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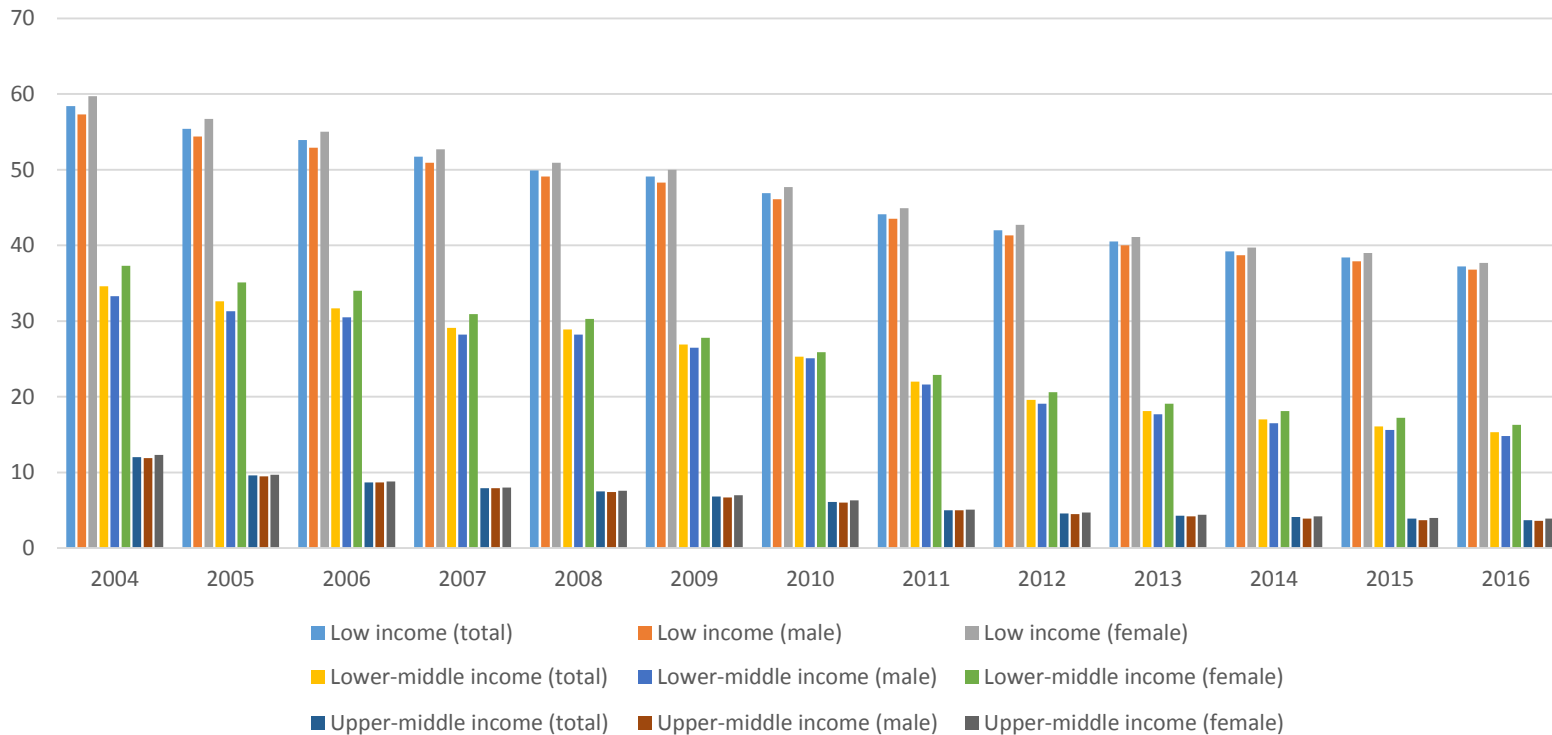
Structural transformation, growth and jobs in developing countries

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Developing countries have made significant socio-economic progress in recent decades, including in reducing extreme working poverty

Share of working poor in total employment, US\$ 1.90 PPP (%)

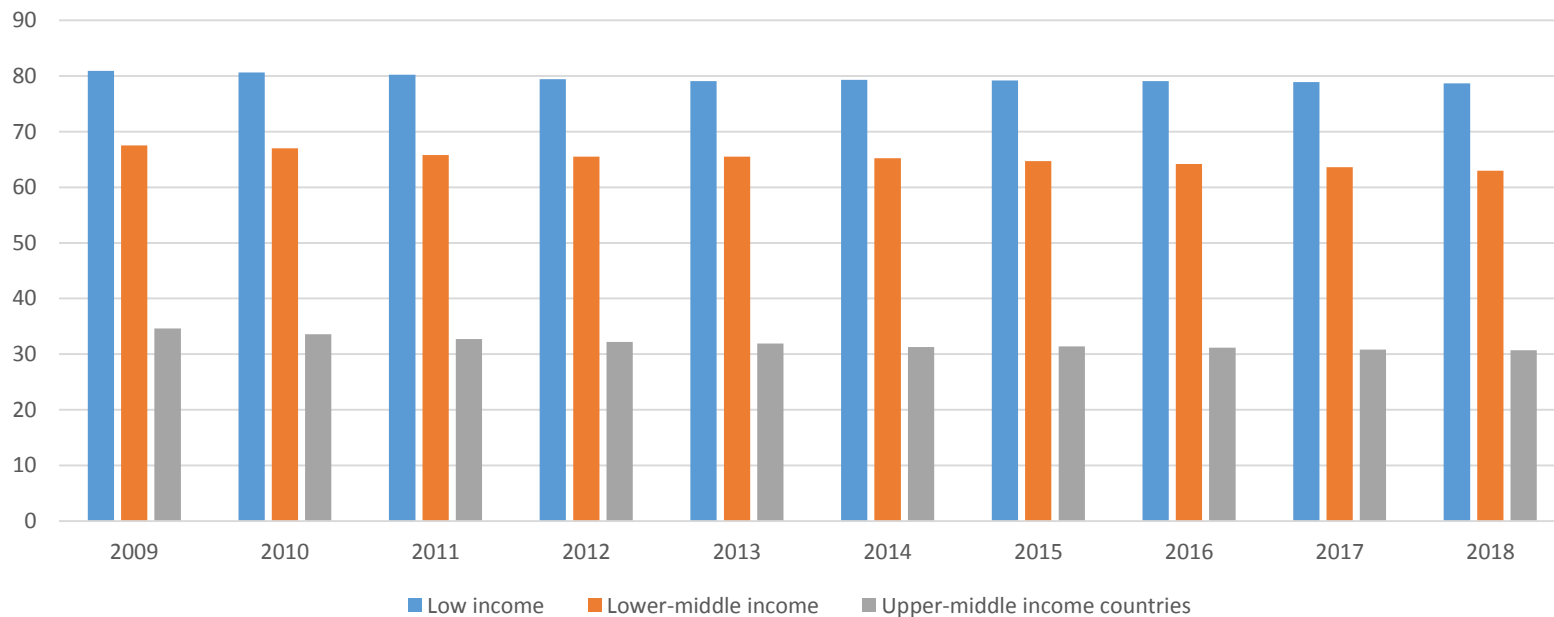


Source: ILO modelled estimates, available from ILOSTAT.

...but progress has been slower in low-income countries and gender disparities persist

Vast majority of working poor in developing countries are in “vulnerable employment”

Share of own-account and contributing family workers (vulnerable employment) in total employment (%)



Source: Authors' calculations based on ILO modelled estimates, available from ILOSTAT.

...which remains high and has fallen only modestly in past decade, leaving many with inadequate earnings, poor working conditions, limited social protection, and unrecognized by law



Quality of jobs key consideration in developing countries...

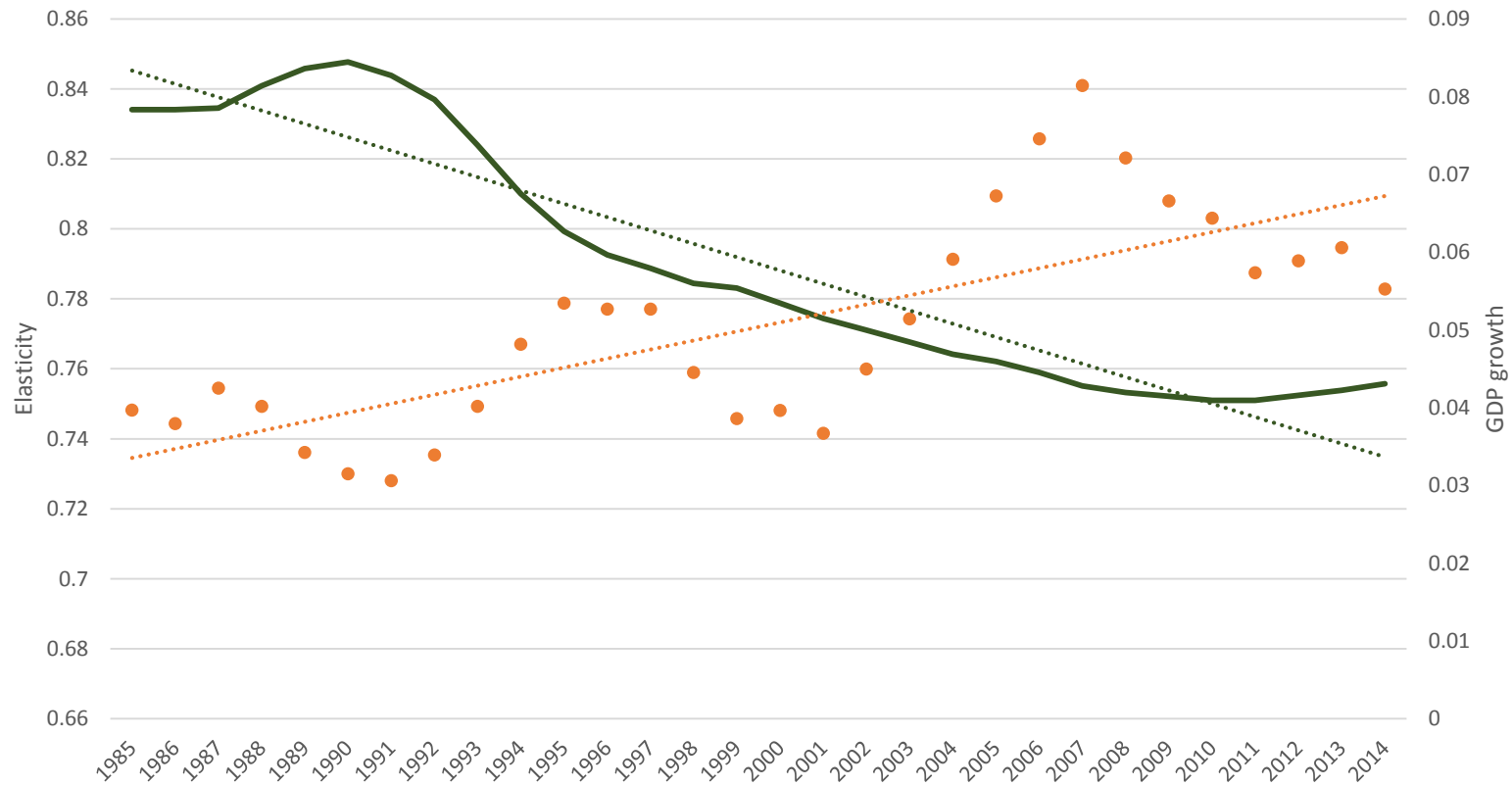
- **Informal employment**
- **Underemployment**
- **Young women and men entering labour market that increasingly offers less secure and well-remunerated jobs**
- **Lagging real wage growth relative to productivity growth**

...but creating sufficient number of jobs also challenge

- **Unemployment (youth, long-term)**
- **Diminished medium-term economic growth expectations (secular stagnation or “new normal”) and impact on jobs demand in developing countries**
- **Technological changes, including automation, disrupting existing jobs while creating new ones**

Quantitative challenge compounded by falling employment elasticities of growth

Employment elasticity of GDP growth in G24 countries, 1985-2014

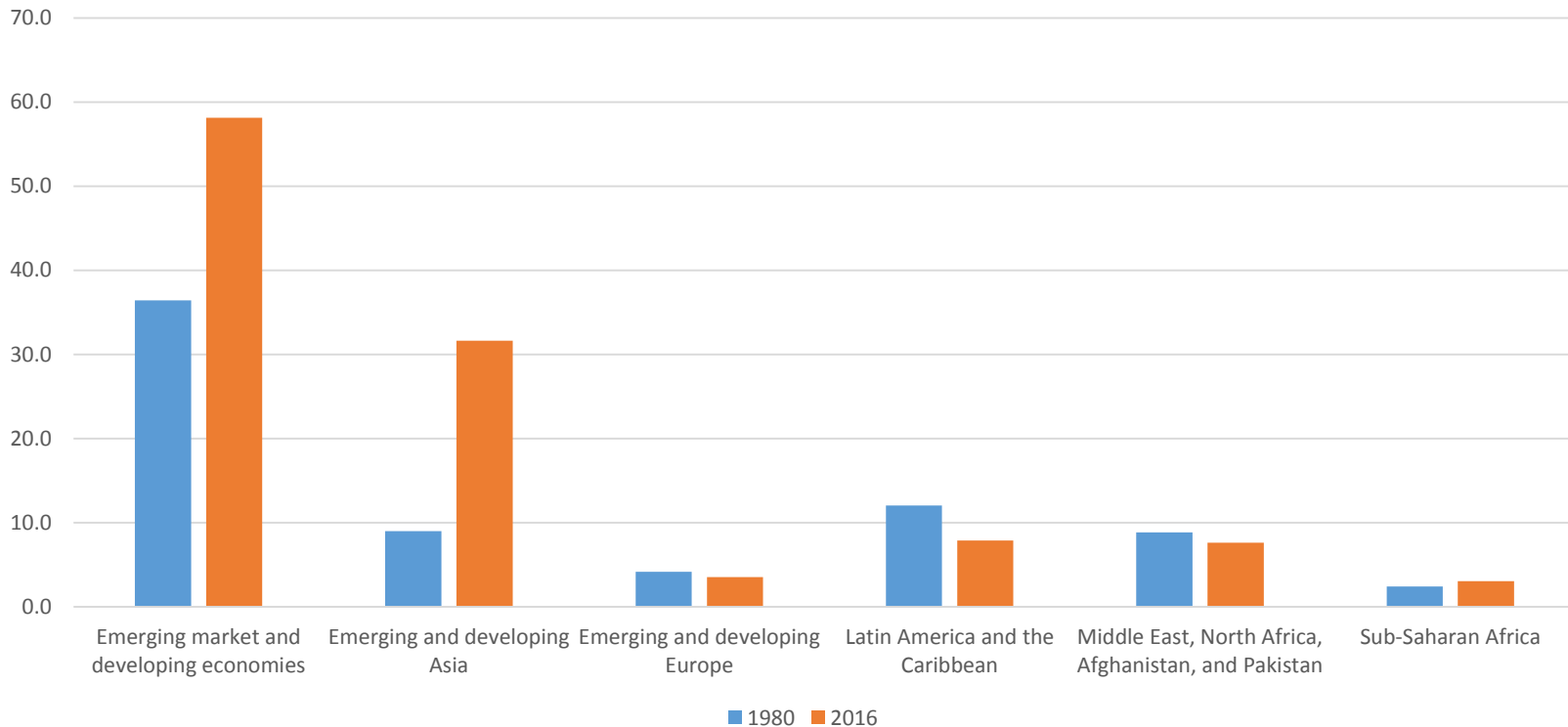


Note: G24 countries and partners included with the exception of Gabon and Lebanon. Weighted average.

Source: Authors' calculations based on Penn World Table 9.0.

Important gains in income convergence by developing countries as a group...

GDP based on PPP as a share of world total (%)



Source: IMF, World Economic Outlook Database, April 2017.

...but driven largely by developing Asia, and China in particular

Limited widespread gains in income convergence also evident in wages (PPP)

Growth in hourly wages (real and PPP) between 2005 and 2015, selected G24 countries (%)



Source: Authors' calculations based on official household surveys.



Countries that have “caught-up” underwent significant structural transformation

- **Kuznets (1971):** Structural transformation one of six characteristics of modern economic growth
- **Rodrik (2011):** Key to growth is getting the economy’s resources to flow into “convergence industries”
- **Kaldor (1968); Chang (2011):** Manufacturing critical due to the dynamic economies of scale and ability to induce productivity growth within and outside of sector
- **Baghwati (2011):** Services can provide alternative “engine of growth” in light of increasing tradability of services and potential for increasing returns
- **Dasgupta and Singh (2005); Kucera and Roncolato (2016):** potential of services to act as both leading and lagging complement to manufacturing in driving economic growth

Direction and pace of structural transformation have varied among G24 countries

Change in share of employment between 2005 and 2015, by sector, selected G24 countries (percentage points)

	Brazil	China	Colombia	Egypt	Ethiopia	India	Mexico	Nigeria	Pakistan	Peru	Philippines	South Africa
Agriculture	-6.7	-18.5	-3.7	0.1	-2.1	-8.8	-1.6	-15.5	-1.3	-4.9	-6.8	-5.4
Manufacturing	-2.4	1.1	-3.9	-0.9	1.2	1.1	-0.3	8.7	1.6	-0.3	-0.5	-4.2
Construction	2.5	10.1	1.2	3.8	0.3	4.7	-0.1	1.5	1.1	1.9	0.8	3.1
Transport and comm.	1.1	3.9	0.6	0.9	1.2	0.7	0.0	1.2	-0.4	1.0	0.4	1.0
Trade	1.7	3.8	3.1	-4.1	-1.1	0.3	0.9	3.5	1.5	0.1	2.0	-1.2
Financial int.	0.1	0.7	0.3	-0.3	0.2	0.3	0.1	0.0	0.2	0.3	0.3	0.3
Business activities	1.6	1.6	3.8	0.4	-0.1	0.5	1.3	0.8	0.6	1.0	1.9	4.0
Public administration	0.4	-2.6	0.3	-0.8	0.0	-0.3	-0.4	0.4	0.0	0.7	0.5	-0.5
Education	0.7	0.1	-0.8	0.0	1.1	0.6	-0.6	0.7	0.1	0.4	0.0	0.3
Health	1.4	0.5	0.8	-0.2	0.6	0.3	0.2	0.0	0.0	0.5	0.0	1.4
Other services	-0.5	-0.6	-2.0	1.0	-1.3	0.6	0.4	-1.3	-3.5	-0.8	1.4	1.0

Source: Authors' calculations based on official household surveys.

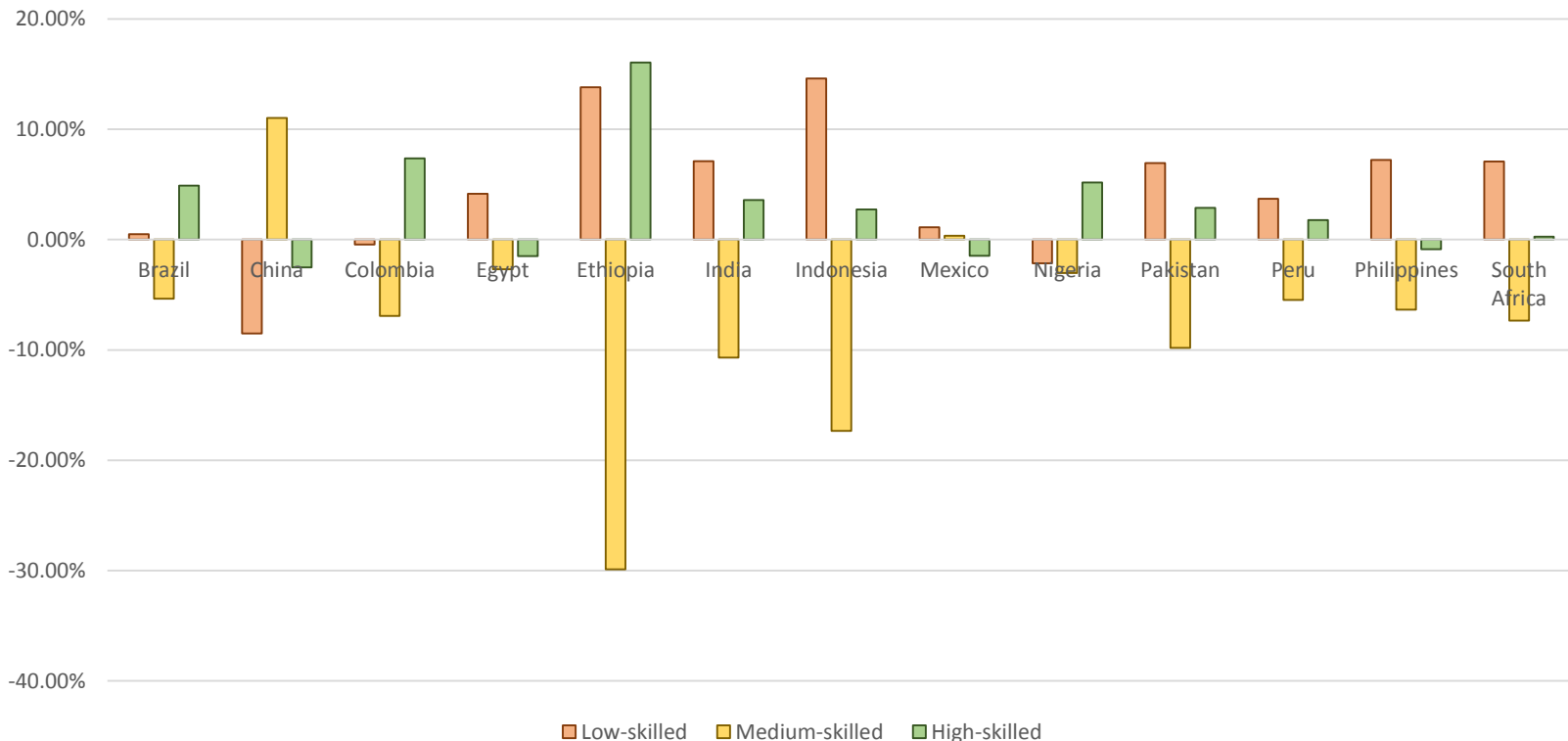


Some observations...

- **Share of employment in agriculture falling**
- **Premature deindustrialization in Latin America and Africa**
- **Share of services increasing, but risk of from low-productivity agriculture to low-productivity services, often in informal economy**

Changes in skills composition within sectors also evident...

Change in share of manufacturing employment between 2005 and 2015, by skill level, selected G24 countries (percentage points)

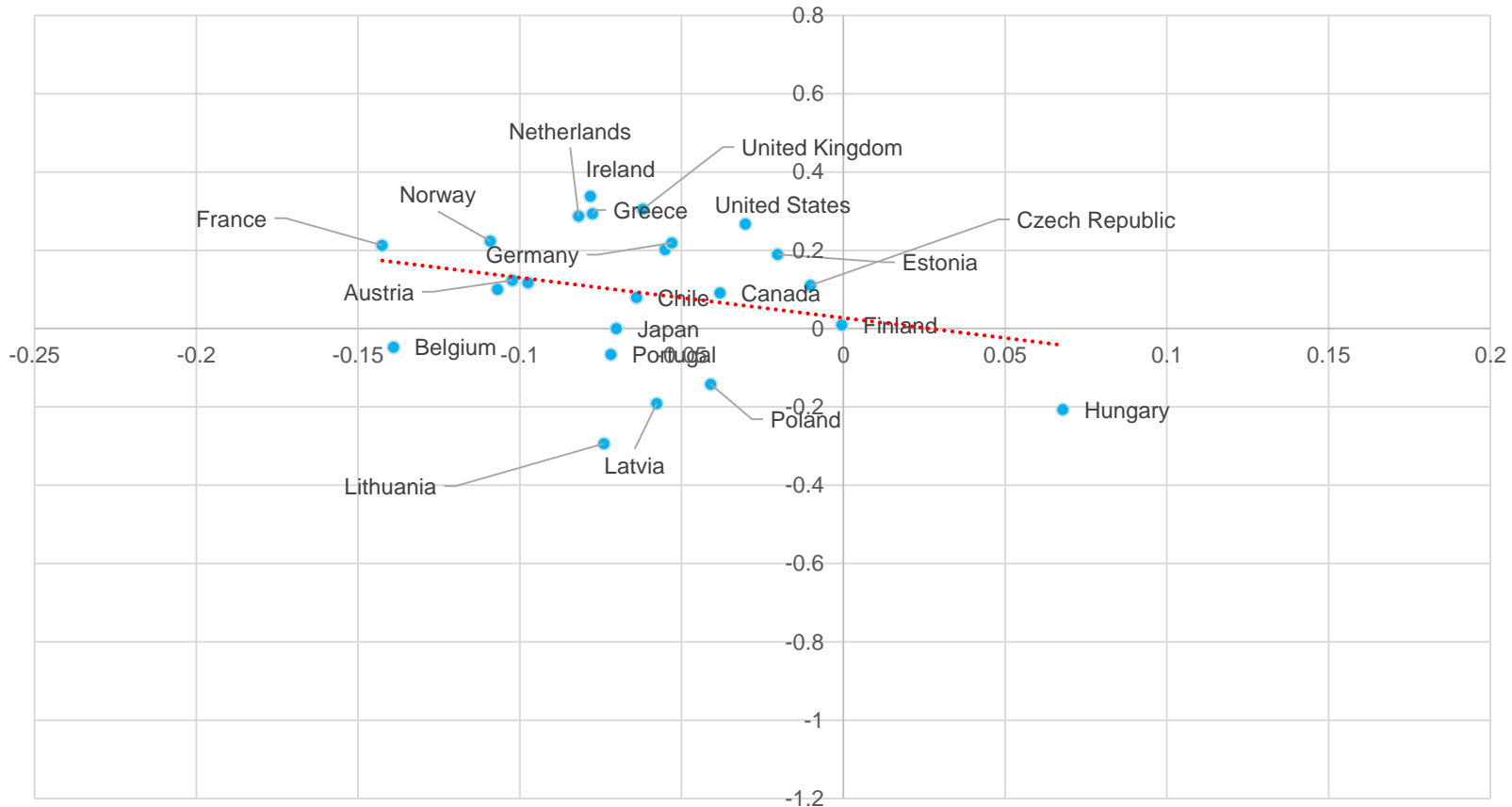


Source: Authors' calculations based on official household surveys.

...pointing to job polarization in manufacturing also in developing countries

Job and wage polarization in advanced economies...

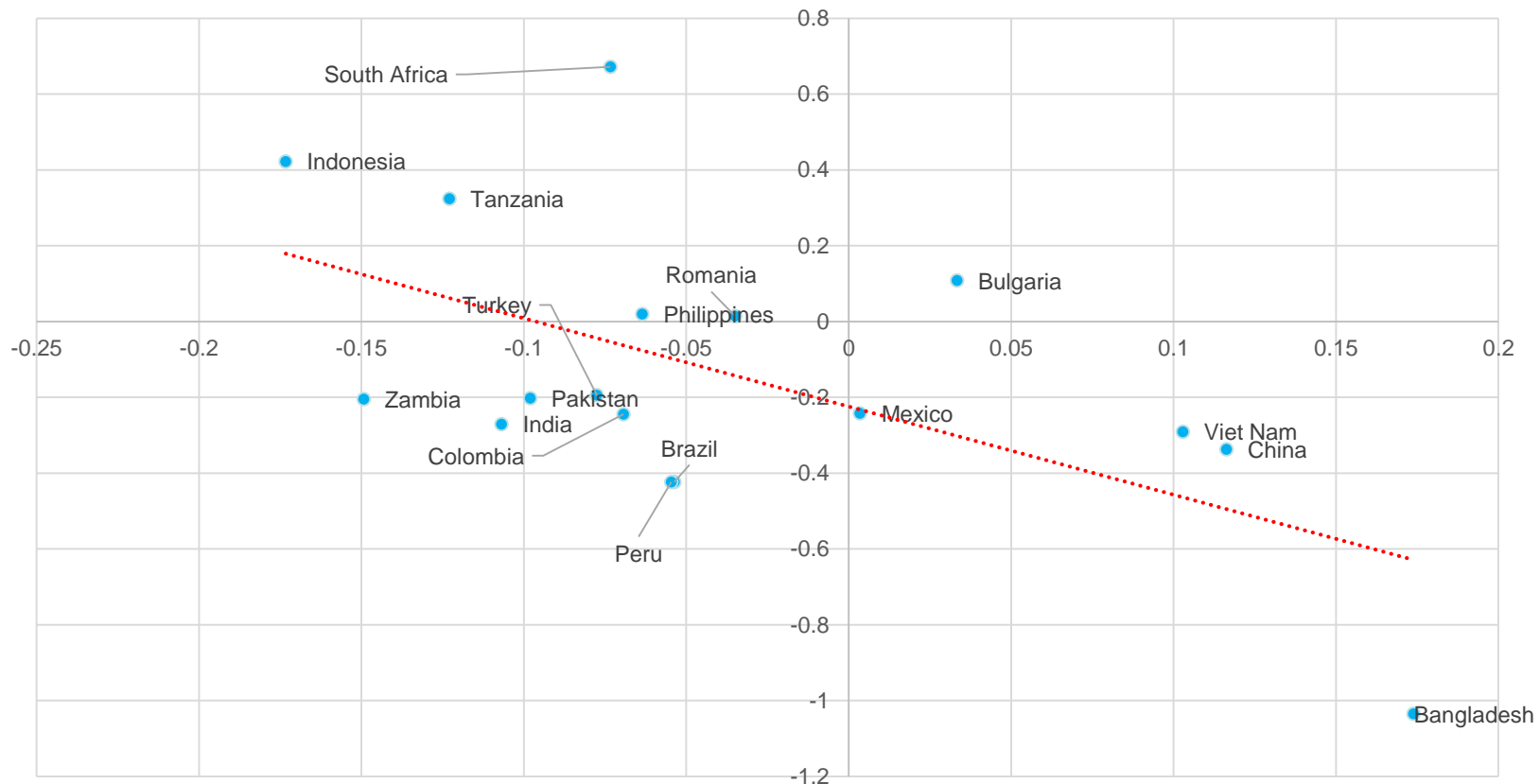
Changes in the P90/P50 wage ratio in manufacturing (y-axis) and percentage point change in share of medium-skilled manufacturing employment (x-axis), between 2005 and 2015, selected developed countries



Source: Authors' calculations based on official household surveys.

Wage polarization less clear in developing countries

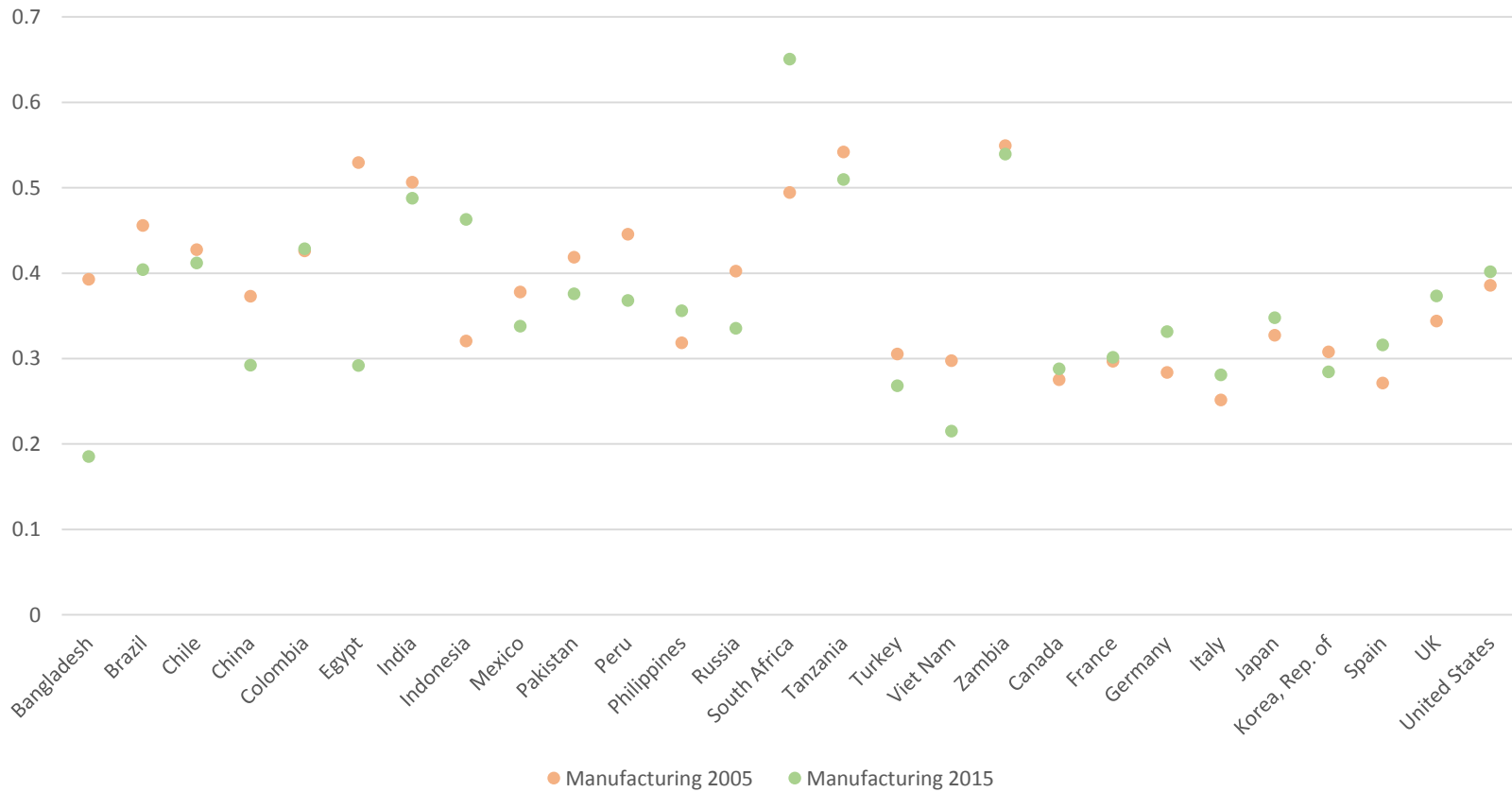
Changes in the P90/P50 wage ratio in manufacturing (y-axis) and percentage point change in share of medium-skilled manufacturing employment (x-axis), between 2005 and 2015, selected developing countries



Source: Authors' calculations based on official household surveys.

Gini coefficients have risen in manufacturing sector of developed countries but not in many developing countries

**Gini coefficients in manufacturing, 2005 and 2015,
selected developed and developing countries**



Source: Authors' calculations based on official household surveys.



Some policy implications (I)

➤ **Facilitating and managing structural transformation**

- Coordinated sectoral and employment policies, particularly relevant in current phase of technological change and automation of middle-skilled jobs
- Increasing labour productivity in agriculture
 - Transforming low-productivity subsistence agriculture to a more modern market-oriented agriculture
 - Strengthening the value chains associated with agriculture, including for example in food and beverage manufacturing
 - Off-farm activities to supplement volatile incomes from agriculture
- Supporting transformation into higher-productivity services activities rather than into services subsectors where differences in labour productivity to that of agriculture are not significant



Some policy implications (II)

➤ **Enhancing skills of workforce**

- Structural transformation implies need for new skills in an economy and for capabilities to gainfully absorb new technologies
- Provides pathways for the most vulnerable segments of workforce and for medium-skilled workers who are increasingly facing the threat of their jobs disappear in context of job polarization.
- Specific areas of focus for education and training policies will differ by countries
 - Ensuring skills demand signals are expeditiously sent to those in education and to workers
 - Sound career guidance
 - Labour market information systems for skills anticipation
 - Partnerships with employers' and workers' organizations to identify emerging skills, ensure relevance of curricula and enhance firm-level training



Some policy implications (III)

➤ Strengthening social protection

- Debate on universal basic income in advanced countries spurred by technological change and job/wage polarization
- Developing countries: Progressively building and strengthening the social protection floor
 - Access to essential health care, including maternity care;
 - Basic income security for children, providing access to nutrition, education, care and any other necessary goods and services;
 - Basic income security for persons in active age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability;
 - Basic income security for older persons
- More efficient tax and transfer systems to finance social protection measures



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