

The changing nature of jobs reflects growing insecurity

The world of work is changing profoundly, at a time when the global economy is not creating a sufficient number of jobs. The ILO estimates that global unemployment figures reached 201 million in 2014, over 30 million higher than before the start of the global crisis in 2008. Moreover, providing jobs to more than 40 million additional people who enter the global labour market every year is proving to be a daunting challenge. In addition to widespread joblessness, the employment relationship itself is facing a major transformation that is bringing further challenges. Full-time, stable employment contracts represent less than one in four jobs and the outlook suggests little change. Such that, there is a need for further adaptation of social protection and labour market regulation to better reflect the changing workplace¹.

This supplement to the second edition of the ILO's World Employment and Social Outlook, entitled *The Changing Nature of Jobs* summarizes the main findings of the report, with particular attention on findings related to Asia and the Pacific. Reflecting the structure of the report, this supplement firstly covers the main employment trends, globally and in greater detail for the Asia-Pacific, before going on to inequality and poverty trends. Following this, it touches on social protection and labour market regulation as related to changing employment patterns, and finishes with analysis of changing global production patterns. Finally, policy recommendations are drawn.

Emerging patterns of employment

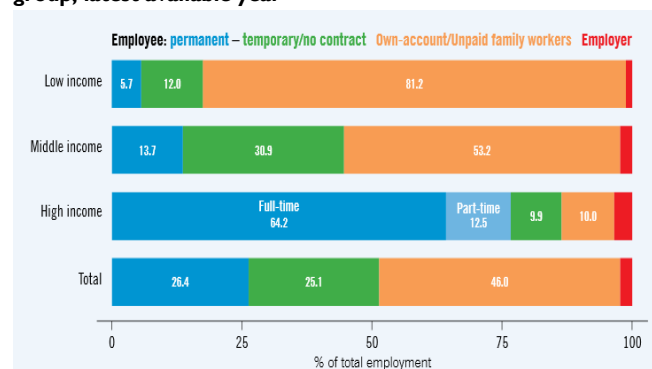
The report estimates that there were 61 million fewer people in employment globally in 2014 than there would have been had pre-crisis employment growth trends continued. Asia-Pacific accounts for 37 per cent of this global jobs gap. The direct impact of the global jobs gap on the aggregate wage bill is estimated at approximately 1.2 trillion USD in lost wages – much of which (73 per cent) is attributed to Developed Economies and the EU, with 12 per cent attributable to Asia-Pacific. Closing this 'jobs gap' would provide a boost of an estimated \$3.7 trillion to global GDP

– equivalent to a one-time 3.6 per cent increase in global output. The wage gap has also had an adverse impact on the labour share of national income. At the global level the wage gap is estimated to have contributed to a reduction in the labour income share of 0.7 percentage points (pp), with a slightly lower impact in Asia-Pacific, at 0.6 pp.

In addition, there is evident stagnation in global female employment. A large part of this has been due to India's sharp decline in female labour force participation and employment that occurred in recent years, substantially influencing employment trends in the Asia-Pacific region overall.

Globally, only five in ten workers are in wage and salaried employment, but wage employment is growing. Between 2015 and 2019 it is projected that two-thirds of new employment globally will be wage and salaried employment. The share is particularly low in a number of Asia-Pacific economies, such as South Asia where only around 2 in 10 workers are in wage and salaried employment. Very limited growth in the share of workers in wage and salaried employment over the past few decades are key factors underpinning the low productivity levels in South Asia compared with other regions.

Figure 1. Distribution of employment status, by country income group, latest available year



Note: Estimates based on 90 countries representing 84 per cent of total employment (13 low-income countries, 42 middle-income countries and 35 high-income countries). The breakdown of permanent into full and part time is only available for high-income countries. For detailed notes, see Chapter 1 of World Employment and Social Outlook 2015: The Changing Nature of Jobs.

Source: ILO Research Department based on household survey data.

¹ This note was prepared by Richard Horne under the guidance of Sukti Dasgupta and Steve Tobin

Instead, Asia-Pacific in particular is characterised by stubbornly high shares of vulnerable employment (own-account workers and unpaid family workers). This accounted for 70 per cent of total employment in South Asia, more than 40 per cent of employment in South-East Asia and the Pacific, and more than 30 per cent of employment in East Asia. In South Asia, around half of new employment from 2015-2019 is likely to be in vulnerable employment. Further, approximately 24 per cent of the global workforce still live on less than \$2-a-day. In South Asia this accounts for nearly 61 per cent of workers – higher only in Sub-Saharan Africa.

For a majority of countries with available data, part-time job creation outpaced gains in full-time jobs between 2009 and 2013. In addition, only around a quarter of the world's workers are employed on a permanent contract, with 13 per cent on a temporary or fixed-term contract and over 60 per cent without any contract. Among middle-income countries nearly 72 per cent of all workers are employed without a contract, with only 13.7 per cent working under a permanent contract. Across the 13 low-income countries with available data only 5.7 per cent of workers are employed with a permanent contract, with nearly 87 per cent of workers having no contract.

Policies aimed at boosting labour productivity growth are imperative to developing economies. Further, due consideration must be given to the quality of employment and workers' income security in order to provide robust and sustainable support to aggregate demand.

Employment patterns, poverty and income security

In all countries under analysis, market income inequality has remained high or increased since the mid-2000s. The gap between the top and bottom earners has widened for permanent workers in about 42 per cent of the countries; and in the case of temporary workers it has widened in about 36 per cent of the countries.

Inequality is aggravated by the rising incidence of non-permanent forms of employment as well as growing unemployment and inactivity. Indeed, permanent and/or formal workers earn significantly more than their non-permanent and/or informal counterparts. Despite this, around one-third of the countries under analysis have been able to reduce disposable income inequality despite the increase in temporary, part-time and informal wage work.

In the developing and emerging economies, informal wage employees earn less than formal wage employees. Amongst countries analysed, the wages of informal employees are between 48 per cent (Philippines) and 65 per cent (Uruguay)

lower than those of formal employees. Women have lower average annual incomes than men in all countries. Amongst the countries analysed the gap was narrowest in the Philippines, where women earned around 96 per cent of what males earn. By comparison the figure in Switzerland is 55 per cent. Even after controlling for education, age, job tenure, occupation and other labour market characteristics, gaps in remuneration persist. However, since the mid-2000s, the gender gap in average annual incomes has decreased in a majority of countries under analysis.

Poverty rates affect temporary workers and the unemployed disproportionately, and is generally not offset by tax and benefit systems. Further, while contributory social transfers are effective, in many developing and emerging economies only a small proportion of workers have access to them. Extending the coverage of contributory social transfers to all workers would have a greater impact in reducing inequality. In addition, governments that have pursued combinations of social protection and labour market policies that have promoted formalisation, have improved protection for non-standard forms of employment and, in doing so, have contributed to reduced poverty and inequality.

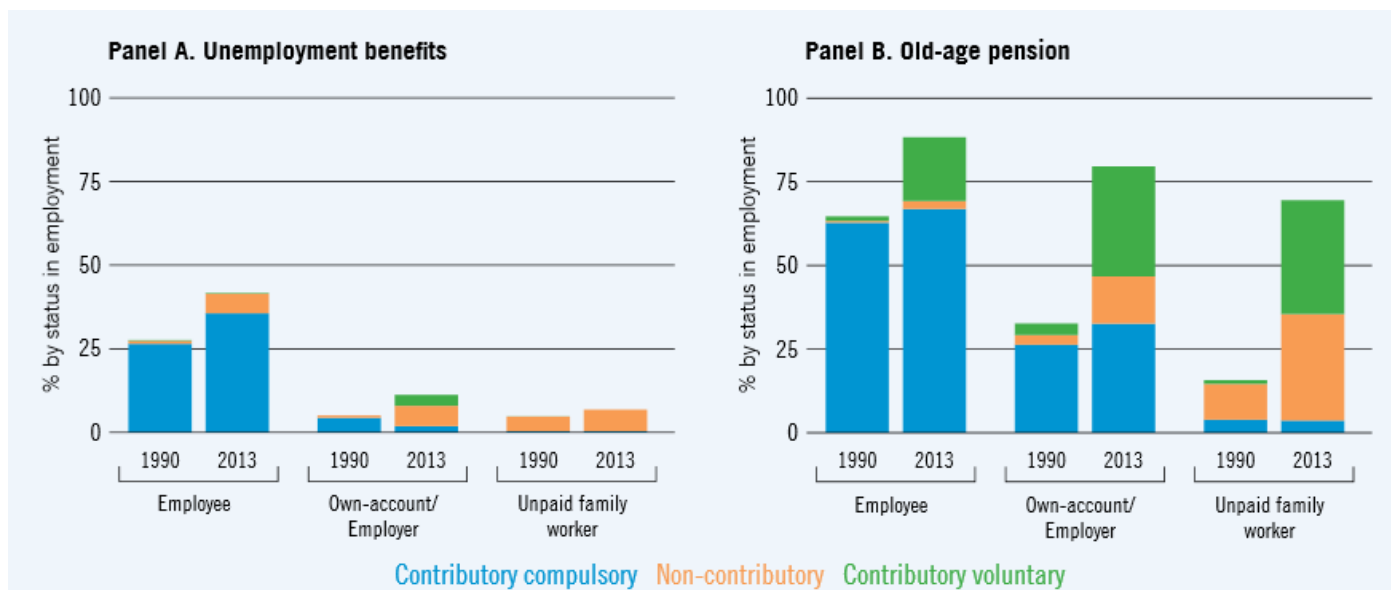
Social protection coverage across employment patterns

Over the past two decades in most developing and emerging countries legal coverage for pensions has improved, because new categories of workers have been brought within the scope of laws and regulations. However, progress with unemployment benefits has been slower and less marked.

In Asia-Pacific, legal pension coverage has increased rapidly, but from a low base. Just over 10 per cent of the working-age population was legally covered in 1990. This proportion almost tripled between 1990 and 2000, and doubled again from 2000 to 2013. The extension in legal pension coverage has been brought about by various means but largely supported by non-contributory mechanisms and attempts to extend coverage by legislating to allow voluntary affiliation. This is in particular true for members of the workforce outside standard employment, for example in India and China.

Voluntary affiliation has been adopted into law in a significant number of countries, notably China, and is one of the main methods used in social protection legislation to extend coverage to the self-employed in Asia-Pacific. Attempts to widen coverage through voluntary affiliation to contributory pension schemes represent 44 per cent of the increase in legal coverage in the past two decades.

Figure 2. Legal pension and unemployment coverage worldwide (periodic benefits), by employment status, 1990 and 2013 (%)



Notes: Regional estimates based on 191 countries for 1990 and 2000 and 192 countries in 2012–13 (unemployment); 172 countries in 1990; 180 countries in 2013 (pensions). For detailed notes, see Chapter 3 of World Employment and Social Outlook 2015: The Changing Nature of Jobs. Source: ILO Research Department legal social protection coverage database, 2015.

Legal pension coverage is highest among employees; gaps in coverage for those with different employment status are acute, especially in Asia-Pacific, alongside other regions such as Sub-Saharan Africa and Middle East and North Africa.

Policy innovations have enhanced the effective affiliation of the self-employed and those in other forms of non-standard employment. This includes (i) differentiated contributory categories, (ii) simplifying registration and tax collecting processes and (iii) subsidising contribution. A limited number of developing countries, often in Asia-Pacific, have established unemployment protection schemes, but social protection for the unemployed is nearly absent from low-income countries.

However, actual implementation remains weak, with less than 45 per cent of employees contributing to a pension in Asia and the Pacific. Despite the overall positive steps made towards improving social protection pension coverage, recent experience suggests some concerns for policy, including actual implementation of legal pensions and difficulties in increasing coverage for self-employed.

As well as continuing efforts to formalise informal workers, additional policy measures are required, particularly to enhance the effective affiliation of the self-employed and those in other forms of non-standard employment. De-linking social protection from employment is one such example that has proved effective in this regards.

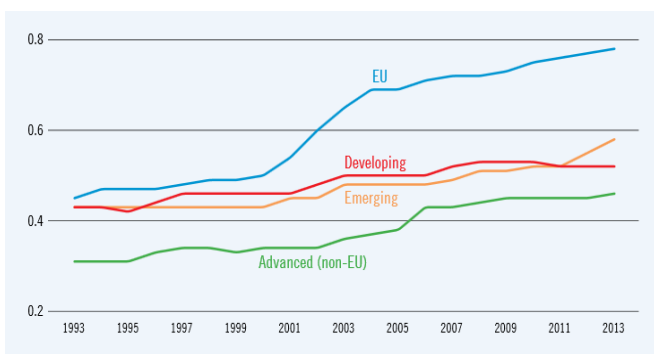
Labour market regulation and employment patterns

Labour regulation has responded to changing employment patterns. Regulation of different forms of employment has increased over time, largely through equal treatment rules and other regulation of part-time, fixed-term and agency work. This, however is subject to countries with available information, and includes only four developing Asia-Pacific countries: China, India, Pakistan and the Philippines.

Korea and Japan are among a few OECD economies to make significant changes in legislation on different forms of work, such as 'part time equal treatment'. Since 2008 Japan has made significant changes relating to 'part-time equal treatment', whilst Korea was one of a handful of examples to enhance legislation for 'fixed term equal treatment'.

Looking at emerging market countries, in China the Labour Contract Law of 2007 introduced a requirement that agency workers be assured the same minimum labour standards as permanent workers, and that they receive comparable pay (an amendment to the law in 2013 further strengthened protection by enacting a formal right to equal treatment).

Figure 3. Regulation of “different forms of employment” vis-à-vis standard employment, by country group, 1993-2013



Note: Y-axis refers to a score that ranges from 0 (little or no protection) to 1 (high protection). For detailed notes, including list of countries see Chapter 4 of World Employment and Social Outlook: The Changing Nature of Jobs. Source: ILO Research Department based CBR-LRI dataset.

China has also been driving changes in ‘re-employment policy’ and ‘redundancy selection’. These changes took place in an otherwise modest context with respect to employment protection legislation, which remained relatively stable until recently.

Otherwise, labour market regulation has taken on an increased significance as a policy tool, but the effects of labour market legislation continue to be widely debated, partly because it is challenging to assess accurately. New and expanding datasets and indices are assisting with this but it remains a ‘work in progress’.

Continuing development to allow the quantifying of labour regulations will be necessary for effective impact assessment. Labour regulation is inherently neither good nor bad for the economy or employment creation. The issue is how to match regulation to particular economic and labour market environments; regulations that are too lax or too stringent can be counterproductive to economic growth and job creation and social cohesion.

Changes in global production patterns and the impact on production and employment

Global Supply Chains (GSCs) have increased their importance in job creation, both in terms of absolute numbers and share in total employment. In an estimate based on 40 countries, 453 million people were employed in GSCs in 2013, up from 296 million in 1995. Services accounted for more than half the new GSC-related job creation between 1995-2013.

Most of the increase is driven by emerging economies, where an estimated 116 million workers joined the GSC-related workforce between 1995 and 2013. When focusing only on the pre-crisis period from 1995 to 2007, this increase

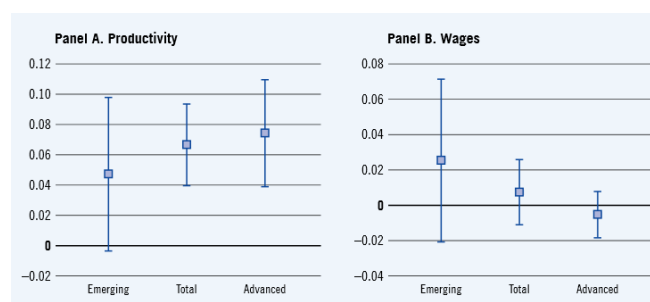
amounts to 160 million. Approximately 70 per cent of the GSC-related jobs are in emerging economies.

Asian firms dominate the major supplier list. Lead firms source from supplier firms, which are concentrated in developing and emerging economies, and the top Asian supplier bases can be found in Bangladesh, Cambodia, China, India, Indonesia, Pakistan, Sri Lanka, Turkey and Viet Nam. Meanwhile, trade within the region has been assisted by rapidly expanding regional production networks. The ASEAN Free Trade Area (AFTA), for example, has attracted Japanese car manufacturers to produce different parts of their final product in countries of that area.

However, the crisis disproportionately affected developing countries. Most of the increase between 1995 and 2013 was driven by emerging economies’ However since 2007-08, GSC-related jobs have fallen in emerging economies but increased in advanced economies, suggesting lead firms are better equipped to adjust to changing economic conditions.

Worryingly, the economic effects are not translating into social effects. GSC participation can have a positive impact on productivity, but not necessarily on wages or working conditions, and so may contribute to falling wage share. Further, volatile ordering demand contributes to a high incidence of non-standard forms of employment and flexible working hours.

Figure 4. Impacts of global supply chain participation on wages and labour productivity (supplier firm perspective)



Notes: For detailed notes, see Chapter 5 of World Employment and Social Outlook: The Changing Nature of Jobs. Source ILO Research Department estimates based on OECD Trade in Value-Added (TIVA) database and WIOD

The dependent relationship of the supplier firm on lead firms is exemplified where profit margins are narrowest. The garment industry supply chain is an example of such an industry. For example, it’s estimated that profit margins of suppliers in Bangladesh fell from 24 per cent in 1995 to 7 per cent in 2004. Similarly, in Viet Nam a case study found that the typical profit share of garment manufacturers ranges from 10 to 15 per cent.

GSC industries such as the garment sector and electronics, commonly exhibit high shares of non-standard forms of work, such as self-employed and non-regular work. This is partly indicative of the fact that garment suppliers need to be flexible and respond quickly to volatile ordering demands, thereby contributing to a high incidence of non-standard employment and flexible working hours.

Broad-based policies are needed to promote parity between the economic and social benefits of GSCs, in particular, policies that better link productivity with wages. The diversification of domestic and export markets can also mitigate the negative impact of fluctuating demand, whilst improved governance is required to increase responsibility in supply chains, particularly with regard to working conditions.

Policy recommendations

Changing patterns of work are likely to influence trends in both aggregate demand and the overall relationship between economic growth on the one hand, and employment and productivity on the other. The changing nature of jobs heightens the risk of perpetuating the vicious circle of weak global demand and slow job creation that has characterized the global economy and many labour markets throughout the post-crisis period. Already, the ILO estimates that the global jobs gap is resulting in a shortfall of wages equal to around 1.2 per cent of global output. However, with increasing diversification in forms of work and workplace organization, expansion in employment alone, without due consideration given to the quality of jobs or workers' income security, risks failing to provide robust and sustainable support to aggregate demand.

These considerations raise a wide range of issues from the point of view of policy-making and the ILO itself:

- (1) First, it is crucial to establish the extent to which the diversified work patterns that are emerging are the product of external factors, such as the rise of new technology, the process of production fragmentation and evolution of value chains that accompanies it. The

evidence in this report seems to suggest that the spread of global value chains is associated with the diversification of forms of work, as well as higher productivity (though this does not necessarily translate into increased earnings for the workers employed in those value chains). On the other hand, employment patterns vary significantly across countries, suggesting that governments, enterprises and workers have some leverage over the types of jobs that are created.

- (2) Second, the impact of different types of employment on individual well-being and social cohesion also needs to be assessed. The report shows that average incomes for workers in non-standard forms of work tend to be lower than is the case with stable jobs. Furthermore, the rise in informal employment, undeclared and temporary work arrangements, as well as involuntary part-time work, has contributed to the widening of income inequalities, which have been recorded in the majority of countries over the past two decades.

The existence of more diversified work arrangements also raises questions for social dialogue and social cohesion. Workers have different types of employment and enterprises are positioned differently along the value chain. In such a heterogeneous context, the organization of both workers and employers becomes increasingly challenging.

- (3) Third, what can policies do? The issue is how to provide adequate labour and social protection for different types of employment, while at the same time nurturing economic growth. As global employment and social conditions shift and evolve in the context of changing economic conditions, there is a need for policies to respond to anticipated changes. In this respect, the report documents considerable policy innovation in a wide range of developed and developing economies. Their experiences show that the quest to achieve higher productivity and technological innovation coupled with decent work opportunities for women and men is attainable.

“The way forward is to ensure that policies take into consideration the evolution of how we work today”

Guy Ryder, Director-General of ILO

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