

Employment in Pakistan: Trends, Sectoral Shares and Elasticities

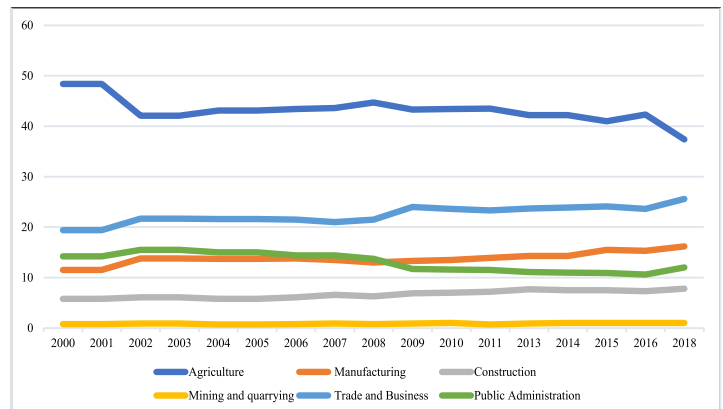
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Employment generation is a critical challenge for any developing, labour abundant economy like Pakistan's. Policy formulators need to know the overall employment trends, the share of sectoral employment, and their respective elasticities before designing a policy that can contribute to employment generation and productivity in any economy. The development plans in Pakistan are linked to set growth targets, but due priority is not given to employment generation. Large labour force (~64 million), huge unemployment rate (~7 %) and low GDP growth are shrinking the employment generation trends. Figure 1 presents the overall employment situation in the country over the recent two decades, along with the trends from the selected important sectors. The overall employment shows an increasing trend; however, employment trends in major sectors represent flatness. Figure 1 depicts that major employment contributors are agriculture, trade and manufacturing sectors. The steepness of the sectoral curves are not substantially affected with changes in GDP growth. With the highest GDP growth in 2005, and the lowest GDP growth in 2008 and 2010 the sectoral employment does not change substantially. As Figure 1 shows, GDP growth is not significantly affecting sectoral employment generation.

If we look at the sectoral employment shares (see Figure 2), the agriculture sector has the largest 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%).

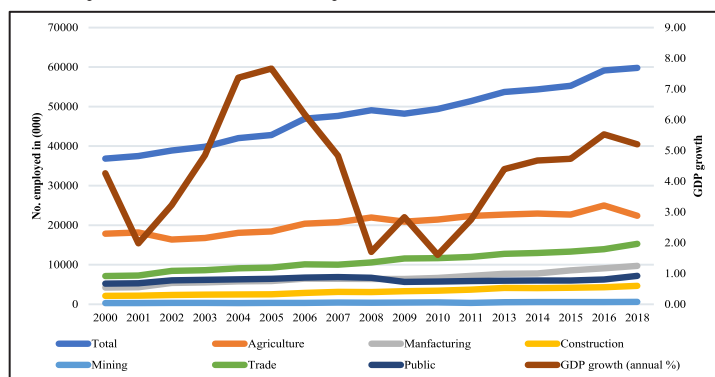
Overall, the trends on employment share in different sectors indicate that there has been a movement of labour out of agriculture towards trade and business, manufacturing, and construction sector. This is to be expected in the process of development.

Figure 2. Employment Structure in Pakistan: 2000-2018



Source: ILO stats, 2019.

Figure 1. Trends of GDP growth and employment by economic activity in Pakistan: 2000-2018



Source: ILO stats, 2019; WDI, 2019; Pakistan Bureau of Statistics 2018.

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. Sectoral employment elasticities are presented in Table 1 and Table 2. The period since 1961-71 to 2011-18 is divided into two categories because of the varying classification and structure (becoming more capital intensive) of the sectors. We premise that after 2000 the structure of the major sectors has changed substantially. Table 1 has decade-wise elasticities for nine sectors for the entire period of 1960-2000. In the last decade 1990-2000, we can see construction, small scale manufacturing, and

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¹Trade includes transportation, storage, communication, wholesale, retail trade, restaurants, hotels, financing, insurance real estate and business services.

²Public administration includes administrative and support service activities, defence; compulsory social security, education, human health and social work activities, Arts, entertainment and recreation, other service activities.

³It measures the responsiveness of employment to changes in the economic output. The study computes log-log regression between employment and GDP, with the coefficient on the latter being the estimate of employment elasticity.

⁴Mining and quarrying; electricity, gas and water supply.

services as the major contributors to employment with respective elasticities of 0.87, 0.85, and 0.68. After the year 2000 mining sector has the highest employment elasticity of 0.83 followed by manufacturing 0.51, trade 0.37, and construction 0.33 (see Table 2). Agriculture sector's employment elasticity 0.91 in 1972-78 is continuously decreasing, and reduces to 0.05, in 2011-18. We postulate that agriculture sector is losing employment absorptive capacity to mining, manufacturing, and trade. This reflects the structure changes that are occurring in the composition of Pakistan economy. The overall employment elasticity comes down from 0.64 in 1972- 1978 to as low as 0.20 in 2000 – 2018. 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.

Table 1

Employment Elasticity with respect to GDP: 1961-2000

Sector	1961-1971	1972-1978	1978-1987	1990 -2000
Overall Elasticity	0.45	0.64	0.36	0.41
Agriculture	0.48	0.91	0.41	0.37
Large Scale Manufacturing	0.28	1.1	0.21	0.02
Small Scale Manufacturing	-	-	-	0.85
Construction	0.47	0.81	0.61	0.87
Transport & Communication	1.26	0.45	0.48	0.45
Trade	0.92	0.51	0.45	0.57
Electricity & Gas	-	-	-	0.54
Others including services	-	-	-	0.68

Source: Government of Pakistan (2003b) Poverty Strategy Paper: Accelerating Economic Growth and Reducing Poverty: The Road Ahead. Note: Missing values show no information's available from the source.

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), as can be seen from Table 2. 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.

Table 2

Employment Elasticity with respect to GDP: 2000-2018

Sector	2000 - 2018	2000 - 2010	2011- 2018
Overall Elasticity	0.20	0.23	0.25
Agriculture	0.15	0.19	0.05
Manufacturing	0.29	0.29	0.51
Construction	0.34	0.36	0.33
Mining	0.30	0.31	0.83
Trade	0.30	0.34	0.37
Public Administration	0.03	0.06	0.28

Source: Authors' estimations.

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.

Policy Recommendations

1. The government should prioritize sectors that can be considered productive for economic growth and employment generation. With surplus labour available focus should be on, devising policies that stimulate labour intensive job creation rather than labour replacing job creation.
2. The government should seriously think about devising policies to promote agriculture sector employment, and its absorptive capacity. Its overall share in employment and employment absorptive capacity is decreasing.
3. 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 unemployment rate. This would have larger benefits for the economy as well, going much beyond simply providing employment.