Structural transformation for inclusive growth and productive employment

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Inclusive structural transformation is central to creating opportunities for Decent Work

ILO Centenary Declaration 2019 - promote full and productive employment and decent work through inter alia (i) trade, industrial and sectoral policies that promote decent work, and enhance productivity, and (ii) investment in infrastructure and in strategic sectors to address the drivers of transformative change in the world of work.

- Sectoral composition of economy key to economic and labour market outcomes.
- ST is reallocation of output and employment towards leading sectors – those associated with static and dynamic economies of scale and strong positive macro spill-overs.

- ST is typically associated with shifts from agriculture towards manufacturing and services leading to:
  - Average productivity increases from compositional shifts (reallocation effect).
  - Productivity increases within sectors due to change in technology etc. (within-sector effects).

Thus ST results in more rapid GDP growth, higher productivity and more (and better) jobs, and thus more equitable outcomes.

But many of today’s developing countries experiencing “premature deindustrialization”, affecting productivity levels. Movement from low-prod agr to low-prod (informal) services.

Asia Pacific as a region has fared better than other developing regions, but variation across countries – parts of East and SE Asia followed classical model, not all.

Average annual growth in labour productivity, by economy, 2000-09 and 2010-19 (percentages)

But middle income trap?

Distribution of employment by industry, 1991 and 2020 (%)

Note: Labour productivity is measured as GDP per person employed (GDP constant 2011 international $ in PPP).

Old and new challenges for inclusive ST and development - will these deepen pre-mature de-industrialization?

- Challenge to create enough quality jobs.
- Challenge of social protection.
- Strong gender impacts.
- Move away from old production methods.
- Effects on manufacturing employment?

- Labour replacement as cost of digital and robotic automation falls?
- Skills polarized?
- New forms of work – new forms of informality.
- Reshoring of manufacturing to high-income regions.

Environmental Sustainability

Informality

New automation technology
Manufacturing may not create enough jobs as in earlier development models, though will propel productivity

Threefold decomposition results, by sector

- Services (both leading and lagging) complement to manufacturing in driving economic growth.
  - Manufacturing continues to remain important especially in LICs, but its contribution to overall productivity growth has weakened over time while that of services has become stronger.
  - Modern services contributing most to overall productivity growth and absorbing workers.
  - Modern services have been separated from manufacturing or demand for them derived from production of manufactured goods.

Source: Dasgupta, S.; Kim, K.B.; Pinedo Caro, L. (2019) As much to be gained by merchandise as manufacture? The role of services as an engine of growth, fig. 5.
Favorable aggregate labour productivity and employment growth can be driven by either manufacturing or services, but the most successful late developing countries relied heavily on manufacturing. Manufacturing still critical for productivity growth.

Significant production linkages between ICT-intensive services and knowledge-intensive manufacturing, suggesting that these services can function as a leading complement to manufacturing.

Fastest growing countries associated with rapid growth of exports.
FOW drivers posing new challenges- hollowing out of middle level skills

Technological upgrading in textiles and apparel GSCs is associated with strong de-feminisation. Gender implications of ST important.


1. Less employment per unit of output

2. Labour share declining

3. Informal employment persists, roughly 2 billion globally. (ILO 2020)

Youth wage employment rose by 20 percent globally, 2005-2015 (Dasgupta, Kim, Pinedo (2019), but mostly temporary and informal in middle income countries.
Covid has made challenges of ST much bigger. In Asia-Pacific, 140 million FT jobs equivalent lost, flow to inactivity increased, working poverty increased

- Women, youth and informal workers most affected.
- Inequalities increased.

Estimates of the working hours and employment lost in the Asia-Pacific region, 2020

- Working hour losses 2020: 7.9%, 140 million FTE*
- Employment loss: 62 million (c. 40% of FTE* loss)
- Working hour reduction within employment (c. 60% of FTE* loss)
- Flow to unemployment: 14 million
- Flow to inactivity: 48 million

Note: * Full-time equivalent job (assuming 48-hour workweek).
Source: ILO (2021) COVID-19, labour market slack and what it means for recovery, fig. 1.

Working poverty as a share of employment, Thailand

- Three categories of working poverty together could see an increase from 4.7 to 11.2 per cent of total employment in Thailand this year.


Source: ILO.org
Thailand -740,000 jobs lost in high-risk sectors between first and second quarter 2020

<table>
<thead>
<tr>
<th>Sector</th>
<th>% change in employment, Q1-Q2 2020</th>
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<tbody>
<tr>
<td>Arts, entertainment and recreation</td>
<td>-16.3</td>
</tr>
<tr>
<td>Administrative and support service activities</td>
<td>-11.7</td>
</tr>
<tr>
<td>Real estate activities</td>
<td>-9.7</td>
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<tr>
<td>Professional, scientific and technical activities</td>
<td>-5.5</td>
</tr>
<tr>
<td>Accommodation and food service activities</td>
<td>-4.2</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-3.8</td>
</tr>
<tr>
<td>Other service activities</td>
<td>-2.7</td>
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<tr>
<td>Transportation and storage</td>
<td>-2.4</td>
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<tr>
<td>Wholesale and retail trade</td>
<td>-2.4</td>
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Advancing social justice, promoting decent work
Globally, fiscal stimulus helped some, but great divergence in recovery

Fiscal stimulus of 1% of annual GDP is positively associated with 0.3 pp in working hours (after others being controlled)

Diverging trends between developed and developing world
Working-hour losses, relative to Q4 2019

Where are we heading? Inclusive ST now even more critical for DW - requires investments in ‘strategic’ sectors – manuf. and services

Pro-employment macro and sectoral policies

- In light of the sheer scale of job shortfalls, macroeconomic policies (including fiscal, monetary and industrial policies) will be crucial.
- In this respect, critical tests would be:
  a) Can countries make large investment in “strategic” sectors (e.g. care/health, green, digital)?
  b) How can countries support large scale transition for business and workers?
  c) In doing so, can we transform global supply chains?

Global Accelerator for Jobs and Social Protection (UN SG, Sep 2021)

Designed and implemented in conjunction, investments in these two policy areas can contribute to processes for inclusive ST:

- to support formalization;
- creation of decent employment in key sectors of the economy (digital, green, tourism, agriculture, care);
- facilitate a job-rich growth and a just transition to the green and care economies.
Jobs in care sector projected to rise globally. To ensure that these are decent jobs, supportive employment, labour market and gender responsive policies needed.

Note: For 2015, ILO calculations based on labour force and household survey microdata
Green jobs have potential – but investments lagging. ..and just transition needed

Investments in renewable energies, could add 18 million jobs by 2030, but needs skills and training and just transition.

Yet, globally, less spending on green recovery (% of total global stimulus)

Source: ILO (2019) Skills for green jobs
New types of digital jobs - access to skills, and rights and social protection issues critical, especially for youth

- Risk of automation is highest in jobs held by young people in manufacturing and services.
- Young people more likely in platform economy.
- New forms of informality amongst youth – non-standard forms of employment.
For the title, I would emphasize "Digitalization is not necessarily benefiting youth" unless there are job creation policies able to absorb the large levels of young graduates and young jobseekers.
To address COVID-19-related labour market challenges, ILO member states and constituents adopted a Global Call to Action for Human-Centred Recovery in June 2021, committing to:

- “supportive macroeconomic, fiscal and industrial policies” for an inclusive job-rich recovery, skills for transition, support to SMEs, universal social protection and Fundamental Principles and rights at work. Gender responsive policies.
- Strengthened cooperation with multilateral institutions (including UN, IMF and World Bank) for policy coherence;
- Social dialogue for solutions.

Policy action critical, but risks exist

- Concerns about global supply chain bottlenecks, inflation, debt distress - may create constraints in policy implementation - get back to “business as usual”.
- In context of FOW drivers and Covid crisis, industrial restructuring likely with employment impacts.
- Current geopolitical situation not helpful for global solidarity and trade
- The risk of “great polarization” between advanced and low-income countries is high.

Some final reflections on policy action and risks
Thank you
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Job/skill polarization in manufacturing in developing countries

Change in share of manufacturing employment between 2005 and 2015, by skill level, selected developing countries (percentage points)

Source: Authors’ calculations based on official household surveys.