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Junaid Ahmed/Ghulam Samad

OP-ED

Economic growth and employment mismatch

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Economic growth in Pakistan has historically been mainly domestic market-driven rather than export-led. GDP growth increased from 3.65% (2012-13) to 5.8% (2018). Despite this growth, exports fell during the period. One of the causes of this disappointing situation is that the government's economic policies are limitedly related to sector-specific strategies to generate employment. While the overall employment showed an increasing trend, employment trends in major sectors represent flatness. The major employment contributors are in agriculture, trade (transportation, storage, communication, wholesale, retail trade, restaurants, hotels, financing, insurance real estate and business services) and manufacturing sectors. The sectoral employment shares change little regardless of whether the economic growth is high (as in 2005) or low (as in 2008 or 2010). The agriculture sector has the largest sectoral employment share (~37%), but its trend is gradually decreasing. Trade and business sector is the second contributor in employment share (~26%) after agriculture with an increasing trend. Other sectors that are showing gradual increasing trends are manufacturing (~17%) and public administration (~12%). Overall, the trends on employment share in different sectors indicate that there has been a movement of labour out of agriculture towards trade and business, manufacturing, and construction sector. This is to be expected in the process of development.

It is pertinent to understand sectoral employment absorptive capacity along with knowing the overall and sectoral employment trends, and share of the sectoral employment in total employment. Small Scale Enterprises (SSEs) have higher employment elasticities, smaller Incremental Capital Output Ratios (ICORs) and shorter gestation periods. Increasing the share of investment in this sector will enable us higher GDP growth with higher employment generation. Small and Medium Enterprises (SMEs) and Small Scale Enterprises (SSEs) have higher employment and growth elasticities. An important related challenge is to increase the value-added of the products that are being manufactured in these firms.

Since 2000, the structure of the major sectors has changed substantially. If we look into decade wise elasticities for nine sectors for the entire period of 1990-2000, we can see

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construction, small scale manufacturing, and services as the major contributors to employment. After the year 2000 mining sector (Mining and quarrying; electricity, gas and water supply) has the highest employment elasticity followed by manufacturing, trade, and construction. Agriculture sector's employment elasticity is continuously decreasing and reduces significantly during this period. We postulate that the agriculture sector is losing employment absorptive capacity to mining, manufacturing, and trade. This reflects the structure changes that are occurring in the composition of the Pakistan economy. One may infer that the decline in the aggregate employment elasticity could be due to the substitutability of labour-intensive technology to capital intensive technology and sequentially labour force has been accommodated in the informal sector.



The government requires to consider the sectors that can act as the engine of economic growth, and what have employment absorptive capacity while formulating employment-generating policy ”

Employment elasticity shows employment absorptive capacity of different sectors in an economy. If we increase the GDP growth by 1 %, the mining sector will generate significant jobs (498,000), followed by trade (9,360,000), manufacturing (5,202,000), and construction (1,584,000). These estimates give a direction to policymakers to frame a policy as per defined objectives. If jobs creation is the objective, then the sectors as mentioned earlier having more elasticities need to be targeted to reduce unemployment. The government requires to consider the sectors that can act as the engine of economic growth, and what have employment absorptive capacity while formulating employment-generating policy. The present government considers construction/housing sector as the main engine of economic growth and job creation.

The estimated elasticities, however, show that construction/housing sector may contribute to economic growth but it will generate less employment than manufacturing and trade. The government needs to prioritize sectors that can be considered productive for economic growth and employment generation. With surplus labour available, the focus should be on devising policies that stimulate labour intensive job creation rather than labour replacing job creation. Since automation requires more skilled labour, the government should focus on demand-driven skill development programs. Besides, the government should think about devising policies to promote agriculture sector employment and its absorptive capacity. Its overall share in employment and employment absorptive capacity is decreasing. Finally, the mining and manufacturing sectors show the largest elasticities in recent years. Both are important, but given the importance of the manufacturing sector, that also has the second-largest employment share, the government should devise policies to promote manufacturing sector to decrease the unemployment rate. This would have larger benefit the economy as well, going much beyond simply providing employment.

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