

# The Labour Market: Major Issues and Challenges

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**BIDS CRITICAL  
CONVERSATIONS**

**2017**

# Major Issues

- Slow down in manufacturing employment, especially in RMG
- Skills Gap and Supply-Demand mismatch
- Formal vs informal sector employment
- The issue of labour standards
- Declining remittances in the face of rising migration

# Do we have unlimited labour supply?

- Theory: Transfer of labour from labour-surplus agriculture to urban industry is 'costless':
  - Wages should not rise until such time as rural-urban wages equalise;
  - Productivity in agriculture should not fall;
  - Further wage rises will be determined by productivity.
  - From low to high productivity shifts

# Real Wage Trends: 2000-10 (CPI deflator)

- Rural: average annual percentage increase
  - peak season: 44.4% (M) 52.9% (F)
  - Lean season: 44.6 (M) 47.5% (F)
- Urban: 24.7% (M) 72.7% (F) 26.3% (all)
- Process of equalization evident:
  - Rural catching up with urban
  - Female wages catching up with male wages
  - By 2011 rural-urban differences became small (IFPRI)

# Post 2010 (real wages)

- Escalation was especially sharp after 2005. Has this trend continued?

- 2010-15

- Agriculture: 7.8% per annum

- Manufacturing: 1.2%

- Construction: 6.1%

Slow down, especially in manufacturing though rural wages are still bouyant.



# Productivity and wages?

- Agricultural productivity per worker has risen steadily in a straight line over the last 15 years but real wages spiked after 2005.
- Need better data on manufacturing productivity, especially RMG
- Wage pressure rising and low profits: greater capital intensity

# ..productivity

- Huge productivity variation across different lines in same factory! Better management..
- Encourage entry of new, more efficient firms (and exit of inefficient ones) – freedom of entry-exit needed.

# Employment

- Formal sector employment growing slowly, especially in RMG (around 200,000 per year in 2010)
- Bulk of new entrants (2.2 m per annum) – going into informal employment - in rural areas? Rural wages are high so why is this a problem?
- Puzzle: Rural wages high but why is poverty not being eradicated?

# Labour and Skills Demand

- Existing shortages are quite large – especially for skilled workers and for more technical occupations.
- BIDS projections indicate large emerging demand over the next 5 and 10 years
- The supply institutions are weak – both in the public and pvt sector – suggests acute labour market failures.
- Common: In-house, apprentice-type approaches principally
- Difficult to fill vacancies ('cannot find good workers')

# Present and Future Labour Demand

- Considerable sectoral variation
- Largest percent increase in shipbuilding and agro-food;
- RMG labour and skill demand massive in absolute terms and percentage terms;
- IT sector only demands skilled labour – also sharp rise from low base

# Future Demand..

- Training demand will be the largest in RMG (1.5m in 2021 and 2.1m in 2026)
- Its share of employment more than double of all the other 8 sectors combined.
- Total for 2021: over 4m
- Total for 2025: over 5.6m
- So question: **Employment levels in manufacturing, especially RMG is stuck but entrepreneurs are projecting huge “needs” – emerging shortage???**

# Labour Standards and Rights

- Should we not leave wages to the market to be decided? Does intervention help?
- Trade unions could push wages beyond what is justified by the market: would that reduce employment? Do our competitors have trade unions?
- Is Bangladesh being unduly singled out on the labour standard issues (GSP not withheld from Nepal, India, Vietnam, China, Cambodia)

# Remittances

- Migration is rising but remittances are slowing down
- Slowing down mostly from ME countries?
- Could result in increased labour supply at home, especially from women?
- Are remittances really declining – evidence at HH level?

# Conclusion

- No 'unlimited labour' supply – industry has to compete with agr, non-farm, informal, AND international lab. market – esp. skilled lab.
- Informal and service sector not well understood – are incomes lower here or are wages also equalising? Waiting to join formal sector?
- Capital, productivity and skills – transformation in in both agriculture and industry will be needed for local and international labour market.

- If huge skill-gap emerging – should we discourage, even stop labour migration of skilled, semi-skilled workers?
- Need major training effort for women (potential supplies much larger)?