

A quiet revolution

By Shahid Javed Burki

France, the country with the largest number of non-European migrants in the workforce. The wage to GDP ratio in France has declined to 67.6 per cent, a drop of 11 percentage points over this twenty year period. It is now below that of the United States.

This restructuring of the economy has made Europe once again competitive with the United States. Worker productivity is the other side of the coin; as the share of wages in GDP decline, labor productivity goes up. As Jean-Paul Fitoussi who runs the influential Paris based research center Observatoire Francais de Conjectures Economique puts it, Europe as a result of the restructuring of the labor markets is now as competitive as the United States. "So the evidence does not readily support claims that the Continent is technologically behind. Exports from France and Germany, for

example, are highly competitive with the rest of the world's and, unlike the United States, both countries export much more than they import."

While the realization that migration was bringing about a healthy change to the host economies was slow in coming to Europe, it was readily recognized in the United States that foreign workers had contributed significantly to the spectacular productivity growth in that country. The Americans were generous in admitting highly skilled workers into the country. One way of doing that was to grant H-1B visas to foreign high-tech workers in ever increasing

numbers. In 2001, the limit on the number of visas in this class was increased to 195,000 by the US Congress. And then three things happened: in March 2001, the dotcom bubble burst, reducing the demand for tech workers; in September 2001, Muslim terrorists struck America, creating a deep suspicion against migrants from the Muslim world; and in 2002, the US economy went into recession putting a pressure on wages. The most immediate impact of all this was to turn the Americans against immigration; in particular against the immigration of young males from Muslim countries. Pakistan by far was the hardest hit country because of its proximity to Taliban's Afghanistan. How has this change in the American sentiment materialized?

On September 30, Congress let the cap on H-1B visas issued to foreign high-tech workers shrink back to its old level of 65,000. Bills are pending in several state legislatures barring state government projects from using foreign high-tech workers. There is pressure on U.S. corporations not to outsource their work to the countries such as India.

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important component of our development strategy. In that way we could draw benefit from the quiet revolution described above. It is my view that the fears of "brain-drain" that had been put forward by a number of development economists in this context are not well founded. The reason is that the numbers of "brains" potentially available to large developing countries are many more than could be absorbed at home, in the domestic economies. They should be prepared for export.

The opportunity to export brains to the West, in particular to the United States, has been considerably reduced as a result of 9/11. Young people from Pakistan are finding it increasingly difficult to get visas that would allow them to work in the United States. There is an anti-immigration sentiment developing in Europe as well. This is

It has now become apparent that skilled workers don't have to leave home to provide their input for the products and services being produced by the West's hi-tech industry and financial and medical institutions. The enormous amount of investment made by the large telecommunications companies in laying down fibre optic cables connecting different parts of the globe created capacity far beyond the demand for it.

particularly directed towards the migrants originating in Muslim countries. Does this mean that the window of opportunity created by demographic asymmetry has closed permanently for Pakistan whose citizens are faced with greater discrimination in the United States — the world's largest market for highly skilled workers?

The answer is not necessarily so. Before explaining why policy planners in Pakistan should not give up on the strategy for exporting a part of its large human resource, it would be useful to go a bit deeper into the sources of resistance migration from the developing to the developed world is currently facing. Economics is almost always the main reason for bigotry. The anti-migration movement in western Europe has strong economic roots. There is a growing belief that migrants are putting pressure on the continent's labour market. Although there is some substance in this fear, wrong conclusions are being drawn by a segment of the European society. Migration, as we will indicate at present, has brought new dynamism to the European economies. There is a possibility that today's resentment against foreigners may translate into tomorrow's gratitude for reviving the continent's moribund economy.

HOW to turn Pakistan's large and young population into an economic asset is a question I have asked in this column on a number of previous occasions. I come back to it today to add a bit more substance to the theory I have advanced earlier. I have been suggesting that a large and rapidly growing population such as the one in Pakistan need not become a burden if it can be educated and trained.

A well educated workforce is of tremendous use to the countries that have deliberately promoted the sectors of the economy that are dependent more on human skills than on capital equipment. This was the secret of the success of the "miracle economies" of East Asia in the last quarter of the 20th century. The same strategy is now being repeated with spectacular results by China at the start of the 21st century. Our neighbour India is not far behind. Its IT industry has created a large presence for itself in the world's markets. In 2003, Indian IT exports were closer to \$10 billion, almost equal to Pakistan's total exports.

The Indians are now moving into a number of other areas that depend on the ready availability of a large number of highly skilled young people. They are now focusing on developing health services in order to provide support to the hard-pressed health sectors in the West, not just in the United States but also in Europe. They have also begun to do economic and financial analytical work for American and European firms that use relatively low priced Indian workforce to do what has come to be called "back office" operations. India now has tens of thousands of people answering telephones in hundreds of call centres scattered around the country.

Pakistan has the same demographic attributes as India but it has not taken advantage of the quiet revolution that is taking place in the structure of the global economy. If anything, Pakistan with continuing high rates of fertility, has a population even younger than that of India. Why hasn't Pakistan fared as well in taking advantage of the opportunities created by this silent revolution? But to begin with, what is the nature of this revolution? It is the consequence of two developments.

The first development is what is perhaps best described as demographic asymmetry. While the populations of the developed world are rapidly ageing, a number of populous countries such as Pakistan continue to have very young populations. Our rate of fertility remains high. Although it has begun to

Human Resources
Dawu
18-11-03

Back to

decline it is not likely to reach for a while the level of 2.1 births per woman. It is at that level that populations attain a steady state, when the number of births equal the number of deaths. This level was reached by the West several decades ago. Now, most developed countries have much lower fertility rates. With fewer births than deaths, populations in several European countries and in Japan will begin to decline in size. It is imperative for these countries to turn to the world's more populous nations with relatively younger populations to maintain a reasonable rate of economic growth. It is this demographic asymmetry that provides countries such as India and Pakistan windows of opportunities. India has opened this window for itself and is drawing enormous benefits already. The window remains closed for Pakistan.

The second development behind this revolution is a deep restructuring of the global economy with emphasis on the service sector — particularly the part of the sector that needs highly skilled people to produce the products demanded by the populations in the rich countries. Health, entertainment, and communications are the obvious examples of the growth of this kind of knowledge-intensive service industry.

In the articles written earlier on this subject — mostly before 9/11 I had suggested that preparing a segment of the Pakistani population for export should become an

The old European model was producing low rates of economic growth. In 2003, European economies will grow by only 0.5 per cent average and unemployment will hover around 8 to 9 per cent of the workforce. Such an anaemic growth rate will mean a decline in the real income of the poor. This decline will be exacerbated by a cut-back in social programmes to keep the national deficit within 3 per cent of gross domestic product as mandated by the latest treaty that bind the various European countries in the European Union. This one-to-two punch on the poorer segments of the population has fuelled the rise of anti-migration political right which has gained considerable traction from Denmark, to the Netherlands, to France, Italy and Spain.

But the same numbers on employment, wages and salaries point towards a rosier picture. In most mature economies of continental Europe, wage costs as percentage of the GDP have fallen quite dramatically, in large part because of the migrants' willingness to work for less. In 1980, wages as per cent of GDP in the European Union were some five percentage points higher than in the United States, 75.2 per cent as against 70.7 per cent. The share of wages in national product was the highest in France (78.5 per cent) with Germany a little lower (74.5 per cent). Two decades later, in 2003, the EU average at 68.3 per cent is the same as that for America. The most dramatic decline has occurred in

tech industry and financial and medical institutions. The enormous amount of investment made by the large telecommunications companies in laying down fibre optic cables connecting different parts of the globe created capacity far beyond the demand for it. This has brought down the price of connectivity. Overseas cable costs have fallen as much as 80 per cent since 1999. This has made it possible to transmit huge amounts of data from corporate headquarters in the United States to companies doing outsourced work in the developing world. Mathew Slaughter, associate professor of business administration at Dartmouth College, says information technology work will "move faster [than manufacturers] because it's easier to ship work across phone lines and put consultants on airplanes than it is ship bulky raw materials across borders and build factories and deal with tariffs and transformation."

India is the current favourite for outsourcing and presents Pakistan with a model that it can replicate. India has more than half a million IT professionals. It is adding two million graduates a year, many of whom are attached to the IT sector. The starting salary of a software engineer in India is \$500 a year, about one-eighth to one-tenth in the US. This then is the route Pakistan should take but it will need a great deal of government attention and a considerable amount of public and private sectors investment in institutions of technology and high learning.