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The growth-jobs paradox

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THE 2024 upheaval that toppled Sheikh Hasina's government in Bangladesh, alongside the youth-led protests over joblessness in India, point to a shared crisis across South Asia: strong economic growth has not translated into enough good jobs for a workforce that is more educated than ever before. As access to schooling and universities has expanded, so have people's employment expectations — expectations that a narrow job market has failed to meet, sparking widespread anger. In India, nearly 40 per cent of graduates under 25 can't find work; youth joblessness is near 29pc. Roughly four in five Indian workers depend on informal, insecure employment.

Economic theory holds that growth happens as workers shift from low-output farming to more productive factory and service jobs, and that this shift should expand labour demand and shrink joblessness. But India, Bangladesh and Pakistan complicate that story. India and Bangladesh have sustained 6-7pc annual growth for over three decades; Pakistan has managed only 3-4pc. Yet, none of the three has generated sufficient formal, productive work. Growth rate alone doesn't explain the shortfall.

Data from the Centre for the Study of Developing Societies show Indian employment expanding just 1.6pc a year from 2000 to 2012, then flat-lining from 2012 to 2019 even as GDP kept climbing. The type of growth a country experiences, not merely its speed, appears to shape how many jobs it creates. India's economic transformation makes the point vividly. Agriculture accounted for 35pc of GDP in 1990, absorbing 63pc of the workforce; by 2025, its GDP share had dropped to 16pc, yet it still employed about 42pc of workers. Agricultural productivity relative to the rest of the economy fell from 0.54 to 0.40 over this period, a sign of chronic underemployment and surplus labour stuck on the farm. Meanwhile, economy-wide productivity nearly quadrupled, ie, rising incomes came mostly from efficiency gains in industry and modern services, not new job creation. Workers haven't left agriculture at the rate that genuine structural change requires. The outcome is reflected in living standards: CLSA data put average urban household income at around $20,000, and just $3,600 in rural areas.

Part of the problem is that new, productivity-boosting technologies tend to displace low-skilled workers faster than emerging industries can absorb them. For instance, India's IT sector has become a world-class tech hub, pulling in over $13 billion in venture capital each year, spawning countless start-ups and unicorns, and generating some $300bn in annual revenue. Yet, it employs only around six million people, barely 1pc of the national workforce.

Rapid GDP growth by itself cannot ensure enough jobs or social stability.

The roughly 2,000 global capability centres set up by MNCs add only about 2m jobs. Against this, India's labour force grows by some 12m young people annually, including about 1m engineering graduates, only half of whom are considered employable in their field. Over the past decade, the IT sector has added only about 1m jobs. India may handle over 30pc of global outsourced business-process work, but this tech-driven growth has been skill-intensive, not job-intensive.

As Indian industry and services keep climbing the value chain, the need for unskilled and semi-skilled labour is set to shrink further, a trend that AI, robotics, and automation may speed up, leaving policymakers with a dilemma: how to keep India competitive in technology while generating enough jobs for millions of young people without advanced skills. As services focus on finance, IT, e-commerce, and other knowledge-heavy fields, older labour-intensive jobs in retail and community and personal services contract.

Agriculture, the fallback employer for surplus labour, offers no real cure. Modernising it would raise productivity and rural incomes, but reform efforts run into political opposition — the Modi government's three farm laws sparked mass protests and had to be repealed. Even so, nearly 480m people rely on farming, a large share of them underemployed. Here lies the central paradox: the more agriculture modernises and mechanises, the fewer workers it will need, eroding its role as a buffer for surplus labour. Seasonal migration from poorer states like Bihar and UP to richer farming regions may also taper off as mechanisation reduces demand for hired labour. Briefly, agriculture can't continue absorbing new job-seekers indefinitely. Beyond the shifting nature of growth and its shrinking capacity to generate jobs, other structural issues compound youth unemployment: low participation by women in the workforce, premature decline of manufacturing, growing inequality, and above all, a widening gap between what education delivers and what employers need.

India has expanded higher education dramatically: gross tertiary enrolment is approaching 28pc, with some 45m students in colleges and universities. Yet this growth hasn't produced better job outcomes; millions of young people remain out of education, work, and training.

From 2004 to 2023, Indian universities turned out around 5m graduates a year; only 2.8m or so found jobs annually. The mismatch between supply and demand is severe. Between 2014 and 2022, over 220m applications competed for just 72,000 central government position.

The quality gap is worse than the quantity gap. McKinsey research found only about a quarter of Indian graduates have globally competitive skills, with another fifth meeting domestic hiring standards, leaving more than half short of what employers want. Outmoded syllabi, rote memorisation and scant hands-on training have left graduates credentialled but not always employable. Educated unemployment stems from higher education's disconnect with real economic needs. Students, families and institutions are fixated on degrees and scores rather than analytical thinking and problem-solving skills. Universities churn out graduates in fields with little market demand; technical and vocational roles go unfilled.

Government funding patterns deepen these imbalances. Elite schools like IITs and IIMs receive outsized public investment due to their prestige, while the overall cost of higher education keeps rising, forcing families into major financial sacrifice, often for degrees that don't pay off, as graduates face long jobless stretches or settle for work below their qualification level.

The lesson from South Asia is that rapid GDP growth by itself cannot ensure enough jobs or social stability. It needs to be more labour-absorbing, manufacturing needs new momentum, agriculture needs to enable rather than obstruct structural change, and education must build skills the modern economy actually demands. Otherwise, the gap between growth and employment will keep breeding frustration, endangering economic progress and political stability in the region.

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