

October 2025

South Asia Development Update

Jobs, AI, and Trade



Main Messages

What are growth prospects for South Asia? *Slowing, but still stronger than in other EMDE regions, with downside risks.*

What are the labor market implications of AI adoption? *15 percent of workers could benefit from productivity gains. AI skills already command a 30 percent wage premium.*

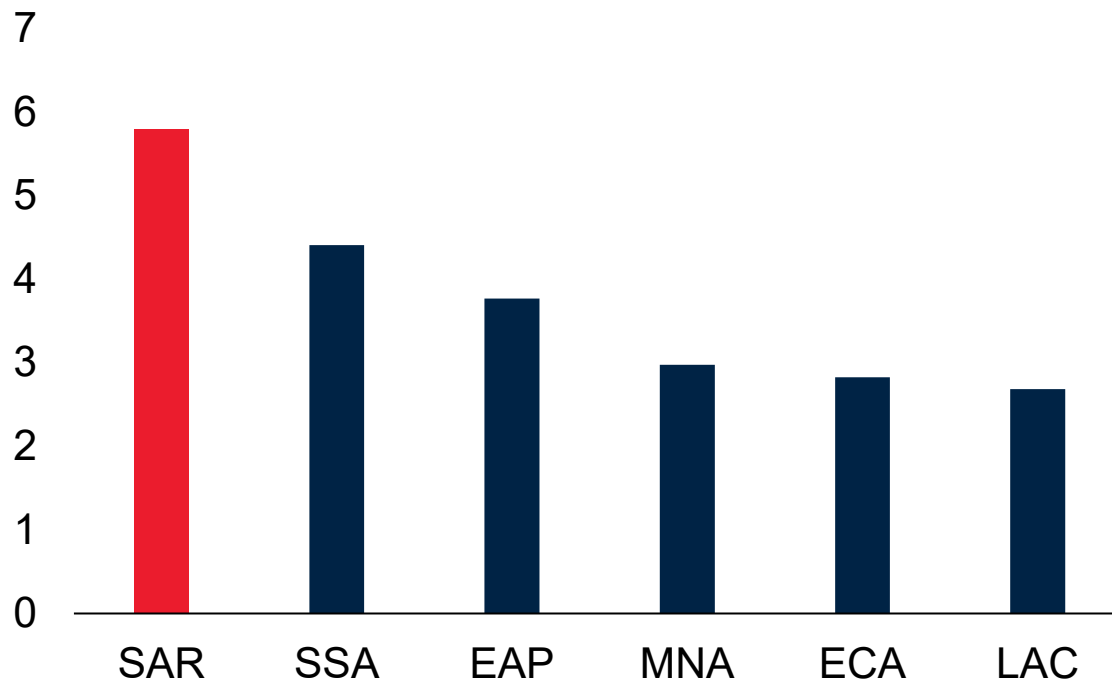
What would be the labor market implications of tariff cuts? *Tariff cuts on intermediate inputs are likely competitiveness-enhancing and job-creating, especially for higher-skilled, younger workers and in manufacturing firms.*

How can policies smooth labor market adjustments? *Help workers move occupations, firms, locations by improving connectivity, upskilling, removing obstacles to firm growth, expanding access to finance.*

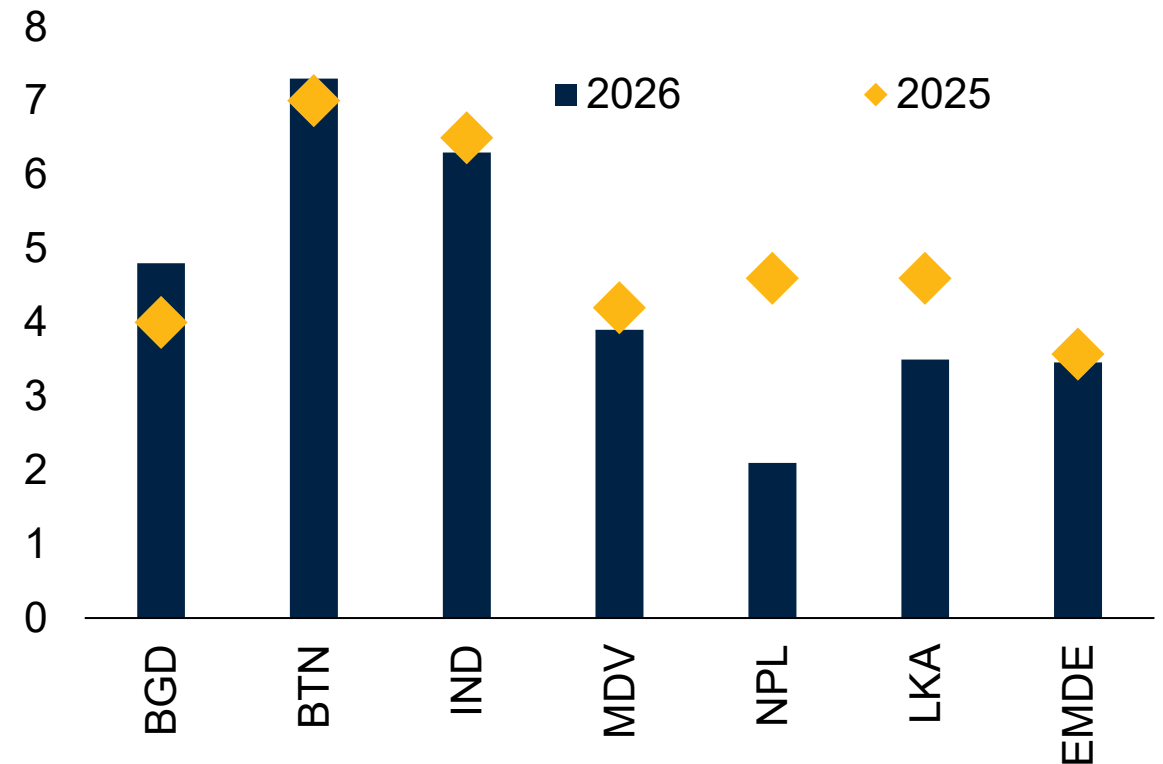
SAR Growth Outlook

Despite Growth Slowdown, SAR Will Remain Fastest-Growing Region

EMDE regions: Growth forecasts for 2026
(Percent)



South Asia : Growth forecasts
(Percent)



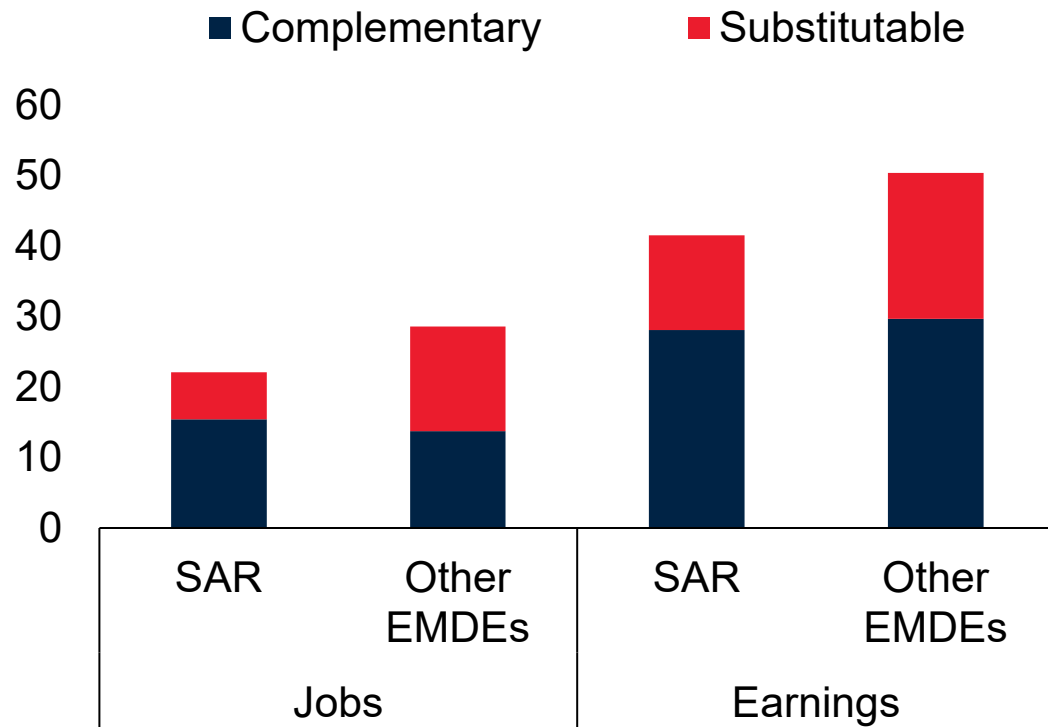
Source: World Bank Macro Poverty Outlook; Haver Analytics; World Bank

Note: Number for 2026 are for calendar year for Maldives and Sri Lanka, for fiscal year 2025/26 for Bangladesh, Bhutan, and Nepal, and for fiscal year 2026/27 for India. Left Panel: Real GDP-weighted (at 2010–19 average prices and market exchange rates) average real GDP growth from October 2025 edition of the South Asia Development Update. There are 47 economies in SSA, 23 in EAP, 21 in ECA, 22 in MNA and 6 in SAR. Right Panel: Forecasts from October 2025 edition of the South Asia Development Update.

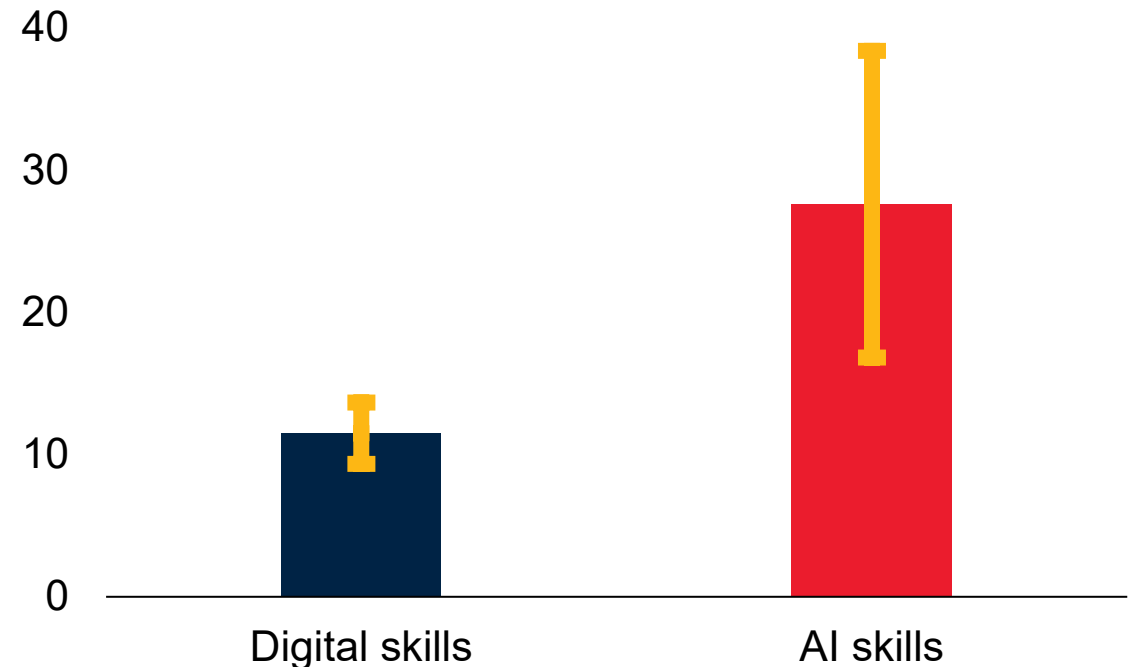
Labor Market Implications of AI Adoption

AI Will Benefit Workers in Complementary Jobs; High AI Skills Premium

Share of jobs and labor earnings exposed to AI
(Percent of jobs)



AI wage premium
(Percent)



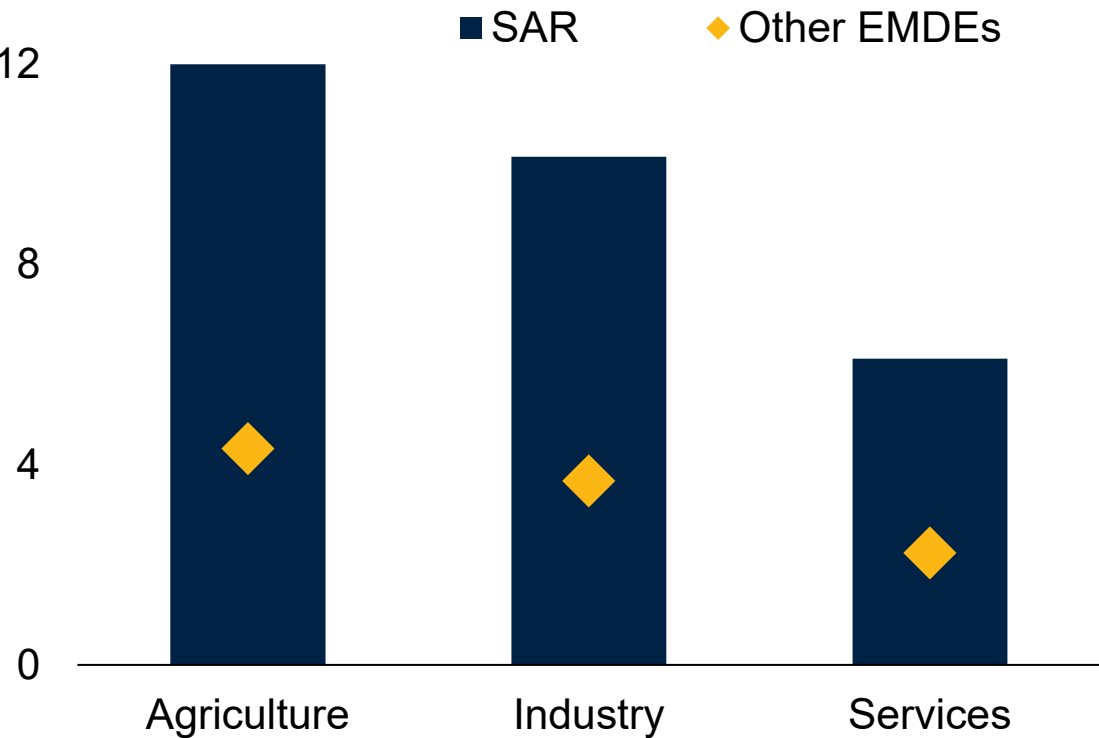
Source: Felten, Raj, and Seamans (2023); GLD labor force surveys (World Bank); Lightcast (database); Pizzinelli et al. (2023); World Bank.

Left Panel: Exposure to AI is defined as a composite AIOE score greater than the median score across occupations. Complementary (substitutable) jobs are defined as a complementarity score above (below) the median score across occupations and above-median exposure.. Right Panel: Bars show the estimated wage premiums associated with digital and AI skills. Wage premiums are estimated from a job listing-level regression of log posted salaries on indicators for digital or AI skills, controlling for country-year, location, and occupation fixed effects. Yellow whiskers represent 95 percent confidence intervals, with standard errors clustered at the occupation level.

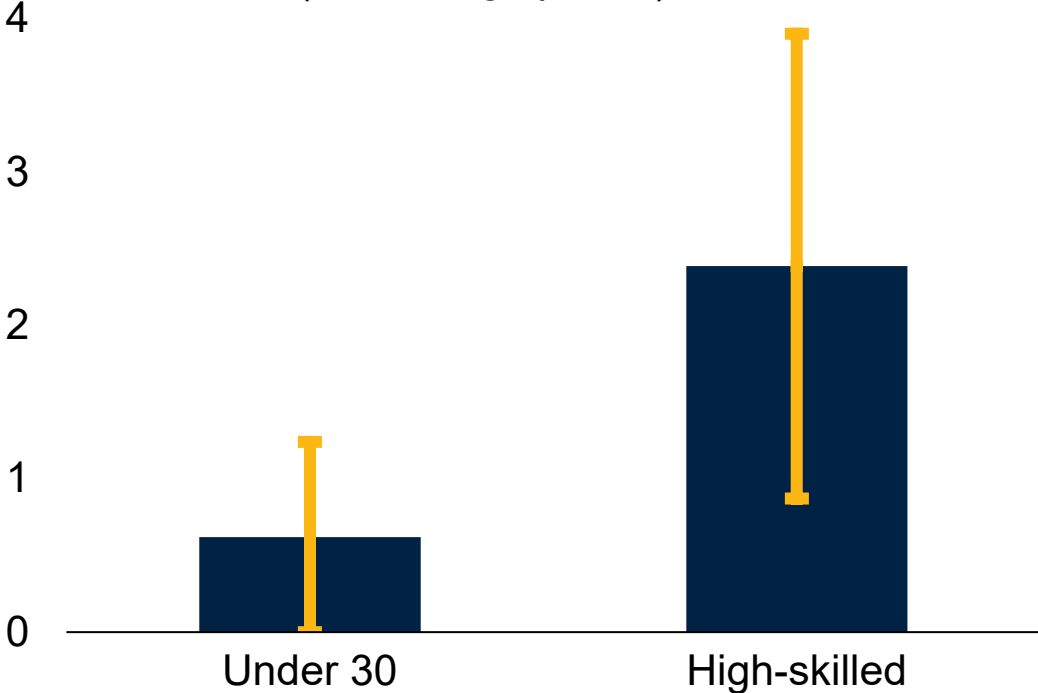
Labor Market Implications of Tariffs Cuts on Intermediate Inputs

Would Benefit Younger, More Skilled Workers

Tariffs on intermediate inputs
(Percent)



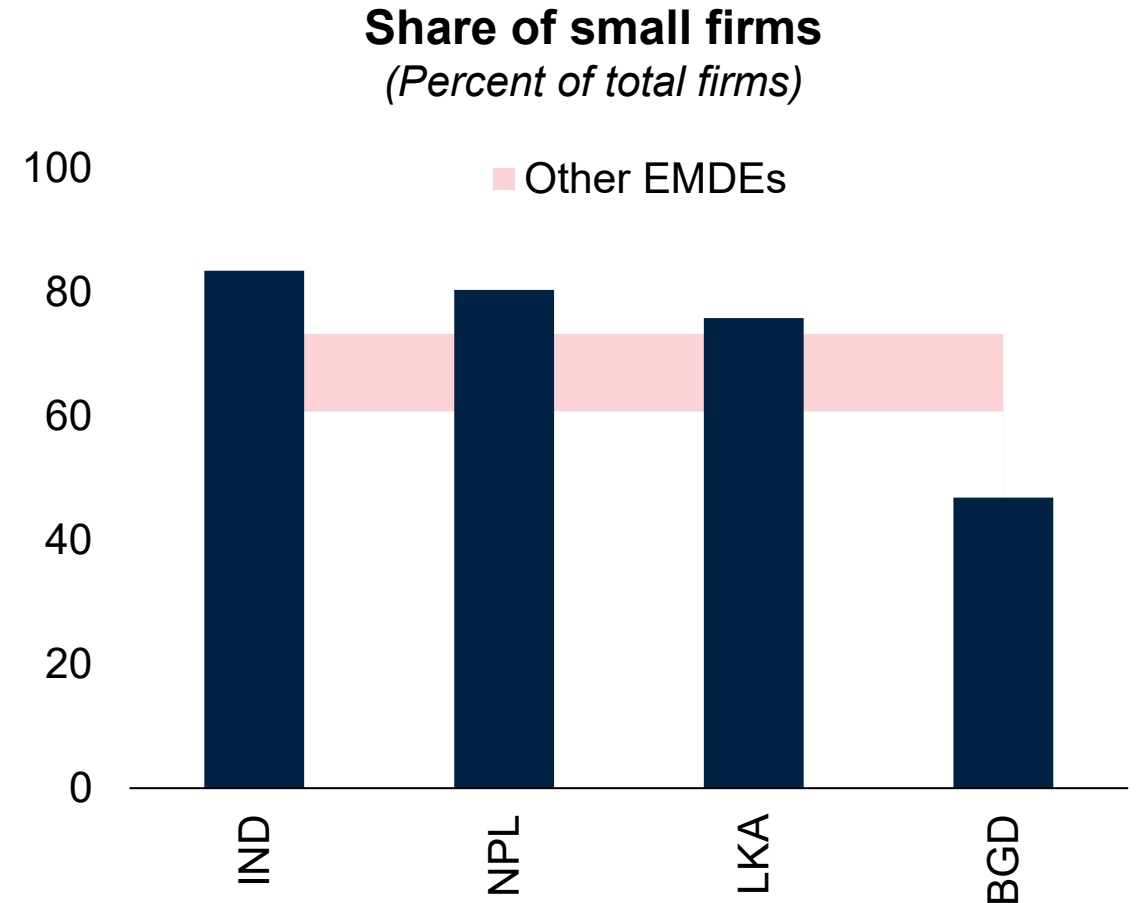
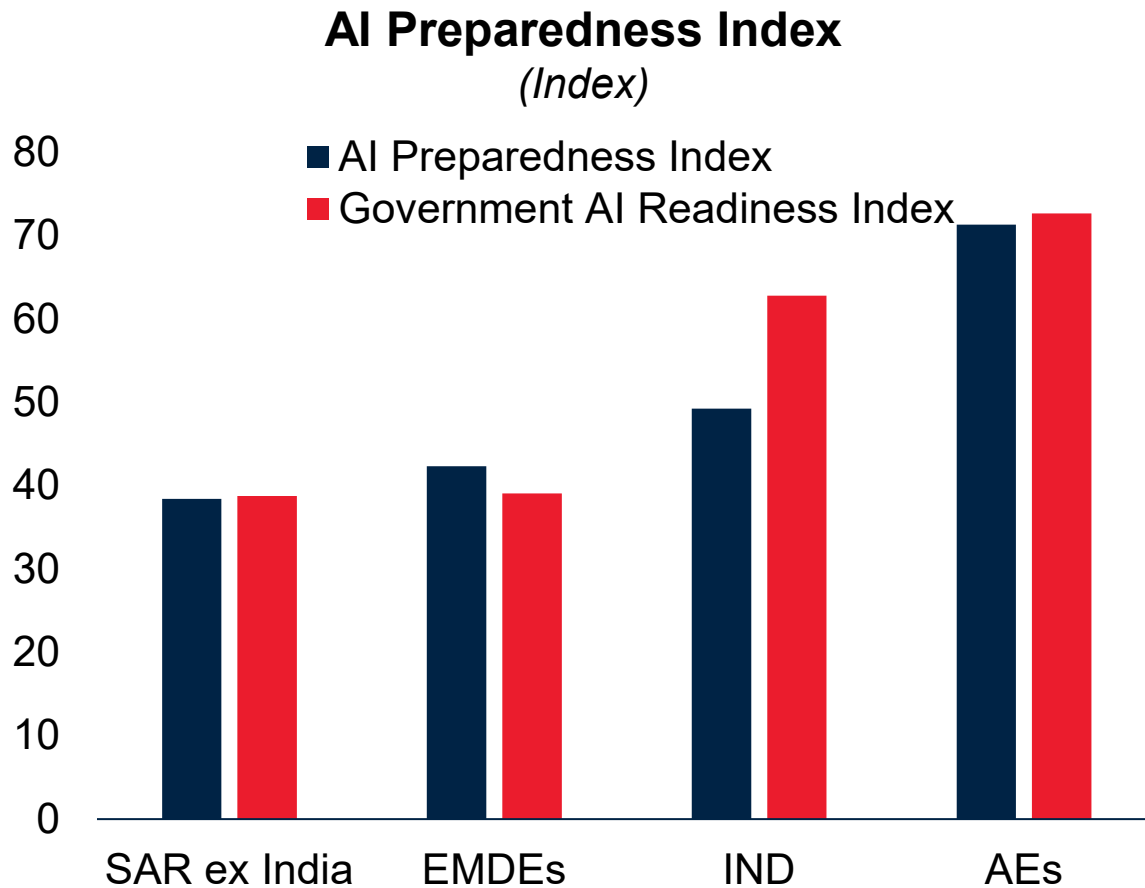
South Asia: Marginal probability of worker characteristics for 1 ppt lower tariff on intermediate inputs
(Percentage points)



Sources: Asian Development Bank Multiregional Input-Output Tables (database); Global Labor Database labor force survey microdata (database); World Trade Organization Analytical Database; World Bank.
Note: EMDEs = emerging market and developing economies; SAR = South Asia. Tariff data are the latest available, trade and input shares use 2023 data. For Sri Lanka, includes para-tariffs. Left Panel: Input tariffs are calculated as the weighted average of tariffs on intermediate inputs (split from HS6 product codes using the Classification by Broad Economic Categories). Right Panel: Bars show the marginal effects of probit regressions with the respective worker characteristic as the binary dependent variable. Standard errors are clustered at the country-sector level. Whiskers indicate 90 confidence intervals.

Policy Implications

Better Foundations, Policies Can Support Labor Market Reallocation



Sources: Artuc, Lederman, and Porto (2015); International Labour Organization International Labour Statistics (database); IMF Government Financial Statistics (database); World Bank Enterprise Survey; World Development Indicators (database); World Bank.

Note: AE = Advanced economies; BGD = Bangladesh; EMDEs = emerging market and developing economies; IND = India; LKA = Sri Lanka; NPL = Nepal; SAR = South Asia. Left Panel: Chart shows weighted averages across 68 countries, using the working-age population as weights for each region and time period. South Asia average is based on Bangladesh, India, Maldives, and Sri Lanka. Right Panel: Sampled among formal firms. Small firms have 20 employees or fewer. For the World Bank Enterprise Surveys, the South Asia sample includes Bangladesh and India for 2022, Nepal for 2023, and Sri Lanka for 2011. EMDEs include 71 countries between 2017 and 2023.

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