Prospects for inclusive employment in developing countries over the next 20-30 years

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Outline

- Drivers - first round effects
  - Demographics
  - Deindustrialization

- Responses - second-round effects
  - RNFE and agrifood system transformation
  - The micro- and meso paradoxes
  - Proliferation (and growth in labor) then consolidation (and decline in labor)

- Looking ahead
  - Prospects by country typology
Drivers - 1st round effects
Demographics

- Urbanization pattern has been relatively decentralized, especially in Africa (Christiaensen, DeWeerdt, and Todo, 2013)
  - In most countries, population in cities < 1 million has grown at least as fast as in large cities
  - Good for stepwise escape from rural poverty
- Migration as actual movement of people from rural- to urban areas accounts for well under half of urban population growth in all regions (Jedwab et al, 2014)
  - Natural increase and reclassification predominate
  - Different from currently industrialized countries when they were urbanizing
  - A function of higher population density?
- Youth bulge is an issue really only in Africa and only compared to other areas (not compared to Africa’s past)
Share of youth (0-15 years) in population, by region, 1950-2040

- SSA
- Lagging LAC
- Rest of LAC
- Lagging SEA
- Rest of SEA
- South Asia
- Rest of Asia
Share of youth (0-15 years) in population, by region, 1950-2040

Late 1960s
(All but Africa and lagging LAC begin to decline)
Share of youth (0-15 years) in population, by region, 1950-2040

Early 1990s (Africa & lagging LAC begin to decline)
Share of youth (0-15 years) in population, by region, 1950-2040

- SSA
- Lagging LAC
- Rest of LAC
- Lagging SEA
- Rest of SEA
- South Asia
- Rest of Asia

Africa only back to levels of 1950; big gap with lagging LAC
Demographics (2)

- Continued high urban birth rates in Africa a key contributor to its divergence from other areas

  - **Assertion:** If urban birth rates in Africa begin to fall rapidly (this would not be surprising), it could generate a much stronger pull for rural migration to urban areas in search of employment
Deindustrialization

- Why focus on manufacturing?
  - "Unconditional convergence" of labor productivity to world standards based on technological advance
    - Competitive pressure + unlimited (export) market
  - Not as clear that formal services have this
  - Manufacturing also spurs growth in formal services

- Why focus on formal?
  - Technology ➔ rising labor productivity
  - Stability, social benefits
Deindustrialization (2)

- **Value added deindustrialization** = decline in share of manufacturing in GDP
  - In part a natural result of income growth, as more consumer expenditure goes into services
- **Employment deindustrialization** = decline in share of manufacturing in total employment
  - Starts earlier and has proceeded much faster
  - Figure from Rodrik
Mostly OECD, 1960s and 70s
Mostly OECD, 1960s and 70s

Mostly SSA, LAC, 1970s and later
~ $12,000 pc income, 22% labor share
Simulated manufacturing employment shares

- Pre-1990: 
  - ~$4,000 pc income, 18% labor share
  
- Post-1990: 
  - ~$12,000 pc income, 22% labor share
What’s driving this?

Factor of 1,000 every 15 years
What’s driving this?

- Factor of 1,000 every 15 years
- Constantly improving precision
What’s driving this?

Factor of 1,000 every 15 years

Constantly improving precision

Everything we do is now data
What’s driving this?

Factor of 1,000 every 15 years

Everything we do is now data

Constantly improving precision

Robotics
What’s driving this?

And global trade spreads effects around the world

Factor of 1,000 every 15 years

Constantly improving precision

Everything we do is now data

Robots
What’s driving this?

Progression: routine manual ➔ routine services ➔ more complex manual ➔ more complex services

Factor of 1,000 every 15 years

Constantly improving precision

Everything we do is now data
Deindustrialization (3)

- **Impact on level of employment** – some debate
  - Will the technology be (for the first time) primarily a substitute?
  - Or (once again) primarily a complement?
  - Substitution can be **seen**, complements have to be **imagined**
  - Yet concern in many quarters is **intense**
    - Even if a complement, is it possible to prepare most human beings for the high-skill jobs that could be created?

- **Impact on composition of jobs** – clear evidence
  - Decline in routine manual jobs, now starting in service jobs
  - This will **not stop** without external measures
Deindustrialization (4)

- Impact on **quality of jobs** - clear evidence in developed economies (U.S. and Europe)
  - The **missing middle** ➔ labor market polarization, more inequality
  - Increased instability of employment
  - Less full-time employment
  - Declining social benefits
Endogenous Responses - 2nd round effects
Opportunities

- Natural resource exploitation and tourism
  - Low in inclusivity and potential for expansion

- Temporary migration
  - Somewhat more available and potentially more inclusive
  - But possibly less necessary (lower returns) as population density rises and infrastructure improves

- Agricultural production or wage labor
  - Clear limits to what this can contribute
Opportunities (2)

- RNFE and urban self-employment
  - Most potentially inclusive and expandable
    - Rapid proliferation of micro, small, and medium size food processing companies in some African countries
      - Tanzania - yes
      - Mozambique - no
  - But strongest in high potential rural areas or close to cities
  - And has limits on ability to increase labor productivity
    - Most of it is non-tradable services
Challenges

- Meso and micro paradoxes
  - Meso: regions and countries and zones most in need have least capacity
    - Need for income diversification, investment in fundamental capabilities
  - Micro: same at hh level
Challenges (2)

- Proliferation ... then consolidation of firms
  - Competitive pressure spurs upgrading, increasing scale
  - Higher capital and skill requirements
  - Lower labor:output ratios - employment implications
    - Phasing, sequencing!
Looking ahead

Typology

Failed industrializers
- Sierra Leone, Rwanda, Burkina Faso, Malawi, Tajikistan, Zambia, Ivory Coast, Ghana, Bhutan, Nepal

Nascent industrializers
- Cambodia, Bangladesh, Kenya, Nigeria, Uganda, Tanzania, Mozambique, Ethiopia, Sudan

Successful industrializers
- Thailand, Nicaragua, Vietnam, Cuba, Indonesia

Premature de-industrializers
- DR, Brazil, South Africa, Chile, Colombia, Morocco, Turkey, Mexico, Philippines, Malaysia, China, India
The process is likely to play out differently in different countries…
The process is likely to play out differently in different countries...
Failed and nascent industrializers

**Fundamental problem**
- The resource most abundant in these countries - cheap labor - is of declining value in global manufacturing

**Fundamental question**
- Will the technology driving deindustrialization be primarily a substitute or complement for labor?
  - Many fear it will primarily be a *substitute*
Failed and nascent industrializers (2)

- Fundamental question (cont’d)
  - If a complement, then previously unimagined service jobs could grow rapidly
    - But will it be possible to prepare the mass of workers for such employment??
Failed and nascent industrializers (3)

- Extremely challenging situation
  - Decline in formal manufacturing makes it hard to increase labor productivity
  - Decline in formality in general limits prospects for generation of fiscal revenue to invest in “fundamental capabilities”
Failed and nascent industrializers (4)

- Opportunity
  - Low incomes, low urbanization ➔ growth in domestic market can be rapid
  - And evidence now is that global income convergence is happening
Failed and nascent industrializers (5)

- But where will the growth come from?
  - Where has the growth come from in Africa?
- How will the modern manufacturing investment be generated to “keep up” with consumer quality demands as incomes rise?
  - Is growth based on domestic / regional market self-limiting?
- Ethiopia a potential emerging success story, with much FDI into manufacturing for export and domestic market
- Also Uganda and Cambodia ... yet their manufacturing shares in GDP have fallen over past 10-15 years
  - The fall in GDP share is of special concern – not just fall in labor share
Successful industrializers

- Will have to invest heavily in automation to maintain shares in global manufacturing output
  - Manufacturing share of employment within these countries will continue to decline
- This would spur continued development of high-skill formal services employment
- Both would facilitate raising of fiscal revenue for continued investment in fundamental capabilities
- But they then face the **missing middle** problem
Premature deindustrializers

- Two factors
  - Open trade decimating previously protected industries
  - Less investment in fundamental capabilities than in the successful industrializers
- Not clear that “re-shoring” can help a lot
  - Capital- and skill-intensity of re-shored manufacturing
  - Cutting edge!
- Opportunity
  - Size of domestic market
  - And of regional trade blocks if they are strengthened
Overall

- How to generate resources to invest in fundamental capabilities?
- Need for efficient regional trade
  - So local non-tradables can become increasingly tradable
  - A sequencing issue
- What about social policy?
  - Even successful industrializers will face the **missing middle** problem ...
    and more if employment declines
  - Problem likely to become more severe, not less
  - Employment and social policy may need to be deeply rethought