1. Global trends in employment, productivity and poverty

1.1. Recent global developments

"Employment, productivity and poverty reduction" is the title of the *World Employment Report 2004-05*. This topic was chosen based on the strong conviction and empirical evidence that creating decent employment opportunities is the best way to take people out of poverty. In addition there is a strong link between productivity[1] and decent work – work that not only provides a sufficient level of income but also ensures social security, good working conditions and a voice at work. This link needs to be investigated to help identify the best development strategies for the less developed economies in the world.[2]

Rather than discussing poverty in general (table 1.1), this analysis of labour market trends centres on poverty among the world's workers (table 1.2) — or "working poverty". The concept of the working poor in the developing world adds a new dimension to the study of labour markets by placing decent and productive employment at the forefront of the poverty discussion. In fact, the

Table 1.1. US$1 a day and US$2 a day poverty shares (world and regions, selected years, percentage)

	US$1 a day total poverty				US$2 a day total poverty			
Region	1980	1990	2003[a]	2015[b]	1980	1990	2003[a]	2015[b]
World	39.7	27.0	19.5	13.2	65.7	59.8	51.2	40.5
Latin America and the Caribbean	11.3	12.1	10.4	8.9	29.9	29.6	25.4	22.2
East Asia	61.6	31.2	14.9	5.7	85.3	68.8	43.2	22.4
South-East Asia	31.4	16.6	9.3	6.0	69.2	59.3	47.8	39.0
South Asia	52.3	40.9	28.4	14.4	89.0	85.4	75.7	60.1
Middle East and North Africa	3.2	2.5	2.0	1.7	26.5	21.8	20.8	17.3
Sub-Saharan Africa	42.6	44.1	45.7	44.6	73.0	75.8	76.4	75.5
Transition economies	1.2	1.5	3.9	1.6	1.5	4.5	17.9	7.5

Note: Proportion of population below US$1 (2) a day is the percentage of the population living on less than US$1.08 (2.16) a day at 1993 international prices. The US$1 (2) a day poverty line is compared to consumption or income per person and includes consumption from own production and income in kind. It is based on purchasing power parties (PPP), indicating that people would be able to purchase the same quantity of goods in any country for a given sum of money. That is, the comparison is based on the notion that the standardized dollar should buy the same amount in all countries.

[a] Estimates. [b] Projections.

Source: Calculations based on World Bank, 2004a.

[1] In this and the following chapters the focus is on labour productivity, which is calculated as output per person employed. The expressions labour productivity, productivity, output per worker, output per person employed and GDP per person employed are all used as synonyms, following the common practice in the literature on this topic.

[2] By choosing these indicators many other important labour market indicators are not directly considered in the analysis, but of course indirectly influence labour markets. For example, changes in labour market institutions do have an impact on productivity and employment creation.

Table 1.2. US$1 a day and US$2 a day working poverty shares in total employment (world and regions, selected years, percentage)

	US$1 a day working poverty share				US$2 a day working poverty share			
Region	1980	1990	2003[a]	2015[b]	1980	1990	2003[a]	2015[b]
World	40.3	27.5	19.7	13.1	59.8	57.2	49.7	40.8
Latin America and the Caribbean	15.6	16.1	13.5	11.5	41.2	39.3	33.1	28.8
East Asia	71.1	35.9	17.0	6.5	92.0	79.1	49.2	25.8
South-East Asia	37.6	19.9	11.3	7.3	73.4	69.1	58.8	47.7
South Asia	64.7	53.0	38.1	19.3	95.5	93.1	87.5	77.4
Middle East & North Africa	5.0	3.9	2.9	2.3	40.3	33.9	30.4	24.9
Sub-Saharan Africa	53.4	55.8	55.8	54.0	85.5	89.1	89.0	87.6
Transition economies	1.6	1.7	5.2	2.1	1.7	5.0	23.6	9.8

[a] Estimates. [b] Projections.
Source: Kapsos, 2004.

majority of the poor of working age receive inadequate incomes from their labour, which leaves them and their families below the poverty line. In addition, they usually do not benefit from other aspects of decent work.

Current estimates for 2003 show that 1.39 billion people in the world work but are still unable to lift themselves and their families above the US$2 a day poverty line. Among them, 550 million cannot even lift themselves and their families above the extreme US$1 a day poverty threshold.[3] Expressed in shares this means that 49.7 per cent of the world's workers (and over 58.7 per cent of the developing world's workers) are not earning enough to lift themselves and their families above the US$2 a day poverty line, and that 19.7 per cent of the employed persons in the world (and therefore over 23.3 per cent of the developing world's workers) are currently living on less than US$1 a day (table 1.2). It is expected that the trends in total number and in shares will decrease in 2004.

Unemployment and employment trends

On top of the need to create 1.39 billion decent jobs for those people who work but still live with their families below the US$2 a day poverty line, account has to be taken of the number of people who were looking for work but could not find any employment opportunity to get an idea of the size of the employment component of the decent work deficit in the world. In 2003 there were 185.9 million people in the world who were unemployed, despite the recovery from the economic slowdown in 2001 and 2002. While more people were employed in 2003 than during the years of the economic downturn, the overall growth in the labour force meant that job creation could only just keep up with the growing number of people who wanted to work. This is why the unemployment rate for

[3] In the following text "extreme poverty/extreme working poverty" is sometimes used as a synonym for the US$1 a day poverty/working poverty threshold and "moderate poverty/moderate working poverty" is sometimes used as a synonym for the US$2 a day poverty/working poverty threshold.

the world showed almost no change, from 6.3 per cent in 2002 to 6.2 per cent in 2003. Box 1.1 discusses the limitation of unemployment figures.

This relative stagnation in unemployment rates between 2002 and 2003 was found in most regions: East Asia moved from 3.1 per cent to 3.3 per cent, South Asia remained at 4.8 per cent, the Middle East and North Africa rose from 11.9 per cent to 12.2 per cent, sub-Saharan Africa moved from 10.8 per cent to 10.9 per cent, the transition economies decreased from 9.4 per cent to 9.2 per cent and the industrialized economies remained at 6.8 per cent. The only regions showing a significant change were South-East Asia where the unemployment rate dropped from 7.1 to 6.3 per cent, and Latin America and the Caribbean where the rate decreased from 9.0 to 8.0 per cent. Over the past ten-year period, the industrialized economies were the only region that experienced falling unemployment rates, while rates in all other regions either remained stable or increased (table 1.3). The transition economies saw a sharp increase from 6.3 to 9.2 per cent, and unemployment in South-East Asia increased from 3.9 to 6.3 per cent.

Employment-to-population ratios, the share of people with work amongst the working age population, did not move considerably in most regions. Should this ratio increase? As a matter of fact stable or even decreasing employment-to-population ratios can indicate that there is no demand for additional employment as people prefer not to work. The existence of unemployment, however, shows that people are actively looking for work and cannot find work. Therefore an increase in employment-to-population ratios is needed to meet the demand of these people to work. In addition, in most developing economies only very few people can afford voluntarily to stay out of the labour market. If they do so it might be because they have simply given up hope. Therefore a rise in the employment-to-population ratio could demonstrate that employment opportunities are being generated and those without work should not necessarily give up hope. Importantly, however, this indicator does not give a clear picture of the quality of the jobs being created – that is, whether additional decent and productive jobs have become available.

Only the industrialized economies and the Middle East and North Africa witnessed a notable increase in the employment-to-population ratio over the last ten years (table 1.3). In the latter case this was mainly due to the increasing participation of women in the labour markets in the region. Despite this increase, women in this region have by far the lowest labour force participation rates in the world (for more details, see ILO, 2004a, 2004b). The most drastic change was observed in the transition economies where the employment-to-population ratio dropped from 58.8 in 1993 to 53.5 in 2003. Even though a decrease in employment-to-population ratios often reflects an increase of people staying in education for longer periods, in the case of the transition economies only part of the difference can be explained in that way. In addition, as a result of the shocks associated with the transition process, considerably fewer employment opportunities were created and people were thereby "forced" to stay out of labour markets.

Box 1.1. Additional labour market indicators: looking beyond employment and unemployment

When a person reaches working age, he or she does not necessarily enter the labour market. The person can stay outside the labour market and would then be called inactive. This inactivity can be voluntary – the person prefers to stay at home or to begin or continue education – or involuntary, where the person would prefer to work but is discouraged and has given up hope of finding work. If the person enters the labour market, he or she can either be employed or unemployed. The number of people employed or unemployed within an economy are very important indicators, but they do not provide a complete understanding of labour markets.

Unemployment and employment

A person is only counted as unemployed if he or she is without a job and is actually looking for work.[1] Pure unemployment numbers mask information on the composition of the jobless population and therefore miss out on important particularities of the unemployed, such as socio-economic background, ethnic origin, and duration of unemployment. In developing countries, which often lack effective unemployment insurance mechanisms, concentrating on unemployment runs the further risk of excluding from the analysis the less privileged population who simply cannot afford to be unemployed. The problem in developing economies is therefore not so much unemployment, but rather the conditions of work of those who are employed.

Within the group of those who are employed, people can be employed full-time or part-time, underemployed, or even over-employed. As mentioned above, belonging to the employed population does not imply anything about the quality of the job or about wages and earnings. An employed person may work in the informal economy under poor conditions, with no contract and a low salary.

Working poverty

As working under such conditions is not at all what would be called a "decent job", the ILO developed the concept of working poverty to cover those people who work but do not earn enough to lift themselves and their families above the US$1 or 2 a day poverty line. There is a very high likelihood that people who constitute the working poor work in the informal economy (whereas the reverse is not necessarily the case – people who work in the informal economy are not necessarily working poor). For this reason the estimate of working poor can be interpreted as a first approximation of people who work in the informal economy with very low earnings.

It is important to note that, by definition, a person is counted as working poor only if that person is unable to lift himself or herself *and his or her family* above the poverty threshold. This means that somebody who earns only 50 cents a day would not be considered as working poor if somebody else in the family earns enough to make sure that each family member lives on more than US$1 a day. Conversely, somebody might earn as much as, for example, US$5 a day but with a family consisting of, say, 10 members (9 of them not working) each member would be living on less than US$1 a day. Such a person would still be counted as working poor. Finally, including the whole family in the concept of working poverty ensures that a rich young person in the developing world who has just started work life and works without remuneration in order to gain work experience is not considered to be working poor.

Given the limitations of pure employment and unemployment figures, this chapter pays greater attention to two indicators more pertinent to the developing world: trends in working poverty, and trends in labour productivity. These indicators are important in their contributions to determining wages and incomes. In conjunction with unemployment, the working poor and productivity figures give a first good indication of the magnitude, distribution and depth of decent work deficits around the world. To find out more about these deficits, subsequent ILO work on this subject will incorporate additional labour market indicators, including *status in employment* and *employment by sector*. Employment status categorizes workers into the major groups of wage employment, self-employment and unpaid family workers (also termed contributing family workers), according to the international classification.[2] These indicators are particularly relevant for developing regions because they give an idea of progress in development, by looking at trends in the number of people in wage employment and in sectors that may be dominated by informal employment and unpaid family work.

[1] For a precise definition of unemployment see: http://www.ilo.org/public/english/bureau/stat/download/res/ecacpop.pdf

[2] Resolution concerning the international classification of status in employment, adopted by the 15th International Conference of Labour Statisticians, Geneva, 1993 (available at: http://www.ilo.org/public/english/bureau/stat/download/res/icse.pdf).

Table 1.3. Labour market and economic indicators (world and regions, selected years, percentage)

	Unemployment rate			Employment-to-population ratio		Percentage change in labour productivity	Annual labour productivity growth rate	Annual labour force growth rate	Annual GDP growth rate
Region	1993	2002	2003	1993	2003	1993-2003	1993-2003	1993-2003	1993-2003
World	5.6	6.3	6.2	63.3	62.5	10.9	1.0	1.8	3.5
Latin America and the Caribbean	6.9	9.0	8.0	59.3	59.3	1.2	0.1	2.3	2.6
East Asia	2.4	3.1	3.3	78.1	76.6	75.0	5.8	1.3	8.3
South-East Asia	3.9	7.1	6.3	68.0	67.1	21.6	2.0	2.4	4.4
South Asia	4.8	4.8	4.8	57.0	57.0	37.9	3.3	2.3	5.5
Middle East and North Africa	12.1	11.9	12.2	45.4	46.4	0.9	0.1	3.3	3.5
Sub-Saharan Africa	11.0	10.8	10.9	65.6	66.0	–1.5	–0.2	2.8	2.9
Transition economies	6.3	9.4	9.2	58.8	53.5	25.4	2.3	–0.1	0.2
Industrialized economies	8.0	6.8	6.8	55.4	56.1	14.9	1.4	0.8	2.5

Source: ILO, 2003b; ILO, 2003c; IMF, 2003; see also ILO, 2004a, technical note.

Productivity and GDP

Over the past decade, labour productivity (see box 1.2 for an explanation of labour productivity) in the world increased by almost 11 per cent. This was mainly driven by the impressive growth in labour productivity in East Asia (75 per cent between 1993 and 2003), but also in South Asia and South-East Asia, which have experienced considerable increases in their labour productivity levels (37.9 and 21.6 per cent, respectively). Labour productivity growth in the industrialized economies also surpassed world productivity growth with an increase of 14.9 per cent. Even though this is less than in the Asian regions, it is worth bearing in mind that Asia started from low levels of productivity, thereby

Box 1.2. What is labour productivity?

Productivity in general measures how efficiently resources are used. The basic definition of labour productivity is output, or value added, divided by the amount of labour used to generate the output. While labour productivity is sometimes defined as output per hour worked, the present chapter instead uses annual output per person employed; not only are better data available for the latter indicator, but also there is a stronger linkage to the human component of productivity. Labour productivity differs from total factor productivity, which accounts for sources of productivity beyond the basic measures of labour such as management quality, technological progress, impacts of disease, crime levels, and systems of government, among others.

Despite its name, labour productivity increases when value added rises through the better use, coordination, etc. of *all* factors of production. Value added may increase when labour is working smarter, harder, faster or with better skills, but it also increases with the use of more or better machinery, the reduction in the waste of input materials or the introduction of technical innovations. Indeed, any non-labour factor that raises value added will raise labour productivity. Take, for example, an improvement in product quality that allows a good to be sold for a higher price, even if there is no change in the number of the good produced. The term labour productivity is therefore correct in that any non-labour change that increases value added makes workers more productive, but it is slightly misleading in that it denotes productivity in general and not that which specifically involves workers. For example, a farmer's access to training can improve his or her productivity. But a farmer's access to a newly built road that facilitates travel to the market (or a buyer's travel to the farm) can do the same.

There is wide variation in labour productivity among different countries in the world owing to a host of factors, most of which are directly and positively related to the level of economic development of the countries concerned. It is important to underscore the fact that differences in labour productivity levels have essentially nothing to do with differences in how hard workers work – on the contrary they often indicate differences in working conditions. A poor worker in a developing economy can work long hours, strenuously, under bad physical conditions, but yet have low labour productivity and therefore receive a low income because he or she lacks access to technology, education, or other factors needed to raise productivity. Similarly a worker in a highly developed economy may have high labour productivity despite working relatively fewer hours.

facilitating gains. In addition, overall improvements in employment creation and the reduction in average unemployment rates in the industrialized economies indicate that at a more advanced stage of economic development – often characterized among other things by lower labour force growth rates – the productivity growth rates needed to have a positive impact on labour markets are typically lower than in earlier stages of development. The transition economies have experienced impressive labour productivity growth rates since 1999 and have thereby contributed to the world's recent growth in productivity. Over the past ten-year period labour productivity grew by 25.4 per cent in that region. In Latin America and the Caribbean, the economic crises that took place at the beginning of the new millennium had a dampening effect on the already slow rise in labour productivity, resulting in a productivity increase of just above 1 per cent over 10 years (or 0.1 per cent per year). Also in the Middle East and North Africa, productivity levels are still close to those in the region ten years earlier, while sub-Saharan Africa experienced declining productivity on average.

A comparison with the GDP growth rate trends over the past ten years makes it clear that GDP growth is not identical with growth in labour productivity, but that the trends in these indictors usually move in the same direction. East Asia had impressive average GDP growth rates of 8.3 per cent annually, followed by South Asia (5.5 per cent per annum) and South-East Asia (4.4 per cent per annum). GDP growth in Latin America and the Caribbean recovered only recently, again in parallel with a recovery in productivity growth. On average over the past ten years GDP grew by 2.6 per cent per year. The 2.9 per cent annual growth for sub-Saharan Africa – a rather low rate of GDP growth for a developing region – was matched by the decrease in productivity growth in the region. Finally, the industrialized economies saw GDP growth in tandem with productivity growth and even though growth was lower than in some developing regions, this again must be considered in the context of the industrialized economies' higher initial GDP levels.

There are two regions that seem to go against the trend of GDP and labour productivity moving in the same direction: the transition economies, and the Middle East and North Africa. The transition economies have witnessed 2.3 per cent annual growth in labour productivity, but annual GDP growth of only of 0.2 per cent between 1993 and 2003. The Middle East and North Africa have had only 0.1 per cent of labour productivity growth per year, but annual GDP growth in the region has been as high as 3.5 per cent during the ten-year period.

In the transition economies this is still the result of the ongoing structural dynamics. In the first phase of the transition many old firms had to close, which not only destroyed the region's potential to create GDP but also destroyed many jobs. In addition, the increase in unemployment and underemployment combined with the rising feeling of insecurity for many people put a constraint on GDP growth from the demand side. With GDP growth rates decreasing at a similar speed as employment, labour productivity (GDP divided by the number of people employed) stayed stagnant. In phase two, once all the uncompetitive firms

had left the market, those that had survived tried to increase their competitiveness through capital investment and further shedding of labour, while increasing their output, which caused labour productivity to increase dramatically.

The Middle East and North Africa reflects the diversified picture of the oil-producing versus the non-oil-producing economies in the region. Overall the GDP-creating effect of the oil-producing economies – as a result of the increases in demand for oil and overall price increases for oil – went in parallel with employment growth in the non-oil-producing economies, leading to high GDP growth rates accompanied by stagnant productivity. Does this indicate that employment creation hinders productivity growth? Yes, if the jobs created are not decent and productive, providing an insufficient income for the employees, and making it impossible for them to have an impact on the demand side of the economy. In fact the case of the Middle East and North Africa should not be taken as a case against employment creation but rather as a perfect example of why in the longer run decent employment creation and productivity growth have to go hand in hand with GDP growth. Only then will economic growth lead to poverty reduction.

Poverty and working poverty

Taking the labour market trends together with trends in GDP and productivity growth, it can be seen that the working poverty picture (table 1.2) as well as the total poverty picture (table 1.1) in the world is the clear outcome of the interrelation of these indicators. Reducing poverty and working poverty requires both productivity growth and employment creation. East Asia and South Asia are good examples that underscore this point: the two regions saw the highest productivity growth rates over the last ten years. At the same time, unemployment rates stayed at low levels. This, in combination with the reasonably stable employment-to-population ratios, indicates that productivity gains did not lead to job shedding. As a result the proportion of US$1 a day working poverty and overall poverty has been decreasing in these regions. This positive trend went in tandem with considerable decreases in the share of informal employment. In South-East Asia (with high productivity and GDP growth rates but also increasing unemployment rates), US$1 a day working poverty and total poverty have decreased but at a lower rate than in the rest of Asia. In Latin America and the Caribbean (with almost no productivity growth, below average GDP growth, high unemployment rates and stagnant employment-to-population ratios), there is very little change in US$1 a day working poverty and total poverty. In sub-Saharan Africa (with negative productivity growth rates, low GDP growth rates, high unemployment rates and almost stagnant employment-to-population ratios), US$1 a day working poverty stayed the same and total poverty even increased. The same is true for the poorer economies in the Middle East and North Africa, despite the fact that their employment-to-population ratio has increased (but mainly for lower quality jobs as discussed above).

In terms of US$2 a day working poverty and total poverty, the picture looks similar for those economies in East Asia that managed to get into the virtuous cycle of productivity growth, employment generation and GDP growth. Here the decrease in both poverty measures has been the highest. But why is it then that the proportion of US$2 a day working poverty only decreased slightly since the beginning of the 1990s? In fact, it is expected that in 2015 the bulk of the world's US$2 a day working poverty will be in South Asia, and the region will account for a full 40 per cent of the world's US$2 a day working poor. Given the trend in robust productivity growth in this very poor region, the gains from this growth will be enough to lift the people out of extreme poverty but not yet enough to lift them above the US$2 a day poverty threshold. This on the one hand indicates that the employment opportunities created are often of low productivity and therefore low earnings, and on the other hand it is partly also the result of the high labour force growth rates and the lack of jobs for those wanting to work. The problem is similar in South-East Asia and the poorer economies in the Middle East and North Africa. In Latin America and the Caribbean, US$2 a day working poverty declined slightly, indicating that some of the jobs created were of high enough quality to let people work themselves and their families out of poverty. Finally, the transition economies have seen a dramatic increase in US$2 a day working poverty and total poverty, mainly for reasons discussed above. There is reason to hope that the high productivity growth rates achieved in recent years will finally lead to GDP growth and employment growth, ultimately reducing working poverty. Some economies in the region have already entered this stage.

How likely is it that the world will halve working poverty by 2015?

The analysis of labour productivity trends, labour market trends, and trends in working poverty and total poverty shows that those regions that have managed to increase productivity levels in the longer run *and* have managed to create employment opportunities for their growing labour forces have best managed to reduce working poverty and overall poverty. As a result, they are well on track to reach Target 1 set forth in the first Millennium Development Goal of halving the proportion of people living on less than US$1 by 2015 (for details on the Millennium Development Goals, see box 3.1 in Chapter 3 of this Report).

These results are underlined by estimates presented in table 1.4, taking the IMF GDP growth rates of the developing world for the period 1995 to 2005 and projecting this trend to 2015. There is a chance to halve the global proportion of US$1 a day working poverty by 2015. The growth rate needed would be 4.7 per cent, less than the 5 per cent projected between 1995 and 2005. But by taking East Asia – and above all China – out of the picture, the forecast looks less robust. Only South-East Asia, South Asia, the transition economies and the Middle East and North Africa are currently on track to meet the goal. For the latter two regions this is the result of the low levels of extreme working poverty. The region of Latin America and the Caribbean is slightly off track, while sub-Saharan Africa is significantly off track, with a GDP growth rate of over 8 per

Table 1.4. GDP growth rates required to halve working poverty by 2015 and IMF average GDP growth rates 1995-2005

	GDP growth required to meet objectives		IMF average GDP growth rates
	Halve US$1 a day working poverty	Halve US$2 a day working poverty	1995-2005
World except industrialized economies	4.7%	Over 10%	5.0%
World except East Asia and except industrialized economies	5.3%	Over 10%	3.8%
Transition economies	4% to 5%	8% to 10%	3.3%
East Asia	3% to 4%	6% to 8%	7.9%
South-East Asia	4% to 5%	Over 10%	4.1%
South Asia	5% to 6%	Over 10%	5.8%
Latin America and the Caribbean	3% to 4%	4% to 6%	2.4%
Middle East and North Africa	4% to 5%	8% to 10%	4.0%
Sub-Saharan Africa	Over 8 %	Over 10%	3.7%

Note: These calculations are based on the assumption that the growth needed to reduce working poverty by 1 per cent will be the same as it was in the past. If this ratio changes because of changes in policies or institutional arrangements, this would have major impacts on the GDP growth rates needed.

Source: Kapsos, 2004.

cent needed to halve US$1 a day working poverty by 2015. Of course it has to be borne in mind that halving working poverty in this region was an even bigger challenge from the outset than in other regions.

The outlook becomes even bleaker when the goal is to halve US$2 a day working poverty. Only East Asia has a realistic chance, whereas none of the other regions will succeed unless their GDP growth rates increase considerably. Given these estimates, it is important to keep in mind that growth alone is not enough. It is the decent employment content of growth that really matters if economies want to tackle working poverty along with unemployment. Total poverty will decrease only if progress in these two areas can be achieved. And in the longer run, GDP growth will occur only in the presence of increases in productivity and decent employment creation. Only with productive jobs where workers can use their potential, and only with decent employment opportunities, will people permanently stay out of poverty. In short, workers need to be in a position to stimulate demand through their consumption and invest in themselves and the future of their children. In addition, decent employment opportunities not only address the income component of poverty but also the humanity component by giving people the chance to voice their concerns, to participate more fully in decisions in the world of work and to be respected for their work. This in turn can help the economy as a whole to develop further.

In the light of the persistently high number of working poor, together with the over 185 million people currently unemployed and the uncertain number of people who remain outside the labour force for involuntary reasons, it is clear that there is a large and persistent decent work deficit in the world – one that poses a great challenge in the fight against poverty.

1.2. Regional trends[4]

Latin America and the Caribbean

According to the United Nations, the region of Latin America and the Caribbean[5] is struggling to reach Target 1 of the first Millennium Development Goal of halving the proportion of people living on less than US$1 a day by 2015. A closer look at some labour market indicators in this region gives a first indication as to why it is unlikely that poverty will be halved by 2015. For the past ten years, there has been a slight decline in the region's employment-to-population ratio, indicating that there has been employment creation but that it has not been sufficient to absorb the growing labour force (table 1.3). One explanation for this trend could be that people decide to stay in education or otherwise freely decide to remain outside the labour force. But with stagnant educational indicators (see ILO, 2003a) and persistently high shares of poverty in the region (a quarter of the population lives below the US$2 a day poverty line, table 1.2), this explanation appears suspect. Also, the unemployment rate increased from 6.9 per cent in 1993 to 8.0 per cent in 2003 (for additional information and the correct interpretation of these numbers, see box 1.3). Given the trends in these two labour market indicators, it becomes clear that the region as a whole has been unable to make better use of its labour potential in order to boost economic growth.

Although productivity growth has varied throughout the region (figures 1.1a and 1.1b), overall labour productivity growth in the region was only 1.2 per cent between 1993 and 2003. The annual average growth in productivity was only 0.1 per cent (table 1.3). There are exceptions such as Chile, which has seen impressive and consistent increases in labour productivity. Chile now has the highest productivity level of all economies in the region for which internationally comparable data are available (figure 1.1b). At the same time Chile is one of the few economies in the region that has seen a significant increase in its employment-to-population ratio since 1980; in 1980 it was 42.4 per cent, in 2001 it was 49.1 per cent. Most other economies have higher productivity levels than in 1993 but lower levels than in the 1980s (figure 1.1a). Besides Chile, Argentina saw promising development in productivity growth after 1993, but this trend

[4] The groupings of economies are adapted from those in *Key Indicators of the Labour Market (KILM)*, 3rd edition (ILO). There are six major groupings in KILM, based on a combination of level of development and geography. It is important to note that the groupings developed for KILM are intended exclusively for analytical convenience and are not intended to express judgement or appraisal as to a given economy's current stage in the development process. There are two developmental groupings: developed (industrialized) economies and transition economies; and four geographic groupings: Asia and the Pacific, Latin America and the Caribbean, sub-Saharan Africa, and the Middle East and North Africa. Each economy appears in only one major grouping; for example, Japan is included in the developed (industrialized) economies grouping and is therefore excluded from Asia and the Pacific. In the present chapter the KILM Asia and the Pacific region is broken down into East Asia and South-East Asia groupings.

[5] The Latin America and the Caribbean region comprises the subregions of **the Caribbean** (Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados, Bermuda, British Virgin Islands, Cayman Islands, Cuba, Dominica, Dominican Republic, Grenada, Guadeloupe, Guyana, Haiti, Jamaica, Martinique, Montserrat, Netherlands Antilles, Puerto Rico, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Turks and Caicos Islands, United States Virgin Islands), **Central America** (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama), and **South America** (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Falkland Islands (Malvinas), French Guiana, Paraguay, Peru, Uruguay, Venezuela).

Box 1.3. Urban versus rural labour market information

The ILO has two major publications on regional labour market trends in Latin America and the Caribbean: *Panorama Laboral*, published by the ILO Office in Lima, and the section on Latin America and the Caribbean in Chapter 1, *Global Employment Trends*, published at headquarters in Geneva. Even though these reports focus on the same region, the coverage of the two publications is different. Whereas *Panorama Laboral* focuses on urban area labour market development, *Global Employment Trends* covers urban as well as rural areas. The differences become clear when looking at the unemployment rates. Whereas *Panorama Laboral* estimates a regional unemployment rate of around 10 per cent, *Global Employment Trends* estimates around 8 per cent for 2003. And whereas *Panorama Laboral* reported almost no change between 2002 and 2003, *Global Employment Trends* shows a decline of one percentage point.

Even though urban labour market data are often more reliable than rural labour market data, it is important to make an attempt to focus not only on urban data, especially in economies where the agricultural sector is the main employer. The obvious differences in results therefore reflect an attempt to give the full picture using all the information available. The higher and stagnant urban rates are indicative of some of the challenges associated with the process of urbanization taking place in many countries in the region.

Source: ILO, 2003b and ILO, 2004d.

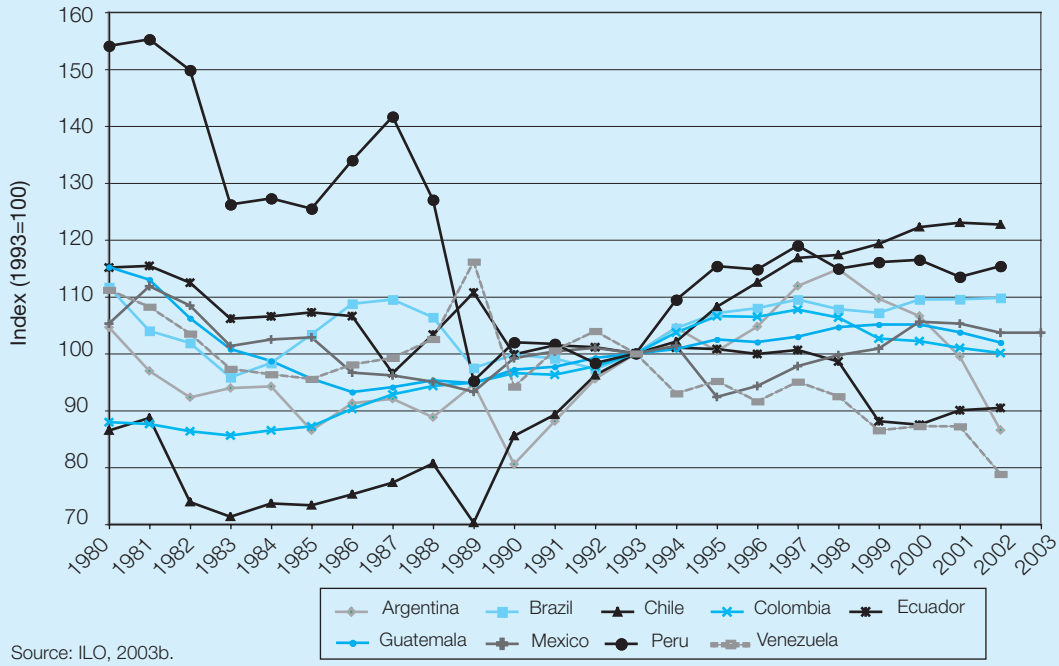
came to a turning point after 1998 and fell sharply with the 2001 economic crisis. Peru also witnessed high productivity growth rates between 1993 and 1997 but this trend came to a halt afterwards. Other economies have either seen only slight increases in productivity over the past ten years (this is the case for Brazil, Colombia, Guatemala and Mexico), yet others (namely Ecuador and Venezuela) have witnessed a decrease.

Agriculture[6] plays an important role in many economies in the region (figure 1.2), thus it is worthwhile to look at productivity trends in this sector. Once again the picture is very diverse: Haiti, with agriculture accounting for over 50 per cent of the economy's employment, saw a tremendous decrease in agricultural productivity of 24.5 per cent between 1993 and 2001,[7] whereas Brazil at the other extreme with a share of agricultural employment of only 20.6 per cent, saw an increase of its agricultural productivity of 65.3 per cent (table 1.5). As can be seen from the table some economies saw increases in both productivity and employment in agriculture between 1993 and the latest year available.

[6] The data on agriculture in this chapter include agriculture, forestry and fisheries.

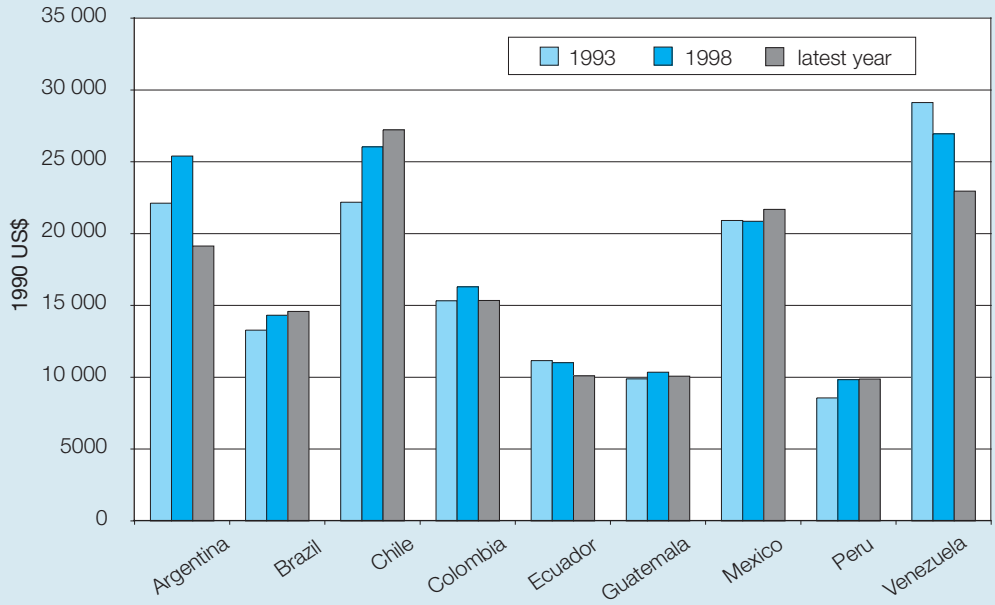
[7] The reasons for this are manifold, including a combination of a lack of investment in the sector, a continuing fragmentation of landholdings and insecure land tenure, high commodity taxes, the low productivity of the often undernourished rural population and declining environmental quality resulting from extreme deforestation, soil erosion, droughts and flooding (US Library of Congress, 2004; FAO, 2004).

Figure 1.1a. Growth in output per person employed in Latin America and the Caribbean (total economy, selected economies, index 1993=100, 1980 to latest year)



Source: ILO, 2003b.

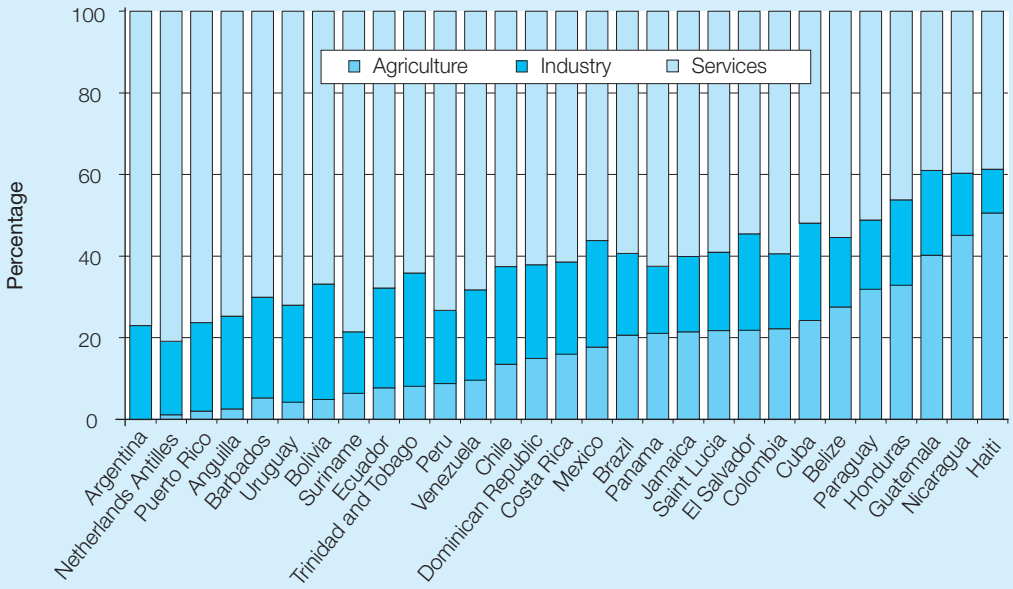
Figure 1.1b. Output per person employed in Latin America and the Caribbean (total economy, selected economies, selected years)



Note: Latest year is 2003 for Mexico and 2002 for all other countries. Figure 1.1a shows trends in labour productivity growth; it does not say anything about the levels. Levels are shown in figure 1.1b. An economy can have higher growth rates over time than other economies but still have lower levels of labour productivity. To make the changes comparable, figure 1.1a uses an index in which 1993 is the base year. This, in effect, puts all economies on a comparable labour productivity scale, whereby all economies have equal values in 1993. The highest line in years following 1993 thereby shows the economy with the fastest growth in labour productivity since 1993.

Source: ILO, 2003b.

Figure 1.2. Employment shares by sector in Latin America and the Caribbean (selected economies, latest year available, percentage)



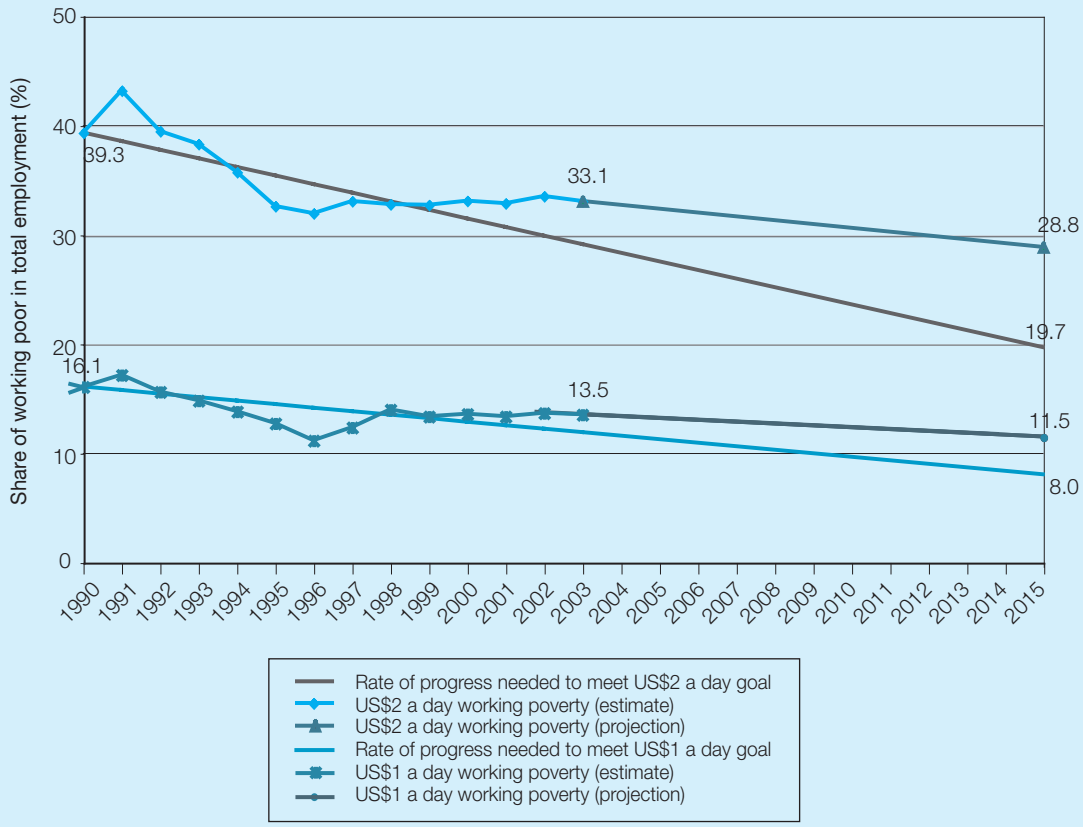
Note: Latest year is 1998 for Jamaica; 1999 for Anguilla, Belize, Haiti, Saint Lucia, Suriname, and Trinidad and Tobago; 2000 for Bolivia and Netherlands Antillies; 2002 for Chile, Costa Rica, Guatemala and Panama; and 2001 for all other countries.
Source: ILO, 2003b.

Table 1.5. Selected agricultural indicators in Latin America and the Caribbean (1993 and latest year available)

	Change in output per person employed in agriculture between 1993 and latest year available (%)	Change in employment between 1993 and latest year available (%)
Argentina	25.9	–13.1
Brazil	65.3	–14.9
Chile	16.1	–9.5
Colombia	10.1	8.1
Costa Rica	35.3	1.5
Dominican Republic	5.4	16.5
Ecuador	6.9	45.4
El Salvador	–2.7	–2.2*
Guatemala	4.9	29.0**
Haiti	–24.5	n.a
Honduras	–8.8	21.6
Mexico	39.6	–16.7
Nicaragua	16.2	68.9
Panama	39.6	24.7
Paraguay	8.8	24.5
Peru	43.7	82.2
Uruguay	42.2	0.4
Venezuela	–0.6	16.7

Notes: Latest year is 2001 for Brazil and Dominican Republic, 1999 for Paraguay, and 2002 for all other countries. *1994 to latest year; **1998 to latest year.
Source: ILO, 2003b.

Figure 1.3. US$1 and US$2 a day working poverty trends in Latin America and the Caribbean (1990-2015, percentage)



Source: Kapsos, 2004.

Given the very slow development in productivity, the stagnation in terms of employment creation and increasing unemployment rates in most economies in total employment has not improved much since 1990 (figure 1.3). The total number of people working but not earning enough to lift themselves and their families above the US$1 a day poverty line reached 30 million for the first time in 2003 despite the overall economic recovery. In relative terms, however, the US$1 a day working poverty share slightly decreased between 2002 and 2003 from 13.7 per cent to 13.5 per cent. In terms of US$2 a day working poverty, the region saw a more impressive decline in the early 1990s. But after 1996 the share increased and stayed at levels above 32 per cent. The region has to deal with two problems through the creation of decent and productive employment. First, decent employment opportunities are needed to give those who work but are still poor a chance to work themselves and their families out of poverty. At the same time decent and productive jobs are needed to reduce unemployment. If both goals are not tackled effectively, Latin America and the

Caribbean will get even further off track from reaching the Millennium Development Goals.

ILO estimates show that the GDP growth needed to halve US$1 a day working poverty by 2015 is 3.5 per cent per year, more than the region has seen for the past ten years. But at the same time there are strong signs that the region is back on a more solid growth path, making a 3.5 per cent rate possible.

Besides the challenge to create additional GDP growth and to make sure that it would be translated into decent and productive employment opportunities, high levels of income inequality (with the richest 5 per cent of the population receiving 25 per cent of income, as compared to 13 per cent in the developed economies), decreases in public investment (especially in education) and in foreign direct investment in the region, the strong dependence on external markets and the relatively poor quality of the institutional environment have been identified as core issues to be tackled by policy-makers (ILO, 2004d; IMF, 2004; ECLAC, 2004).

East Asia

Economic development in East Asia[8] has been impressive over the past ten years, with an average annual GDP growth rate of 8.3 per cent since 1993 (table 1.3), and this is expected to continue in the near term.[9] This progress is driven mostly by China, the largest economy in the region, but with support also from smaller economies such as Mongolia.[10] The strong growth in the region, however, has not been equally matched by job creation. Although the unemployment rate was only 3.3 per cent for the region in 2003, this represents a slight increase from the 3.1 per cent rate in 2002. Mongolia is the exception in the region, where registered unemployment has been steadily declining in recent years, from 4.6 per cent in 2000 to 3.4 per cent in 2002, following strong growth in GDP.[11]

Unemployment has continued to climb in China and the Republic of Korea, where echoes of "jobless growth" are being heard. In the Republic of Korea, in particular, this is raising concerns of a "hollowing out" of the manufacturing sector, as labour-intensive industries are facing stiff competition from China where many companies are relocating in order to take advantage of lower labour costs

[8] The East Asia region comprises China, Democratic People's Republic of Korea, Hong Kong (China), Macau (China), Mongolia, Republic of Korea, and Taiwan (China).

[9] According to the International Energy Agency some dampening effect to GDP and employment could arise in the latter part of 2004, particularly if oil prices remain high. The region's strong reliance on oil for continued growth has created a double-edged sword, by driving the price of oil upwards through strong demand and consequently forcing the region to bear the brunt of higher prices. The impact of higher oil prices will be most severe in oil-importing developing economies such as China, not only because of its dependency on oil, but also because of its less efficient use of oil. On average, oil-importing developing countries use more than twice as much oil per unit of production as OECD countries. Because of this, the impact of a sustained increase in the price of oil is expected to reduce China's GDP by 0.8 per cent and raise inflation by almost 1 per cent in 2004 (International Energy Agency, 2004).

[10] Asian Development Bank, 2004.

[11] However, it should be noted that unemployment in Mongolia may be significantly underestimated as a result of low registration of the unemployed (Asian Development Bank, 2004).

(Xie and Lam, 2004). At the same time China's manufacturing employment has decreased considerably in the past decade as a result of employment releases from state-owned enterprises. The Government of the Republic of Korea has recently taken measures to address the employment issue through the implementation of the Social Pact for Job Creation (see box 1.4).

The strong development in the region is also indicated by the region's performance vis-à-vis labour productivity. Between 1993 and 2003 labour productivity in the region increased by 75 per cent, giving an annual growth rate of 5.8 per cent. Figure 1.4a shows labour productivity growth in those East Asian economies where internationally comparable data are currently available. The figure shows strong productivity growth in the region since 1993 for China, Taiwan (China) and the Republic of Korea and to a lesser extent in Hong Kong (China). All economies in the region were on more or less equal growth paths until 1993, at which point China's productivity growth accelerated at a more rapid pace. More recently, growth has decelerated in Hong Kong (China), Taiwan (China) and to a lesser extent in the Republic of Korea, but it has continued to accelerate in China. It should be borne in mind that stronger growth in China's labour productivity is in part a result of the relatively lower initial level of China's labour productivity in comparison to that in Hong Kong (China), Taiwan (China) and the Republic of Korea – meaning that much of the accelerated growth in China can be attributed to "catching-up" with the other economies in the region (figure 1.4b).

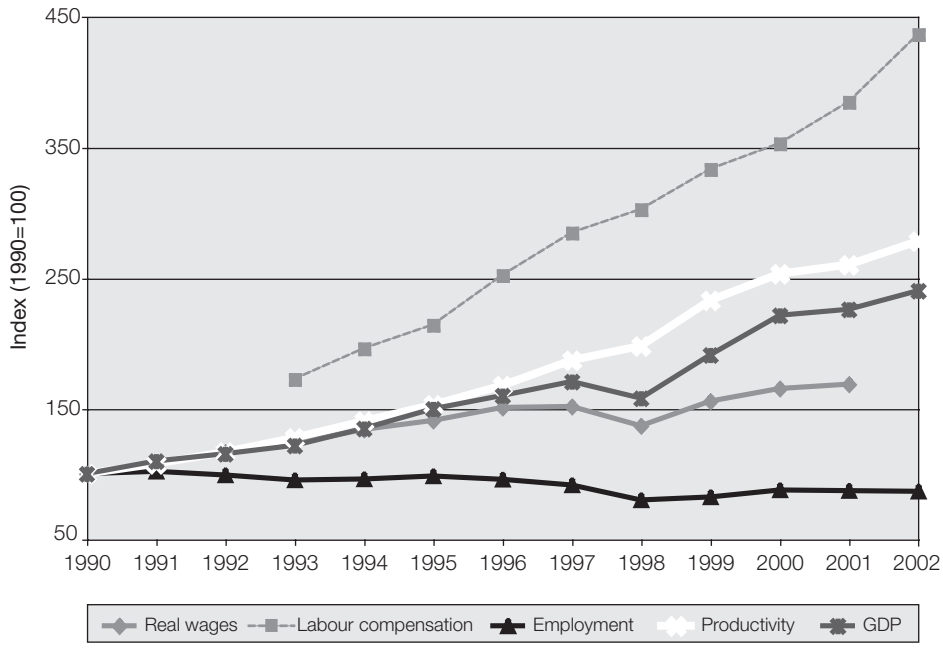
In 1993, productivity levels in the Republic of Korea and Hong Kong (China) were, respectively, more than five times and almost ten times that of China. In 2003, the difference between the Republic of Korea and China had declined to four times and the difference between China and Hong Kong (China) is now just above six times. Output per person employed in China was US$4,463 in 1993, and by 2002 it had increased to US$7,704, meaning that productivity grew by an impressive 6.3 per cent per year over the past decade. Growth in Hong Kong (China), the Republic of Korea and Taiwan (China) during the same period was less per year, at 1.7 per cent for Hong Kong (China), 4.3 per cent for the Republic of Korea and 3.6 per cent for Taiwan (China).

Because of the strong growth in the region and relatively low unemployment rates, East Asia is on track to achieve the Millennium Development Goal of halving the share of people living on less than US$1 per day by 2015. In fact, China has already achieved the goal. Additionally, because China's workforce represents 95 per cent of the labour force in the region, the region has also halved the number of working poor since 1990. The absolute number of workers unable to lift themselves and their families above the US$1 a day poverty threshold fell from 242 million in 1990 to 139 million in 2003, a reduction of 43 per cent. If growth continues on its current path it is expected that the region will more than halve the share of US$1 and 2 a day working poverty by 2015 (figure 1.5 and table 1.1).

Box 1.4. The Social Pact for Job Creation in the Republic of Korea

The economy of the Republic of Korea has not completely recovered from the financial crisis of the late 1990s. Economic growth has been held back by declining agricultural production and retail services, as well as slowing growth in manufacturing. In 2003, value added in the manufacturing sector increased by 4.8 per cent compared to 6.3 per cent in 2002 (Asian Development Bank, 2003). At the same time, there has been a constant increase in productivity and real wage levels suggesting some trade-off between productivity and job creation, although the rise in real wages since 1998 has been accompanied by growth in productivity. Labour compensation (which includes hourly direct pay plus employer social insurance expenditures and other labour taxes) has been increasing at a faster pace, which has had an important impact on the industry's wage competitiveness.

Growth in employment, productivity, real wages and labour compensation, manufacturing sector, 1990-2002



Source: Asian Development Bank, 2002 and 2003; ILO, 2003b; US Bureau of Labor Statistics, 2004.

Identifying job creation and the advancement of industrial relations as its main priorities, a tripartite commission, comprising workers' representatives, employers and the Government, designed the Social Pact for Job Creation in February 2004. The purpose of the pact is to improve the labour situation in the country through tripartite dialogue and to:

- address the persistent problems of employment insecurity, especially rising youth unemployment;
- ease the incorporation of women and old workers into the labour market;

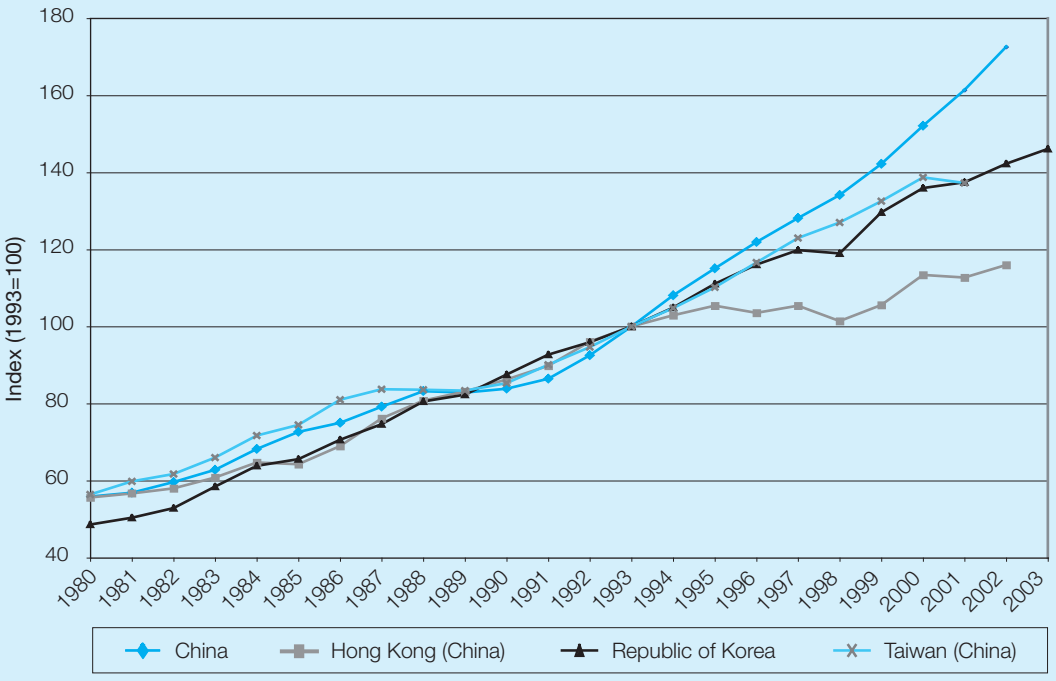
- ensure a more cooperative system of industrial relations by specifying the role of each economic participant;
- provide wage competitiveness while taking into consideration the interests of all parties involved (workers, employers and the Government).

The Government of the Republic of Korea sees the Social Pact for Job Creation as an important step towards constructive collaboration between workers, employers and the Government. It is expected that the adoption of labour legislation, clearly defining the rights and responsibilities of all parties involved, will contribute to a better investment climate in the country and will lead to more investments and the creation of job opportunities.

Source: Republic of Korea Ministry of Labor, 2004; Asian Development Bank, 2002, 2003, 2004.

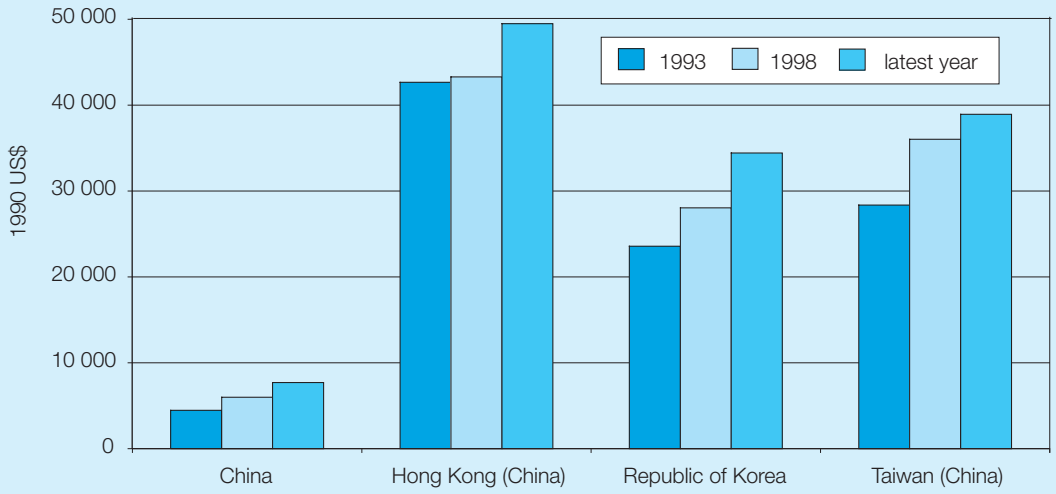
It should be noted, however, that the decline in the absolute number of working poor in China was among other things the result of positive rural development. This trend has slowed since 2000, and many of the country's current working poor remain in remote, rural areas with degraded land (Asian Development Bank, 2004). Thus, further improved strategies for addressing the special needs of the rural poor are necessary in order to ensure reaching the poverty reduction target (see Chapter 3 of this Report).

Figure 1.4a. Growth in output per person employed in East Asia (total economy, selected economies, index 1993=100, 1980 to latest year)



Source: ILO, 2003b.

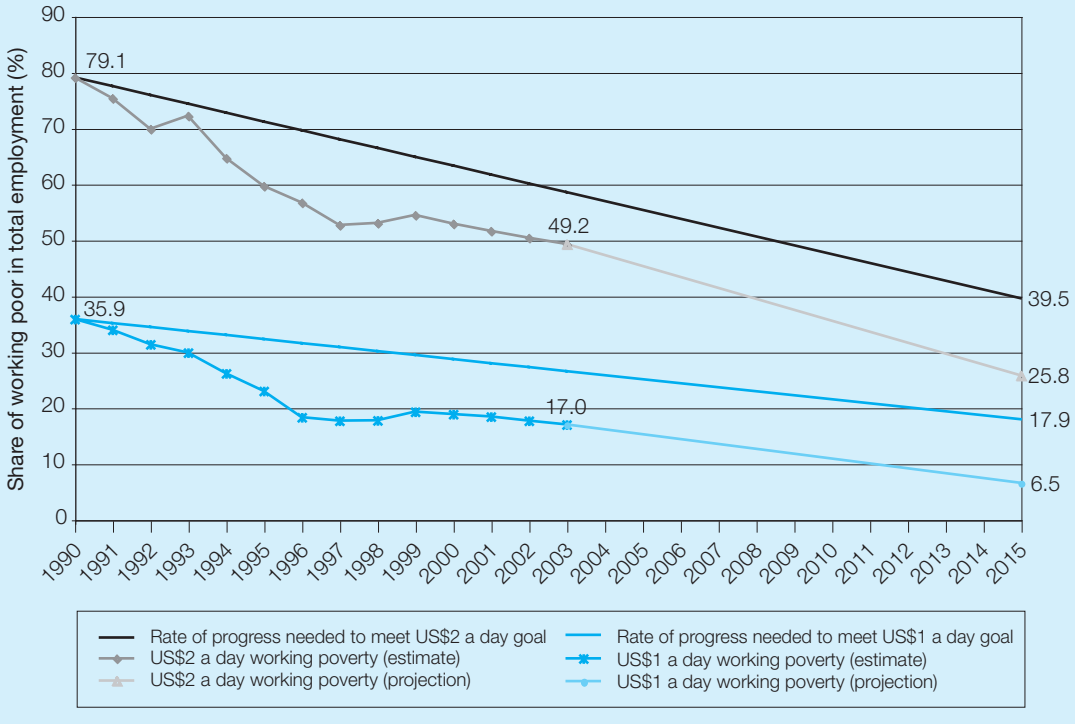
Figure 1.4b. Output per person employed in East Asia (total economy, selected economies and years)



Note: Latest year is 2001 for Taiwan (China), 2002 for China and Hong Kong (China), and 2003 for Republic of Korea. See note to figure 1.1.

Source: ILO, 2003b.

Figure 1.5. US$1 and US$2 a day working poverty trends in East Asia (1990-2015, percentage)



Source: Kapsos, 2004.

In economies such as the Republic of Korea where, as a result of the economic development in the past, US$1 a day poverty is no longer a primary issue, the major concern has been the historical rise in youth unemployment. Recently, more young people have been entering the labour market, but at the same time fewer job opportunities exist because of sluggish job creation (ILO, 2004c). Another particular challenge for the Republic of Korea is to address the competitiveness of its manufacturing sector, while fostering growth, productivity improvements and employment expansion in service industries, particularly in retail trade.

South-East Asia and the Pacific

Overall labour market indicators for the South-East Asia and the Pacific[12] region have deteriorated over the past ten years, although some improvements have been observed recently. Unemployment rates are over two percentage points higher than ten years ago (at 6.3 per cent in 2003) and the employment-to-population ratio is lower than it was ten years ago. The latter partly reflects a growing trend in education; people are not actually looking for work, as they stay in education for a longer period. But at the same time rising unemployment rates indicate that not enough employment opportunities exist. The region's high annual labour force growth rate of 2.4 per cent (table 1.3), resulting from high population growth rates and growing labour force participation rates, contributes to this fact. Another reason for the adverse labour market trends over the past ten years is that some economies still have not recovered from the Asian crisis. This is specifically true for Indonesia, the biggest economy in the region (for details, see box 1.5). Finally, state-owned enterprises in Cambodia and Viet Nam are still releasing a great number of workers.

There has been an upward trend in productivity since 1993 that was much slower than in other Asian subregions but higher than in most other developing regions. Per annum labour productivity grew by 2 per cent lifting the 2003 labour productivity level 21.6 per cent above the level in 1993. A more robust upward trend was interrupted by the Asian crisis in 1997/1998. On the one hand, the crisis did not greatly affect the productivity levels of the less advanced economies such as Myanmar, the Philippines and Viet Nam. On the other hand, the more affected economies in the region have only recently recovered to their pre-crisis productivity levels (figures 1.6a and 1.6b). Myanmar and Viet Nam have seen the highest growth in productivity, signalling a convergence among productivity levels in the region. But the gap remains wide. Figure 1.6b shows the wide range in total output per person employed for those economies where internationally comparable estimates are available. Myanmar's value added per worker is still

[12] The South-East Asia and the Pacific region comprises American Samoa, Brunei Darussalam, Cambodia, Cook Islands, Democratic Republic of Timor-Leste, Fiji, French Polynesia, Guam, Indonesia, Kiribati, Lao People's Democratic Republic, Malaysia, Myanmar, New Caledonia, Northern Mariana Islands, Pacific Islands (Trust Territory), Papua New Guinea, Philippines, Samoa, Singapore, Solomon Islands, Thailand, Tonga, Tuvalu and Viet Nam.

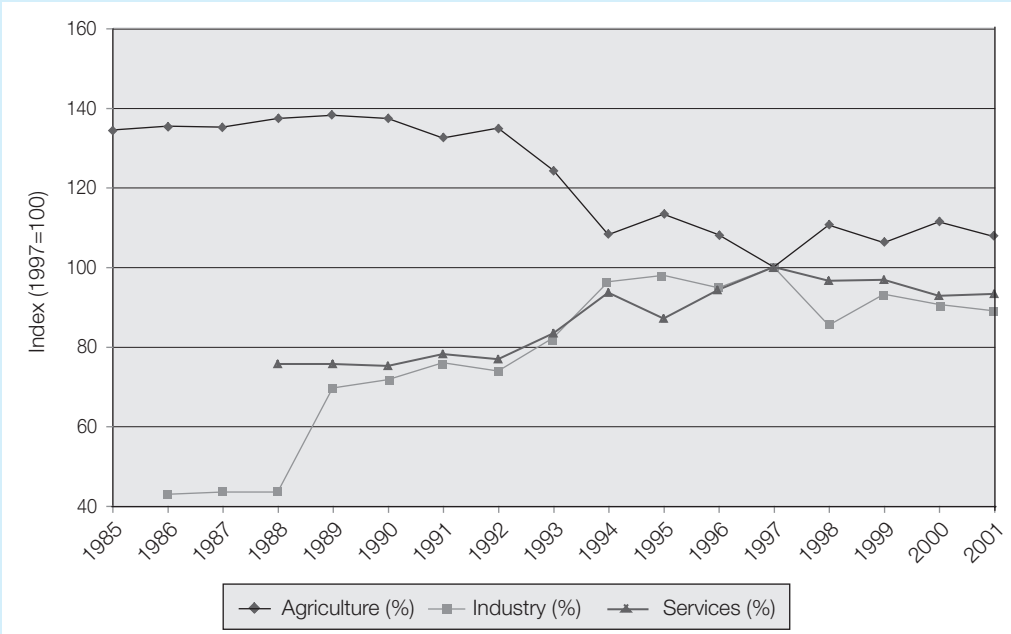
one-tenth that of Singapore. Even in Malaysia – one of the more advanced economies in the region – value added per worker is only about one-third of that in Singapore. Of course this difference is not due to the people's capabilities or willingness to work – in fact a person working in Myanmar might work longer hours and physically much harder than somebody in Singapore – but, as a result of differences in sectoral activities, potentially lower skill levels and less advanced technologies, their labour input does not translate into the same amount of output compared with a worker in Singapore.

The range is even greater in agricultural productivity. For example, even though Viet Nam has experienced an increase in output per person employed in agriculture of 30 per cent since 1980, Malaysia still produces 80 times more per person employed in agriculture (in terms of value added) than Viet Nam (ILO, 2003b), once again not as a result of people's willingness to work but possibly as a result of the lack of technology and training. In terms of having

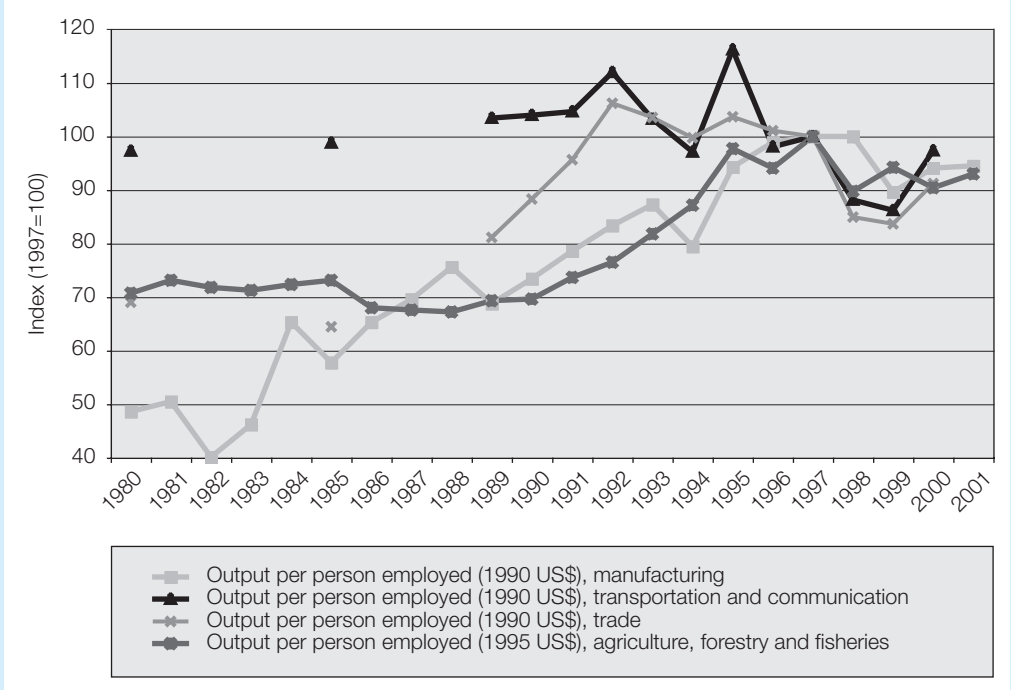
Box 1.5. Indonesia: Why institutions matter

From 1967 to 1997, during Suharto's New Order regime, Indonesia's GDP grew by an average of 7 per cent per annum. Rapid growth – mainly caused by high rates of labour-intensive exports – was accompanied by a significant reduction in poverty, along with a diversification of the economy away from agriculture. This development was built on strong macroeconomic policies and was supported by increasingly liberal trade and foreign investment policies, as well as financial sector policies. But at the same time, Indonesia's underlying social, financial, legal, and political institutions did not develop accordingly. This lack of functioning institutions, combined with high levels of corruption under the Suharto regime, made the country vulnerable to shocks. When the Asian financial crisis hit in 1997, the absence of strong institutions and social consensus as well as the considerable damage caused by corruption made managing the crisis and recovering from it more difficult and more costly for Indonesia than for other crisis-affected countries. This is reflected in the productivity performance in all sectors. Whereas some of the other economies in the region managed to quickly recover to their pre-crisis productivity growth paths, Indonesia's productivity in all four industries for which data are available has not yet reached pre-crisis levels (figure 2 below). This is also reflected in stagnating shifts in employment shares. Until the crisis, Indonesia had reduced the share of employment in agriculture relative to the employment shares in industry and services. After the crisis this trend came to a halt (figure 1 below), partly because people moved back to rural areas as they could no longer find employment opportunities in the cities and had no social security to fall back on. This can be taken as a serious sign of delay in the development process, caused by the fact that social institutions were not in place. In addition, unemployment rates, which were around 4 per cent before the crisis, subsequently went up to and remained at over 6 per cent. Finally, the informal economy increased after the crisis (reflected in the sharp rise of US$1 and 2 a day working poverty after 1996 in figure 4 below). US$2 a day working poverty has not yet recovered to pre-crisis levels. All these developments led to stagnation in both GDP per capita (figure 3 below) and poverty reduction.

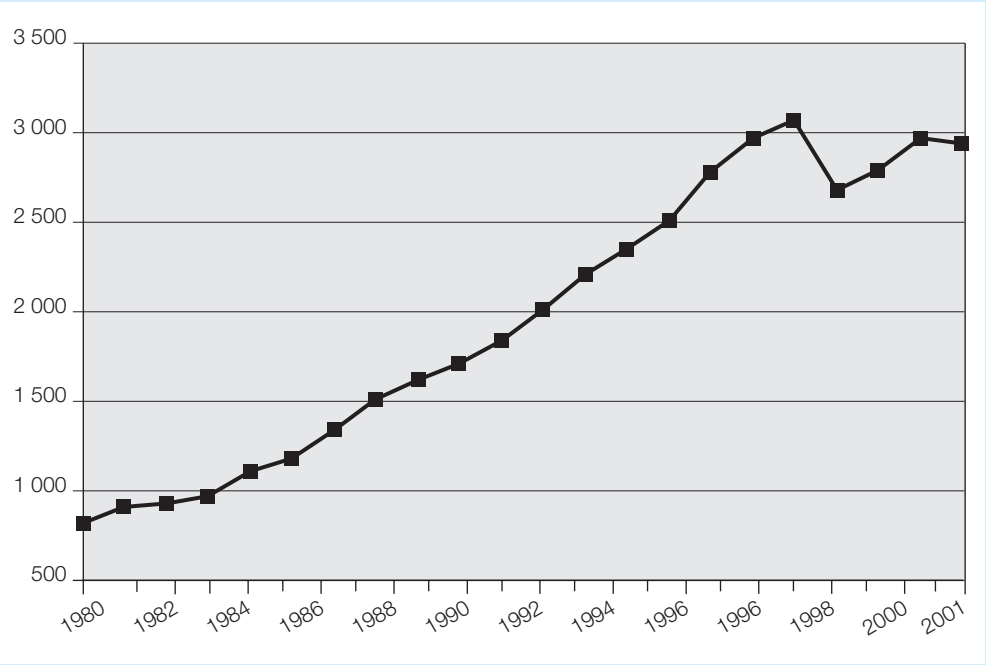
1. Employment shares (percentages, index 1997=100, 1985-2001)



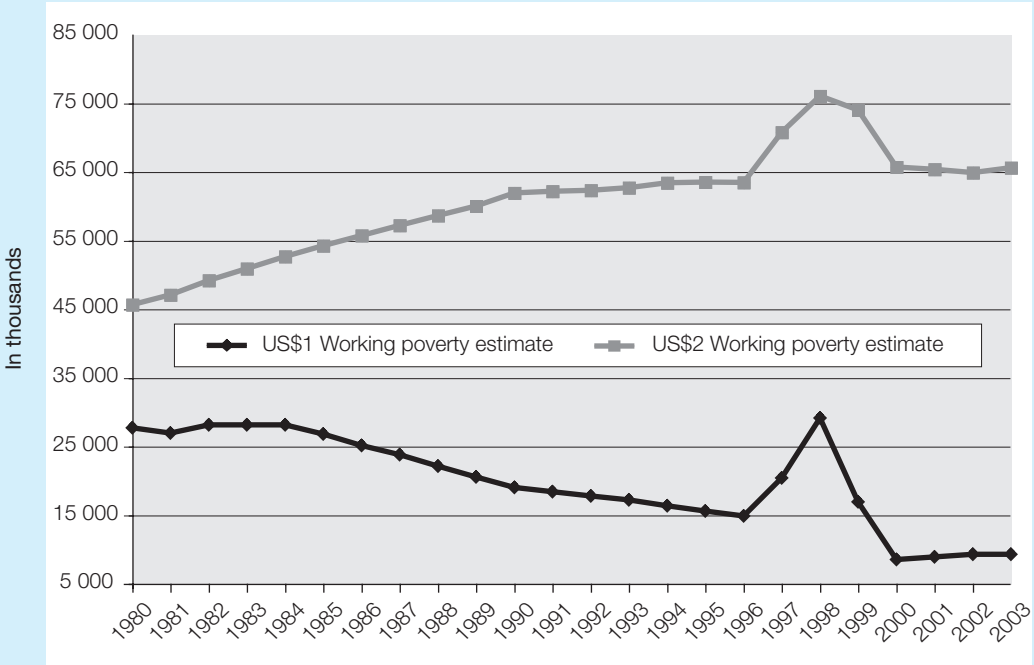
2. Output per person employed (selected industries, index 1997=100, 1980-2001)



3. GDP per capita in PPPs (1980-2001)

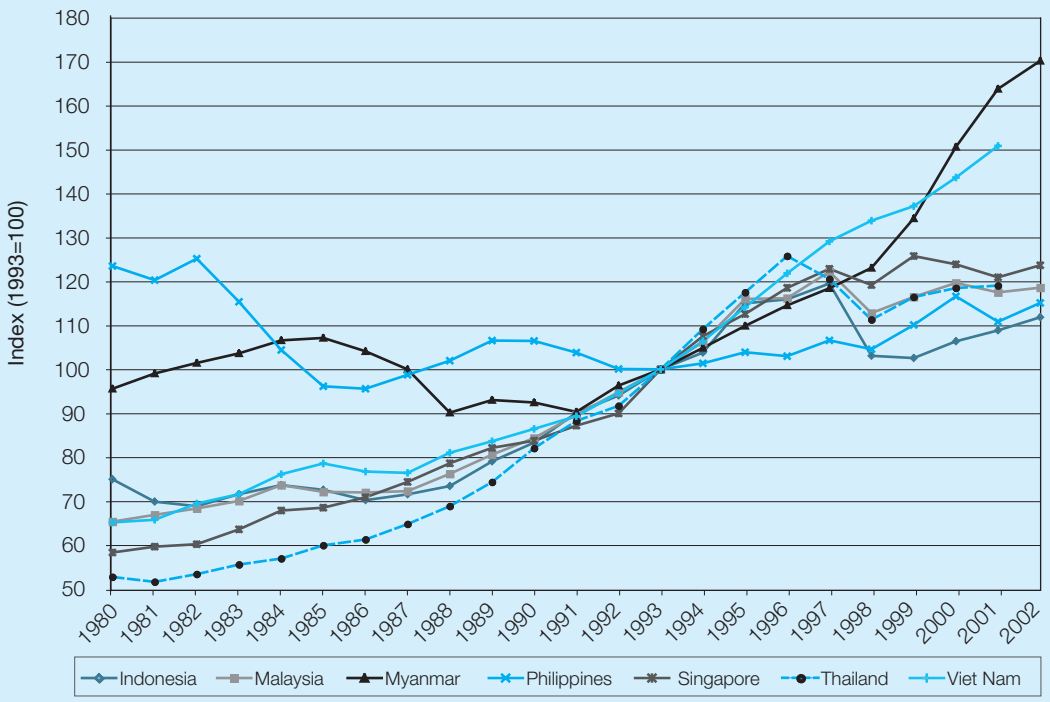


4. US$1 and US$2 a day working poverty trends (1980-2003)



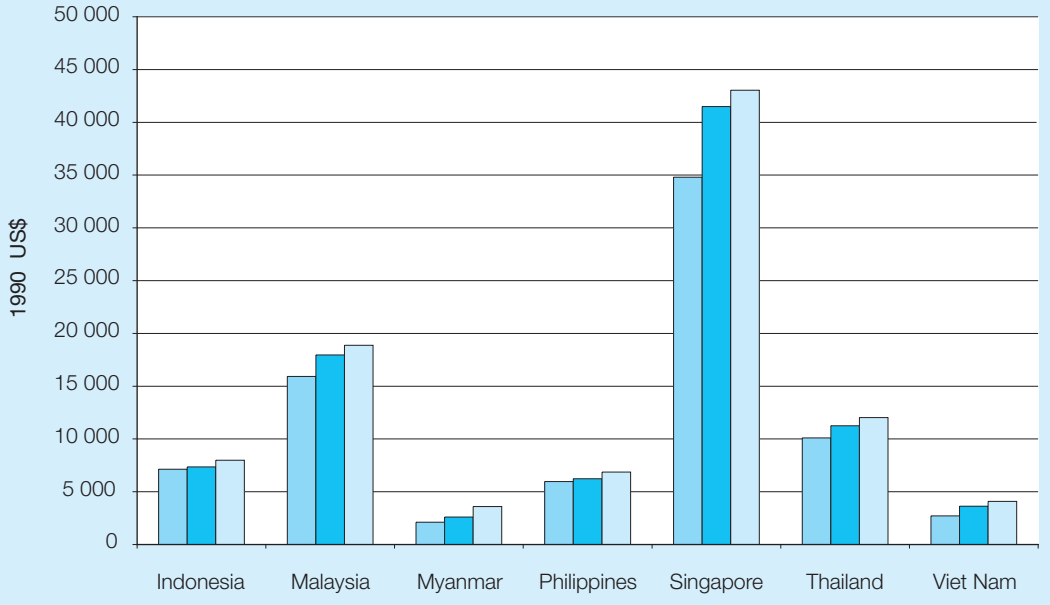
Note: Sectoral productivity data have different groupings from sectoral employment data: agriculture is the same for both, manufacturing and industry are roughly comparable, and communication and transportation can by used as an indicator of the service sector.
Source: ILO, 2003b; World Bank, 2004a, 2004b; Kapsos, 2004; calculations based on these data; World Bank, 2004b; Amjad, 2004.

Figure 1.6a. Growth in output per person employed in South-East Asia (total economy, selected economies, index 1993=100, 1980 to latest year)



Source: ILO, 2003b.

Figure 1.6b. Output per person employed in South-East Asia (total economy, selected economies and years)

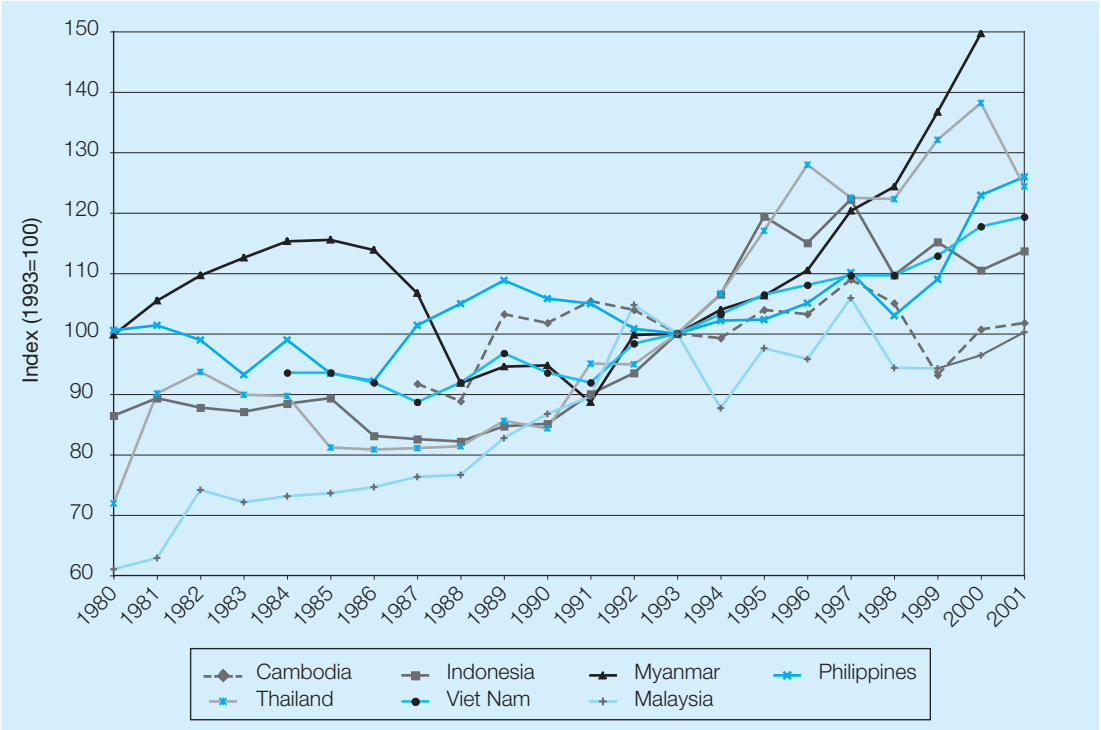


Note: Latest year is 2001 for Viet Nam and 2002 for all other countries. See note to figure 1.1.
Source: ILO, 2003b.

reached pre-crisis productivity levels in this sector, more countries have managed to get back on their agricultural productivity growth path (figure 1.7) compared to overall productivity (figure 1.6a). This indicates that the service and industry sectors have been relatively less able to recover from the crisis compared to the agricultural sector.

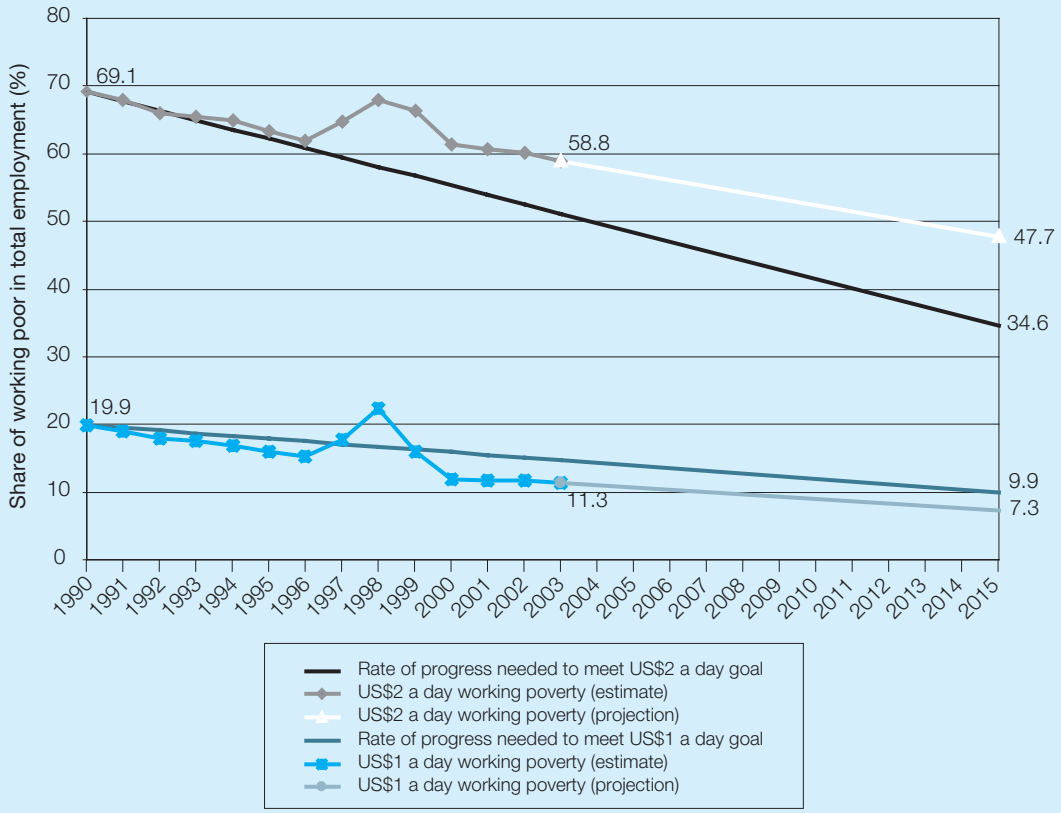
As a result of the impressive productivity development before the crisis and the convincing performance of some economies in dealing with and recovering from the crisis, South-East Asia and the Pacific should manage at least to halve US$1 a day working poverty by 2015 (figure 1.8 and table 1.2), as the share today is already almost half of what it was in 1990. In terms of halving US$2 a day working poverty (the current share in total employment being 58.8 per cent in 2003), it is not very likely that the goal will be achieved unless another Asian miracle lifts GDP growth rates to above 10 per cent a year, which is more than twice as high as during the past ten years. In addition, even though unemployment might not be as big a concern as in other developing regions for the time being, if it were to grow at the speed it has grown during the past ten years, unemployment in 2015 would be above 10 per cent. Working poverty and unemployment would then make it impossible to considerably reduce US$2 a day poverty.

Figure 1.7. Output per person employed in agriculture in South-East Asia (selected economies, index 1993=100, 1980-2001)



Source: ILO, 2003b.

Figure 1.8. US$1 and US$2 a day working poverty trends in South-East Asia (1990-2015, percentage)



Source: Kapsos, 2004.

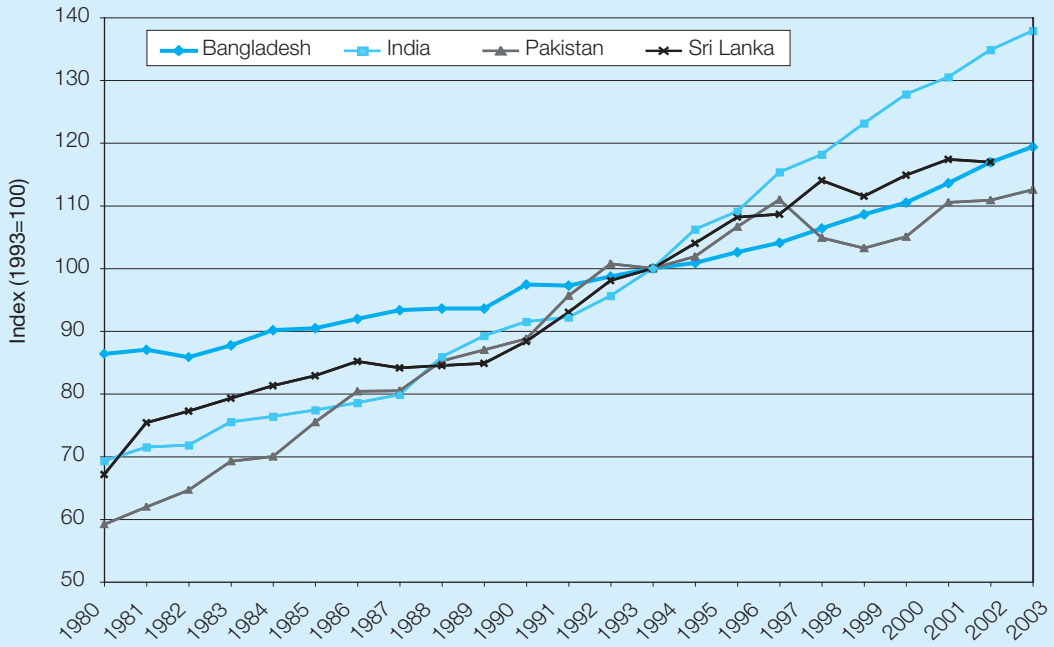
South Asia

Unemployment and employment-to-population ratios have not changed considerably over the past ten years despite solid GDP growth rates of over 5 per cent in South Asia.[13] Unemployment rates are just below 5 per cent and employment-to-population ratios are 57 per cent, which is the same level as in 1993. This indicates that there has been employment creation, but just enough to absorb the growing labour force (which is still growing at the fast rate of 2.3 per cent a year). The employment-to-population ratio is low: only the Middle East and North Africa region has a lower ratio.

The South Asia region has seen improvements in terms of productivity growth since 1993. Productivity grew by 3.3 per cent annually and the level of productivity in 2003 was 37.9 per cent higher than in 1993 (table 1.3). These trends indicate that besides East Asia no other region in the world has been as successful in terms of increasing productivity as South Asia. Figures 1.9a and 1.9b

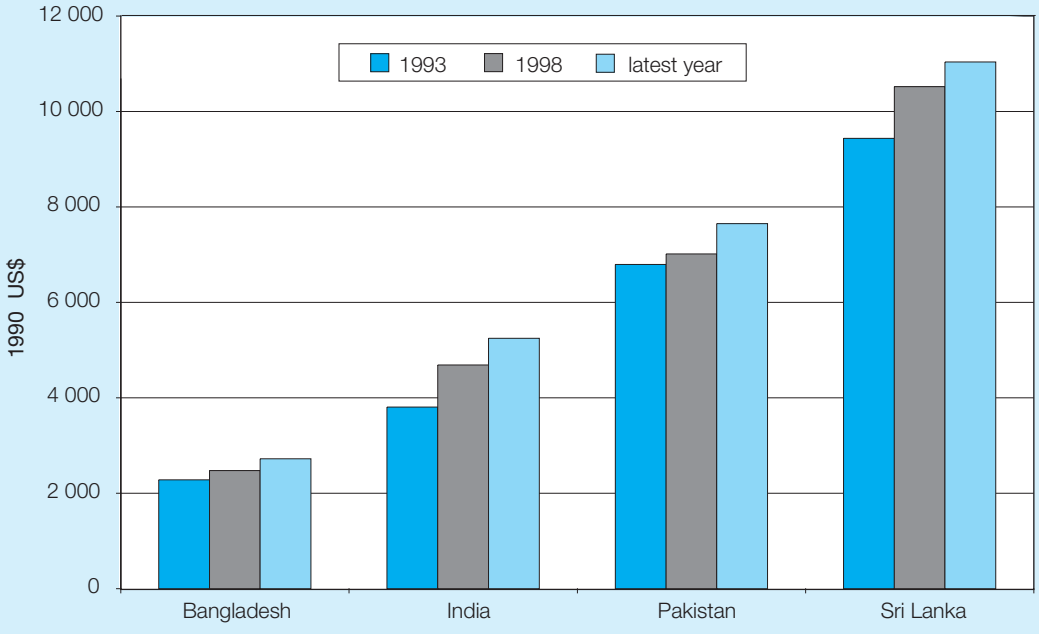
[13] The South Asia region comprises Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

Figure 1.9a. Growth in output per person employed in South Asia (total economy, selected economies, index 1993=100, 1980 to latest year)



Source: ILO, 2003b.

Figure 1.9b. Output per person employed in South Asia (total economy, selected economies and years)



Note: Latest year is 2001 for Sri Lanka and 2002 for all other countries. See note to figure 1.1.
Source: ILO, 2003b.

show the development as well as the levels for a selection of economies in the region. These levels vary considerably between economies. Whereas Pakistan, Bangladesh and Sri Lanka have managed to improve productivity only slightly since 1993, India has managed to increase the output produced per person employed by almost 40 per cent within the same period (for more details on India, see box 1.6). Pakistan and Sri Lanka both started off well at the beginning of the 1990s, but with the onset of the Asian crisis in 1997, Pakistan entered into a period of productivity decline for two years and has not yet recovered. Sri Lanka witnessed a decline in productivity in 1998 and productivity in the country has more or less stagnated since then.

The improvements in agricultural productivity have, on average, been smaller than in overall productivity, an adverse development in a region where agriculture is the main provider of jobs (table 1.6). India, one of the best performers in the 1980s in terms of increases in agricultural productivity, has seen an increase of only 12 per cent since 1990. In the same period Sri Lanka has witnessed an increase of 40 per cent. Pakistan and Sri Lanka have the highest levels of output per person in agriculture, producing more than twice as much per person as India. Once again, motivation or willingness to work are not explanations, for the differences, but rather they are likely to be the result of differences in skills and access to technology.

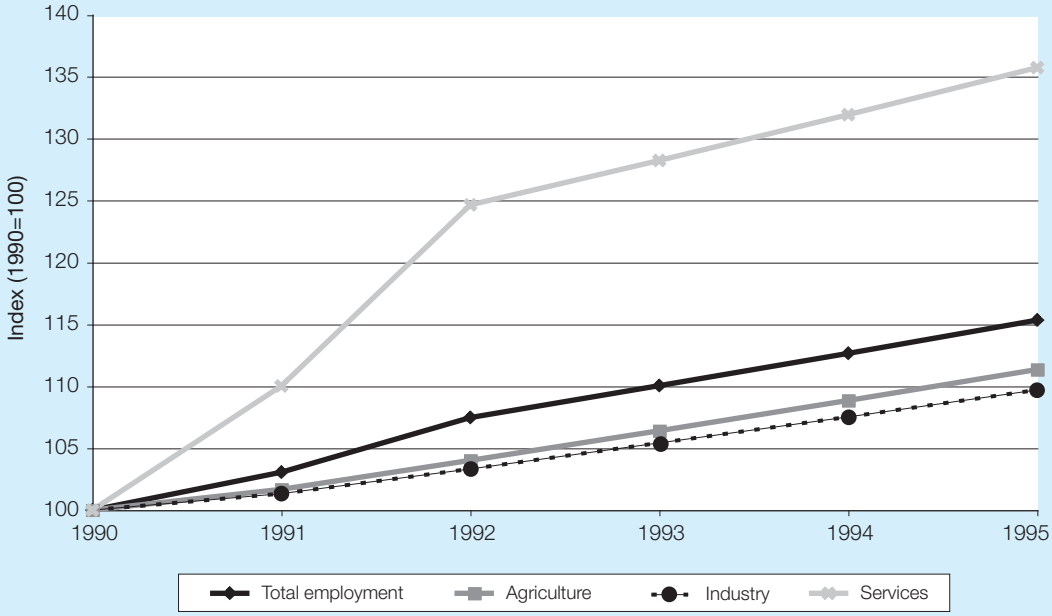
The stability in labour market indicators together with increases in productivity were the main reasons why the region has seen considerable declines in

Box 1.6. Productivity, employment and poverty reduction in India

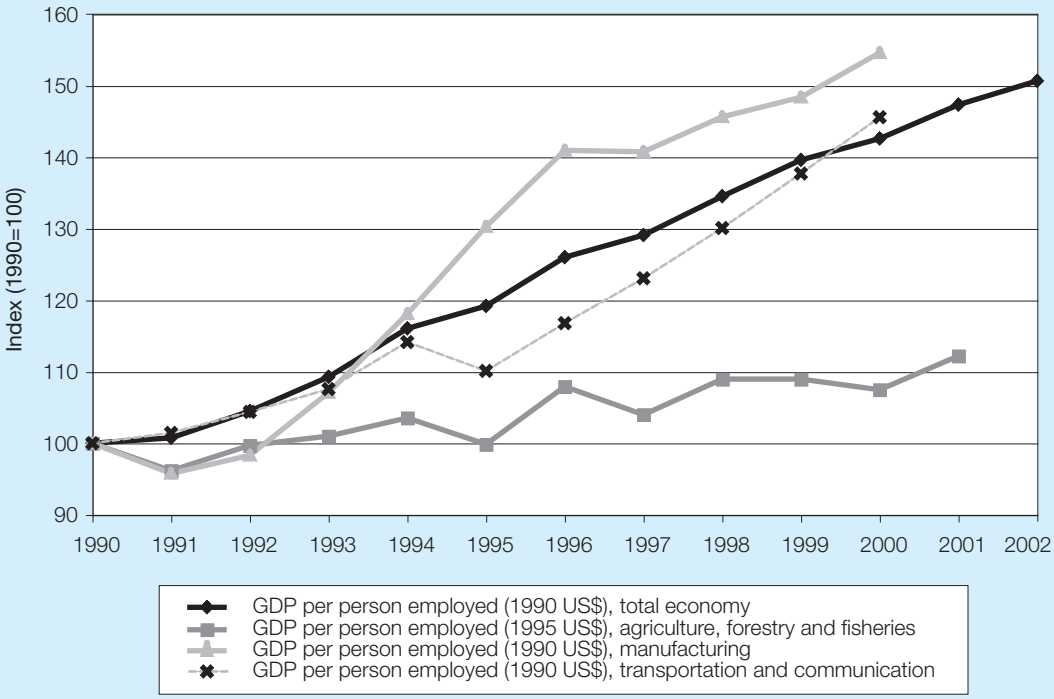
The Indian experience can be taken as a good example of the fact that growth in productivity usually goes hand in hand with growth in employment as well as poverty reduction. In the specific case of India, this is true for all three sectors, but employment creation varied tremendously. The service sector has seen impressive improvements in productivity and in employment. In contrast, the agricultural sector has witnessed the smallest improvement in terms of productivity but greater employment growth than the industrial sector. Meanwhile the industrial sector had the highest improvement in productivity but, as is often the case in this sector, at the cost of very little improvement in employment. In addition, wages in manufacturing saw a decline over the past 20 years (as can be seen in figure 4 of this box. (Wages in the sector are still high enough to enable people who work in this sector to live above the US$1 a day poverty threshold.) Overall, the shares of agricultural and industrial employment in total employment have been decreasing, whereas the share of service sector employment has risen. But even if this trend continues in the near future, with over 200 million people working in the agricultural sector, India will remain a largely agrarian economy for some time. As can be seen from figure 4 above, this very typical pattern in terms of sectoral shift went hand in hand with growth in GDP per capita.

Source: ILO, 2003b, and calculations based on the same source; Amjad, 2004; Islam, 2004.

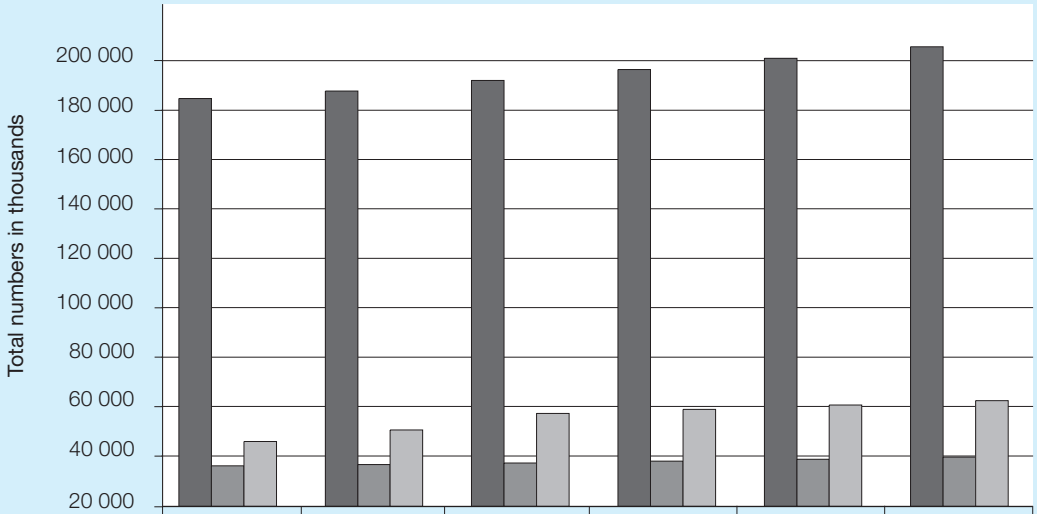
1. Total and sectoral employment (index 1990=100, 1990-1995)



2. Output per person employed (total and by sector, index 1990=100, 1990-2002)

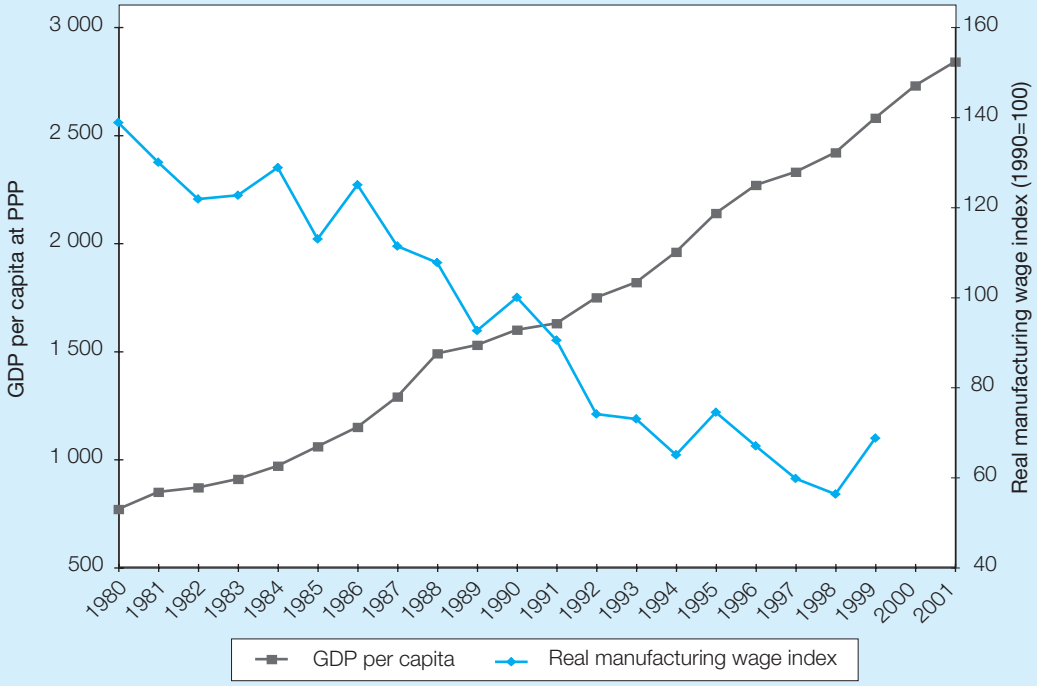


3. Employment by sector (total numbers, 1990-1995)



	1990	1991	1992	1993	1994	1995
Agriculture ('000)	185 080	188 180	192 500	196 920	201 440	206 060
Industry ('000)	36 380	36 860	37 590	38 350	39 120	39 910
Services ('000)	46 260	50 890	57 660	59 320	61 030	62 780

4. GDP per capita at PPP, 1980-2001 and real manufacturing wage index (1990=100), 1980-1999



Note: Sectoral productivity data have different groupings from sectoral employment data. Agriculture is the same for both; manufacturing and industry are roughly comparable; and communication and transportation can be used as an indicator of the service sector.

Source: ILO, 2003b.

Table 1.6. Selected agricultural indicators in South Asia (selected years and economies)

	Output per person employed 1980	Output per person employed 1993	Output per person employed latest year available*	Employment share of agriculture in total employment latest year available*	GDP share of agriculture earliest year available**
	1995 US$	1995 US$*	1995 US$	(%)	(%)
Bangladesh	286	318	397	62.1	22.7
India	528	686	762	66.7	22.7
Nepal	388	516	606	78.5	40.8
Pakistan	1 019	1 524	1 674	48.4	23.2
Sri Lanka	1 114	1 328	1 594	41.6	22.7

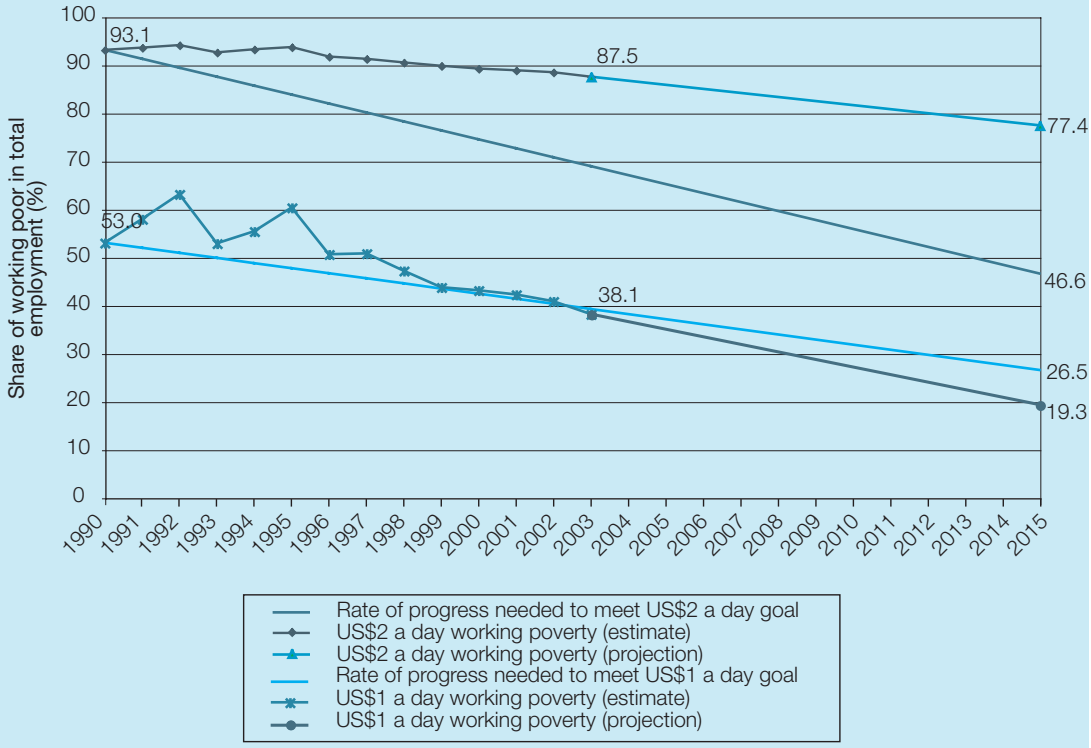
Source: *ILO, 2003b; **World Bank, 2003.

extreme US$1 a day working poverty and total poverty. [14] In terms of US$1 a day working poverty, the rate has dropped from over 53 per cent to under 38.1 per cent since 1990. Total US$1 a day poverty dropped from 40.9 per cent in 1990 to 28.4 per cent in 2003 and is likely to further decrease in 2004. Despite these positive economic developments, these are still the second highest shares in the world (after sub-Saharan Africa). The US$2 a day poverty share declined from 85.4 per cent in 1990 to 75.7 per cent in 2003, and the working poverty shares declined from 93.1 to 87.5 per cent during the same period. This indicates that the productivity growth rates and the solid GDP growth rates of 5.5 per cent annually did help to create jobs and to lift people out of extreme poverty, but the majority of jobs were not decent enough to lift people above the US$2 a day threshold (figure 1.10). This situation will continue if trends in wages fail to follow productivity trends, as has been the case in India's manufacturing sector (box 1.6). The decent work deficit in this region remains one of the main challenges and can be tackled only with the right combination of labour market policies and macroeconomic policies. Even if the goal to halve the US$1 a day working poverty share in total employment by 2015 is reachable and contributes to the overall likelihood of this region reaching the Millennium Development Goal of halving extreme poverty by 2015, growth rates of over 10 per cent – far beyond historical rates – would be needed to halve the share of US$2 a day working poverty in total employment by 2015.

Development strategies have to keep in mind that the manufacturing sector's contribution to job creation has historically been lower than the proportion of jobs created in the service and the agricultural sectors. At the same time the job-creating potential of the service and agricultural sectors has been overshadowed by the fact that these jobs were often less productive than those in the manufacturing sector. Therefore the focus has to be on the one side to increase

[14] There have been differences in the poverty reduction process. The impacts of labour market conditions as well as economic conditions on poverty reduction depend on the institutional settings and other non-economic factors. For an analysis of some of the differences between some of the economies in the region see Amjad, 2004 and Islam, 2004.

Figure 1.10. US$1 and US$2 a day working poverty trends in South Asia (1990-2015, percentage)



Source: Kapsos, 2004.

employment creation in manufacturing, and on the other side to make sure that the jobs created in services and agriculture do not further contribute to the poverty trap of low productivity and low wage jobs.

Middle East and North Africa

The region of the Middle East and North Africa (MENA)[15] is unique in the economic diversity of the economies covered. The GDP figures among the region's oil-producing countries are close to three times higher than the average for non-oil-producing countries. The regional aggregates of labour market indicators, therefore, are likely to mask the highly diverse socio-economic situations of the economies themselves, and these should thus be used with care.

There are, however, some notable features that characterize the region as a whole. First of all, MENA has a growing young population, with 37 per cent of the population below the age of 15 years in 2000, and 58 per cent below the age

[15] The Middle East and North Africa region comprises the subregions of the Middle East (Bahrain, Djibouti, Islamic Republic of Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Somalia, Syrian Arab Republic, United Arab Emirates, West Bank and Gaza Strip, Yemen), and North Africa (Algeria, Egypt, Libyan Arab Jamahiriya, Morocco, Sudan, Tunisia).

of 25 years. This raises the important question of whether the relatively high economic growth in the region will bring with it enough decent and productive employment creation to absorb the growing youth cohort when, on average, the working age population increases by 3 per cent a year. Youth unemployment is already a major challenge for the region; the youth unemployment rate, at 25.6 per cent in 2003 (ILO, 2004c), is the highest in the world. In addition, there is concern that population growth will outpace economic growth, despite the region's resource wealth, threatening future economic development. The fertility rate (births per woman) in the region is declining, but it is still higher than in other developing regions (Cordseman, 1998).

MENA differs from other developing regions in its low share of working poverty (the US$1 a day working poverty share in total employment was only 2.9 per cent in 2003, whereas about one-third of the people who have a job do not earn enough to lift themselves and their families above the US$2 a day poverty line). However, the inequality in the distribution of wealth implies that the majority of people have not benefited from the vast oil wealth generated over decades by many of the MENA economies. The distribution of poverty and working poverty in this region follows closely the division of the oil-producing states and non-oil-producing states, with the non-producing states showing much higher incidences.

In addition, the high unemployment rates in the region are a real challenge for policy-makers. MENA's unemployment rate – the highest regional rate – has hovered around the 12 per cent mark for at least the past decade. What the rate reflects is a steady increase in the number of total unemployed since 1996 (an average of 500,000 additional unemployed per year, generated mostly in the Middle East subregion) and an increase in employment, but not enough to absorb all of those seeking work. Figures 1.11a and 1.11b confirm that between 1993 and 2003, nominal unemployment (1993=100) grew faster than employment in the Middle East but not in North Africa. It should be noted, however, that most of the increase in employment was that of females, which can be viewed as a sign of some improvement in its own right, given the past restrictions on female work. The employment-to-population ratio for men actually stayed relatively constant (69.6 in 1993 and 68.6 in 2003), whereas this ratio for women increased from 20.4 to 23.5. This indicates improvement, certainly, but the female employment-to-population ratios in this region still remain the lowest in the world by far. Additionally, the quality of jobs created for women is often inferior to that of men (ILO, 2004b).

Compared to other regions — especially the Asian regions — productivity gains have been rather low with an average annual growth rate of 0.1 per cent and an increase of 0.9 per cent over the past ten years. The picture of the levels of productivity for the region (figure 1.12b) also mimics the natural resource distribution within the region; oil-producing countries such as Saudi Arabia and the United Arab Emirates have much higher labour productivity – on a par with some industrialized economies — than non-oil-producing countries such as

Figure 1.11a. Employment and unemployment in the Middle East (index 1993=100, 1993 to latest year)

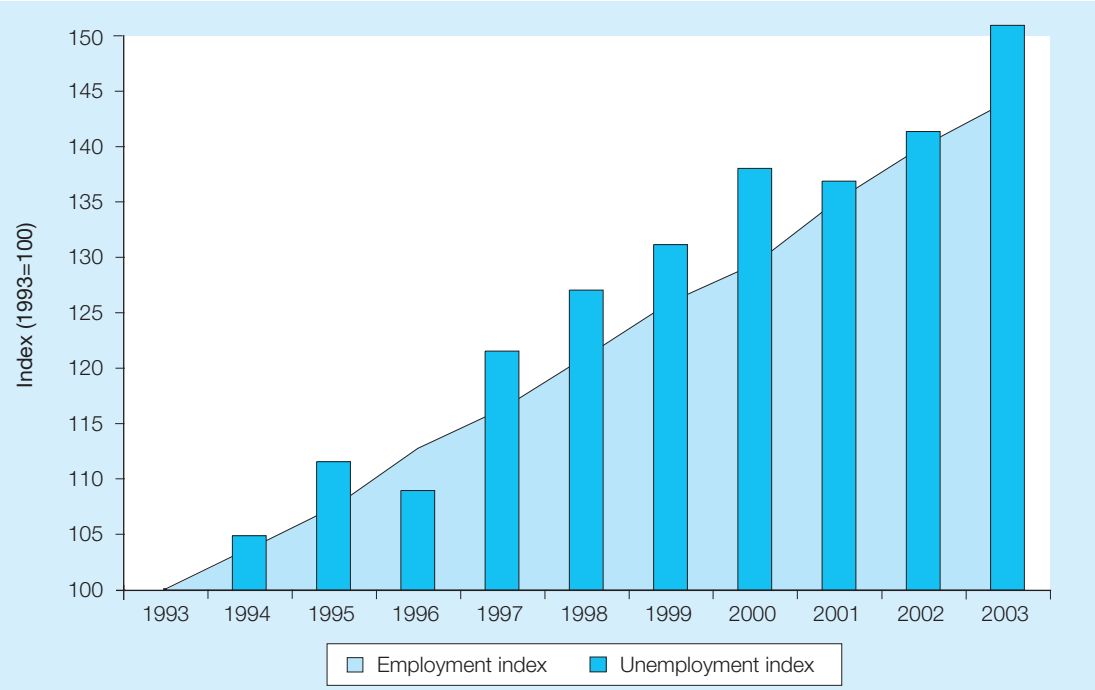
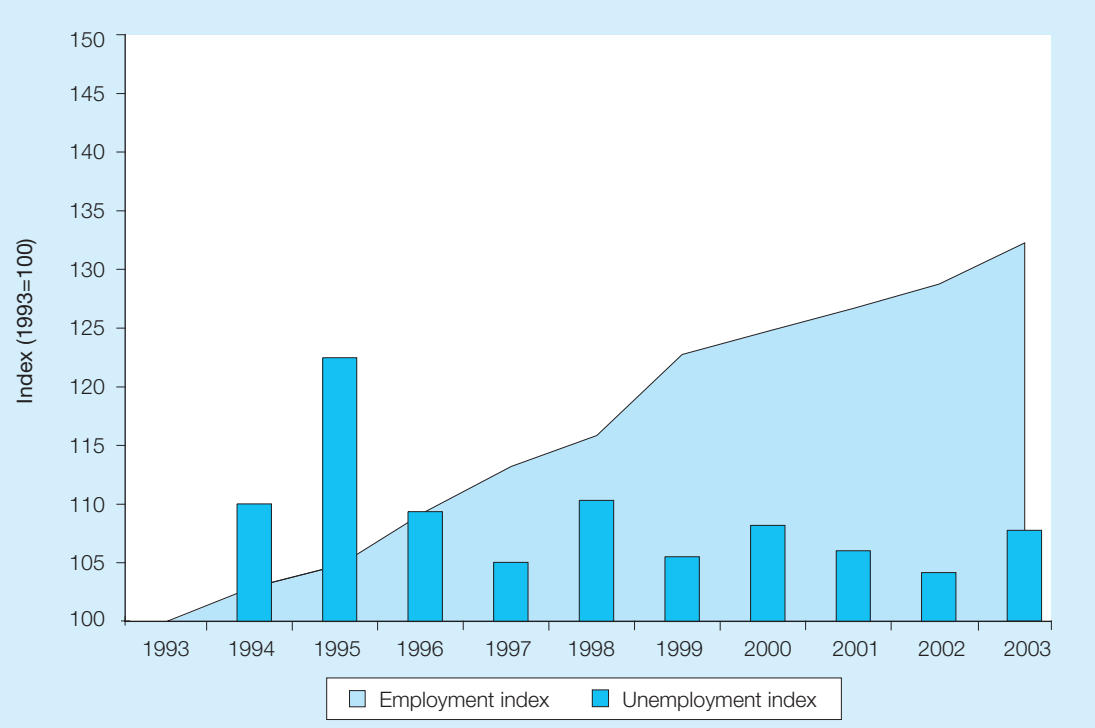


Figure 1.11b. Employment and unemployment in North Africa (index 1993=100, 1993 to latest year)



Source: ILO, 2003b.

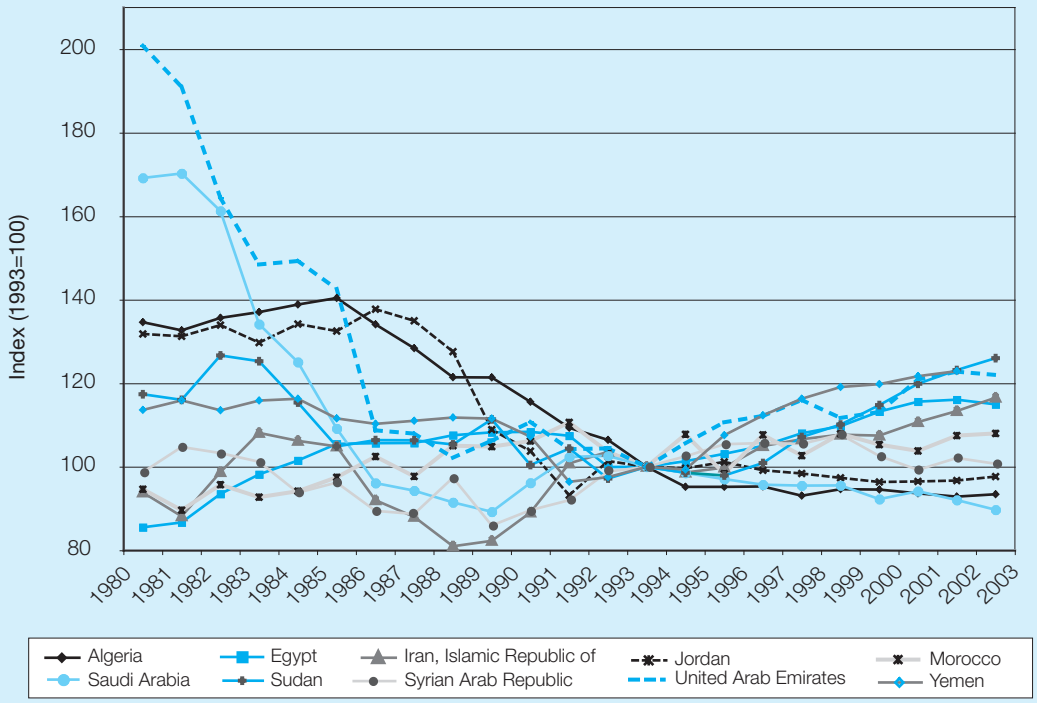
Egypt, Morocco and Yemen. In terms of trends, there is no clear distinction between oil-producing and non-oil-producing economies. Having noted this, it has to be borne in mind that it is easier for the non-oil-producing economies to increase from their rather low productivity levels than it is for the oil-producing economies with their high levels. In three economies – Algeria, Jordan and Saudi Arabia – labour productivity in 2002 was lower than in 1993. Labour productivity however increased steadily during this period in Egypt, the Islamic Republic of Iran, Sudan, the United Arab Emirates and Yemen. Morocco and the Syrian Arab Republic have seen very little variation in labour productivity in the period after 1993 (figures 1.12a and 1.12b). A slight majority of the economies failed to reach their labour productivity level of 1980, with the United Arab Emirates being furthest away from its 1980 level.

Labour productivity in the agriculture, forestry and fisheries sector was much more variable over time in the region, but in general it remained quite low compared to other regions. A significant improvement in agricultural productivity occurred in Sudan, although the country's level remains the lowest in the region. There has been a steady upward trend in Egypt, a mostly increasing trend in the Syrian Arab Republic, Tunisia and Yemen (which is the only country in the region where the agricultural sector is the dominant employer), a mostly decreasing trend in Jordan, and a volatile pattern in Morocco. With low productivity in the agricultural sector in this region as a whole, there is an urgent need for employment policies that address rural labour market deficiencies. Otherwise the outflow of the population from rural into urban areas could become an obstacle to further development.

The main challenge for the Middle East and North Africa will be to address the unemployment situation, particularly the high unemployment among youths, as well as to make sure that the share of people working but still not being able to lift themselves and their families above the US$2 a day poverty line will decrease faster than during the 1990s and the early part of the new millennium (figure 1.13). To halve unemployment by 2015, the Middle East and North Africa would need GDP growth rates much higher than the historical growth rate of 3.5 per cent. At the same time higher growth rates would also help to reduce US$2 a day working poverty considerably. But given the persistently low increases in productivity it is unlikely that the growth rate needed will be achieved – at least not in the majority of economies. Decreasing unemployment is vital as it would unlock an economic potential not used so far,[16] but the region will also need to ensure that growth translates into higher wages so as to reduce the number of working poor. Employment policies should be designed to deal with issues of: a highly mobile labour force (a net outward flow of nationals and inward flow of non-nationals willing to undertake manual work); expanding the private sector; ensuring sectoral diversification (lessening the dependence on oil

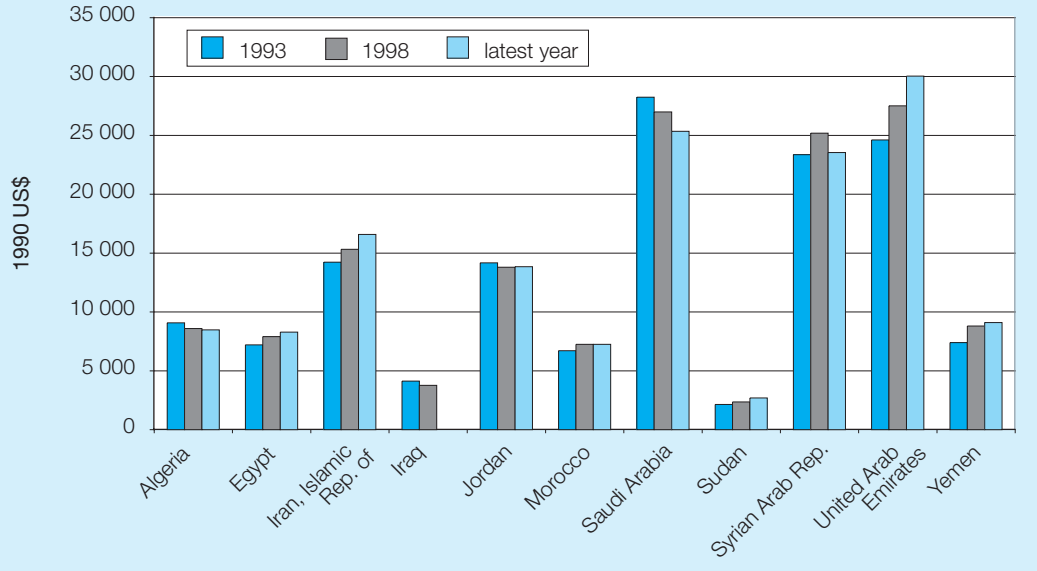
[16] For a detailed analysis of the potential contribution of employment to economic growth in the region, see World Bank, 2004c.

Figure 1.12a. Growth in output per person employed in the Middle East and North Africa (total economy, selected economies, index 1993=100, 1980 to latest year)



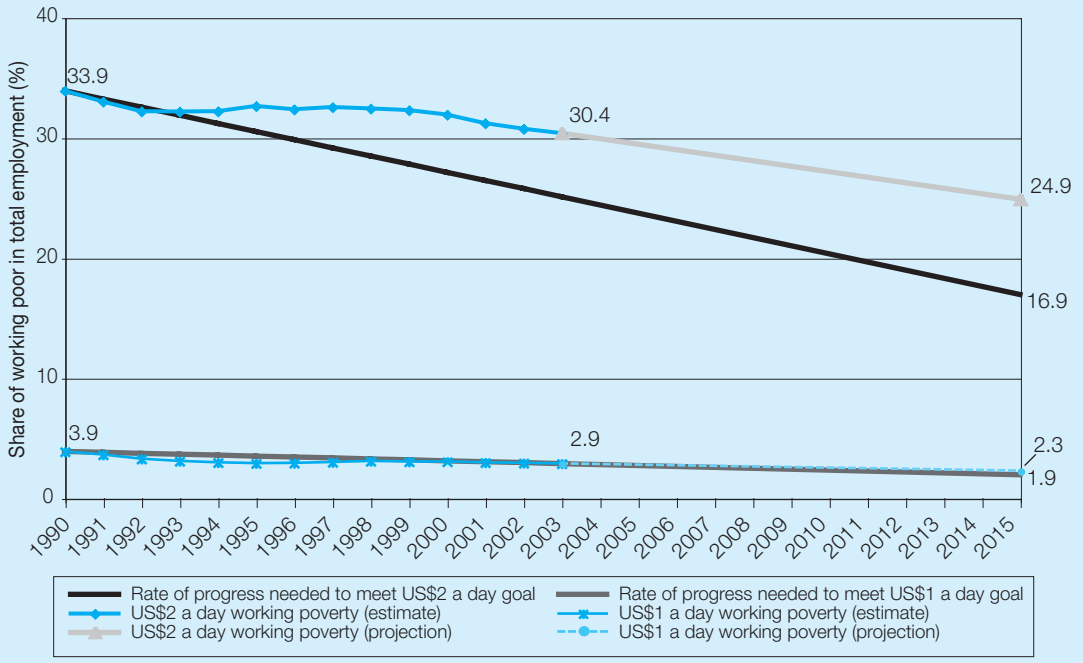
Source: ILO, 2003b. See note to figure 1.1.

Figure 1.12b. Output per person employed in the Middle East and North Africa (total economy, selected economies, index 1993=100, 1980 to latest year)



Note: Latest year is 2001 for Yemen and 2002 for all other countries.
Source: ILO, 2003b.

Figure 1.13. US$1 and US$2 a day working poverty trends in the Middle East and North Africa (1990-2015, percentage)



Source: Kapsos, 2004.

exports); improving educational standards and ensuring equal opportunity for education; increasing the economic activity of women; and bridging the gap in the supply and demand for youth employment (box 1.7).

Sub-Saharan Africa

Developments in sub-Saharan Africa[17] underline the fact that low productivity, low GDP growth rates, increases in total unemployment, stagnation in employment-to-population ratios and working poverty go hand in hand. Sub-Saharan Africa has the highest incidence of working poverty of all developing regions. Around 55 per cent of all people employed are not earning enough to lift themselves and their families above the US$1 a day poverty line. This share had decreased slightly during the late 1980s, but since 1990 it stayed continuously at a level as high as 55.8 per cent (table 1.1 and figure 1.15). In terms of US$2 a day working poverty the same stagnation took place since 1990, leaving the working poor share in total employment at just below 90 per cent in 2003.

[17] The Sub-Saharan Africa region comprises the subregions of **Central Africa** (Angola, Cameroon, Central African Republic, Chad, Congo, Democratic Republic of Congo, Equatorial Guinea, Gabon, Sao Tome and Principe), **eastern Africa** (Burundi, Comoros, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Mozambique, Réunion, Rwanda, Seychelles, Uganda, United Republic of Tanzania, Zambia, Zanzibar, Zimbabwe), **southern Africa** (Botswana, Lesotho, Namibia, South Africa, Swaziland), and **western Africa** (Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, St. Helena, Togo).

Box 1.7. The Arab brain drain

With unemployment soaring to worrying levels and the inability of Arab States to absorb their growing number of highly educated professionals, Arab citizens – particularly Arab youths – are increasingly migrating to try their luck in other areas of the world.

There are economic and political reasons why young graduates leave their native State, amongst which are:

- Avoidance of joblessness or the obligation to accept jobs far from their specialization
- Insufficient scientific and technological infrastructure
- Low income prospects for the highly skilled
- Political and social instability
- Avoidance of stringent administrative bureaucracies and other institutional constraints

A report of the Arab League found that more than 450,000 Arab university graduates were settled in European countries and the United States in 2001, resulting in a loss of human and economic potential to the Middle East and North Africa region and an overall negative impact on development. UNDP estimates that between 1998 and 2000, more than 15,000 Arab doctors emigrated abroad.

Source: UNDP, 2003.

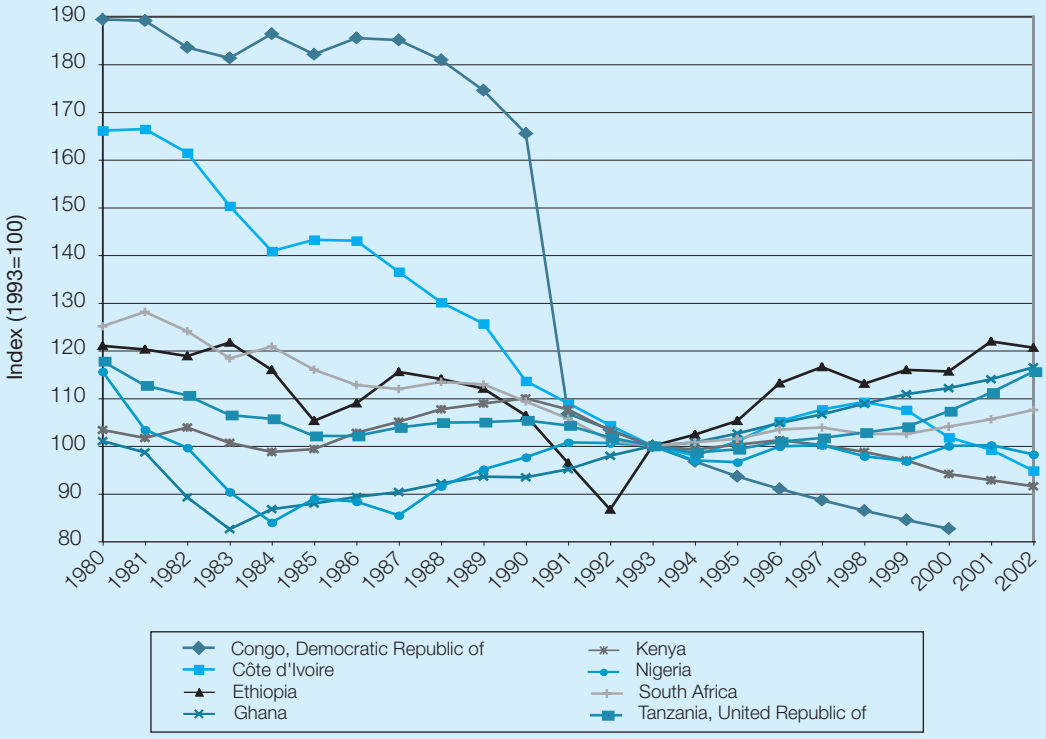
The stagnation in both US$1 a day and US$2 a day total poverty follows these trends (table 1.2).

Sub-Saharan Africa's unemployment rate has seen no improvement in recent years and remained at 10.9 per cent in 2003 (table 1.3). The same is true for the region's employment-to-population ratio, which stands at around 66 per cent. This is quite high compared to other developing regions, but at the same time this indicator does not give a clear picture as to the quality of jobs and the conditions under which people work.

Sub-Saharan Africa is the only region that had seen decreases in labour productivity levels between 1993 and 2003 (table 1.3). This went hand in hand with slow GDP growth rates of under 3 per cent, a value that for an extremely poor region is not enough to push development forward. Out of the eight countries for which comparable data are available, GDP per person employed is only higher than in 1980 in one country, Ghana. Since 1983, productivity in Ghana grew solidly, which helped the economy double its GDP per capita over the period. Over the past ten years Ethiopia, South Africa and the United Republic of Tanzania also saw increases in productivity levels, but in the other economies for which data are available, productivity decreased over the period (figures 1.14a and 1.14b).

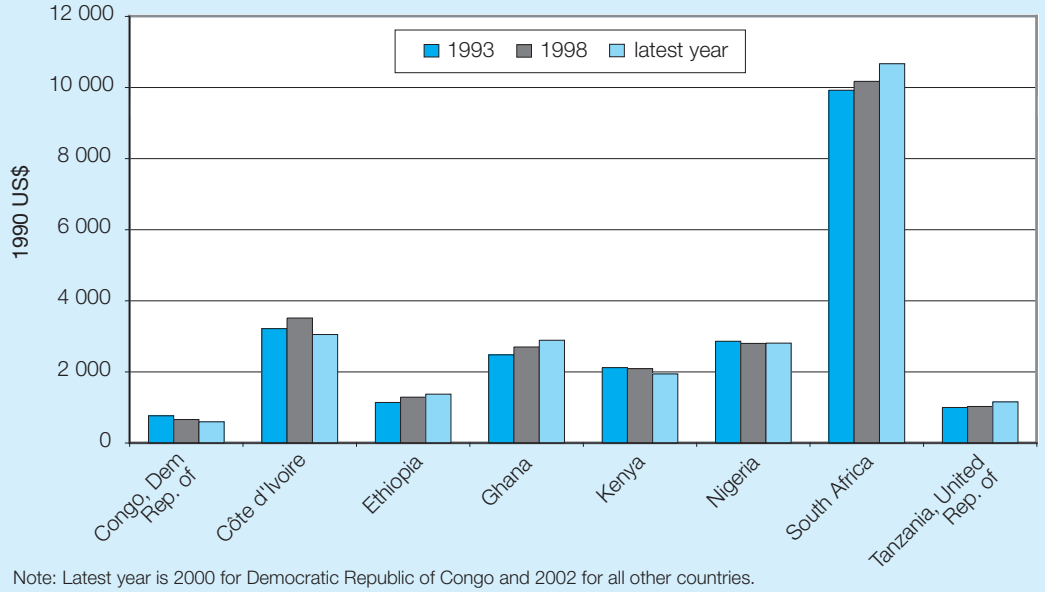
As agriculture plays a major role in most countries in the region, a look at the development in agricultural productivity is worthwhile (table 1.7). Ghana saw the largest reduction in agricultural productivity between 1980 and 2001.

Figure 1.14a. Growth in output per person employed in sub-Saharan Africa (total economy, selected economies, index 1993=100, 1980 to latest year)



Source: ILO, 2003b.

Figure 1.14b. Output per person employed in sub-Saharan Africa (total economy, selected economies and years)



Note: Latest year is 2000 for Democratic Republic of Congo and 2002 for all other countries.
Source: ILO, 2003b. See note to figure 1.1.

Table 1.7. Selected agricultural indicators in sub-Saharan Africa (selected years)

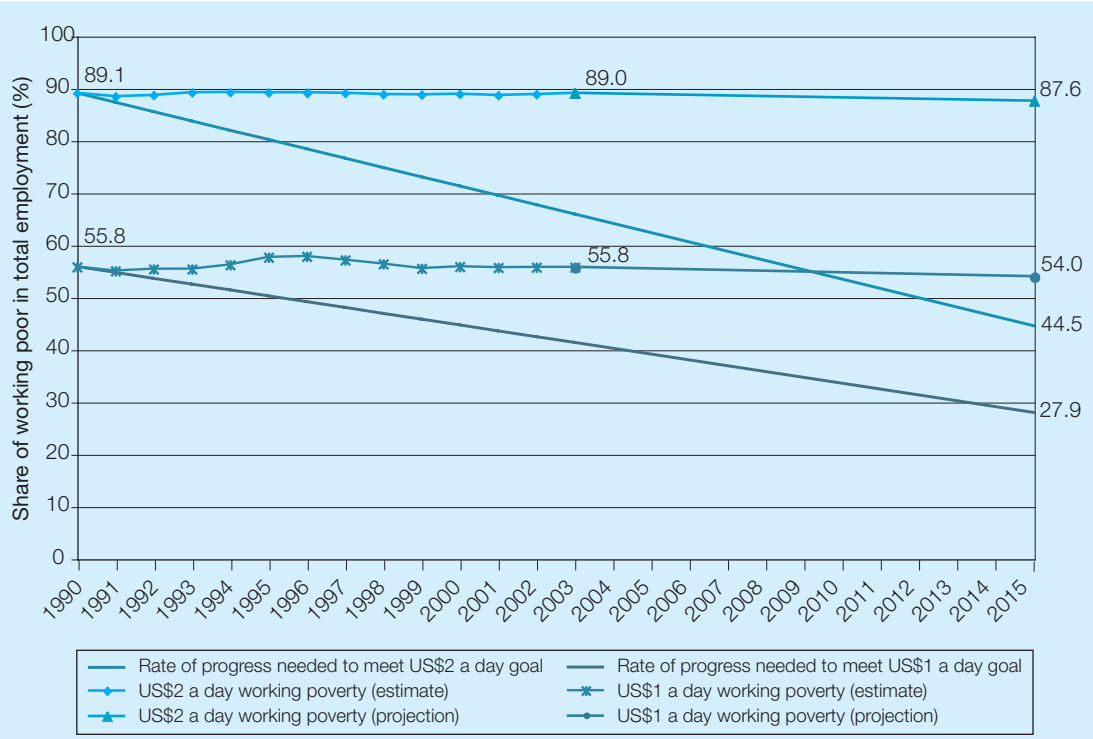
	Output per person employed in agriculture	Output per person employed in agriculture	Output per person employed in agriculture	Difference in output per person employed in agriculture	Change in employment in agriculture between year closest to 1980 and closest to 2001
	1980 1995 US$	1990 1995 US$	2001 1995 US$	1980-2001	(in thousands)
Benin	941	1 161	1 819	878	220
Burundi	399	415	357	–42	n.a.
Cameroon	109	115	178	69	569
Chad	383	336	485	102	276
Congo, Democratic Republic of	150	155	127	–23	2 171
Côte d'Ivoire	1 355	1 142	1 348	–7	–508
Ghana	3 151	2 448	2 654	–497	279.03
Guinea	n.a.	222	262	40	375
Kenya	357	365	290	–67	79.9
Madagascar	534	532	515	–19	1 024
Malawi	216	167	261	45	n.a.
Mali	422	405	416	–6	829
Mozambique	n.a.	1 293	1 447	154	n.a.
Niger	199	169	177	–22	n.a.
Nigeria	480	672	940	460	–153
Rwanda	217	170	207	–10	879
Senegal	387	431	444	57	455
South Africa	2 432	2 790	3 256	824	–1 146
Tanzania, United Republic of	151	165	205	54	n.a.
Zambia	1 659	1 631	1 699	40	381
Zimbabwe	783	712	754	–29	n.a.

n.a.: no data available.
Source: ILO, 2003b.

But taking into account the country's growth rate in total productivity (figure 1.14a), Ghana was obviously able to create productivity growth in other sectors. Considerable increases in productivity in agriculture took place in Chad, Mozambique, Nigeria, Uganda and most impressively in Benin and South Africa. In Benin, Chad, Mozambique and Uganda, productivity growth went hand in hand with employment growth in the sector. South Africa and Nigeria have reached a phase in their development process in which the impact of agriculture on employment and GDP has begun to decrease while other sectors are becoming more important.

Prospects for sub-Saharan Africa look rather challenging if current trends persist (figure 1.15). If productivity growth continues at the very low rate of the

Figure 1.15. US$1 and US$2 a day working poverty trends in sub-Saharan Africa (1990-2015, percentage)



Source: Kapsos, 2004.

past 20 years, the high share of working poor and total poverty is likely to persist given the region's high unemployment rates, insufficient capacity for job creation, rapidly expanding labour force and huge overall decent work deficit. To halve unemployment as well as working poverty by 2015, sub-Saharan Africa would need GDP growth rates much higher than in the past (table 1.4; ILO, 2003a, 2004a). This points to the need for politicians to focus on decent employment and improvements in labour productivity (for one example, see box 1.8 and also box 1.9) together with the employment content of growth. Even if the region might not reach the Millennium Development Goal of halving poverty by 2015 – an extremely difficult challenge given that the region had the highest share of extreme poverty in the world – any improvements in this regard would lay the groundwork for a brighter future. The region now requires the concerted efforts of governments together with the international community. While governments in the region should work on improvements in education, infrastructure and developing favourable investment conditions, the international community has to make sure that the region can participate more in trade and thereby benefit from the positive effects of globalization.

Box 1.8. Enhancing female productivity in agriculture as a simple means to raise overall productivity

In recent years, research has found mixed results in answer to the question of whether differences in yields between male and female farmers in sub-Saharan Africa exist, but the majority of studies found that yields of women are smaller than those of men. This result is often misused as an indication of lower labour productivity of women. In fact, IFAD's 1999 *Assessment of rural poverty in West and Central Africa* argues that lower yields should not be interpreted as indicating lower productivity among women farmers. The sex differences in yields are mainly the result of the following:

- The intra-household allocation of resources, such as of the quality and quantity of land;
- Women's greater difficulties in accessing financial resources, which limit their purchase of inputs, such as fertilizer and tools, and their ability to pay hired labour;
- Women's shortage of labour owing to their multiple responsibilities and their poor control over family labour.

In Burkina Faso, applied research on men and women who grew the same crop on individual plots provided more detailed findings, including the following. Most of the inputs, such as labour and fertilizer, went to the men's plots. However, female labour was more productive in growing vegetables. Overall the study estimated that the total household output could be increased by 10-20 per cent if some of the inputs from the plots controlled by men went to the plots controlled by women. In addition, the IFAD poverty assessment points to evidence that shows that, when they are available, resources such as organic fertilizer and credit are better managed by women than by men. Finally, if women were to get more support in managing their multiple responsibilities, agricultural productivity in sub-Saharan Africa could increase considerably.

Source: IFAD, 1999; IFAD/FAO/Government of Japan, 1998.

Box 1.9. The Extraordinary Summit on Employment and Poverty Alleviation in Africa

On the initiative of President Compaoré of Burkina Faso, the Heads of State of the African Union (AU) held an Extraordinary Summit on Employment and Poverty Alleviation in Ouagadougou, Burkina Faso on 8-9 September 2004. The Summit was held in collaboration with the Regional Economic Communities, the ILO, the development partners and other involved parties.

The goals of the Extraordinary Summit were to:

- consolidate the New Partnership for Africa's Development (NEPAD), aimed at ensuring sustainable human development in Africa;
- re-emphasize the dedication of the Heads of State in making employment central in the fight against poverty, in the context of globalization and technological, economic, political and social change;

(continued overleaf)

- elaborate a Plan of Action with specific programmes for the creation of productive employment;
- establish an efficient and appropriate feedback mechanism for the follow-up to the conclusions and decisions taken at the Summit.

The Plan of Action worked on at the time of finalizing this report provides the means of translating broad principles into action by targeting priority sectors (such as agriculture and infrastructure projects) that favour job creation. The Plan places a special emphasis on the fight against HIV/AIDS and similar diseases and on the role of women and youth in these development strategies.

In his opening speech, the Director-General of the International Labour Organization (ILO), Juan Somavia, pointed out that "the women, men and youth and, unfortunately, even children of this continent are working hard every day. There is no poverty of effort in Africa. There is poverty of opportunity". He emphasized Africa's right to expect support and global fairness and said that "good national governance will not succeed unless we have good global governance". This can only be achieved through greater policy coherence on growth, investment and employment creation from the international community.

"We need a global approach", he said, adding, "No institution has all the answers, but we all have the mandates that oblige us to find solutions. By joining forces, we can forge a better path to a fair globalization."

The Summit was preceded by a Social Partners' Forum, entitled "Decent work, a driving force for Africa's development". It brought together 80 representatives of employer and worker organizations as well as 20 observers from non-governmental organizations (NGOs) and representatives of international institutions to discuss the following key points:

- The creation of employment as one of the best methods for combating poverty;
- The necessity to make decent work a worldwide goal;
- The need for a high and sustainable rate of economic growth as the first step in the fight against poverty;
- The protection of fundamental workers' rights and social dialogue as irreplaceable tools for development.

Source: ILO press release, 8 September 2004 (ILO/04/39); available at http://www.ilo.org/public/english/bureau/inf/pr/2004/39.htm and http://www.ilo.org/public/english/bureau/inf/event/ouagadougou/

Transition economies

The entry into the European Union (EU) of ten new member countries on 1 May 2004 has brought a fair amount of hope as well as uncertainty to the growth and employment prospects for the transition economies[18] as a whole. There is an expectation that membership in the EU will quicken the

[18] The transition region comprises the subregions of **Central and Eastern Europe** (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia, The former Yugoslav Republic of Macedonia, Serbia and Montenegro), **Baltic States** (Estonia, Latvia, Lithuania), and **Commonwealth of Independent States** (Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine). The ILO recognises that the transition process is not a permanent state. As a result, the next Trends Report will feature reclassified regional groupings to take into consideration the changed status of many of these economies.

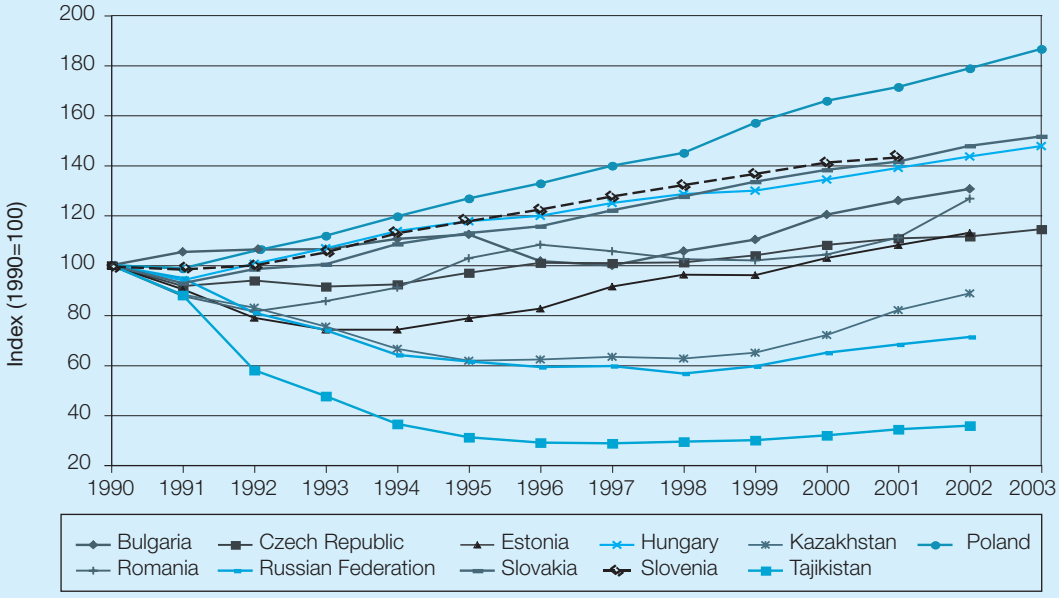
pace of foreign investment in the region, open new markets and ultimately lead to what many hope will be akin to another "Irish miracle". At the same time there are fears that the opening of labour markets will encourage large-scale emigration to the richer EU economies, as the unemployed and underemployed seek job opportunities outside of the transition region. Which of these scenarios will arise remains to be seen and is very much dependent on the ability of the transition economies to create decent and productive employment opportunities within their own borders.

The current employment situation in the transition economies is characterized by high unemployment, which has been increasing since the economic transition process of the early 1990s. Employment declined significantly in the years immediately following the transition, as markets were privatized and production processes became more efficient. Since that time, the economic situation in the region has seen improvements. Output growth and labour productivity has increased, and despite large increases in US$1 a day working poverty in the beginning of the transition period, the region is nearly on track to halve the number of US$1 a day working poor by 2015. Recently, unemployment rates have stabilized, and the 9.2 per cent rate in 2003 is slightly less than the rate in 2002 (9.4 per cent, table 1.3). The transition region is also one of the few regions where women fare no worse than men in terms of unemployment (ILO, 2004b). Besides unemployment, underemployment is a major concern, most notably in the Commonwealth of Independent States, where the lack of decent employment opportunities in the formal market and administrative legislation impedes small business ownership, and forces many people to find work in the informal economy.

How did the region do in terms of labour productivity? Figures 1.16a and 1.16b show labour productivity growth in a selection of the transition economies where internationally comparable data are currently available. In the majority of these economies an upward trend in productivity is seen since 1990, particularly among the current EU member countries. Hungary, Poland, Slovakia and Slovenia all exhibited substantial growth in productivity since 1990, increasing on average between 3.1 to 4.9 per cent per year. In addition, figure 1.16b shows that these countries are among those with the highest levels of productivity for the region, meaning that the strong growth is not the result of a low starting point. Other countries in this region, such as Bulgaria, Czech Republic, Estonia, Kazakhstan, Romania and the Russian Federation have had a more erratic labour productivity growth pattern. In particular, labour productivity in the Russian Federation is currently below what it was before the collapse of the USSR, while Bulgaria has shown marked improvements since 1998.

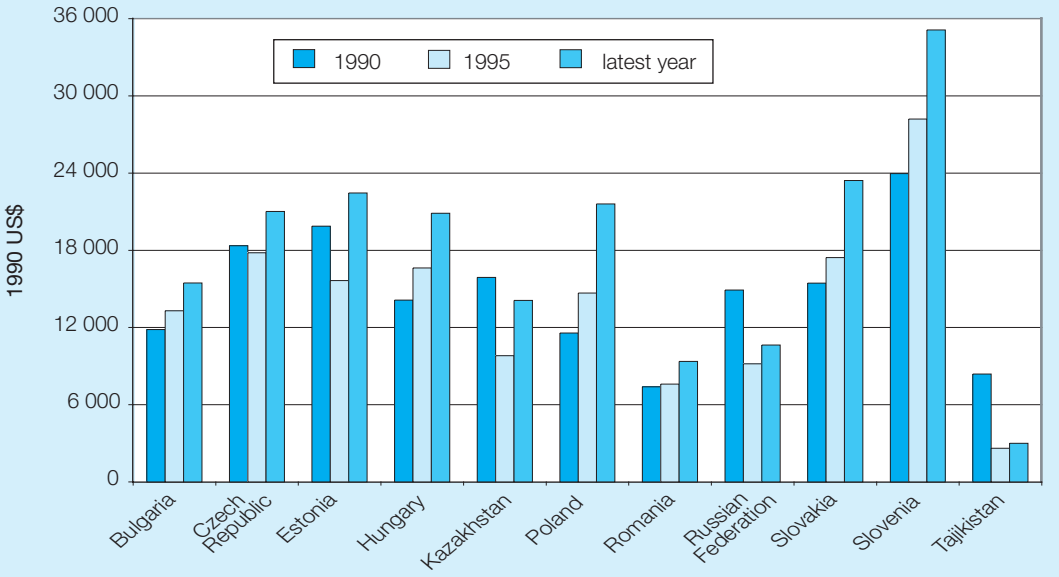
Despite the strong gains in productivity growth for a number of the transition economies, the gains in employment remain disappointing. The size of the labour force and the share of the population employed both declined in the region between 1993 and 2003. Add to that the region's high unemployment rate, and it becomes obvious that much of these historical gains in productivity were at the expense of employment.

Figure 1.16a. Growth in output per person employed in the transition economies (total economy, selected economies, index 1990=100, 1990 to latest year)



Source: ILO, 2003b.

Figure 1.16b. Output per person employed in the transition economies (total economy, selected economies and years)



Note: To better reflect the transition period, figures 1.16a and 1.16b use different base years and a different selection of years than the other regions in this chapter. Latest year is 2003 for Czech Republic, Hungary, Poland, and Slovakia, and 2002 for all other countries. Figure 1.16a shows the trend in labour productivity growth; it does not say anything about the levels. Levels are shown in figure 1.16b. Therefore an economy can have higher growth rates over time but still have lower levels of labour productivity than other economies in the figure. To make the development comparable, figure 1.16a uses an index in which 1990 is the base year. This, in effect puts all economies on a comparable labour productivity scale, whereby all economies have equal values in 1990. The highest line in years following 1993 thereby shows the economy with the fastest growth in labour productivity since 1990.

Source: ILO, 2003b.

Some countries, however, have started to turn this scenario around. For example, since 1998 both employment and productivity have been increasing in Hungary as the result of economic reforms. By establishing itself as part of the European production network through foreign direct investment, Hungary has been successful in obtaining high growth rates since the middle of the 1990s, which has also translated into higher employment creation during this period (see box on Hungary in Chapter 2 of this Report).

In general, the employment prospects for the region will very much depend, among other things, on economic developments in the richer EU countries and the ability of the new member countries to successfully integrate into the EU production chains.

Industrialized economies

The rate of unemployment in the industrialized region [19] in 2003 was 6.8 per cent, with rates lower in the industrialized economies outside of Europe than those in Europe. Unemployment rates in the industrialized economies in Europe were 7.9 per cent, compared with 5.9 per cent outside of Europe (ILO, 2004a). Thus, despite the ongoing economic recovery in terms of GDP growth, labour markets have been slow to recover (see also box 1.10 on outsourcing and its contribution to unemployment). [20]

Over the past decade, employment in the industrialized economies outside of Europe expanded at a more rapid rate than the European industrialized economies. Total employment increased by 8.8 per cent in industrialized Europe (from 177 to 193 million), compared to 10.8 per cent in the industrialized economies outside of Europe (from 211 to 234 million). However, if the focus is on the percentage of people who have jobs (which is a better measure of employment), then labour markets in industrialized Europe show more improvements. Since 1993, employment as a share of the population in industrialized Europe increased from 50.3 per cent in 1993 to 51.2 per cent in 2003, compared to the industrialized economies outside of Europe where it increased from 60.6 per cent to 60.9 per cent (ILO, 2004a). Also, since 1998, industrialized Europe's employment growth, at 4.3 per cent, has exceeded that of the industrialized economies outside of Europe, at 2.7 per cent – indicating that some of the reforms in labour and product markets in Europe have begun to pay off.

[19] The industrialized region comprises the subregions of **European industrialized economies** (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom), and **industrialized economies outside of Europe** (Australia, Canada, Japan, New Zealand, United States). The Employment Strategy Department is currently revising regional groupings based on the realignment of economies within Europe. Regional groupings in subsequent Trends Reports will reflect these changes.

[20] The continued rise in oil prices (over 40 per cent in the past year) will likely have a dampening effect on growth and the recovery in labour markets. According to the International Energy Agency, the EU economies would likely be hardest hit (as they do not have their own oil reserves) and could face an impact of a half a percentage point of GDP growth in 2004. The impact in Japan is estimated to be a 0.4 percentage point decline, while in the US the rise in oil prices it is expected to take 0.3 percentage points off GDP growth for the year (International Energy Agency, 2004). Although industrialized economies have become more productive in their use of oil resources for manufacturing production, globalization has increased the importance of transportation – ships, trains, and aeroplanes – in getting goods and people to and from market, which has translated into a continued reliance on oil among rich and poor countries alike.

Box 1.10. Outsourcing in the industrialized economies

"Offshoring", i.e. the production of goods or purchasing of services from an overseas provider, has been increasing in many industrialized economies, causing concerns among workers that it is leading to widespread unemployment as jobs are being moved from industrialized to developing economies. Yet, data show that there is no net transfer of jobs from one part of the world to the other. Rather than jobs moving abroad, increases in productivity growth have eliminated many jobs that previously existed. This is particularly the case in the manufacturing sector. For example, during the past decade, steel production in the United States has increased from 75 to 102 million tons, but the number of workers in this industry has decreased from 289,000 to 74,000 employees.

Although outsourcing does account for some of the job losses in industrialized economies, statistically it is a small fraction of the employment turnover that occurs in industrialized economies on a yearly basis.

- The United States Department of Labor estimates that in the first three months of 2004, less than 2 per cent of mass lay-offs in the United States were the result of outsourcing. During that period, 4,633 of 239,361 employees were laid off because of their jobs moving to a foreign country.
- According to estimates by the Centre for Economic Policy Research, outsourcing to Eastern Europe led to an average loss of 8,000 jobs per year in Germany and 2,000 jobs per year in Austria during the period 1990 to 2001.

Statistics are, of course, only one side of the story and there is the likelihood that firms in industrialized economies will increase their offshoring activities in the future. It is therefore difficult to determine exactly how outsourcing will ultimately affect labour markets in industrialized economies. The challenges ahead require industrialized economies to ensure that the net effect of outsourcing is not simply to displace workers, but rather that the benefits that outsourcing can bring are properly weighted against the costs, and that these costs are minimized through active involvement of all the major actors.

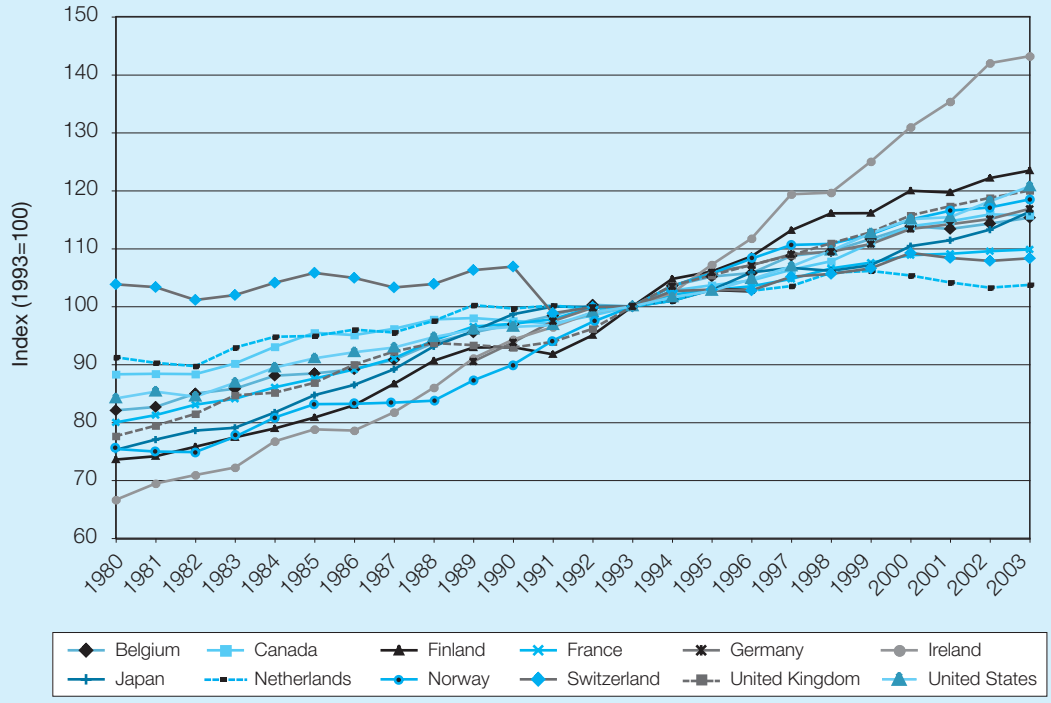
One such example is that of HSBC bank in the United Kingdom, which reached an outsourcing agreement with UNIFI, the financial union. Following the bank's recent decision to outsource 4,000 jobs, the bank reached an agreement with the union to minimise the number of jobs lost and to find innovative solutions for re-deploying workers within the company.

Sources: International Institute for Management Development, 2004; US Bureau of Labor Statistics, 2004; Marin, 2004.

In the region as a whole, the gains in employment growth accompanied growth in labour productivity. This suggests that the growth in productivity – discussed in the next paragraph – was not at the expense of employment in the region, but rather it went along with growth in employment for the economy as a whole.

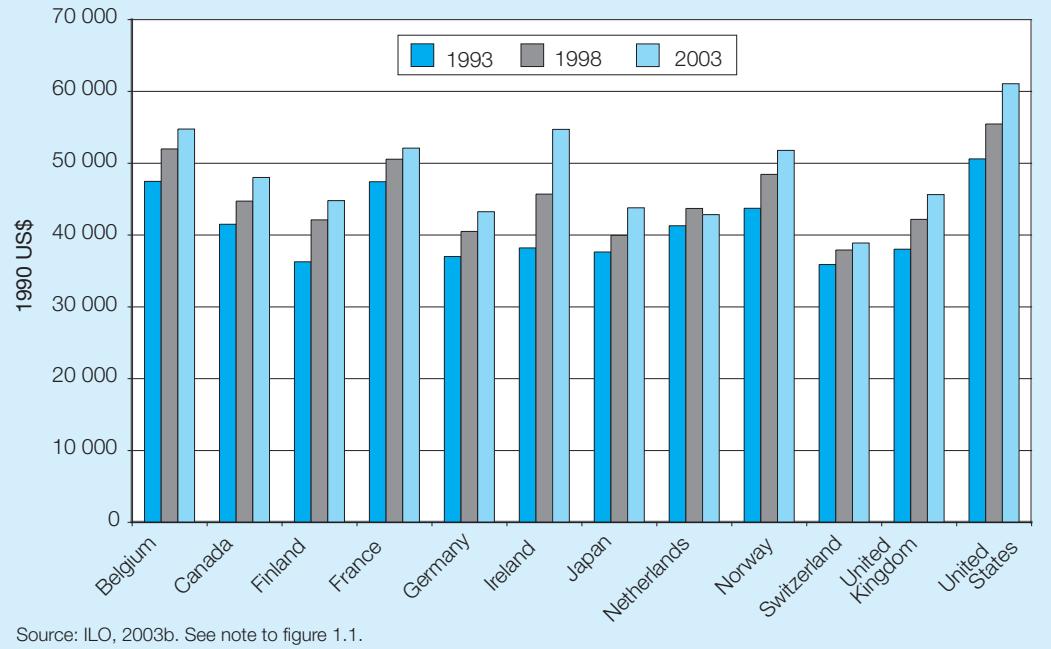
Figures 1.17a and 1.17b show labour productivity growth and levels in selected economies in the industrialized region. The industrialized region as a

Figure 1.17a. Growth in output per person employed in the industrialized economies (total economy, selected economies, index 1993=100, 1980 to latest year)



Source: ILO, 2003b.

Figure 1.17b. Output per person employed in the industrialized economies (total economy, selected economies and years)



Source: ILO, 2003b. See note to figure 1.1.

whole has seen an average increase of 1.4 per cent annually in productivity – levels in 2003 were on average 15 per cent higher than in 1993. Since 1993, labour productivity in industrialized Europe has grown at an average annual rate of 1.3 per cent, while in the industrialized economies outside of Europe it grew by 1.4 per cent per year. In the first 5 years of the period (1993-1997), productivity growth rates in industrialized Europe outpaced those of industrialized economies outside of Europe – raising speculations that the productivity gap between the United States and Europe would close in the near future. This trend, however, reversed in the latter part of the decade as United States labour productivity growth rates accelerated at a faster rate than those of Europe.

At the country level, productivity growth is particularly strong in Ireland, where there has been average annual growth of 3.7 per cent since 1993. Productivity growth in Ireland has been spurred by high foreign direct investment and a highly productive pharmaceutical industry. Denmark, Finland, Greece and Sweden have also shown strong growth since 1993, all above 2 per cent on average per year. Meanwhile, the Netherlands and Switzerland lagged behind the other countries and have had minimal growth in labour productivity over the decade (less than 1 per cent annually; see figure 1.17a). According to the OECD, slow productivity growth in the Netherlands and Switzerland can be attributed to strong regulations in product markets. Enhancing competition in product markets may be one means of improving the relatively poor productivity growth performance, especially in non-traded services for both of these economies. In Switzerland, competitive pressures seem particularly low in the network industries, health, agriculture, business services, public procurement and distribution (OECD, 2003, 2004).[21]

It is expected that the expansion of the EU by ten new member countries in 2004 will increase the competitiveness of the industrialized Europe region, by reducing the costs of doing business and providing access to more markets. In turn, lower transaction costs within the region will improve efficiencies and increase productivity. In addition, productivity must be raised through quality improvements of the workforce (including more liberal immigration of workers), and through advances in technology and knowledge accumulation, thereby facilitating innovation and expansion into new markets.

1.3. Concluding remarks

The empirical analysis in this chapter provides evidence that productivity growth can and must go hand in hand with employment creation and poverty reduction, at least in the long run. But it also shows that this does not occur automatically and in the same way for all regions. It gives evidence that economies require a certain degree of productivity growth in order to improve labour mar-

[21] OECD Economic surveys, Netherlands 2004 and Switzerland 2003.

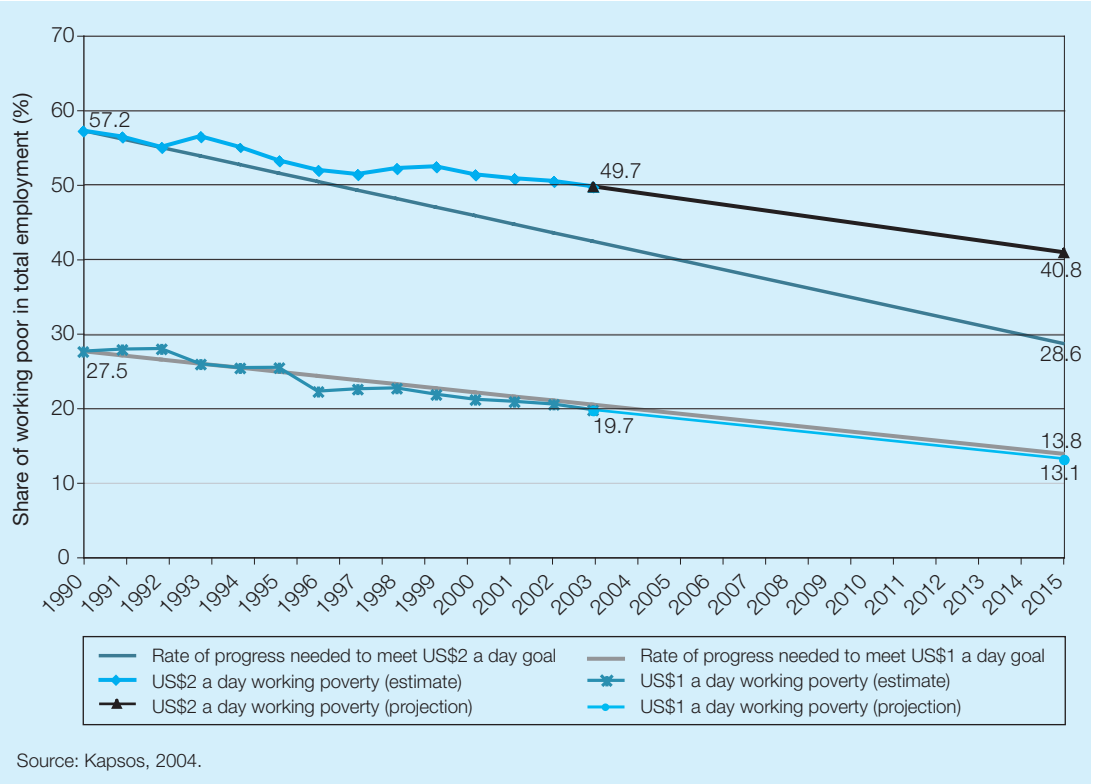
ket conditions and that labour markets need time to recover after major transitions or crises that have a negative impact on productivity growth.

Whereas productivity growth in East Asia and South Asia has been translated into stable labour market conditions during recent years (after some downturn at the beginning of the last century in East Asia), South-East Asia's labour markets are still recovering from the Asian financial crisis. But the region's solid productivity performance is likely to reduce unemployment and this in turn will help to further reduce poverty. Latin America and the Caribbean have only recently witnessed a recovery in labour markets as a result of almost no productivity increases for over a decade and slight improvements in the past two years. Meanwhile the labour market situation in the Middle East and North Africa and in sub-Saharan Africa, specifically vis-à-vis high unemployment rates, has seen no improvement, along with declining or low growth in productivity. In the transition region, there have been improvements in productivity and employment, particularly among the new EU Member States. Other economies in this region are still bearing the heavy costs of the transition process and are not yet on the path of productivity growth, GDP growth and employment creation. Finally, some economies in industrialized Europe are experiencing GDP growth rates of less than 2 per cent and productivity growth rates of just above 1 per cent. These rates are not translating into adequate employment creation and therefore more needs to be done on the labour demand side to stimulate employment opportunities in the region.

Poverty reduction and working poverty reduction are often but not always the mirror image of productivity gains. In regions with high productivity growth, poverty has decreased; in regions with low or no productivity growth, poverty and working poverty remained more persistent. As can be seen from figure 1.18, the goal of halving the share of US$1 a day working poverty amongst the employed in the world by 2015 can be reached if GDP growth rates continue on their recent growth path. But even though it is likely that half of today's working poor will be able to work themselves and their families out of extreme poverty by 2015, 40 per cent of the working people in the world will not earn enough to lift themselves and their family members above the US$2 a day poverty line. This indicates a severe lack of decent employment opportunities in the developing world. This lack will likely become a constraint for further development as poor people cannot contribute to overall demand, nor can they invest in the education, well-being or health of their children to make sure that they can escape the poverty trap.

There can be no doubt that this regional analysis hides important examples of individual economies where these general rules might not be applicable. But it can be taken as a first step towards the further analysis of the linkages between productivity, employment and poverty reduction discussed in this Report.

Figure 1.18. US$1 and US$2 a day working poverty trends in the world (1990-2015, percentage)



Source: Kapsos, 2004.

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