between 1988 and 1998. In Japan, the immigrant population increased at the annual rate of 4.9 per cent, resulting in a 50 per cent growth in the proportion of foreigners in the population.

The number of countries sending migrants to the developed world has increased in recent years. Previously, the country of origin for migrants was influenced to a considerable extent by geographic proximity (for example New Zealanders to Australia, Mexicans and Dominican Republicans to the United States, Algerians and Moroccans to France) and special relations (for example British to Australia, the Filipinos to the United States). Now, however, the demand in OECD countries for workers from the developing world has begun to change the picture. This is one reason why the large populous countries of Asia—India and China in particular—have begun to figure prominently as the sources of migration. As the data of table 8.10 reveals, China is among the top five suppliers of migrants to four out of the five largest migration receiving countries. India figures as a major exporter of manpower in two countries—the United States and Canada. Pakistan, the other large South Asian economy, is

among the five largest sources of migration to Canada. Taken together, South Asia accounts for a larger share of immigration to Canada than China.

The increase in the size of the migrant population in recent years has posed problems for public policy in most developed countries. These have been handled in different ways in different countries. In the following paragraphs, we provide some analysis of the way the problems posed have been managed in a few of these countries.

THE UNITED STATES: The United States, a country of immigrants, has been more receptive than most developed countries not only in welcoming migrants from poor countries, but also in assimilating them into the country's economy, and even in the socio-political system. That this has happened was in part the result of public policy aimed at a different objective—smashing the American South's racial caste system. The result was entirely different. Rather than removing the social and economic lines that separated the white and black segments of populations in the country, some social scientists believe that the real impact was on increasing the flow of 'immigrants of colour' into the country.

Of late, the US interest in bringing in workers from overseas, was the result of labour shortages felt by the high-tech industries. The fact that the United States, more than any other OECD country, has relied heavily on highly skilled workers

from abroad, to staff its high-tech industries, is revealed by the level of education among foreigners living and working in the country. As shown by the data of table 8.11, the US is the only large worker-importing country that has a bi-modal distribution of foreigners in terms of education. Almost 41 per cent of the foreigners living in the country have tertiary education while another 35 per cent have lower secondary education. By contrast, large labour-importing countries have low level of educational attainment among the foreign population.

There is a consensus among experts that without the import of a large number of highly skilled workers from abroad—in particular from Asia, and within Asia, particularly from India—the US would not have made the technological advances that fuelled the recent increase in productivity. Under the H-1B visa program, the US brought in 500,000 IT workers, two-thirds of them from India. However, the recession of 2000-2001 resulted in the return of some of these migrants to their homelands. The new laws put on the statute books after 'nine-eleven' are also constraining the arrival of new technology workers into the United States.

These restrictions may ultimately affect the rate of growth of the US population and also impact on the supply of some forms of labour provided by such migrants. The productivity-enhancing workers, coming into the country from overseas, enter as legal migrants. If their

Table 8.11 Foreign and national adult populations classified by level of education in selected OECD countries, 1995-98

	<i>(average in %)</i>					
	Less than high school		High school		College	
	Foreigners	Nationals	Foreigners	Nationals	Foreigners	Nationals
United States	35.0	15.7	24.1	35.0	40.9	49.3
Germany	48.5	13.2	37.0	62.2	14.4	24.6
France	63.3	33.4	22.9	45.4	13.8	21.1
Italy	47.1	56.3	38.3	34.3	14.6	9.3
United Kingdom	65.1	43.9	14.7	32.5	20.2	23.7
Canada	22.2	23.1	54.9	60.3	22.9	16.6
Sweden	30.8	20.4	41.5	50.3	27.7	29.3

Source: Data provided to the author by the Organisation for Economic Cooperation and Development, Paris.

numbers decline—as they have in recent months—it is because of the slowdown in the economy and the bursting of the technology bubble. Once the economy revives, these skill shortages will reappear and, it seems, that the US will continue to attract people from abroad—mostly from parts of the developing world that have the ability to produce highly trained workers.

JAPAN: Japan has resolutely kept out foreigners, except for a spate of Korean immigrants in the 1920s and 1930s whose descendants are still being discriminated against. Recognising that the sharp decline in the size of the country's population in the next fifty years will have profound implications for the dynamism of the domestic economy, there was talk in 2001 of admitting 500,000 Koreans each year. Nonetheless, the Japanese remained worried about the impact on their culture of the infusion of such a large number of foreigners into the country. Consequently, even if half a million Koreans were allowed into the country, they would be brought in on the strict understanding that they will not stay for more than five years, to be replaced by a fresh batch of migrants. If Japan succeeded—and there are serious doubts that it would—it will be the only major worker-short country to make such a process work.

UNITED KINGDOM: Before the terrorists' attack of 11 September 2001, several other skill-short developed countries were also following the US strategy. The UK authorities, recognising that they too faced serious shortages of workers in several skill areas, began to encourage migration to their country in the late 1990s. In a study completed in 2001, Reed, UK recruitment specialist, warned that shortage of skilled staff could threaten the growth prospects of thousands of enterprises. The survey of 550 organisations found that 72 per cent of them had experienced skill shortages, up from 57 per cent six months ago. The

service sector was short of skills by 82 per cent, 20 per cent more than in 1999; the retail sector had a shortage of 70 per cent and manufacturing of 61 per cent.¹¹ In response to findings such as these, the government sought to import not only highly skilled workers for its rapidly expanding high-tech industries, it also introduced a programme to bring in temporary workers to help in agriculture during summer months.

Britain had joined a number of other industrial countries in increasing its dependence on the IT pools of workers available in the developing world—in particular India. Jack Straw, home minister in Prime Minister Tony Blair's first administration, described the British move as 'incremental changes—not a root and branch upheaval of immigration law' during a visit to Gujarat, India in 2000. Barbara Roche, immigration minister in the same administration, wanted a 'grown-up debate' on the issue. 'In the past we have thought purely about immigration control. We need to think about immigration management,' she suggested. As a part of this strategy, the UK government, in September 2000, eased conditions for investing in the country from outside the EU, by removing a minimum of £1 million investment threshold.¹²

GERMANY: A commission appointed by the German government under the chairmanship of Rita Sussmuth, from the opposition Christian Democratic Union, recommended in July 2001 that the country break with ingrained anti-foreign tradition by embracing the idea of immigration and accepting up to 20,000 foreigners annually as new permanent residents. The 21 member panel urged the government to maintain the country's prosperity by attracting as many as 50,000 skilled foreign workers annually using a combination of permanent residence and temporary visas. The numbers proposed by the commission were quite modest given the dire demographic projections posed by the country's ageing population

and declining birth rate. According to one projection, Germany's population is projected to fall from 82 million in 2000 to some 60 million in 2050, with the workforce shrinking even more dramatically from 41 million to 26 million. Some industry groups have argued that Germany needs as many as a quarter million immigrant workers a year to meet the economy's needs.¹³

Germany overcame labour shortages in the period immediately after World War by importing 'guest workers,' mostly from countries in Southern Europe, particularly Turkey. It now has 7.3 million foreigners in the country but their treatment, according to a 2001 report issued by the Council of Europe, which monitors human rights on the continent, 'should cause deep concern.' Tellingly, even the children of Turkish guest workers, who have lived in Germany for decades, are referred to as foreigners. This attitude will have to change if Germany is to use immigration as a way for solving its grim demographic problem. Among those seeking employment in foreign countries, Germany is not a favoured destination. A temporary 'green card' programme launched in 2000 for attracting workers in the high-tech sector and sold aggressively to the skilled workers in South Asia was able to fill only 8,000 of 20,000 available slots.

Before the terrorists' attack on the US in which some of the alleged perpetrators had prepared their mission while living in Germany, there were reasons to hope that the German attitude towards immigration would change. A number of reforms were introduced in 2000 aimed at the nation's antiquated ethnicity-based citizenship laws. Children of foreigners born in Germany could obtain citizenship, and it is now easier for long time residents to be nationalised. This attitude may change once again as a result of the involvement of foreigners living in Germany in the terrorists' attack on America.

NORTHERN EUROPE: In keeping with their general approach towards social

policy, the countries of northern Europe were more accommodating of foreigners. For a number of decades, a steady stream of migrants has moved into these countries forming fairly large communities of foreign-born citizens. Unfortunately, most of these communities found it difficult to fully assimilate in the host countries. This created considerable resentment which is now beginning to be reflected in electoral politics. Even before 11 September 'many white Europeans had deep running concerns that their countries were involuntarily becoming multicultural as guest workers and refugees, mostly Muslim, established themselves in residence. There are about 15 million Muslims in Europe, making Islam the largest non-Christian religion.'¹⁴ But 11 September added to the worries of the European citizenry. We will illustrate this growing antipathy towards foreigners by drawing upon the recent experience of two countries in northern Europe—Denmark and the Netherlands.

Denmark is one of the countries known for its tolerance of foreigners. Foreigners account for six per cent of the country's population—300,000 out of 5.3 million. However, the public sentiment against immigrants changed dramatically after the terrorist attacks of 11 September. A great deal of resentment was directed against Muslim immigrants. Nearly 70 per cent of the immigrant population in the country is Muslim. An anti-immigrant party won 12 per cent of the vote in parliamentary elections in November 2001, nearly doubling its showing from the previous elections. 'Its campaign posters featured a picture of a young blond girl and the slogan: 'When she retires, Denmark will have a Muslim majority,' proclaimed the poster.¹⁵

Similar xenophobic sentiment now prevails in the Netherlands, another country that, up until recently, had a good record in assimilating foreigners. In March, in the Dutch city of Rotterdam, a branch of the xenophobic Livable Netherlands party won 17 of 45 seats on the local council, attracting more votes

Migration has shaped in many significant ways social, political and cultural relations between the developed and developing parts of the world

than any of the three parties in the national coalition that governs the country. In the Netherlands, a country with a rich multi-ethnic texture and 800,000 Muslims out of a population of 16 million, 'nearly 50 per cent of the country's young people want no more Muslim immigration, according to an opinion poll for the weekly publication *Nieuwe Revu*.'¹⁶

The post-11 September concerns underscored a paradox that has been apparent through European politics for years. The continent needs foreign workers to gird an ageing workforce but is queasy about accepting them, especially if they are Muslim. 'There is this fear for national identity combined with a fear of Muslims that has fuelled this debate on immigration,' said Jan Niessen, director of the Migration Policy Group, a research organisation in Brussels.¹⁷

It would appear, therefore, in most labour short countries of Europe—and now also in the United States—anti-foreign sentiment may begin to overwhelm the economic necessity for bringing in more migrants. The events of 11 September 2001 are too recent to tell whether xenophobic sentiments will override economic imperatives. If the terrorist threat abates, it is possible that economic compulsions will once again prevail and the dynamics embedded in the phenomenon of demographic asymmetry will become dominant features of the global economic and social progress.

Developing countries: Turning large populations into economic assets

A subtle but profound change was taking place in the relations between developed and developing countries before terrorists struck America on 11 September 2001. Migration has shaped, in many significant ways, social, political and cultural relations between the developed and developing parts of the world. In broad terms, it is possible to identify four trends in the way people have moved from developing to

developed countries. The first wave of migration occurred during colonial times, when a small number of people left their homes to seek employment in various countries of Europe which had colonised much of Africa, Asia and Latin America. Most of this migration was from Africa and Asia; very little of it occurred between Latin America and Southern Europe—to Portugal and Spain.

There has been, in recent years, a large increase in the flow of people from the world's impoverished nations to the world's rich countries. This development was the result of both push and pull factors. Push was always there as poverty and population pressures in developing countries sent hundreds of thousands of people in a desperate search for jobs wherever those could be found. In the nineteenth and early parts of the twentieth century, this search often ended in Western Europe and North America. Migration at that time was relatively easy, unhindered by the rigours of visa regimes that were progressively tightened over time. Many of the diasporas formed in the West by the citizens of the developing world can be traced back to those days. Migration in those early days was between the countries that had strong cultural, social or political ties. This explains the formation of the large Mexican diaspora in the United States. As shown in the data presented in table 8.10 above, more than one-fifth of the foreign born population in the United States is of Mexican origin. Similarly, more than a third of the foreign population in France is from two North African countries—Algeria and Morocco—with whom the country has deep social, cultural and political relations going back to several decades. In Australia, one-third of the foreign population comes from the developed countries—Britain and New Zealand—with whom there has been an association going back to the original settlement of the country.

The second wave of migration coincided with the de-colonisation of Asia and Africa by Europe. This happened at

a time when the European countries had begun to recover from the devastation brought on by the Second World War. The rebuilding of Europe needed a large number of semi-skilled workers to labour in the continent's factories or on the construction sites in various European countries. The North African diaspora in France, the Turkish diaspora in Germany and the South Asian diaspora in Britain were formed in this way.

Once these diasporas had been formed, they attracted a new wave of migration—the members of the families who had already located themselves in the host countries. This was the third wave of migration. As shown by the data in table 8.12, family reunion was the most prominent reason for the immigration of people into Europe and the United States. For the US, nearly three-fourths of all foreigners admitted in 1998, came in on family reunion grounds, a significant increase over the proportion five years earlier.

A new type of migration began in the decade of the nineties. Once again—as was the case with the second wave of migration—pull of the host countries was stronger than the push from the labour exporting countries. This time around, however, the type of migrant in demand in the developed countries was in short supply all over the world, not just in the more developed countries. As the developed world, led by the United States,

moved towards the information age, it became obvious that there were serious shortages of highly skilled workers in what was labelled the 'new economy.' As we discussed above, much of the recruits into the new economy sectors came from the populous countries of Asia—in particular from India, but also from China, Pakistan and the Philippines. This flow of skills from the developing to the developed countries raised the question of brain drain.

The demand for workers for the development of information technology is increasing exponentially and cannot be met by any country of the western world from its own demographic pool. As discussed above, several western countries have begun to come to terms with the imperatives of rapidly declining fertility rates and, consequently, rapidly declining populations. The emerging skill gaps are being—and most likely will continue to be—met by the more alert countries in the developing world. The United States, the United Kingdom and Germany have already taken a number of radical steps that would significantly increase the flow of trained and highly skilled workers from the developing to the developed world. The battle for brains is on but, as we suggest below, this battle need not necessarily mean significant, permanent or serious losses for the labour exporting countries of the developing world.

Table 8.12 Immigration by eligibility category in selected OECD countries

Country	<i>(as % of total)</i>							
	Family		Skills		Refugee		Other	
	1993	1998	1993	1998	1993	1998	1993	1998
Australia	42	27	29	34	14	11	15	28
Canada	65	61	15	23	10	13	10	3
Denmark	29	32	12	11	19	15	40	42
France	60	69	28	21	12	10	–	–
New Zealand	20	42	73	49	5	9	2	1
Slovak Republic	30	30	43	48	1	2	26	20
Sweden	21	43	–	1	75	33	4	23
Switzerland	41	30	26	33	4	3	29	34
United Kingdom	40	47	41	45	14	5	4	2
United States	53	72	16	12	14	8	17	8

Source: Coppel et al. 2001.

Fears about brain drain do not seem to be justified and should not be used to place difficulties in the way of the people intending to migrate

Conclusion

This chapter on migration and its impact on development, particularly on employment, argues that the asymmetric demographic developments in the world's rich and poor countries offer a unique set of opportunities to both sets of nations. However, for the full realisation of benefits, public policy specifically aimed at the attainment of this objective is required. For several more decades, the decline in the proportion of the young in the populations of developed countries can be balanced by imparting the young in the developing world with the needed skills to work in the labour-short and skill-short sectors in rich countries. These sectors are commonly associated with what is now generally described as the 'new economy.'

The benefits to developing countries of migration are realised in many different ways. For the unskilled and semi-skilled worker, migration reduces pressure on land and other labour-intensive activities in which most of these people are engaged. As was recognised half a century ago by development economists such as Arthur Lewis, migration brings benefits to both the labour exporting and labour importing parts of the economy. Lewis developed his argument to explain why migration of workers from rural to urban areas brought benefits to developing economies. The same argument can be made for migrations involving people moving from developing to developed countries.

Such a flow of people from the developing to developed countries need not produce the phenomenon of 'brain drain' with all its associated negative connotations. Fears about brain drain do not seem to be justified and should not be used to place difficulties in the way of the people intending to migrate. Looking at the flow from a dynamic perspective—rather than the static framework in which the brain drain argument was originally developed—we come to the conclusion that migration can be a Pareto-optimal

solution for all parties involved. Properly managed, it can—in fact, it already has—produce great benefits for both labour exporting and importing countries.

Benefits to the labour-importing countries accrue because of the skill gap-filling function migration provides in the relatively new, knowledge-intensive sectors of the economy. It is correct to assert that the boom in the American economy in the 1990s was made possible, in part, by the sharp increase in productivity that was witnessed in the 1995-2000 period. This productivity increase, in turn, was made possible by the application of information technology. Carrying this line of argument a bit further, it is legitimate to argue that without the contribution made by a large number of people brought in from countries such as India, which had an abundant supply of trained workers, the IT sector in America would not have grown as rapidly as it did, and would not have made the recognised contribution to productivity increases. Migration from the developing world, in other words, proved greatly beneficial for the United States.

Following this line of thinking, a number of developed countries had begun to formulate plans for importing people with appropriate skills from labour surplus countries in the developing world. The United States took the lead by putting into place several programmes for facilitating the flow of migrants from developing countries that had a surplus of workers with needed skills. Several other developed countries—Germany, Japan, and UK among them—followed the example set by the United States. However, the terrorists' attack on 11 September 2001 dramatically changed the environment. Once again, the United States took the lead as it began to tighten the controls on immigration. Other developed countries followed. However, '11 September' happened while the American economy was in recession. The technology sector had seen its bubble burst and thousands of enterprises that had created an almost insatiable demand

for skilled foreign workers went out of business. Suddenly, the demand for imported labour evaporated. Will this situation change as the American, European and Japanese economies begin to recover?

'11 September' notwithstanding, the dynamics embedded in the phenomenon of demographic asymmetry will remain. As the economies of the developed world gain in strength, the demand for skilled workers will inevitably increase. It can only be fully met through migration. If

migration is inhibited, because of concerns pertaining to homeland security, economies will suffer. A choice will have to be made by policy-makers in these countries, whether they wish to continue importing a large number of people from the developing world or prepared to tolerate economic stagnation—or, at best, a very low rate of economic growth—in order to preserve their cultures and ensure a modicum of security for their citizens.

Towards Growth with Employment and Human Development

'What we need today is to combine the creative energies unleashed by capitalism with the social objectives of human development. In such a pragmatic combination of efficiency and equity lies the viability of future models of development.'

Mahbub ul Haq¹

Growth in itself might not lead to people's welfare unless the pattern of growth, its character and distribution were focused on their impact on the majority of people

Since the first report of this Centre, published in 1997, we have been consistently advocating for people-centred development policies. So in this concluding chapter, as well as throughout this report, we have built on our previous analyses and policy prescriptions, with a particular focus on the employment challenge in South Asia.

The founder of this Centre, Dr Mahbub ul Haq, kept reminding policy makers that growth in itself might not lead to people's welfare unless the pattern of growth, its character and distribution were focused on impacting the majority of people. For sustainable and equitable economic growth, a link between growth and human lives has to be created consciously through deliberate public policy, as this link may not exist in the automatic working of the markets in societies with unequal distribution of income, assets, and political and economic power. This is particularly true in the context of South Asia where half the population (in four large countries) is illiterate and one-third lives in poverty.

Economic growth has the potential to generate employment if the growth takes place as a result of increased investment in both private and public sectors, is based on labour-intensive patterns of production, is focused on agriculture and rural areas where most of the South Asians live and work, and if it uses the potential of all the labour force including women and other minority groups. In

short, economic growth, to be employment generating, has to be concerned with equity between men and women, urban and rural areas, and between workers in the formal as well as informal sectors. South Asia fails to fulfil these conditions on several counts:

- Public expenditure is being curtailed, especially in the sectors that provide employment to the majority of people who are engaged in the informal sector, in small-scale manufacturing and services. Public investment in critical infrastructure development, essential for promoting private investment, is being curtailed.
- Private sector has yet to fill up the employment vacuum left by the shrinking public sector. Private sector—guided by profit motive—cannot be relied upon to promote employment in order to attain social objectives.
- Growth in South Asia has often been accompanied by greater use of labour-displacing technology, the pattern of development that is not determined by domestic resource endowment. This technology choice has improved the productivity of a narrow range of workers in the highly-skilled upper end of the employment ladder.
- The systems of education and training have not improved the capability of the majority of the population in South Asia. Education system has also failed to prepare workers for the competitive job market in a globalised world. In addition there is a large disparity between educational attainments of female and male students.
- South Asian economies work under conditions of surplus labour where underemployment, unpaid family

labour and informal sector dominate. Under these conditions, economic growth may take place without improving the volume and conditions of employment.

Our analysis has shown that the economic policies pursued in the region during the last decade and a half have increased income inequality between urban and rural areas and between different income groups within these regions. Across the region, employment growth has not kept pace with the population growth. In most countries, there has been stagnation or increase in the levels of poverty. There has also been a relative decline in the growth of manufacturing, especially in the small-scale sector, except in Sri Lanka. Low-productivity agriculture and service sectors have become the last resort for the unemployed and underemployed. Finally, in all the countries, the quality of employment appears to have deteriorated, with an increase in casual and part-time work.

By analysing the experiences of 69 countries, UNDP *Human Development Report* of 1996 came to the conclusion that growth in employment opportunities is strongly correlated with both GDP growth and improvement in human development. A one percentage point increase in the average annual GDP per capita growth rate was associated with an increase of 0.18 percentage point in the employment growth rate. Similarly, a one percentage point reduction in HDI (i.e., improvement in human development) was associated with a 0.09 percentage point increase in the growth rate of employment opportunities. These results showed that the expansion of employment opportunities depends on economic growth and improvement of human capabilities.²

But income growth does not automatically translate into employment opportunities, as we have mentioned earlier. Supportive policies, both national and international, are essential to making

this happen. These policies should not only include those that seek to improve productivity through quality education and skill training, but also those that work towards creating an enabling macro-economic and trade environment.

Improvements in productivity are necessary for growth in GDP and wages. But productivity increase due to adoption of new technology will adversely impact on low skilled employment. Productivity could also rise by eliminating low productivity jobs—such gains come at the expense of employment, as is often the case with IMF stabilisation policies. But the policies in some developing countries, such as in China and South Korea, have shown that high growth rates of over three per cent, and a growth pattern promoting sectors with high employment potential, can both create jobs as well as improve productivity. This strategy works even better when it is combined with rapid improvement in the skills of people.

The report has analysed in detail the impact of South Asia's economic policies, especially policies of trade and financial liberalisation, in the context of the huge backlog of unemployed and underemployed labour force, and the slowdown of global economy. In this chapter, we also explore some policy imperatives that are critical in making employment the main vehicle for equitable and sustainable economic growth with commensurate poverty reduction. The challenge is to develop policies and strategies that would make employment generation an explicit concern and outcome of the economic development process. This would require a rethinking of macroeconomic policies of the recent past towards more active state interventions in supporting labour-intensive growth pattern. As we keep on reminding our readers, the human development agenda is a progressive one. It calls for effective government intervention to address the issues of growth, employment generation and poverty reduction. Thus we assert that there is an urgent need in South Asia for a comprehensive macroeconomic, trade

Effective government interventions are needed to address the issues of growth, employment generation and poverty reduction

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and social development framework that recognises the crucial role of governments in promoting pro-poor economic growth and job-creating infrastructure development. We believe that the policies for growth combined with employment generation and human development should be based on at least five principles. These are:

- i) Employment-intensive growth pattern
- ii) Improved programmes of education and skill training
- iii) Reduction of gender gaps in education, skill training and employment
- iv) Protection of workers' rights, including the rights of workers in informal sector and EPZs, and
- v) Equitable trade policies—developing countries should be enabled to earn their way out of poverty.

Employment-intensive growth pattern

The pattern of economic growth followed in South Asia in the 1990s had depended on the reduction of public investment and had expected private investment to increase as a result of deregulation, privatisation and financial incentives provided to the private sector. However, while the implementation of these policies has raised economic growth, it has failed to reduce unemployment and underemployment despite increased employment opportunities in sectors such as ICT and EPZs. All the governments in the region now recognise that employment generation has been a major failure of the economic policies pursued so far. Increasing employment generation is now an explicit concern in most policy documents in South Asia. Yet these policy documents still continue to focus on further privatisation, deregulation and reduction of fiscal deficits, the policies that have so far failed to link growth with employment. South Asian countries needed to implement economic reform

programmes. But the question is, should not these reform programmes be more concerned with job creation and poverty reduction?

To raise economic growth with employment is not an impossible task. Some of the East Asian countries have done it with success. For example, China in the 1980s adopted an export-led growth strategy that led to an annual increase in urban employment by 3.5 per cent and rural employment by 2.5 per cent. As a result of liberalisation, much of the urban employment happened in the private sector; in the rural areas, expansion of townships and village enterprises provided the bulk of new jobs. The phenomenal increase in both output and employment in China in the 1980s was due to a policy of promoting labour-intensive manufacturing industries. The government played an active role in helping workers to develop skills for employment in these sectors.³

In order to link economic growth to job creation, South Asia needs to focus on five critical areas:

- a) *INCREASE EMPLOYMENT-INTENSIVE PUBLIC INVESTMENT PROGRAMMES*: When the world economy is experiencing a slowdown, it is important at this stage not to get obsessed with reduction of budget deficit. Even in the USA, the focus these days is on providing incentives to generate growth and employment. Unless more jobs are created, there will not be an adequate demand for goods produced. In South Asia, reduction of budget deficits should not lead to reduction of productive public investment. Also, deficit reduction should not be at the expense of infrastructure needs of agriculture and rural development, and social sector programmes such as education and health. But most governments find it easier to cut these expenditures first instead of tackling the more important task of cutting the non-development

expenditure such as on military and also by increasing tax revenue by combating corruption.

b) *REVITALISE AGRICULTURE WITH FOCUS ON SMALL FARMER*: Since agriculture remains the most important employer in South Asia, the impact of trade liberalisation on agriculture has been particularly negative on rural employment. Because of under-employment and unpaid family labour, open unemployment may not have increased much across the region. Yet the rise in the absolute number of people in poverty in South Asia shows the magnitude of human deprivation in the region. In *Human Development in South Asia 2002*, we argued that the long-term goals of agricultural growth and rural development, with employment generation and poverty alleviation, could only be achieved by improving agricultural productivity through increased investments in research by protecting livelihood and food security through employment generation, and by revitalising rural development. To improve the ability of the agricultural sector to provide livelihoods, the specific measures suggested in that report include:

- (i) continuing, and even expanding, some degree of price support operations to ensure stable output prices for the cultivators of important crops
- (ii) expansion of public agricultural extension activities, which have declined in all countries
- (iii) variable tariff on agricultural output, to smoothen the volatility of world prices for domestic cultivators
- (iv) reversing the policy of cutting subsidies to small farmers, and
- (v) protecting the rights of small farmers in international trade negotiations.

c) *PROTECT SMALL PRODUCERS OF MANUFACTURED GOODS FROM ADVERSE EFFECTS OF TRADE LIBERALISATION*: Trade liberalisation policies have led to an expansion in exports in certain sectors of each South Asian country. But these have also led to a net loss of employment because of the effects of import competition on domestic producers, especially employment-intensive small-scale producers. It is imperative to counter some of the adverse effects of trade liberalisation on employment. Governments need to take some special measures, including providing marketing assistance and some degree of protection, for small-scale producers competing with large multinational producers; and ensure adequate infrastructure facilities, especially for small producers. It is possible to use the existing WTO provisions in order to ensure some degree of protection to industries that are considered important from the employment perspective.

d) *REVIVE DIRECTED CREDIT TO SMALL-SCALE PRODUCERS*: Government-sponsored directed credit to encourage industrial and agricultural development in the early years of independent South Asia, has created the foundation of today's South Asian economic structure. But that system of directed credit failed to perform either efficiently or equitably; banks were burdened with non-performing loans, and most of the credit went to influential people. But the current financial liberalisation has had a negative impact on the employment generation potential of agriculture and small-scale producers in manufacturing and services. In this context, it is important to revive the system of directed credit, which has been reduced or removed across the region, in order to ensure the viability of small-scale producers, who are

Governments should provide some special measures, including marketing assistance and some degree of protection, for small-scale producers competing with large multinational producers

South Asia's workers not only need jobs, they need minimum access to health, nutrition and drinking water, as well as an enabling socio-political environment to exercise their human rights

unable to access other capital markets for finance.

- e) *PROTECT SOCIAL SECTOR BUDGET FROM CUTS*: The South Asian countries are implementing fiscal policies without restructuring the pattern of expenditure that is heavy on military and other non-development expenditure. Even in the 1990s, when the expenditure on social services was being reduced, overall public expenditure continued to be high. And that trend continues today.

Improved programme of education and skill training

Education and skill-training is the most important component of human development. Knowledge and technology rule today's global economy. Despite India's success in providing highly-skilled ICT professionals within and outside the country, South Asia, as a region, produces very few people with technical skills to produce goods and services of good quality and productivity to compete in the global market place. The region needs to improve both the quantity and quality of education at each level, from primary, secondary, to tertiary levels. This is critical for adapting to the changing needs of a globalised economy.

To improve productivity and wages of all workers, a sustained investment in skill improvement in new technologies is essential. Creation of employment-intensive industries has to be matched by improvement in productivity and technology. The South Asian countries need to upgrade the skills of their workers, as well as shift the composition of output from low-skilled to skill-intensive products. This means that much more needs to be done at the technical and professional levels. This is where the private sector could most fruitfully contribute.

The policies for education, research and development, and industrial policies

should be matched to lead to employment-intensive growth pattern. The successful East Asian economies have combined economic growth policies with employment generation by linking education and training to industrial and agricultural development policies. These countries invested heavily on the development of human capabilities—from primary and secondary education to technical skill development, to research and development and in-service training by adequate financial allocation to these programmes (see box 6.1). Drawing on that experience, we have suggested some policies for promoting education and training for employment in chapter 6. But here we would like to underscore the point that the South Asian countries need to invest beyond education and training in other components of human development, which are just as important for building a healthy and productive labour force. South Asia's workers not only need jobs, they need minimum access to health, nutrition and drinking water, as well as an enabling socio-political environment to exercise their human rights.

Reduction of gender gaps in education, skill-training and employment

After four world conferences on women, fraught with ideas and recommendations, but lacking in action, women in today's world still remain greatly disadvantaged compared to men in many areas, particularly those which would give them economic independence and social status. This is truer for the developing than the developed world, and in South Asia, it is imbedded in the patriarchal structure of societies. *Human Development in South Asia 2000* focused on this issue. The report identified four areas as most critical for achieving equality of South Asian women with men. These are:

- a) building women's capabilities through closing gender gaps in education and training

- b) improving opportunities for women to earn income and to participate in decision-making
- c) ensuring legal justice to women; and
- d) strengthening institutional machinery to ensure implementation of gender empowerment policies.

Many of the policy imperatives suggested in that report are still relevant today. These are:

- There must be legislative action to improve women's economic opportunities at least on three fronts:
 - a) to abolish discriminatory practices wherever and in whatever form they exist
 - b) to initiate and enforce legislation on minimum quota for women's public service jobs. The principle of affirmative action must be applied and practised here. It is no longer acceptable that the already existing minimum quota in some countries cannot be filled by women because they do not have required qualifications. As we have seen in this report, there are more educated women who are unemployed than uneducated ones, which means that discrimination against women is greater where qualifications are equal to or exceed that of males, and
 - c) international commitments to protect women's rights must be honoured, including the rights of the informal sector workers.
 - Minimum wage level, the same for women and men, must be established and enforced in the formal as well informal and agricultural sectors.
 - Job creation for women must be made a priority for poverty alleviation and for agricultural and rural development.

- Women's capability must be enhanced through provision of quality education and training. Women must be enabled to move out of gender-segregated occupations. The increased involvement of women in the IT sector, in India particularly, shows that this could be done with proper education and training programmes.
- Micro credit facilities in South Asia have been linked to women's economic and social empowerment. All the countries are now providing micro credit through both public and non-governmental agencies. Women form the largest number of borrowers. What is needed is to make these more effective vehicles for income and job creation.

The overall goal of both economic policy and social policy should be to create more productive employment for both women and men. As long as employment conditions remain adverse in the aggregate, social policy cannot achieve very much. This is where a paradigm shift in the current economic orthodoxy is required. The goals of poverty reduction, human development and women's empowerment cannot be achieved in any framework that bypasses the majority of South Asian people.

Protection of workers' rights

We have argued in this report that both the volume of employment and the conditions of employment are determined by factors other than labour market policies themselves. In fact, policies that are addressed specifically to the labour market alone can be irrelevant or even counterproductive if the macroeconomic and trade policies generate opposing tendencies. For example, if the demand for labour is low because the economy is operating in an unemployment

The goals of poverty reduction with human development and women's empowerment cannot be achieved in the framework that bypasses the majority of South Asia's people

A central policy issue is that of striking the right balance between the concerns of economic efficiency and social equity

equilibrium with unutilised capacity, or because of the pattern of technology used for enhancing competitiveness, then new employment generation will depend on the economic policies which address these issues directly. Similarly, attempts to improve labour's bargaining position only through legislation are likely to be much less effective in contexts of labour surplus and low demand, in which individual employers do not see additional profits to be gained through increased employment. Yet there is a tendency among South Asian policy makers to attempt to deal with macroeconomic employment outcomes through microeconomic changes, including changes in legislation which effectively reduce the rights of workers.

A central policy issue is that of striking the right balance between the concerns of economic efficiency and social equity. A fundamental principle that should guide the policy makers is the strict respect for the maintenance of basic levels of social welfare and labour standards. This principle should not be seen as a hindrance to economic efficiency but rather as upholding of workers' basic rights.

In South Asia, the ratification of ILO core labour standards, particularly of the eight core ILO Conventions, has been very low. Sri Lanka is the only country that has ratified all eight Conventions. Pakistan and Bangladesh have ratified seven, Nepal has ratified six and India has ratified four. But mere ratification does not automatically mean that the rights of workers will be protected in a country. The enforcement of the ratified laws has not been the top priority of governments. The laws regarding freedom of association and collective bargaining apply only to 10 per cent of workers who are in the formal, organised sector. The other 90 per cent of South Asian workers in the informal sector and in the export-processing zones are outside these legal protections (except workers in EPZs in India). Also, whenever there is a discrepancy between national laws and

international conventions, national laws prevail. Laws against forced labour, child labour and gender discrimination are violated every day in South Asian countries. It is the civil societies in South Asia that work on behalf of these victims against the violators.

On the basis of our analysis in chapter 7, we have come to the conclusion that South Asian governments must play a much more effective role in ratifying all the core ILO Conventions and ensure their implementation. Several initiatives by civil society and governments under the regional umbrella (SAARC) have been addressing these issues, particularly of forced labour, child labour and trafficking of girls. Yet it is true that unless alternative approaches are found to provide sustaining wages to adults with provision of social services, such as education, health and food security, no amount of legislation would solve the problem of child labour and other forms of exploitation. Civilised societies can only survive if they provide acceptable levels of social security and human rights to their people.

Equitable trade policies

Globalisation, through movement of goods, services, people and information across national boundaries, has resulted in the opening up of economies and societies. But this process has not been accompanied by a corresponding reduction of poverty or improvement in human security. Trade liberalisation has increased free movement of capital, and while information and communication are getting freer, movement of labour is restricted. Trade, especially of goods of particular interest to developing countries, is not fully liberalised. In South Asia, during the period of rapid globalisation, poverty has risen in some countries or remained unchanged in others, leading to an increase in the absolute number of people in poverty, which now stands at about half a billion. The benefits of economic growth that have taken place

in South Asia, have been enjoyed by a small minority of urban educated class.

For macroeconomic policy, this means much more than just promoting economic growth. Employment generation must be built into the macro and micro policies across the board in agricultural, industrial and trade policies. In the area of trade, South Asia is facing a very inequitable implementation of WTO rules.

Developing countries had expected to gain from WTO rules in three key areas: agriculture, textiles and services. Under the Agreement of Agriculture (AoA), agriculture was brought under the purview of multilateral trading system. The objective of the Agreement on Textiles and Clothing (ATC) was to phase quota-based regime of Multi Fiber Arrangement (MFA), and integrate textiles and clothing within the general WTO rules. The General Agreement on Trade in Services (GATS) was considered as a first step towards the eventual liberalisation of trade in services.

It was expected that, as a result of AoA and ATC, increased market access for agricultural produce and textile and clothing goods from developing countries would allow these countries to take advantages of cheap labour to increase exports. Also, as GATS covers a huge range of services, including export of skilled and unskilled labour, developing countries with abundant supply of unskilled labour would benefit from such a system. But these expectations were not borne out in reality as developed countries continued with their high levels of agricultural subsidies, plus tariff and non-tariff barriers and quotas against developing countries' labour-intensive manufactured goods. There has also not been any meaningful liberalisation in the services sector that would have helped in the export of low-skilled labour from developing to developed countries. The demographic asymmetry between developed and developing countries might eventually lead to such migration of people as we have explored in

chapter 8. But at the moment, the tendency seems to be to restrict such movement in light of the current security concerns of developed countries.

South Asia's employment problems have been exacerbated by the WTO rules. There has not been any meaningful access in the key areas where they have a comparative advantage, such as textiles and agriculture. Services have been liberalised in sectors of primary interest to developed countries, for example, in telecommunication and financial services. So far, the positive impact of AoA, ATC and GATS upon the developing economics of South Asia has been significantly less than expected.

- Impact on agriculture: OECD subsidies to their agricultural sector in 1998-2001 have increased by about 9 per cent over the 1986-88 level. AoA rules to reduce subsidy by 36 per cent has not been enforced in developed countries. As a matter of fact, the recent meeting (September 2003) in Cancun, Mexico, ended without any decision on this topic. As a result, commodity prices are on a steady decline. For small and marginal farmers, who are in majority in South Asia, crop diversification is not an option, as they do not have capital and technology to move out of their traditional crops. And, of course, food security is their main concern.
- Impact of ATC: A review of ATC implementation shows that the integration programmes of the US, EU and Canada have not been implemented in keeping with the objective of progressive elimination of quota restrictions. Even with the implementation of stage programmes, the large bulk of quota carried over from MFA will remain in place (see chapter 4). Also, even after the phasing out of quota in 2005 (2008 for Bangladesh), significant trade barriers would still remain in developed countries on their imports of textiles and clothing. There are also various

South Asia's employment problems have been exacerbated by WTO rules

WTO should become a fair institution for ensuring food and employment security

disguised trade barriers (anti-dumping, rules of origin etc.) imposed on developing countries' manufactured goods. A significant portion of manufacturing output is produced by small and medium-sized enterprises in the informal and semi-formal sectors. These units are characterised by low labour and factor productivity. In a competitive trading environment, these get hit the hardest, causing unemployment and poverty.

- Till now, GATS has not been successful in liberalising trade in services, especially in export of services of low-skilled workers. Several impediments stand in the way, including unfulfilled commitments of developed countries and various other conditions and limitations to free trade in services.

The implementation of AoA, ATC and GATS is extremely important for South Asia's growth and employment. The results of the recently held WTO meeting in Cancun clearly show that to expect equity in an international economic system, dominated by powerful countries, is not realistic in the near future. The Doha round of trade negotiations is not going to be completed by the WTO deadline of January 2005 for reaching agreement on eliminating global trade barriers. The World Bank estimates that a new round of market opening would raise global output between \$290 billion and \$520 billion, and lift some 144 million people out of poverty by 2015. An IMF paper shows that ending agricultural protectionism alone would add \$100 billion to global growth.⁴ Yet powerful interests have stood in the way of the realisation of these opportunities.

The farmers in South Asia will continue to suffer as a result of the huge farm subsidies in developed countries that could not be resolved at Cancun. Of course, the extent of suffering will depend on the policies of governments. For example, the farmers in Pakistan are more likely to suffer than those of other South

Asian countries, since most of the agricultural subsidies in Pakistan have been drastically reduced as a result of IMF pressure.⁵

The days of mutuality of interests between developed and developing countries are gone. And ethics have never played a big role in international commerce. Yet, for the developing countries, WTO is their only hope. Thus it is incumbent on the WTO not to force unfair rules on the developing countries. The WTO should become a fair institution for ensuring food and employment security. WTO must ensure that trade helps to create—not destroy—jobs, and that the South Asian countries are allowed to protect the livelihoods of their poor from the cheaper, and highly subsidised, imports from the developed countries. In short, the WTO must ensure that trade is rooted in the principles of equity and fair play among nations.

* * *

The analysis in the report leads to three main conclusions about the South Asian employment challenge:

- i) The persistent inability of the workplace to absorb workers productively can be attributed to the failure of governments in the region. This has happened on two important accounts. First, the governments did not adopt job creation as an explicit policy commitment. And, second, the governments failed to improve the human development condition of the majority of people.
- ii) Another failure has been on the part of multilateral organisations working in the region. We contend that their efforts for improving the livelihoods of South Asians were often not backed by adequate financial resources, and their overall country development policy framework focused more on GDP growth and balancing budgets rather than reduction of poverty.

iii) Finally, some blame for the persistent problems of unemployment and underemployment in the developing world has to be placed at the door of the developed world. The rich countries have failed in their promises of assisting development in

the poorer countries. They have not delivered on their global commitment to allocate 0.7 per cent of their budgets for providing assistance to developing countries, and have not encouraged true liberalisation of the world economy.

Notes

Chapter 1

- 1 This chapter is contributed by Shahid Javed Burki.
- 2 MHHDC 1999, p. 28.
- 3 MHHDC 1998, p. 2.
- 4 MHHDC 2000, p. 3.
- 5 Hurt 2003, p. 4.
- 6 Watkins 2003, p. 12.

Chapter 2

- 1 Calculated as weighed average of South Asian countries for the year 1995 from ILO sources.
- 2 ILO 2003a.
- 3 Ibid.
- 4 Unemployment rates are in usual status. Source: Bahandari et al. 2003
- 5 See for example ILO 2001h, 2003a.
- 6 Visaria 1998.
- 7 Majid 2001.

Chapter 3

- 1 Edited version of a paper prepared by Jayati Ghosh for this report.
- 2 See, inter alia, Serven and Solimano 1994 and UNCTAD 1998c.
- 3 It has further been argued Ghosh 2002b. that broader aspects of what is now called social policy can also serve the important purpose of social legitimisation of macroeconomic strategies and processes within developing countries.
- 4 The implications of such a process for economic conditions facing women workers is considered in Ghosh 2001a, b.
- 5 Of course, it has been argued that this can represent a positive diversification of consumption away from food grain that is associated with higher living standards. But it is usually the case that aggregate food grain consumption does not decline because of indirect consumption of grain (for example, through meat and poultry products that require feed). In any case, the overall decline in calorific consumption (covering all food products) suggests that the optimistic conclusion may not be valid.
- 6 Easterly 2001.
- 7 UNDP 2003.
- 8 Majid 2000.

- 9 Ibid.
- 10 Anwar 2001.
- 11 Muqtada 2003.
- 12 Centre for Policy Development 2001.
- 13 World Bank 2002b, p. 10.
- 14 GOS 2002b, p. 4.
- 15 GEFONT 2001.
- 16 Prensushi 1999.
- 17 NASSCOM 1999.
- 18 Chandrasekhar 2000.
- 19 Probe Team 1999.
- 20 Chandrasekhar 2000.
- 21 Vijaybhaskar et al. 2000.

Chapter 4

- 1 Based on background paper prepared by Parthapratim Pal.
- 2 Sri Lanka had a historically high trade/GDP ratio because of the importance of plantation crops such as tea, coffee and rubber in its economy.
- 3 WTO 2001e, p. 16.
- 4 ILO 2003a.
- 5 ADB 2003b.
- 6 World Bank 1995.
- 7 WTO 2001a.
- 8 Ghose 2000.
- 9 See, for example, Krugman 1994; Rodrik 2000; and Stiglitz 2002.
- 10 However, as Dev 2000 argues the landless labourers gain only if real wages increase. But empirical research on South Asian countries show that typically wages rise only with a lag of say two or three years. It may also happen that real wages do not increase.
- 11 Bhattacharyya and Parthapratim 2000.
- 12 Patnaik 2003.
- 13 See India's notification to WTO, in WTO 2001b.
- 14 See the recent US Farm Bill. Also the French President has obtained a commitment to increase farm spending at the EU Summit in October 2002.
- 15 Gibson et al. 2001.
- 16 WTO 2000b.
- 17 Data on Bangladesh, India and Pakistan are from WTO Trade Policy Review of those countries. Sri Lanka's data are from GOS 2000.
- 18 WTO 2001d.
- 19 For a more detailed analysis of implementation problems of ATC, see WTO 2001c,d.
- 20 Kheir El-Din 2002.

- 21 WTO 2002.
- 22 Bhattacharya 2003.
- 23 According to Spinanger 1998, in developed countries, tariff rates on textile and clothing products are about three to five times higher than tariffs on industrial goods.
- 24 Srinivasan 2002.
- 25 India has recently lost a case in the WTO Dispute Settlement Body (DSB), challenging the WTO consistency of US Rules of Origin Policy. The panel found that India had failed to establish that the US measures are inconsistent with the WTO Agreement on Rules of Origin.
- 26 WTO 2000a.
- 27 Chandrasekhar and Ghosh 2002a.
- 28 Bacchetta and Bora 2003.
- 29 WTO 2000c, p. 3.
- 30 In some countries like India, some sectors were even protected from competition from domestic big industries. This was done by imposing maximum possible investment limits per firm in certain industries.
- 31 ILO 2003a, reports that more than 90 per cent of labour force work in informal sector in India and Nepal. In Pakistan, two-third of those involved in non-agricultural sector are in informal economy.
- 32 Nambiar et. al. 1999.
- 33 World Bank 2000.
- 34 See www.nasscom.org for recent figures

Chapter 5

- 1 ILO 2002g.
- 2 There is an inconsistency between the increase in the overall rate of informal sector in South Asia and the decrease in informal sector employment in individual countries. Although self-employment in non-agricultural sector has increased for the region, it has decreased for India and Pakistan and increased only for Bangladesh. Informal sector employment has also increased for Iran, which was included in the South Asian countries.
- 3 Mehrotra, S. and M. Biggeri 2002.
- 4 Coir fibre industry is characterised by two distinct components. In traditional and labour intensive white coir industry more than 60 per cent of the employed are women while in modern, mechanised and export oriented brown coir fibre industry, only ten per cent of the employed are women. The inconsistency between data in the text (60-90 per cent) and data in the box (ten per cent) for Sri Lanka arises due to this reason.
- 5 UNDP 2003.
- 6 Discussion in this section has benefited from Ghosh, J. 2003b.
- 7 Pant, D. and D. Pradhan 2002.

- 8 Ghosh, J. 2003b.
- 9 Studies are cited in Ghosh, J. 2003b.

Chapter 6

- 1 See table 5 of Human Development Indicators for South Asia.
- 2 See tables 3, and 5 of Human Development Indicators for South Asia.
- 3 ESCAP 2001.
- 4 Richards 2002.
- 5 Tessaring 1990
- 6 Rehman 1997.
- 7 Richards 2002.
- 8 UNESCO 1995.
- 9 Tan 1993.
- 10 Masri 1999.
- 11 Johnson 2000.
- 12 Robinson 1999.
- 13 IAMR 2001.
- 14 ILO 1999b.
- 15 Indiamart 2003.
- 16 GOI 2002a.
- 17 Sharma 2000.
- 18 Majid 2000.
- 19 Ghose 1997.
- 20 Alam 1988.
- 21 Research by HDC staff.
- 22 Almas 1998.
- 23 SME India 2003.
- 24 Richards 2002.
- 25 EU 2000.
- 26 NBIA 2003.
- 27 World Bank 2001.
- 28 UN 1994.
- 29 UNDP 1998.
- 30 Entrepreneurship Development Institute 2003.
- 31 Wolcott and Goodman 2002.
- 32 ADBI 2001.
- 33 Skyte 2000.
- 34 Rajghatta 2001.

Chapter 7

- 1 CEACR examines the country reports on the ratified and/or selected unratified conventions of the individual governments since 1927. The committee consists of 20 independent persons specialised in the field from all parts of the world. The members meet each year and prepare a report for each government. If a government is not fully applying a ratification, the Committee addresses a comment to the government in the form of observation or direct request.
- 2 CCACR consists of more than 150 members from workers', employers' and governments representatives. CCACR examines and discusses the report of CEACR and other

- individual cases. The Committee may ask governments to make a statement to the conference committee or to submit a written statement, if they do not fully apply a ratified convention.
- 3 Conventions are international treaties creating obligations for the countries, regardless of their economic or social status, that ratify them. By ratification countries agree to apply its provisions and embrace the international supervision. On the other hand, Recommendations do not create obligations but rather provide guidelines for action and they are usually dealing with the same subjects as Conventions. They are not subject to ratification and are developed “to help provide direction for national policy and action in the hope that international practice will develop and thus allow the consideration and adoption of a Convention to follow”.
Conventions are adopted within an institutional framework by the two-thirds majority of the voters i.e. representatives of the governments, employers and workers. Some of them may include flexibility clauses that can be seen in the form of option to choose the extent of the obligation, scope or the methods of the action. Source: ILO 2003b and TSSA 2000.
 - 4 The Declaration is an addendum for the ILO standards. By adopting a Declaration the members recognise and reassure their obligation to work towards achieving the specific goals mentioned in the ILO Constitution. Adopting of a Declaration also binds ILO to provide assistance to member countries to achieve the goals.
 - 5 Anant et al. 1999.
 - 6 With regard to the core labour standards, India and Pakistan have two common inherited Acts, namely, Trade Unions Act of 1926 and the Industrial Disputes Act of 1947, regulating the trade unions and the system of collective bargaining. Children (Pledging of Labour) Act of 1933 is common in all the three countries (Pakistan, Bangladesh and India). The Employment of Children Act, 1938 is common to Bangladesh and India, and the Industrial Relations Ordinance of 1969 is common to Bangladesh and Pakistan. Anant et al. 1999 and ILO 2003n.
 - 7 ILO 2000d, p25.
 - 8 Ibid.
 - 9 ICFTU 2002a.
 - 10 The Act provides for the registration of trade unions and defines the registration procedures, rights and liabilities of registered trade unions, power to make regulations, and penalties and procedures.
 - 11 ICFTU 2002a.
 - 12 Ibid.
 - 13 Ibid.
 - 14 This created an open window for the misuse of the legislation in some states. For example, in Gujarat 450 teachers were arrested and told to return their duty.
 - 15 ICFTU 2003a.
 - 16 Anant et al. 1999.
 - 17 ICFTU 2003a.
 - 18 ILO 2003n.
 - 19 Ibid.
 - 20 Anant et al. 1999
 - 21 Generalised system of Preferences (GSP) is one of the two commercial programmes offering concessions in tariff's paid to its trade partners. Specific products from developing countries may enter U.S. duty free under this programme. However, it is conditioned upon the observance of internationally recognised core labour standards in their respective labour markets.
 - 22 Sinha 2003.
 - 23 ICFTU 2002a.
 - 24 ICFTU 2002b.
 - 25 Ibid.
 - 26 ILO 2003e.
 - 27 Global Unions, World Confederation of Labour and European Trade Unions Confederation 2002.
 - 28 ILO 2001f.
 - 29 Ibid.
 - 30 ILO 2003g
 - 31 Ibid.
 - 32 Erclawn and Nauman 2001.
 - 33 Ibid.
 - 34 Soomro 2002a,b.
 - 35 ILO 2003h.
 - 36 ICFTU 2003b.
 - 37 ILO 2002d.
 - 38 ILO 2002c, d. Since this age group is above the minimum age for entry into employment, they are necessarily involved in worst forms of child labour.
 - 39 Hazardous sectors are railways, carpet weaving, cement manufacturing, building and construction, cloth printing, dyeing and weaving, matches, explosives and fire works, cigarette making, printing and soldering processes in electronics industries. ICFTU 2002a.
 - 40 The main sectors using child labour are agriculture, hand knotted carpets, gem stone polishing, brass and base metal articles, glass and glassware, footwear, textiles, fireworks, bidi, cigarettes, domestic service and sporting goods.
 - 41 ICFTU 2002a.
 - 42 Inherited from the British Colonial Rule.
 - 43 Inherited from the British Colonial Rule.
 - 44 Inherited from the British Colonial Rule.
 - 45 According to Chapter 8, Rule 83 of the Factories Rules, 1979, hazardous operations considered as worst forms of child labour are glass manufacturing; grinding or glazing of

metals; generation of gas from dangerous petroleum; tanning of raw hides; compressed hydrogen or oxygen; manufacture of chromic acid; potassium; sodium operations; etc. Similarly, Employment of Children Act, 1938, lists the hazardous operations as bidi-making, carpet-weaving, cement manufacture, including bagging of cement, cloth-printing; dying and weaving, manufacture of matches, explosives and fireworks, mica-cutting and splitting, shellac manufacture, soap manufacture, tanning and wool cleaning.

46 ILO 2003r.

47 Gilligan 2003.

48 Harkin Bill emerged in 1992 in U.S. Congress. It suggested the prohibition of the imports of specific goods produced in other countries with the use of child labour.

49 Dogar 2001; Vahapassi 2001.

50 Hilowitz 1997.

51 World Bank 2000.

52 ILO 2003k.

53 Ibid.

54 Ibid.

Chapter 8

1 This chapter draws heavily on the work done by Shahid Javed Burki as a part of his ongoing work on Asymmetric Demographic Development. Some of the work was sponsored by the Inter-American Development Bank, Inter-American Dialogue, and Canadian International Development Agency. Burki continues to work in this area, and expect to publish more on this subject.

2 For an account of the way the American Jewish community has kept in touch with Israel see Silverman and Kaufman 2002.

3 The New York Times. 2002, p. A26.

4 Eberstadt 2001, pp. 42-53.

5 Detailed global population projections are available from a number of sources but perhaps the two most authoritative of these are the U.S. Bureau of Census and the United Nations Population Division. The Census Bureau's latest outlook is available online through its International Data Base. The United Nations Population Division projections are published biennially.

6 Lomborg 2001.

7 Bokestein and Diamantopoulou 2001, p. 17.

8 Leisman 2001, p. A3.

9 Coppel et al. 2001.

10 For a more detailed classification see Garson and Thoreau 1999.

11 Taylor 2000.

12 Merchant 2000, p. 7.

13 Finn 2000, pp. A1 & A10.

14 Finn 2002, pp. A1 & A11.

15 Ibid.

16 Ibid.

17 Ibid.

Chapter 9

1 Haq 1993.

2 UNDP 1996.

3 Ibid.

4 As quoted in World Bank 2003d.

5 Ahmad 2003.

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Note on Statistical Sources for Employment Tables

The special employment data for this report have been collected from various international sources. Principle international sources include the UN system, specifically the International Labour organization (ILO), UNDP and the World Bank. For instance, data on employment growth, unemployment and most of the indicators for employment has been collected from the ILO. Indicators for working age population, labour force, minimum wages, value added per worker in manufacturing and other employment data have been compiled mainly from the World Development Indicators of the World Bank.

Since comparability is limited for data obtained from regional international sources and that obtained from national sources, serious effort has been made to use international data wherever available. Even though data in international sources is not as current as the one available in national sources, preference was given to the former due to the nature of the data required. There is however, a scarcity of international and national data for both Bhutan and Maldives.

Extra care has been taken to ensure that the information provided in the tables is both reliable and consistent.

1. Summary of Key Employment Indicators

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)
Working age population								
(millions)								
– 1980	394.5	45.4	44.8	8.1	8.9	...	...	315.6T
– 2001	637.9	78.5	79.6	13.1	12.9	...	...	499.4T
Total labour force								
(millions)								
– 1980	299.5	29.3	40.3	7.1	5.4	...	...	239.8T
– 2001	460.5	53.5	79.6	11.0	8.3	...	...	362.5T
Average annual growth								
rate (%)								
– 1980-01	2.0	2.9	2.7	2.1	2.0	...	...	2.2
– 2001-10	1.8	3.2	2.2	2.4	1.7	...	...	2.0
Labour force participation								
rate (%)								
– 1980	68.9	50.2	80.8	74.8	58.4	77.0	79.8	68.3
– 1995	66.4	49.3	78.6	72.6	58.9	75.6	52.1	65.9
Female labour force participation								
(% of male)								
– 1995-2000	50.0	18.0	64.0	92.0	50.0	65.0	38.0	48.9
Unemployment								
rate (%)								
– 1990-01	7.3	7.8	3.3	1.1	8.2	1.4	2.0	6.8
Status in Employment								
(%) 1990-97								
– Wages and Salaried Workers	...	36.4	12.4	...	59.9	...	49.3	...
– Self-employed workers	...	43.2	29.6	...	29.6	...	39.7	...
– Contributing family workers	...	20.3	40.1	...	10.5	...	4.5	...

Source: Rows 1, 2, 3: World Bank 2003c; Rows 4, 5, 7: ILO 2001b; Row 6: ILO 2002h; ADB 2003d.

2. Growth and Employment

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)
GDP growth rate (%)								
– 1980-1990	5.7	6.3	4.3	4.6	4.0	...	...	5.6
– 1990-2001	5.9	3.7	4.3	4.9	5.0	...	...	5.5
Employment growth (%)								
– 1995-2001	1.0	3.2	1.6	5.9	2.4	...	4.2	1.4
Value added to GDP (%)								
Agriculture								
– 1990	31.0	26.0	29.0	52.0	26.0	...	...	30.5
– 2001	25.0	25.0	23.0	39.0	19.0	...	...	24.9
Industry								
– 1990	28.0	25.0	21.0	16.0	26.0	...	...	26.7
– 2001	26.0	23.0	25.0	22.0	27.0	...	...	25.5
Services								
– 1990	41.0	49.0	50.0	32.0	48.0	...	...	42.6
– 2001	48.0	52.0	52.0	39.0	54.0	...	...	48.7
Employment by sectors (%)								
Agriculture								
– 1990	69.5	52.7	72.6	93.8	45.9	94.4	49.3	68.2
– 1995-99	66.7	47.3	63.2	78.5	41.6	...	22.2	64.2
Industry								
– 1990	13.1	20.3	8.7	0.5	18.6	1.4	29.3	13.2
– 1995-99	23.9	17.1	9.6	5.5	22.5	...	23.9	21.4
Services								
– 1990	17.4	26.8	18.7	5.7	29.3	4.2	21.3	18.4
– 1995-99	1.0	3.2	1.6	5.9	2.4	...	4.2	1.4
Minimum wages (\$ per year)								
– 1995-99	408	600	492	...	...	...	...	437
Agriculture wage (\$ per year)								
– 1995-99	245.0	416.0	360.0	264.0	...	...	...	274.6
Value added per worker in manufacturing 1995-99								
– 1995-99	3118.0	...	...	3405.0	...	...	...	3124.5

Source: Rows 1, 3, 5, 6, 7: World Bank 2003c; Row 2: ILO 2003a; Row 4: ILO 2001b.

3. Gender Disparities in Employment

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)
Female working age population (aged 15-64) 2000								
– in millions	299.4	37.4	38.6	6.2	6.2	0.6	0.1	388.4T
– as % of total female population (%)	61.2	54.5	58.0	55.4	67.0	53.0	52.1	60.2
Female labour force as a % of total labour force								
– 2001	32.4	29.0	42.4	40.5	36.8	...	...	33.2
Female labour force participation rate 1995-2000*								
– as % of female working age population	43.5	15.4	57.2	85.0	41.6	59.6	28.6	42.7
– as % of male labour force participation rate	50.0	18.0	64.0	92.0	50.0	65.0	38.0	48.9
Female unemployment rate 1990-2000*								
– as % of female labour force	3.8 ^a	14.9	2.3	0.7	16.2	...	2.7	4.9
– female to male ratio	1.1	3.5	0.9	0.5	2.3	...	1.7	1.3
Employment in industries 1991-99*								
Female								
– Agriculture	77.7	66.3	77.5	90.5	48.8	...	...	76.2
– Industry	11.1	10.5	7.6	1.3	22.2	...	...	10.7
– Services	11.3	23.1	11.0	8.2	27.3	...	...	12.6
Men								
– Agriculture	57.6	40.7	54.4	74.9	37.7	...	...	55.5
– Industry	16.6	20.2	10.8	3.6	22.6	...	...	16.2
– Services	25.8	39.0	33.7	21.4	36.7	...	...	27.9
Employment status (%) 1995-2000*								
Female								
– Wages and salaried workers	...	33.1	8.7	7.7	67.6	...	...	23.0
– Self-employed workers	...	16.2	7.8	28.7	16.2	...	...	13.6
– Contributing family workers	...	50.1	77.3	63.4	16.2	...	...	60.3
Male								
– Wages and salaried workers	...	36.0	14.7	24.3	60.0	...	...	27.4
– Self-employed workers	...	47.3	43.0	52.0	34.3	...	...	44.7
– Contributing family workers	...	16.7	17.1	23.3	5.7	...	...	16.6
Women as professional and technical workers (as % of total)^b								
– 2001	...	26.0	25.0	...	49.0	...	40.0	...
Legislators, senior officials and managers (as % of total)^b								
– 2001	...	9.0	8.0	...	4.0	...	15.0	...
Self-employment of women in non-agricultural sector (as % of female employment in non-agricultural sector)								
	41.0	34.0	83.0	...	...	...	...	...
Female estimated earned income as a % of male (PPP US\$)								
– 2001	37.6	32.2	56.4	59.6	50.0	...	59.6	39.5

Note: *Latest available year: a: 1993-94 current weekly status; b: Data refer to the most recent available year available during 1992-2002.

Source: Row 1: UN 2001b; Row 2: World Bank 2003c; Row 3: ILO 2001b, c; Row 4: Anant *et al.* 1999, ILO 2001b, c; Row 5: ILO 2001b, c. Unni 2000; Row 6: GON 2001, GOP 2001a, ILO 2001b, c; Rows 7, 9: UNDP 2003, Row 8: ILO 2002g.

4. Education and Employment

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)
Public expenditure on education (as % of GDP)								
– 1998-00	4.1	1.8	2.5	3.7	3.1	5.2	3.9	3.7
Public expenditure on education by level (as % of all levels) 1998-00								
– Pre & Primary level	39.4	51.8 ^a	46.7	60.0	...	26.9	...	96.5
– Secondary level	40.5	27.9 ^a	43.0	24.6	74.8 ^a	47.9	...	137.8
– Tertiary level	20	13 ^a	10	12	9.3 ^a	20	...	58.2
Average years of schooling (15+)								
– 1990	4.1	4.2	2.2	1.6	6.1	...	...	3.8
– 2000	5.1	3.9	2.6	2.4	6.9	...	...	4.7
Adult literacy rate (% age 15+)								
– 2001	58.0	44.0	40.6	42.9	91.9	47.0	97.0	54.9
Gross enrolment ratio								
– Primary enrolment ratio (%) 2000	102.0	75.0	100.0	118.0	106.0	73.0	131.0	99.3
– Secondary enrolment ratio (%) 2000	49.0	37.0	46.0	51.0	72.0	5.0	49.0	47.8
– Tertiary enrolment for all (%) 2000	10.0	...	7.0	5.0	...	...	...	9.6
Repetition rate bt grade in primary education 1990-00								
– Grade 1	4.0	...	...	41.9	...	14.9	...	4.9
– Grade 2	3.9	...	...	17.4	...	13.2	...	4.2
Primary pupil teacher ratio (pupil per teacher)								
– 2000	40.0	44.0	57.0	37.0	...	...	...	42.1
Engineers and scientists in R&D per million people								
– 1999-00	157.0	69.0	51.0	...	191.0	...	...	137.7
Tertiary Students in science, math and engineering								
– 1994-97	25.0	...	...	14.0	29.0	...	...	19.9

Note: a: 1995-97.

Source: Rows 1, 4, 9: UNDP 2003; Row 2: UNDP 2002, 2003; Rows 3, 5, 7, 8: World Bank 2003c; Row 6: UNESCO 2002, UNDP 1998b.

5. Ratification of Selected International Labour Standards

		India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives
ILO C87 Freedom of Association and Protection of the Rights to Organise ^a	1948		•	•		•		
ILO C98 right to Organise and Collective Bargaining ^a	1949		•	•	•	•		
ILO C29 Forced Labour ^a	1930	•	•	•	•	•		
ILO C105 Abolition of Forced Labour ^a	1957	•	•	•		•		
ILO C100 Equal Remuneration ^a	1951	•	•	•	•	•		
ILO C111 Discrimination (Employment and Occupation) ^a	1957	•	•	•	•	•		
ILO C138 Minimum Age ^a	1973				•	•		
ILO C182 Worst Forms of Child Labour ^a	1999		•	•	•	•		
International covenant on economic, social and cultural rights (CESCR) ^b	1966	•		•	•	•		
International covenant on civil and political rights (CCPR) ^b	1966	•		•	•	•		
International convention on the elimination of all forms of racial discrimination (CERD) ^b	1966	•	•	•	•	•	•	•
International convention on the elimination of all forms of discrimination against women (CEDAW) ^b	1979	•	•	•	•	•	•	•
Convention on the rights of the child (CRC) ^b	1989	•	•	•	•	•	•	•

Note: •: Ratified; a: As of 8th April 2003; b: As of May 2003.

Source: Rows 1, 2, 3, 4, 5, 6, 7 & 8: ILO 2003; Rows 9, 10, 11, 12 & 13: UN 2003b.

Human Development Indicators for South Asia

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Note on Statistical Sources for Human Development Indicators

The human development data presented in these annex tables have been collected with considerable effort from various international and national sources. For the most part, standardized international sources have been used, particularly the UN system and the World Bank data bank. The UNDP and World Bank offices made their resources available to us for this Report.

Countries in the indicator tables are arranged in descending order according to population size. While most data have been taken from international sources, national sources have been used where international data have been sparse. Such data have to be used with some caution as their international comparability is still to be tested.

Several limitations remain regarding coverage, consistency, and comparability of data across time and countries. The data series presented here will be refined over time, as more accurate and comparable data become available. In particular, policy-makers are invited to note the following deficiencies in the currently available statistical series and to invest sufficient resources to remedy these shortfalls:

(a) Generally the latest data are not available for several indicators. Some statistical indicators date back ten

years or more. Analysis of the current economic and social situation is greatly handicapped in the absence of up-to-date data.

- (b) Time series are often missing for even the most basic data as population growth, adult literacy, or enrolment ratios. An effort must be made to build consistent time series for some of the important indicators.
- (c) In certain critical areas, reliable data are extremely scarce: for instance, for employment, income distribution, public expenditure on social services, military debt, foreign assistance for human priority areas, etc.
- (d) Information regarding the activities of NGOs in social sectors remains fairly sparse.

It is time for policy-makers to make a significant investment in the collection and analysis of up-to-date, reliable, and consistent indicators for social and human development. If development is to be targeted at the people, a great deal of effort must be invested in determining the true condition of these people.

It is hoped that the various gaps visible in this annex will persuade national and international agencies to invest more resources and energy in investigating human development profiles.

1. Basic Human Development Indicators

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing Countries
Total estimated population (millions) 2001 ^a	1,033	146	141	24	19	2.13	0.30	1366T	4,951T
Annual population growth rate (%) 1996-2001	1.7	2.7	2.2	2.3	0.9	2.8	3.1	1.8	1.6
Life expectancy at birth (years) 2001	63	60	61	59	72	63	67	63	64
Adult literacy rate (% age 15 and above) 2001	58	44	41	43	92	47	97	55	75
Female literacy rate (% age 15 and above) 2001	46	29	31	25	89	30 ^b	97	43	65 ^c
Combined 1st, 2nd and 3rd level gross enrolment ratio (%) 2000-01	56	36	54	64	63	33	79	54	60
Infant mortality rate (per 1000 live births) 2001	67	84	51	66	17	74	58	66	61
GNP per capita (US\$) 2001	460	420	360	250	880	640	2000	448	1160
GDP (%) growth 2000-01	5.4	2.7	5.3	4.8	-1.4	7.0	2.1	5.0	2.9
GDP per capita (%) growth 2000-01	3.7	0.3	3.5	2.4	-2.8	4.0	-0.2	3.2	1.5
Real GDP per capita (PPPS) – 2001	2840	1890	1610	1310	3180	1833	4798	2587	3850
Human Development Index (HDI) 2001 ^e	0.590	0.499	0.502	0.499	0.730	0.511	0.751	0.571	0.655
Gender-related Development Index (GDI) 2001 ^f	0.574	0.469	0.495	0.479	0.726	0.444 ^c	0.739 ^d	0.555	0.634 ⁱ

Notes:

a: Population figures for 2001 are taken from UN: World Population Prospects: The 2002 Revision. (Medium variant). Available at www.esa.un/unpd. The population growth rate has been calculated by using the formula $\{((\text{new valued}/\text{old value})^n-1)*100$

b, c, i: 1998; d: year 2000

e: The Human Development Index (HDI) has three components: life expectancy at birth; educational attainment, comprising adult literacy, with two-thirds weight, and a combined primary, secondary and tertiary enrolment ratio, with one-third weight; and income. Any significant difference in the HDI for the South Asian countries is due to the change in methodology for calculating the index. Please refer to UNDP's Human Development Report 2000; f: The Gender-related Development Index (GDI) adjusts the HDI for gender equality in life expectancy, educational attainment and income.

Source: Rows 1, 2: UN 2003a; Rows 3, 4, 6, 7, 12: UNDP 2003; Row 5: UNDP 2003, MHHDC 2003; Rows 8, 9, 10: World Bank 2003c; Row 11: UNDP 2002, 2003; Row 13: UN 1999, 2002, MHHDC 2003.

2. Trends in Human Development

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing Countries
GNP per capita (US \$)									
– 1973	130	130	80	90	230	...	...	126	880 ^a
– 2001	460	420	360	250	880	640	2000	448	1160
Real GDP per capita (PPP, US \$)									
– 1960	617	820	621	584	1389	...	...	648	790
– 2001	2840	1890	1610	1310	3180	1412 ^b	4485 ^c	2586	3850
Human Development Index (HDI)									
– 1960	0.206	0.183	0.166	0.128	0.475	...	...	0.204	...
– 2001	0.590	0.499	0.502	0.499	0.730	0.511	0.751	0.571	0.655
Life expectancy at birth									
– 1960	44	43	40	38	62	37	44	44	46
– 2001	63	60	61	59	72	63	67	63	64
Gross enrolment ratio for all levels									
– 1980*	40	19	30	28	58	7	...	37	46
– 2000-01	56	36	54	64	63	33	79	54	60
Adult literacy rate (% age 15 and above)									
– 1970	34	21	24	13	77	...	91	32	43
– 2001	58.0	44.0	40.6	42.9	91.9	47.0	97.0	54.9	74.5
Infant mortality rate (per 1000 live births)									
– 1960	144	139	151	212	90	175	158	144	137
– 2001	67	84	51	66	17	74	58	66	62
Fertility rate									
– 1960	6.0	7.0	6.7	6.0	5.4	6.0	7.0	6.1	6.0
– 2001	3.1	5.2	3.6	4.6	2.1	5.2	5.5	3.4	2.8
Underweight children (% under 5)									
– 1975	71	47	84	63	58	...	...	69	40
– 1995-2001	47	38	48	48	29	19	30	46	27

Notes:

a: year 1979; b, c: year 2000.

*: (% age 6-23).

Source: Row 1: World Bank 2003a, Row 2: UNDP 2002, 2003; Rows 3, 4, 5, 6, 7: UNDP 2003; Row 8: UNICEF 2002; Row 9: UNDP 2003, UNICEF 2002.

3. Education Profile

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing Countries
Adult literacy rate (%)									
– 1970	34	21	24	13	77	...	91 ^a	32	43
– 2001	58.0	44.0	40.6	42.9	91.9	47.0	97.0	54.9	73.7
Male literacy rate (% age 15 and above)									
– 1970	47	40	47	22	86	...	...	47	55
– 2001	69.0	58.2	49.9	60.5	94.5	61 ^b	97.1	66.0	82 ^c
Female literacy rate (% age 15 and above)									
– 1970	19	5	9	3	68	...	...	17	32
– 2001	46.4	28.8	30.8	25.2	89.3	34 ^d	96.9	43.1	66 ^e
Primary enrolment (%) gross									
– 1970	73	40	54	26	99	...	...	68	76
– 2000	102	75	100	118	106	73 ^f	131 ^g	99	104
Secondary enrolment (%) gross									
– 1970	26	13	...	10	47	2	...	25	...
– 2000	49	37 ^h	46	51	72	5 ⁱ	49 ^j	48	56
Combined enrolment for all levels (%)									
– 1980	40	19	30	28	58	7	...	37	46
– 2000-01	56	36	54	64	63	33	79	56	61
Percentage of children dropping out before grade 5 (1995-99)	40	50	30	56	3	13	2	39	24
Tertiary natural and applied sciences enrolment (as % of total tertiary) 1994-97	25	...	...	14	29	...	...	25	...
Public expenditure on education (as % of GNP)									
– 1960	2.3	1.1	0.6	0.4	3.8	...	...	2.0	2.5
– 1998-00	4.1	1.8	2.5	3.7	3.1	5.2	3.9	3.7	4.1
Children not in primary schools (in millions) 1997	27	7	5	0.60	0.00	0.22	0.001	39	...

Notes:

a: year 1985; b, c, d, e: year 2000; f, i, j: year 1993; g, h: year 1998.

Source: Rows 1, 6, 8: UNDP 2003; Rows 2, 3: UNDP 2003, UNICEF 2002; Rows 4, 5: World Bank 1997, 2003c, MHHDC 2003; Row 7: UNICEF 2002; Row 9: UNDP 2003, World Bank 2003c; Row 10: UNDP 1999, EFA 2000.

4. Health Profile

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing Countries
Population with access to safe water (%)									
– 1990-96	81	60	84	44	46	58	96	82	71
– 2000	84	90	97	88	77	62	100	86	78
Population with access to sanitation (%)									
– 1990-96	16	30	35	6	52	70	66	22	29
– 2000	26	62	48	28	94	70	56	35	51
Population per doctor (in thousand)									
– 1984	2.5	2.9	6.7	32.7	5.5	23.3	20.3	3.7	4.6
– 1992-95	2.1	1.9	5.6	20.0	4.3	5.0	5.3	2.3	1.3
Child immunization rate (% of children under age one)									
– Measles 2001	56	54	76	71	99	...	...	59	71
– DPT 2001	64	56	83	72	99	...	...	66	71
Physicians (per 100,000 people)									
– 1990-2002	48	68	20	4	41	16	40	46	...
Maternal mortality ratio (per 100,000 live births)									
– 1985-2001	540	340 ^a	400	540	90	380	350	505	...
Contraceptive prevalence rate (% of women aged 15-49)									
– 1995-2001	47	17	54	39	71	31	32	45	61
Public expenditure on health (as % of GDP)									
– 1960	0.5	0.3	...	0.2	2.0	...	2.4	0.5	0.9
– 2000	0.9	0.9	1.5	1.6	1.8	3.7	6.3	1.0	2.7
Prevalence of anemia in pregnant women (%)									
– 1985-2000	88	37	53	65	39	30 ^b	...	79	57

Note:

a: year 1990-98; b: 1985-99

Source: Rows 1, 2, 5: UNDP 2003; Row 3: UNDP 1992, 2000; Row 4: World Bank 2003c; Row 6: UNICEF 2002, MHHDC 2003; Row 7: UNICEF 2002; Row 8: UNDP 2003, World Bank 2003c; Row 9: MHHDC 2003; World Bank 2003c.

5. Human Deprivation Profile

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing Countries
Population below income poverty line (%)									
– \$1 a day									
1990-2001*	34.7	13.4	36.0	37.7	6.6	...	...	32.3	...
– National poverty line 1987-2000*	28.6	32.6	33.7	42 ^a	25.0	...	...	29.6	...
Population without access to safe water 2000									
– number (millions)	165.2	14.6	4.2	2.9	4.4	0.8	0.0	192.1T	1071T
– as a % of total population	16.0	10.0	3.0	12.0	23.0	38.0	0.0	14.2	22.0
Population without access to health services 1995									
– number (millions)	143	63	68	...	1.3 ^b	0.6	0.1 ^c	276T	910T
– as a % of total population	15.0	45.0	55.0	...	7 ^d	35.0	25 ^e	22.0	20.0
Population without access to sanitation 2000									
– number (millions)	743.8	55.5	73.3	17.3	1.1	0.6	0.1	891.8T	2385T
– as a % of total population	72.0	38.0	52.0	72.0	6.0	30.0	44.0	65.5	49.0
Illiterate adults 2001									
– number (millions)	433.9	81.8	83.8	13.7	1.5	...	0.0	614.6T	1372T
– as a % of total adult population	42.0	56.0	59.4	57.1	8.1	...	3.0	45.0	27 ^f
Illiterate female adults 2001									
– number (millions)	268.3	50.4	47.6	9.0	0.9	...	...	378.5T	731.7T
– as a % of total adult female population	53.6	71.2	69.2	74.8	10.7	...	...	56.8	30.0
Children malnutrition (weight for age) 1993-2001									
– % of children under 5	53.0	38.0	48.0	48.0	33.0	...	...	50.6	...
Under 5 mortality rate (per 1000 live births) 2001									
	93.0	109.0	77.0	91.0	19.0	95.0	77.0	92.0	89.0
People living with HIV/AIDS Adults (% age 15-49) 2001**									
	0.8	0.1	<0.10	0.5	<0.10	<0.10	0.06	...	1.3

Notes:

a: year 2000; b, d: year 1985-95; c, e: year 1991; f: 1998.

*: latest available year. **: data refer to the end of 2001.

Source: Rows 1, 2, 4, 6, 8, 9 UNDP 2003; Row 3: MHHDC 2003; Row 7: World Bank 2003c, Row 5: UNDP 2003; MHHDC 2002.

6. Gender Disparities Profile

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing Countries
Female population (2001)									
– number (millions)	500.58	71.33	68.61	11.77	9.03	1.05	0.15	663T	2439T
– as a % of male	94	95	95	96	93	98	95	94	97
Adult female literacy (as % of male)									
– 1970	41	35	35	12	80	...	...	40	...
– 2001	67	50	62	42	95	56	100	65	80
Female primary school gross enrolment (as % of male)									
– 1970	64	37	48	20	92	6	107	60	79
– 1995-99*	83	70	97	74	97	76	101	82	91
Female 1st, 2nd and 3rd level gross enrolment ratio (as % of male) 2000-01	78	60	100	81	102	71	101	79	87
Female life expectancy (as % of male)									
– 1970	97	99	97	97	103	104	95	97	103
– 2001	102	100	100	99	108	104	98	102	105
Economic activity rate (age 15+) (female as % of male)									
– 1970	43	11	6	52	37	52	35	37	53
– 2001	50	43	76	66	55	65	80	52	67
Female professional and technical workers (as % of total) 1992-2001*	...	26	25	...	49	...	40	27	...
Seats in parliament held by women (as % of total) 2003**	9.3	20.6	2.0	7.9	4.4	9.3	6.0	9.7	...
Gender Development Index (GDI) – 2000	0.574	0.469	0.495	0.479	0.726	0.444 ^a	0.739 ^b	0.556	0.634 ^c
Gender Empowerment Measure (GEM) 2001	0.24 ^d	0.414	0.218	...	0.272	...	0.361 ^e	0.252	...

Notes:

a, b, e, c: 1998; d: 1997.

*: latest available year.

** : as of March 2003.

Source: Row 1: UN 2003a; Row 2: UNDP 2003, UNICEF 2002; Rows 3, 5: UNICEF 2003; Rows 4, 6, 7, 8: UNDP 2003; Row 9: UNDP 1998, 2002, 2003; Row 10: UNDP 2002, 2003.

7. Child Survival and Development Profile

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing Countries
Population under 18 (2001)									
– number (millions)	402	70	63	11	6.1	1.10	0.15	554T	1894T
– as a % of total population	39	48	45	47	32	49	51	41	39
Population under 5 (2001)									
– number (millions)	116	23	19	3.6	1.6	0.33	0.05	163T	548T
– as a % of total population	11	16	13	15	8	15	16	12	11
Infant mortality rate (per 1000 live births)									
– 1970	127	117	145	165	65	156	157	144	109
– 2001	67	84	51	66	17	74	58	66	61
Under 5 mortality rate (per 1000 live births)									
– 1970	202	181	239	250	100	267	255	235	167
– 2001	93	109	77	91	19	95	77	92	89
One-year-olds, fully immunised against tuberculosis (%)									
– 1980	14	9	1	43	63	9	8	13	...
– 2001	73	78	94	84	99	81	99	76	78
One-year-olds fully immunised against measles (%)									
– 1980	1	3	2	2	0	18	30	1	...
– 2001	56	54	76	71	99	78	99	59	69
Births attended by trained health personnel (%)									
– 1995-2001	43	20	12	11	97	15	70	39	56
Low birth weight infants (%)									
– 1995-2000*	26	21	30	21	17	15	12	26	18
Children (aged 10-14) in the labour force (% age group 10-14)									
– 2001	12	15	27	41	2	55	6	14	12

Note:

*: latest available year.

Source: Rows 1, 2: UNICEF 2002; Rows 3, 4, 5, 6, 7: UNDP 2003; Row 8: MHHDC 2001, UNDP 2003; Row 9: MHHDC 2001, World Bank 2002e, 2003c.

8. Profile of Military Spending

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing Countries
Defence expenditure (US \$ millions, 1993 prices)									
– 1985	7207	2088	308	22	214	...	...	9839T	189727T
– 2001	13,200	2610	570	50	770	...	...	17200T	206700T
Defence expenditure annual % increase (1985-01)	3.9	1.4	3.9	5.3	8.3	...	...	3.6	0.5
Defence expenditure (as a % of GNP) 1985	2.5	5.1	1.3	0.7	2.6	...	...	3.0	7.2
(as a % of GDP) 2001	2.5	4.5	1.3	1.1	3.9	...	...	2.6	2.5
Defence expenditure (as a % of central government expenditure)									
– 1980	19.8	30.6	9.4	6.7	1.7	...	...	21	...
– 2001	14.0	23.0	11.2	6.5	14.7	...	...	15	13
Defence expenditure per capita (US \$, 1993 prices)									
– 1985	9.4	22	3.1	1.3	14	...	...	10	52
– 2001	12.7	17.8	4.0	2.1	41.1	...	...	13	42
Armed forces personnel (no. in thousands)									
– 1985	1260	484	91	25	22	...	...	1882T	16027T
– 2001	1163	620	137	46	120	...	...	2036T	13950T
Employment in arms production (000's) 2001	180	50	...	...	...	...	...	230T	3220T
Aggregate number of heavy weapons 2001	10540	5410	550	10	380	...	...	16890T	208800T

Note:

a: military holdings include combat aircrafts, artillery, ships & tanks that a country possesses. The index is a calculation based on the aggregate number of heavy weapons.

Source: Rows 1, 2, 4, 5, 6, 7, 8: BICC 2003, UNDP 2003; Row 3: UNDP 2003.

9. Profile of Wealth and Poverty

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing Countries
Total GDP (US \$ billions)									
– 2001	477.3	58.7	46.7	5.6	15.9	0.5	0.6	605T	6110T
Real GDP per capita (PPP US\$)									
– 2001	2840	1890	1610	1310	3180	1833	4798	2587	3850
GNP per capita (US\$)									
– 2001	460	420	360	250	880	640	2000	448	1160
Income share: ratio of highest 20% to lowest 20% (1995-00*)	5.7	4.8	4.6	5.9	5.3	...	...	5.5	...
Population below income poverty line (%)									
– \$1 a day (1993 PPP US\$)									
1990-2001*	34.7	13.4	36.0	37.7	6.6	...	...	32.3	...
– national poverty line 1990-2001*	28.6	32.6	33.7	42 ^a	25.0	...	...	29.3	...
Population below the poverty line (%) 1995-2000									
– urban	24.7	24.2	19.1	23.0	15.0	...	...	23.9	...
– rural	30.2	35.9	37.4	44.0	27.0	...	...	31.6	...
Public expenditure on education (as % of GDP) 1998-2000*	4.1	1.8	2.5	3.7	3.1	5.2	3.9	3.7	...
Public expenditure on health (as % of GDP) 2000	0.9	0.9	1.5	1.6	1.8	3.7	6.3	1.0	...
Gross capital formation (as % of GDP) 2001	23	16	23	24	22	47.3 ^b	...	22	23
Gross domestic savings (as % of GDP) 2001	21	15	16	15	15	...	...	20	25
Industry value added (as % of GDP) 2001	26	23	25	22	27	37 ^c	...	26	36
Tax revenue (as % of GDP) 2001	10	12	7	10	15	7.8 ^d	21 ^e	10	...
Exports (as % of GDP) 2001	14	18	15	22	37	30	93	15	34
Total debt service (as % of exports of goods and services) 2001	12.6	21.3	9.1	6.2	9.2	3.3	4.3	13.0	11.0
Total net official development assistance received (US\$ million) 2000									
– quantity	1705	1938	1024	388	330	59	25	5470T	43811T
– as % of GDP	0.4	3.3	2.2	7.0	2.1	11.1	4.3	1.0	0.6
Total external debt (US\$ billions) 2001	97.071	32.019	15.216	2.700	9	...	...	155.5T	2332.6T

Notes:

*: data refer to most recent year available.

a, c, 2000; b, d, e: year 1998.

Source: Rows 1, 2, 7, 8, 13, 14, 15, 16: UNDP 2003; Rows, 3, 6, 10, 16: World Bank 2003c; Row 5: UNDP 2002, 2003; Rows 9, 11: MHHDC 2003, World Bank 2003c; Row 12: UNDP 2003, MHHDC 2003.

10. Demographic Profile

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing Countries
Population (in millions)									
– 1960	442	50	51	9	10	1.0	0.1	563T	2070T
– 2001	1033	146	141	24	19	2.1	0.3	1366T	4951T
Population growth rate (annual %)									
– 1960-70	2.3	2.8	2.6	2.0	2.4	1.8	2.0	2.4	2.5
– 1970-80	2.2	2.6	2.8	2.6	1.7	2.0	2.7	2.3	2.2
– 1980-90	2.1	3.6	2.1	2.6	1.6	2.2	3.2	2.3	2.1
– 1990-95	1.9	2.7	2.0	2.0	1.1	3.7	2.6	1.9	1.8
– 1995-00	1.7	2.6	1.6	2.7	1.1	3.1	3.7	1.8	1.6
– 2000-05	1.5	2.4	2.0	2.2	0.8	3.0	3.0	1.7	1.5
Population doubling date (at current growth rate) 2001	2047	2030	2036	2033	2088	2024	2024	2041	2047
Crude birth rate (per 1000 live births)									
– 1960	43	49	47	44	36	42	41	44	42
– 2001	25	37	31	35	17	35	36	27	24
– % decline (1960-2001)	42	24	34	20	53	17	12	39	43
Crude death rate (per 1000 live births)									
– 1960	21	23	22	26	9	26	21	21	20
– 2001	9	10	9	10	6	9	6	9	9
– % decline (1960-2001)	57	57	59	62	33	65	71	57	55
Total fertility rate									
– 1960	6.0	7.0	6.7	6.0	5.4	6.0	7.0	6.1	6.0
– 2001	3.1	5.2	3.6	4.6	2.1	5.2	5.5	3.4	2.8
– % decline (1960-2001)	48	26	46	23	61	13	21	44	47
Total labour force (in millions)									
– 1980	300	29	40	7	5	...	...	382T	1678T
– 2001	461	54	71	11	8	...	...	604T	2517T
Female labour force 2001 (% of labour force)	149	16	30	5	3	...	...	203T	1012T
Percentage average annual growth in labour force									
– 1980-01	2.0	2.9	2.7	2.1	2.0	...	...	2	2.0
– 2001-10	1.8	3.2	2.2	2.4	1.7	...	...	2	1.6
Total unemployment (as % of labour force)									
– 1998-01*	7.3	7.8	3.3	1.1	8.2	1.4	2.0	6.8	...
Employment by economic activity (%) 1995-2001									
Agriculture									
– female	...	66	78	...	49	...	...	71	...
– male	...	41	54	...	38	...	...	47	...
Industry									
– female	...	11	8	...	22	...	...	10	...
– male	...	20	11	...	23	...	...	16	...
Services									
– female	...	23	11	...	27	...	...	18	...
– male	...	39	34	...	37	...	...	37	...

Note:

*: The latest year available.

Sources: Rows 1, 2, 3: UN 2003a; Rows 4, 5, 6: UNICEF 2002; Rows 7, 8, 9: World Bank 2003c; Row 10: ILO 2001b, 2002h; ADB 2003; Row 11: UNDP 2003.

11. Profile of Food Security and Natural Resources

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)	Developing Countries
Food production net per capita 2001 (1989-91=100)	110.1	114.4	106.4	104.9	103.4	91.9	107.1	109.9	...
Food exports (% of merchandize exports) 2001	13.0	11.0	7 ^a	10.0	21.0	23 ^b	79 ^c	12.0	10.0
Food imports (% of merchandize imports) 2001	5	12	15 ^d	13	14	21.5 ^e	22.8 ^f	7	8
Cereals production (1000 metric tons) 2001	243375	27048	38014	7120	2728	159	...	318,444T	...
Cereal imports (1000 metric tons) 2000	54.6	1054.5	2130.4	211.8	1029.1	38.5	32.1	4.551T	...
Cereal exports (1000 metric tons) 2000	2822.1	2087.2	0.2	3.1	2.0	19.1	...	4934T	...
Forest production (1000 cu. m) 2001									
– Roundwood	296234	33232	3828422	14004	6534	4417	...	4182843T	2010619T
– Fuelwood	277380	30553	27798	12744	5840	4282	...	358597T	1593384T
Crop production index (1989-91=100) 1999-2001	125	126	132	128	120	...	...	125	128
Land area (1000 sq. km) 2000	2973	771	130	143	65	...	...	4082T	99144T
Land use									
Arable land (% of land area) 2000	54	28	62	20	14	...	...	51	10
Permanent cropped area (% land area) 2000	2.7	0.9	2.7	0.5	15.8	...	...	2.7	1.2
Irrigated land hectares (as % of cropland) 1998-2000	32.2	81.7	47.6	38.2	34.7	...	...	38.9	22.6
Average Annual deforestation (%) 1998-2000	-0.1	1.1	-1.3	1.8	1.6	...	...	-0.04	0.3
Total renewable resources per capita cu m 2000	1878	1610	9238	9122	2708	...	...	2706	8460
Annual fresh water withdrawals as % of total renewable resources (billion) cu m	26.2 500	70.0 155.6	1.2 14.6	13.8 29	19.6 9.8	...	...	28.0 709T	...

Note:

a, d: year 2000; b, e: 1994; c, f: 1997.

Sources: Row 1: FAO 2001; Rows 2, 3: World Bank 2002c, 2003c; MHHDC 2003; Rows 4, 5, 6, 7: FAO 2002; Rows 8, 9, 10, 11, 12, 13, 14: World Bank 2003c.

Selected definitions

Working age population (15-64) is the number of people who could potentially be economically active.

Labour force comprises of people who meet the ILO definition of economically active population: all people who supply labour for the production of goods and services during a specified period. It includes both the employed and unemployed. While national practices vary in treatment of such groups as the armed forces, seasonal or part time workers, the labour force generally includes the armed forces, unemployed, the first time job seekers, but excludes homemakers and other unpaid caregivers and workers in the informal sector.

Labour force participation rate is defined as the ratio of the labour force to the working age population, expressed in percentage.

Female labour force participation rate (% of male) is the ratio of female labour force participation rate to the male labour force participation rate.

Unemployment rate (%) is defined as those individuals without work, seeking work in a recent past period, and currently available for work. For India, Bhutan and Maldives “the unemployment rate is the percentage of the labour force that actively seeks work but is unable to find work at a given time. The age of the working population generally ranges from 18 to 65, though it may vary from country to country”.

Waged and salaried workers as defined by ILO “are all those people who hold the type of job defined as ‘paid employment jobs’... jobs where incumbents include (written or oral) or implicit employment contracts which give them a basic remuneration which is not directly dependent upon the revenue of the unit for which they work.”

Self employed workers are those workers who, working on their own account or with one or more partners, hold the type of job defined as “self employed jobs” (i.e the jobs where the remuneration is directly dependent upon the profits devised from the goods and services produced).

Contributing family workers are those workers who hold a “self employment job” operated by a related person living in the same household.

Earned income (PPP US\$) roughly derived on the basis of the ratio of the female non-agricultural wage to the male non-agricultural wage, the male and female shares of the economically active population, total female and male population and GDP per capita (PPP US\$).

Earned income, ratio of estimated female to male is the ratio of estimated female earned income to estimated male earned income.

KEY TO INDICATORS

Indicator	Indicator tables	Original source	Indicator	Indicator tables	Original source
A, B, C			Agriculture		
Agriculture wage (\$ per year)	2e	WB	male, female	3e	ILO
Armed forces personnel	8	BICC	Industry	2e	ILO
Birth attended by trained health staff (%)	7	UNDP	male, female	3e	ILO
Crop production index	11	FAO	Services	2e	ILO
Cereal production (100 metric tons)	11	FAO	male, female	3e	ILO
Cereal imports	11	FAO	Education exp, as % of GDP	3, 9, 4e	UNDP
Cereal exports	11	FAO	Education exp, as % of all levels	4e	UNDP
Child immunization rate			Enrolment, tertiary, natural & applied science	3	UNDP
Measles DPT	4	WB	F, G		
Contraceptive prevalence rate (% of women ages 15-49)	4	UNDP	Fertility rate, total	2, 10	UNICEF
Crude birth rate (per 1000 people)	10	UNICEF	Female population	6	UN
Crude death rate (per 1000 live births)	10	UNICEF	Female professional & technical workers	6	UNDP
Children in labour force	7	WB	Food		
Children not in primary school	3	UNDP+EFA	as a % of merchandise exports	11	WB
Children dropped before grade five	3	UNICEF	as % of merchandise imports	11	WB
Children under weight	2	UNDP	Food production per capita	11	FAO
D			Forest production (100 cum.)		
Debt, total external	9	WB	round wood	11	FAO
Debt servicing (% of exports of goods & services)	9	UNDP	fuel wood	11	FAO
Defence expenditure, total	8	BICC	Fresh water withdrawals (billion cubic meter)	11	WB
annual % increase	8	BICC	(as % of total renewable resources)	11	WB
as % of central govt. exp.	8	UNDP	Gender empowerment measure	6	UNDP
per capita			Gender-related development Index	1, 6	UNDP
% of GNP	8	BICC	GDP, total	9	UNDP
% of GDP	8	BICC	GDP, per capita growth	1	WB
Deforestation			GDP, growth rate	1, 2e	WB
average annual (%)	11	WB	GNP per capita	1, 2, 9	WB
E			GDP, real per capita (PPP US\$)	1, 2, 9	UNDP
Economic activity rate (female as % of male)	6	UNDP	Gross domestic investment	9	WB
Employment in arms production	8	BICC	Gross domestic savings	9	WB
Enrolment, primary level, gross	3, 4e	WB	H, I, J		
Enrolment, secondary level, gross	3, 4e	WB	HIV/AIDS, people	5	UNDP
Enrolment, tertiary level, gross	4e	WB	Health expenditure, public (as % of GDP)	4, 9	UNDP
enrolment, combined			Human Development Index	1, 2	UNDP
1st, 2nd & 3rd level, gross	1, 2, 3	UNDP	Health service, without access	5	UNDP
Enrolment, primary level, female	6	UNICEF	Illiterate adults, total	5	UNDP
Enrolment, 1st, 2nd & 3rd level, gross (female as % of male)	6	UNICEF	% of total adult population	5	UNDP
Engineers & scientists in R&D	4e	WB	Illiterate females, total	5	UNDP
Exports, as % of GDP	9	UNDP	% of total adult population	5	UNDP
Employment by economic activity	10	UNDP	Income poverty, 1\$ a day	9,5	UNDP
Agriculture Female, Male			national poverty line	9,5	UNDP
Industry Female, Male			Income share: ratio of top 20% to lowest 20%	9	UNDP
Services Female, Male			Income, earned (female as % of male)	3e	UNDP
Employment growth (%)	2e	ILO	Industry (as % of GDP)	9	WB
Employment by sectors (%)	2e	ILO	Infant mortality rate	1, 2, 7	UNDP
			Infants (low birth weight) %	7	UNDP
			K, L		
			Labour force, total	10, 1e	WB
			Average annual growth rate	10, 1e	WB
			Female labour force, (as % of male)	10, 3e	WB

Indicator	Indicator tables	Original source	Indicator	Indicator tables	Original source
Labour force participation rates female as % of male	1e 1e, 3e	ILO ILO	S Self employment, women in non agriculture sector	3e	ILO
Land area (1000 sq kms)	11	WB	Safe water, % with/without access	4, 5	UNDP
Land use			Sanitation, % with/without access	4, 5	UNDP
Arable (as % of land area)	11	WB	Status in employment (%)	1e	ILO
Permanent cropped area (% of land area)	11	WB	Male, Female	3e	ILO
Land irrigated, hectare (as % of cropland)	11	WB	T, U, V Tertiary students in science, math & engineering	4e	UNDP
Life expectancy at birth Total	1, 2	UNDP	Tuberculosis, one year old immunized	7	UNICEF
Female (as % of male)	6	UNDP	Tax revenue, as % of GDP	9	UNDP
Literacy rate, female	1, 3	UNDP	Unemployment, % of total	10, 1e	ILO, ADB
male	3	UNDP	Female unemployment rate, % of labour force	3e	WB
adults	1, 2, 3, 4e	UNDP	Female unemployed (% of male)	3e	ILO
Female (% of male)	6	UNICEF	Value added per worker in manufacturing	2e	WB
M, N, O			Value added to GDP (%)	2e	WB
Malnourished children under five	5	WB	W, X, Y, Z Women, prevalence of anemia in pregnancy	4	WB
Minimum wages (\$ per year)	2e	WB	Women, seats held in parliaments	6	UNDP
Mortality rate under five	5, 7	UNDP	Women, professional & technical workers as legislators, senior officials & managers	3e 3e	UNDP
Maternal mortality ratio	4	UNDP	Weapons, number of heavy weapons	8	BICC
Measles, one year old fully immunized	7	UNDP	Working age population (15-64)	1e	WB
ODA received, total as % of GDP	9	UNDP	Female, working age population total % of total female population	3e 3e	UN WB
P, Q, R			Years of schooling, average	4e	WB
Primary pupil teacher ratio	4e	WB			
Population estimated	1, 10	UN			
growth rate, annual	1, 10	UN			
Physicians	4	UNDP			
Population per doctor	4	UNDP			
Population					
under eighteen	7	UN			
under five	7	UN			
People in poverty					
rural	9	UNDP			
urban	9	UNDP			
Population doubling rate	10	UN			
Repetition rate in primary education	4e	UNESCO, UNDP			
Renewable resources, per capita	11	WB			

Note: 'a' is added to table numbers that appear in Profile of Employment in South Asia.

Key to source abbreviations

ADB	Asian Development Bank
BICC	Bonn International Centre for Conversion
FAO	Food and Agriculture Organisation
ILO	International Labour Organization
MHHDC	Mahbub ul Haq Human Development Centre
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNESCO	United Nations Educational, Scientific and Cultural Organization
WB	World Bank