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GLOBAL EMPLOYMENT TRENDS



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Foreword

Global Employment Trends forms a part of the series of World Employment Reports, which began in 1995 and has subsequently been published every two years. However, because interest was shown in a regular analysis of current labour market trends by the ILO's Governing Body, national policy makers, international institutions and the general public, *Global Employment Trends* is now being published as a separate report in those years when the World Employment Report does not appear.

Global Employment Trends 2002 was prepared by Claire Harasty with Dorothea Schmidt. Research assistance was provided by Roger Rodriguez Rios who was also responsible for the typeset and overall design of the book. Inputs and useful comments were provided by many colleagues familiar with regional developments both in Geneva and in the field. Specific inputs were provided by Rashid Amjad, Peter Auer, Peter Richards and Grace Strachan. Christine Sutton provided excellent secretarial support and Jacinta Tierney and Charlotte Beauchamp edited the manuscript.

The Report presents labour market trends and underlines the main employment challenges at the global level and in each of eight regions of the world. The Report does not aim at presenting policy recommendations to overcome these challenges. Every attempt has been made to incorporate data on the year 2002, but such information may need to be revised later on. Stress has been laid on the growth of employment and unemployment, youth unemployment and the employment of women. Such developments are presented in the light of changes in output growth and in labour market policy.

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Regions

Latin America and the Caribbean:

Anguilla, Antigua and Barbuda, Argentina, Aruba, The Bahamas, Barbados, Belize, Bolivia, Brazil, Cayman Islands, Colombia, Costa Rica, Cuba, Chile, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Netherlands Antilles, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, Venezuela and the U.S. Virgin Islands.

East Asia:

China; Hong Kong, China; Democratic People's Republic of Korea; Republic of Korea; Macau, China; Mongolia; Taiwan, China.

South-East Asia:

Brunei Darussalam, Cambodia, East Timor, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam.

South Asia:

Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka.

Middle East and North Africa:

Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Somalia, Syrian Arab Republic, Tunisia, United Arab Emirates, West Bank and Gaza, Yemen

Sub-Saharan Africa:

Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Democratic Rep. of Congo, Republic of Congo, Côte d'Ivoire, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Réunion, Rwanda, Senegal, Sierra Leone, South Africa, Swaziland, Tanzania, Togo, Uganda, Zambia and Zimbabwe.

Transition economies:

Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia, The former Yugoslav Republic of Macedonia, Yugoslavia. This group includes Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

Industrialized countries:

Western Europe (EU countries, Norway and Switzerland), North America (United States and Canada), Australia, New Zealand, Japan and Turkey

Latin America and the Caribbean

East Asia

South-East Asia

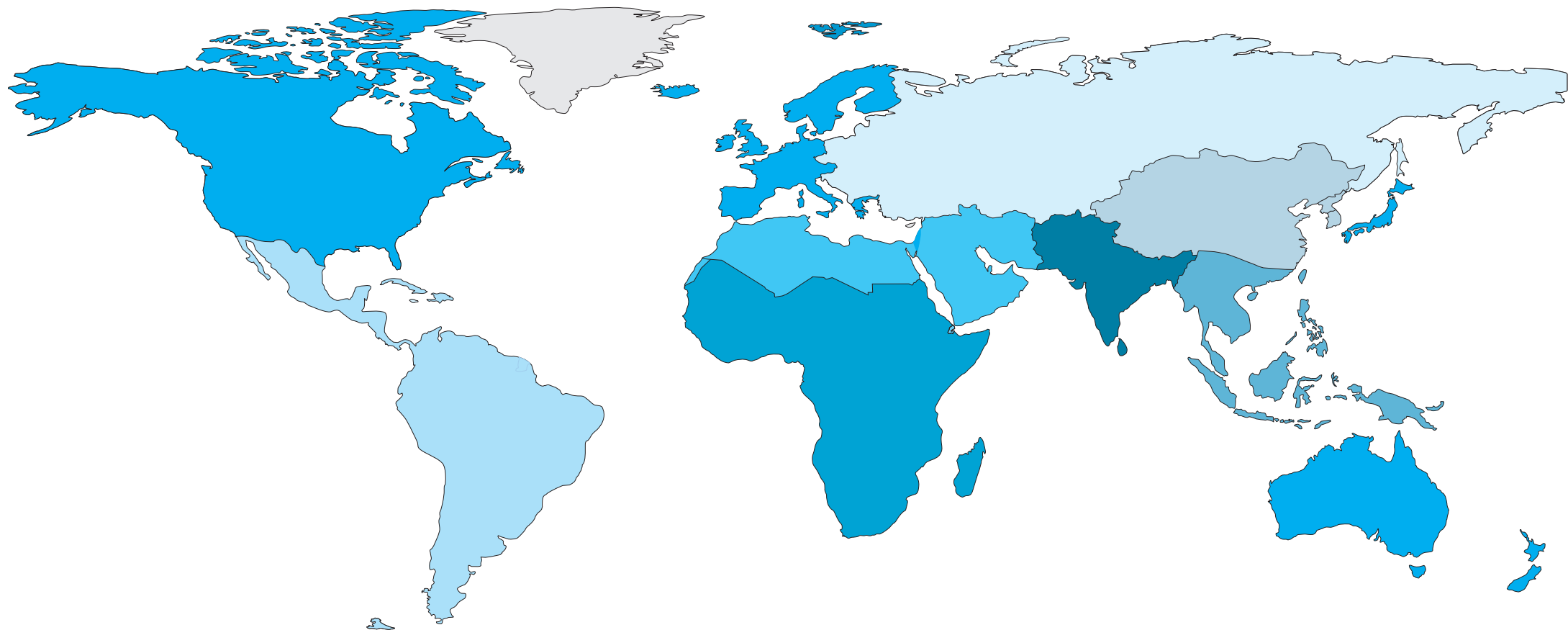
South Asia

Middle East and North Africa

Sub-Saharan Africa

Transition economies

Industrialized countries



Abbreviations and Acronyms

ADB	Asian Development Bank
CEEC	Countries of Central and Eastern Europe
CIS	Commonwealth of Independent States
CTO	Caribbean Tourism Organization
ECE	Economic Commission for Europe (United Nations)
ECLAC	Economic Commission for Latin America and the Caribbean
ERF	Economic Research Forum
ESCWA	Economic and Social Commission for Western Asia (United Nations)
ETF	Economic Training Foundation
EUROSTAT	Statistical Office of the European Commission
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
IADB	Inter-American Development Bank
ICT	Information and Communication Technologies
ILO	International Labour Organisation
IMF	International Monetary Fund
IOM	International Organization for Migration
KILM	Key Indicators of the Labour Market
KLI	Korea Labor Institute
LAC	Latin America and the Caribbean
MDG	Millennium Development Goals
MENA	Middle East and North Africa
MERCOSUR	Mercado Común del Sur (Southern Cone Common Market)
NAFTA	North American Free Trade Agreement
OECD	Organisation for Economic Cooperation and Development
SEA	South East Asia
SSA	Sub-Saharan Africa
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNSCO	United Nations Special Coordinator in the Occupied Territories
WDI	World Development Indicators (World Bank)
WFP	World Food Program (United Nations)
WTO	World Trade Organization
WTTC	World Travel and Tourism Council

A deteriorating employment situation

Two years of economic slowdown have produced a deterioration in the global employment situation. With uncertain prospects for economic recovery, a reversal of employment trends is unlikely in 2003.

The ILO estimates that the number of unemployed grew by 20 million since the beginning of 2001 to reach about 180 million at the end of 2002. The increase was most severe among women, who tend to be in sectors that are particularly vulnerable to economic shocks. In addition, an increasing number of young people entering the labour market were unable to find jobs, driving up youth unemployment rates, which had declined in the late 1990s.

In parallel, the shaky economy pushed more people into informal employment, especially in countries lacking extensive unemployment insurance systems. Because of the precarious and badly paid nature of many informal jobs, expansion of the informal economy typically produces higher levels of working poverty. This, along with the rise in poverty traditionally associated with slower growth rates, points to a reversal of the reductions in working poverty achieved in the late 1990s. The ILO estimates that by the end of 2002, the number of workers living on USD 1 or less a day may well have returned to 550 million, the level recorded in 1998. Continuation of such a trend would endanger the United Nations Millennium Development Goal (MDG) to halve world poverty by 2015.

The combination of higher unemployment and widespread working poverty signals pervasive worldwide employment problems. While the steepest rise in open unemployment since the year 2000 was in industrialized countries, the number of jobless also went up in much of the developing world during the two-year period (table 1). Unlike in the past, the informal economy in developing countries was not able to absorb all those who could not find formal employment.

Table 1
Unemployment rates by region, 2000-2002

	2000	2001	2002 [*]
Asia and the Pacific	3.8	4.1	4.2
East Asia	3.2	3.6	4.0
South-East Asia	6.0	6.8	6.5
South Asia	3.4	3.5	3.4
Industrialized countries	6.1	6.4	6.9
Latin America and the Caribbean ¹	9.7	9.6	9.9
Middle East and North Africa	17.9	18.9	18.0
Sub-Saharan Africa	13.7	14.0 [*]	14.4
Transition economies	13.5	12.6	13.5

Different aggregation methods can lead to differences in aggregate figures (see Panorama Laboral 2002).

^{*} Projection.

¹ Open urban unemployment.

Sources: Estimates and projections based on ILO data using method developed in Berger and Harasty (2002); for industrialized countries, OECD (2002); for transition economies, UNECE (2002).

Unemployment began to grow soon after the information and communication technology (ICT) bubble burst in spring 2001, sparking an economic slowdown. This led to a drastic decrease in employment in the ICT sector throughout the world. The aftermath of the September 11 attacks in New York and Washington, DC, amplified the effects of the economic downturn. The travel and tourism industries were badly affected, with an estimated 10.5 million jobs lost worldwide in these sectors (WTTC, 2002).

Meanwhile, slower growth in industrialized nations meant job losses in the export-oriented industries of developing countries. Worst hit were labour-intensive sectors, such as the garment industry. This employment decline had a greater impact on women, who are more likely to work in labour-intensive export-oriented industries.

In addition, weakening confidence among investors dramatically exposed the financial fragility of countries in several regions, with the ensuing crises putting many people out of work. In Argentina, for example, unemployment jumped above 20 per cent in 2002, with knock-on effects in neighbouring countries.

Armed conflicts and violence over the past two years also contributed to higher unemployment and poverty in countries as far apart as Colombia and Nepal. In the Middle East, joblessness spiralled in the West Bank and Gaza Strip, while the recession in Israel continued.

Gross domestic product (GDP) was forecast to grow by an average of 2.8 per cent globally in 2002, an increase of only half a percentage point compared with 2001, and down from the 4.7 per cent growth rate in 2000 (table 2). Modest growth in the United States, a weakening pace of recovery in the European Union (EU) and recession in Japan are holding back any rebound in the developing world. Growth in world trade started to rebound in mid 2002, according to the WTO (2002), giving a very modest projection for the year of a 1 per cent expansion after the fall of 4.5 per cent in 2001. Prospects for developing country exports in 2003 depend greatly on recovery of economic activity in industrial countries. In countries with a large share of the workforce in export activities, it is doubtful that the employment situation will improve much in the short term.

Table 2
Economic growth and projections, 2000-2003 (annual per cent change)

	2000	2001	Current projections (Sept. '02)	
			2002	2003
World output	4.7	2.2	2.8	3.7
Transition economies	6.6	5.0	3.9	4.5
Central and Eastern Europe	3.8	3.0	2.7	3.8
Commonwealth of independent states and Mongolia	8.4	6.3	4.6	4.9
Russian Federation	9.0	5.0	4.4	4.9
Developing countries	5.7	3.9	4.2	5.2
Africa	3.0	3.5	3.1	4.2
Developing Asia	6.7	5.6	6.1	6.3
Latin America and the Caribbean	4.0	0.6	-0.6	3.0
Middle East and Turkey	6.1	1.5	3.6	4.7
China	8.0	7.3	7.5	7.2
India	5.4	4.1	5.0	5.7
Industrialized countries	3.8	0.8	1.7	2.5

Source: IMF (2002).

Regional trends

While the global economic slowdown and post 11 September developments affected various parts of the world differently, unemployment rose in all regions compared with 2000 (table 1). **Latin America and the Caribbean** (LAC) was the area most affected by the 2001 global economic slowdown in terms of output growth (box 1). Economic growth fell to 0.6 per cent in 2001 and a contraction of 0.6 per cent is projected for 2002. Unemployment increased in almost all of Latin America and the Caribbean between 2001 and 2002, bringing the unemployment rate close to 10 per

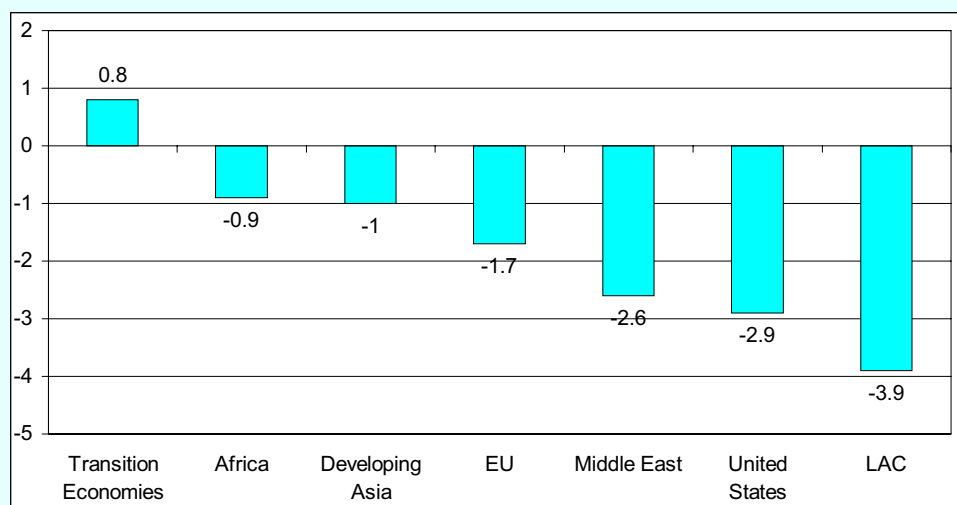
cent in 2002, despite fewer people joining the labour force. One of the major challenges in Latin America and the Caribbean is youth unemployment, which hit 16 per cent in 2001, up from 12 per cent in 1997. Moreover, nearly all of the jobs for young people are generated in the informal economy.

Box 1

Effects of the 2001 global economic slowdown and the September 11 events on GDP growth across regions of the world

The graph below shows the percentage point difference between the 2001 GDP growth rate forecast in September 2000 and the 2001 GDP growth rate estimated in September 2002. Assuming that both forecasts and estimations were realistic, this difference can be taken as the loss of output attributable to the 2001 economic slowdown as well as to the September 11 attacks.

Difference between realized and forecast output growth in 2001 (%)



Source: IMF (2000 and 2002).

Asia suffered most from the slump in the ICT industry, which cut exports to the industrialized countries. **South-East Asia** faced the 2001 downturn just as it was beginning to fully recover from the 1997 financial crisis. The performance of individual South-East Asian countries varied considerably, however. Indonesia, Malaysia, Philippines, Singapore and Thailand, which depend heavily on trade, suffered from their exposure to global economic trends. In contrast, Cambodia, Lao PDR and Viet Nam sustained high growth rates. Cambodia and Viet Nam benefited from improved access to markets in industrial economies, while the agriculture sector also performed well in Cambodia and Lao PDR. Unemployment, which had not fallen back to pre-1997 crisis levels, rose in Indonesia, Malaysia and Thailand. Recent progress in poverty reduction was partially eroded, especially in the countries that had lower growth rates.

East Asia also recorded significantly lower output growth during the two-year period, and the employment situation deteriorated. A key feature was the emergence of open unemployment, illustrated by mounting youth unemployment, which accounts for just over 22 per cent of total unemployment in the Republic of Korea and over 37 per cent in Mongolia. Although a large proportion of the region's unemployed young people is highly qualified, their skills do not match the needs of the labour market. While the official figure covering the unemployment rate in urban areas of China was 3.6 per cent in 2001, recent estimates suggest that it might be as high as 7.5 per cent today as a result of high under-employment in the agricultural sector and of ending the practice of keeping redundant workers in the public enterprises' employment roles, often known as labour hoarding.

South Asian economies proved resilient in the face of the global economic difficulties during 2001-2002. Nevertheless, security concerns, poor weather conditions, a slowdown in exports and

declining tourism revenues caused the employment situation to worsen. Poverty increased, as did the number of working poor. The region's unemployment rate rose from 2.9 per cent in 1995 to 3.4 per cent in 2002. The unfavourable employment situation in 2001 and 2002 also points to an increase in the number of people with low incomes and poor working conditions in the informal economy, rather than a sharp increase in unemployment rates. Child labour and human trafficking remain major issues for the Asian region as a whole.

Sub-Saharan Africa has managed to sustain a fairly constant economic growth rate (table 2), though in per capita terms it is often below 1 per cent. Estimates for 2002 may have to be revised due to the worst food crisis to have struck this area in a decade. The open unemployment rate increased from 13.7 per cent in 2000 to 14.4 per cent in 2002 (table 1). An issue of growing importance for this part of the world is the "brain drain" depriving the continent of much-needed human capital. It is associated with the serious problem of unemployment and underemployment of young people, despite improvements in levels of education. The health situation is also having a severe impact on human capital. For example, a recent study on Tanzania shows the HIV/AIDS epidemic is changing the age structure of the country's labour force. The share of children and juveniles aged 10-19 in the labour force rose in 2000-01 compared with a decade earlier, while that of prime age adults, 20-35 years old, fell (Arndt et al., 2002).

Middle East and North Africa experienced a decline in overall economic conditions over the past two years. GDP growth fell from over 6 per cent in 2000 to 1.5 per cent in 2001 (table 2). Compared with other developing regions, this part of the world has the biggest share of government employment in the labour force, the highest government wage bill as a proportion of GDP and the most extensive economic production by the public sector. Reforms launched in the 1990s, however, began reducing the size of the public sector. The resulting dismissals and redundancies pushed up unemployment, which reached double-digit levels (table 1). Moreover, the Gulf countries are increasingly adopting policies to replace migrant workers with their nationals. This can have significant consequences for employment as well as remittances to the countries supplying labour. Given the very high rate of population growth, youth employment is the biggest challenge facing the region.

Unemployment in **transition economies** is on the increase again, despite the economic recovery and high growth rates these countries experienced during 2000 and 2001. This is because enterprises are seeking to become competitive by phasing out labour-intensive technologies and ending labour hoarding. At the same time, governments are cutting employment in the public sector. This is the only region to have recorded a fall in employment between 1995 and 2000. Accelerating structural change in anticipation of accession to the EU has also pushed up unemployment in the candidate countries.

Employment prospects are uncertain

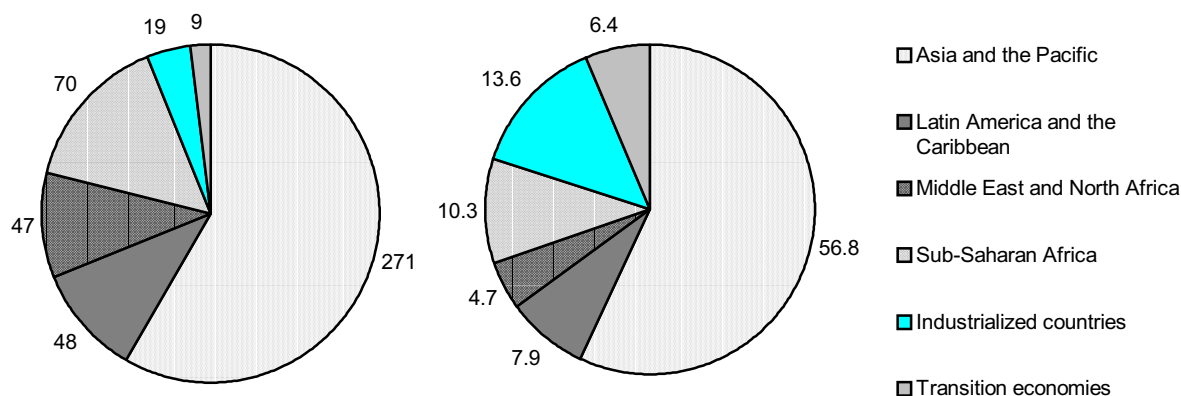
Nearly 60 per cent of the world's labour force will be in Asia by 2010, with China alone making up one-quarter of the global labour force. The other developing regions (sub-Saharan Africa, the Middle East and North Africa, and Latin America and the Caribbean) will also account for an increased portion of the world labour force by 2010. Meanwhile, the share of industrialized countries and transition economies in the world labour force will decrease to about one-fifth by 2010 (figure 1b). As figure 1a shows, the bulk of the jobs that need to be created by 2010 will be in Asia (60 per cent) and sub-Saharan Africa (15 per cent).

About 400 million jobs are needed to absorb new entrants into the world's labour market over the next eight years. But if these jobs are to contribute to alleviating poverty, they must be productive and offer decent conditions. Otherwise, they will simply swell the ranks of working poor. The challenge is to provide about one billion jobs by the end of this decade for all the new entrants and to make significant steps to reduce working poverty and unemployment. Both faster economic growth and policies to promote the creation of decent and productive work opportunities are needed.

Figure 1

a. Number of new labour force entrants by region, 2000-2010 ('000)

b. Regional distribution of labour force, 2010 (%)



In terms of global growth, the picture is highly uncertain. Most economies in **Asia** are showing signs of a turnaround, but some elements are still preventing a full recovery. Given that most Asian countries are oil importers, weaker oil prices in 2001 supported economic recovery, but recent price increases have reduced this stimulus. Moreover, Japan's prolonged economic difficulties are having an impact elsewhere in the region, and the recent rise in unemployment in most of Asia may dampen the pickup in household spending. Economic growth in developing Asia is nevertheless forecast at 6.3 per cent in 2003, up from 5.6 per cent in 2001 (table 2). These GDP growth forecasts seem optimistic in light of the uncertainty of the economic recovery in the United States. However, even if growth is slower than predicted, open unemployment and poverty in East and South-East Asia could be halved by 2010 compared with 1998 levels. As shown in box 2, a growth rate of 3 per cent per capita, equivalent to 4 per cent growth in GDP, could be enough. Prospects for South Asia are bleaker, as the sub-region would need to grow twice as fast as it did in the 1990s to achieve the same result.

China, with a quarter of the world's workforce, is a major component in global employment developments. A more efficient labour market would open up prospects for greater employment, especially in the underdeveloped service sector. However, there is an acute challenge in restructuring state-owned enterprises and agriculture as well as reforming the financial system to avoid subsidizing loss-making units. China no doubt will continue to attract considerable foreign direct investment (FDI) linked to domestic market opportunities and as a base for exports to other Asian countries. Many Asian nations are viewing China as a significant export market reducing their dependence on the slow growing industrialized countries.

Latin America and the Caribbean will under perform in 2002, with Argentina acting as a drag on the whole region. The adjustment measures implemented in Latin America do not appear to have initiated new growth and have tended to weaken employment. Dependence on the United States market increased. Many Latin American countries are still vulnerable to financial disruptions and cannot reverse their balance of payments deficits as quickly as a number of Asian countries did after the 1997 crisis. GDP is forecast to contract in 2002 and grow by 3 per cent in 2003, on the assumption that the United States remains out of recession (table 2). Even this optimistic forecast would be insufficient to improve the region's employment situation significantly. A growth rate of at least 4.5 percent, sustained over five to ten years, is needed to halve the unemployment rate and working poverty. The outlook is therefore bleak: informality and poverty in employment will continue to rise in the near term. If the region is to improve its competitiveness, it will need to increase productivity. At least in the short term, this could constrain employment growth.

Prospects for **North Africa and the Middle East** are clouded. Oil prices are relatively high, but this must be set against continued security concerns, which are affecting both investment and tourism. The IMF forecasts a growth rate of 4.7 per cent for GDP in 2003 (table 2). If such a rate is achieved and sustained, it could lead to an improvement in the employment situation, allowing the region to halve its rates of unemployment and working poor. Nonetheless, most countries have yet to manage their transition to a full market economy, and restructuring of the public sector in a context of rapid population growth poses a significant employment challenge. Replacement of migrant labour with

local labour in the Gulf countries affects migrants from other parts of the region and will have significant consequences on employment and remittances for the countries of origin.

Box 2 Overcoming working poverty

The ILO has estimated the rate of growth of output that would halve both unemployment and working poverty rates by 2010. The additional jobs that need to be generated to achieve this target require a per capita growth rate of over 2 per cent globally and of the order of 3 to 6 per cent regionally.

Historical and projected GDP per capita growth

	1990-1999	1998-2010 (projections)	
	Historical rate	Rate associated with a halving of the unemployment rate (working poor rate is constant)	Rate associated with a halving of both the unemployment rate and the working poor rate
Latin America and the Caribbean	1.5	1.8	2.8
Middle East and North Africa	0.9	2.9	3.0
South Asia	3.3	2.2	6.3
East and South-East Asia*	3.3	2.1	3.0
China	8.8	2.8	5.9
Sub-Saharan Africa	-0.3	0.1	2.8
World	1.0	1.0	2.2

* Excluding China

Source: Berger and Harasty (2002).

The **transition economies** are expected to continue to attract foreign investment, and strong domestic demand should be sustained. Growth should pick up to reach 4.5 per cent in 2003 (table 2). As the transition is completed and income levels converge on those of Western Europe, prospects for employment should improve. However, growth will have to be accompanied by targeted policies to tackle deep-rooted structural unemployment.

Meanwhile, slow growth in **industrialized countries** inevitably affects exports from the rest of the world, at the very least leading to increased competition and greater pressure on wages and working conditions. Excess supply has pushed down the prices of many primary commodities. Reduced demand now risks exacerbating this downward price pressure, leading to widespread income loss in rural areas of developing countries. In the United States, household expenditure remains strong, partly because of strong property prices. However, the buoyant property market may prove to be another bubble, which if burst could provoke a further slowdown. In Japan, there are fears of a deflationary spiral that might result in contracting growth and employment. Should this develop, it would not leave the United States and the EU unaffected.

Shaping and securing recovery

The deteriorating world employment situation and the risk that a weak or delayed recovery will exacerbate unemployment, underemployment and working poverty is disturbing. A continuation of the trends of the past two years would set back the global drive to halve the incidence of extreme poverty by 2015. If the slowdown becomes a full-scale recession, the consequences for the social and political stability of large parts of the world are grave. Furthermore, greater unemployment and poverty will place severe pressure on government budgets and thus on efforts to stabilize the fragile financial position of many countries. Policy-makers should focus on measures to secure and spread the recovery and ensure that faster growth yields the maximum number of decent work opportunities.

For Asia, maintaining growth in China is a key component of recovery. China's growth will increasingly be a source of demand for many Asian countries yet to recover fully from the employment consequences of the financial crisis of the 1990s. However, impressive as the Chinese economy has become, it has mounting problems of unemployment and underemployment. These are a

consequence of the enormous structural changes the country is undergoing as it shifts to a market-driven system and an urban industrial and service economy, with the consequent decline in employment in state-owned enterprises and agriculture. Relying on China to carry the heavy social burden of large-scale domestic reform and to take up the role of a regional economic locomotive is a considerable strategic risk.

Counteracting the worst recession in two decades in Latin America, faltering growth in sub-Saharan Africa and widespread unemployment in North Africa and the Middle East is a global challenge. Major programmes of international assistance are needed to increase access to developed country markets and to reduce external debts and debt servicing, thus freeing resources for reform programmes targeted on improved governance, job creation and poverty reduction. In the absence of such assistance, most of the developing world will not be in a position to participate in a recovery.

Economic prospects hinge on the performance of the three main engines of the world economy, the United States, the EU and Japan. However, a turnaround in Japan seems a distant prospect and Europe is preoccupied with creating the mechanisms for concerted countercyclical fiscal and monetary policies rather than using them.

That leaves the United States – one-third of the global economy, and responsible for over half of the modest global recovery in 2002. But United States household indebtedness is reaching levels that could prove unsustainable. Were foreign investors placing their money in any country other than the home of the world's reserve currency, they would already regard the size of the external deficit as a signal to withdraw capital. In the USA, productivity gains in recent years are impressive, but with slower growth in demand, now risk causing a further jobs shakeout. This threatens to increase unemployment, which at 6 per cent is already almost 50 per cent higher than two years ago, and weaken consumer confidence.

At this critical stage in the global economic cycle, ensuring that the risks of a further slippage in growth are diminished and potential sources of recovery buttressed warrants serious consideration of how concerted action could reduce unemployment and poverty. To sustain increases in employment in the developing world at the rates needed to create a billion jobs over the remainder of the decade, governments need to address three sets of fundamental structural obstacles.

First, the formal economy's demand for labour is low and often decreasing further. The world's two most populous countries, India and China, are examples of the low employment intensity of output growth. Structural reforms and the search for greater competitiveness produce weak employment growth in the expanding sectors as well as the shedding of workers in the traditional industries. Similar trends are apparent in the transition economies of Eastern and Central Europe, South Africa and some Latin American countries. Given the very low employment intensity of output growth, very high rates of growth of output are needed to generate the number of jobs required to match both labour force growth and labour shedding associated with these structural shifts. Since these rates are unlikely to be achieved under any given scenario, a macro-economic framework to stimulate employment-intensive investment is essential. Public sector infrastructure programmes must lead the way accompanied by an incentive structure for the private sector that favours the choice of employment creation.

Second, policy-makers need to focus on reducing the vulnerability of developing countries and the poorest members of society to external shocks. The recent experience of Latin America and South-East Asia provide examples of the way economic shocks can be transmitted and magnified, bringing higher unemployment and increased poverty. Countercyclical macro-economic policies play an important role in cushioning the negative impact of slowdowns or recessions on employment. International institutions must have the means to assist the countries least able to finance such policies from their own resources. Active labour market policies, including social safety nets, are a vital part of an integrated approach to reducing economic insecurity in a globalized world. In the long run, development strategies should aim to move economies up the global value-chain and capture a larger share of the dividends of trade growth. This will require the diversification of the output base to spread and dilute risks of vulnerability, a cut in industrial country tariff barriers to manufactured goods, reducing exposure to swings in commodity exports, and a rolling back of protection of rich countries' agricultural sectors. Also needed are stronger transport, energy and communications infrastructures

connecting the poorest regions to domestic and international markets as well as the upgrading and broadening of workforce skills through greater investment in education and training.

Third, poverty itself inhibits employment growth. Poverty means workers lack the education and skills to secure a job, their health is too poor for them to work productively and lack of empowerment combined with widespread discrimination limits them to the lower end of the labour market. Pro-poor policies are therefore needed to help women and men secure productive and remunerative work in conditions of freedom, security and human dignity. Poverty Reduction Strategy Papers, which increasingly provide the framework for international development assistance, need to target employment promotion. This involves supporting the growth of small and medium-sized enterprises and their integration into the formal economy as well as investment in education and health care systems, which improve the ability of the labour force to work productively. In addition, ending restrictions on the right to organize, tackling discrimination and child and forced labour are essential steps toward the economic, social and political empowerment of the poor.

Addressing the growing jobs crisis requires integrated strategies that place decent work at the heart of economic and social policies. All too often employment is treated as an afterthought when governments decide on their priorities. Faster economic growth is a necessary but not sufficient condition to improve the global employment outlook. The challenge is to fashion a pro-poor and pro-jobs recovery.

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CHAPTER 1

L A T I N A M E R I C A A N D T H E C A R I B B E A N

The Latin American and Caribbean region¹ has been particularly affected by the downturn in the international economic environment, with economic growth stagnating in 2001. Prospects for recovery in 2002 remain bleak, with output growth expected to be negative. This projection reflects the impact of the crisis in Argentina. If this country is excluded from the assessment, regional GDP could grow slightly, with most economies experiencing positive, if modest and reduced, rates of growth (ECLAC, 2002). This slowdown results from the slow recovery in industrialized countries, deteriorating terms of trade, sharply restricted access to financing and the consequences of natural disasters in some Central American and Caribbean countries.

Against this backdrop, the employment situation has continued to deteriorate in several Latin American and Caribbean countries. The regional unemployment rate inched up in 2001 and based on current indications could rise to an unprecedented high in 2002. At the same time, employment in the informal economy has continued to expand in a number of countries, with negative consequences for economic vulnerability, as the majority of workers in this sector have no social protection. Given these developments, it is hardly surprising that there has been slow progress in parts of the region in reducing poverty (United Nations, 2002). The creation of decent, productive and sustainable work is therefore an urgent priority in the region. Among the barriers to overcome is the growing disparity in learning and educational achievements between this region and Asia, for example, that undermines efforts to raise productivity and improve international competitiveness.

Latest economic developments and their impact on employment

The Latin American and Caribbean region has been hardest hit by the global downturn and the events of 11 September 2001 in terms of GDP growth rates (box 1.1). **Economic growth** in the region decelerated in 2001, falling to an average rate of 0.6 per cent. This brought to an abrupt end the short-lived recovery that had begun in mid-1999 and which resulted in almost 4 per cent growth in 2000. Despite the heterogeneity of the countries in the region, the slowdown was widespread, and resulted in shrinking per capita income in most of them. Economic growth in Latin America and the Caribbean

¹ Anguilla, Antigua and Barbuda, Argentina, Aruba, the Bahamas, Barbados, Belize, Bolivia, Brazil, Cayman Islands, Chile, Colombia, Costa Rica, Cuba, , Dominica, the Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Netherlands Antilles, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, Venezuela and the United States Virgin Islands.

Box 1.1

Economic performance for Latin America and the Caribbean in 2001

The global economic slowdown and the 11 September attacks have had an important impact on economic activity levels and employment in Latin America and Caribbean countries. They resulted in a loss of almost 4 percentage points in GDP growth (the difference between the forecast 2001 growth rate before the events and the realized 2001 growth rate as published in 2002 (box 1 of the Overview)). One of the biggest falls in growth rates in 2001-2002 was in Mexico. Overall the impact has been felt through shrinking revenue from tourism, increased charges for freight and insurance, and a lower value of remittances from the United States to several countries in the region. In fact worker remittances are growing in many economies in the region, exceeding USD 20 billion in 2001, according to new estimates. Remittances are higher than aid flows to the region and were equal to almost a third of the region's foreign direct investment (FDI). In six countries, the 2001 data show remittances at 10 per cent or more of gross domestic product: Haiti (24.5 per cent), Nicaragua (22 per cent), El Salvador (17 per cent), Jamaica (11.7 per cent), the Dominican Republic (10 per cent) and Ecuador (10 per cent).

for 2002 is not encouraging, with regional output projected to contract by 0.6 per cent. Most countries in the region are expected to perform worse in terms of GDP growth in 2002 than in 2001 and growth will fall far below the level attained in 2000. However, excluding Argentina, the rest of the region could grow by about 1 per cent. The situation is caused partly by the sluggish performance of industrialized countries, which has led to a reduced demand for exports from the region (goods exports are expected to fall by 1.5 per cent in 2002), as well as by the deteriorating terms of trade (prices for the main export commodities have remained low), sharply restricted access to financing, as international investors have become increasingly "risk-averse" (due to the Argentine crisis as well as political uncertainty in several countries of the region) and by the damage done by natural disasters in some Central American and Caribbean countries. The recovery of Latin America and the Caribbean will depend heavily on that of the United States.²

During 2001, the **drop in commodity prices**, particularly for oil, coffee and sugar, contributed to the decline in export income.³ Coffee prices dropped to their lowest level in 30 years, particularly affecting the rural population in Brazil, Colombia, Mexico, and some Central American and Caribbean countries. The decline in oil prices impacted on the export earnings of Mexico, Trinidad and Tobago, and Venezuela. Latin American and Caribbean exports to the rest of the world could fall by 5 per cent by the end of 2002. There has also been a sharp slowdown in **intra-regional trade**, which grew by only 1 per cent in 2001 after expanding by 20 per cent in 2000. Within the Southern Common Market (MERCOSUR) and the North American Free Trade Agreement (NAFTA) zone, intra-regional trade has plummeted by 41 per cent and 8 per cent respectively in 2002. In some cases, however, the intra-regional market has helped dampen the negative impact of declining extra-regional exports.

² The export industry depends heavily on US demand: 32.8 per cent of the region's agricultural exports go to North America, for automotive and clothing products the figures reach 78 and 79 per cent respectively.

³ Manufacturing has the biggest share in exports in Latin America (60.5 per cent of all exports), but this share is highly concentrated in just a few countries (Brazil, Costa Rica, El Salvador and Mexico), and compared to the rest of the world, agriculture (especially food) and mining (especially fuels) play a disproportionately large role in Latin America (18.4 per cent of all exports of Latin America compared with a share of 9 per cent worldwide consist of agricultural products; within mining products the relation is 20.5 per cent to 13.1 per cent). Within manufacturing, machinery and transport have the biggest share. Manufacturing is the most vulnerable in times of global downturn.

Box 1.2

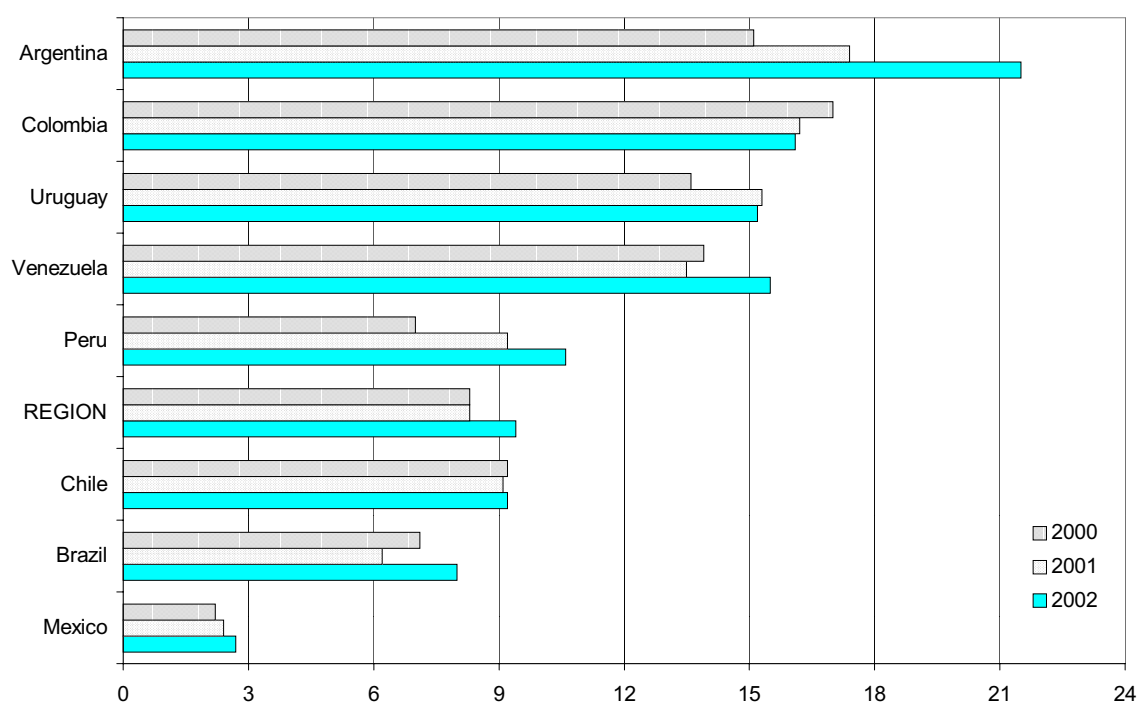
Employment prospects in the Caribbean sugar industry

The Caribbean sugar industry has to prepare for a formidable challenge in 2007 when the European market – the main importer of Caribbean sugar – will be deregulated, marking the end of quotas for Caribbean sugar. Except in Cuba and the Dominican Republic, Caribbean sugar is a high-cost operation. The industry has to compete against low-cost producers such as Thailand, which would be able to export unlimited amounts duty-free to Europe. However, fixed costs like energy and labour cannot be easily reduced. Guyana appears best positioned to deal with the forthcoming challenges. However, Barbados, Jamaica, and Trinidad and Tobago are less well equipped. Unless drastic reforms are undertaken, the sugar industry could see significant declines in export earnings and employment.

Source: James (2002).

Figure 1.1

Unemployment on the rise in selected countries in Latin America, 2000-2002 (%)



Source: ILO (forthcoming).

The **tourism industry** has been heavily affected by the 11 September attacks and the continued downturn in global markets, especially that of the United States. This has led to a decline in incomes and higher unemployment in the region, since travel services exports account for 53.3 per cent of all commercial services exports. In the Caribbean, where the Caribbean Tourism Organisation (CTO) conservatively estimates that more than 900,000 persons are directly or indirectly employed in the tourism industry and visitor expenditures represents a significant percentage of GDP, the impact has been severe. Tourist arrivals continued to decline in the sub-region in the early months of 2002, with

an 8 per cent reduction in Barbados. According to World Bank estimates, the tourism recession in Caribbean countries could result in a GDP contraction of between 1.5 to 5 per cent.

Despite the international and regional economic slowdown, there was no generalized deterioration in **labour market performance** in 2001. In five of the 14 countries covered in an ILO assessment of labour market performance (Barbados, Brazil, Chile, Ecuador and Trinidad and Tobago), progress was noted on the basis of reduced or constant unemployment, in some cases reduced informality, an increase in terms of real industrial and minimum wages as well as increased productivity. In four others, (Costa Rica, Mexico, Panama and Venezuela), the real minimum wage increased although open unemployment increased in the first three of those countries. In the remaining five (Argentina, Colombia, Jamaica, Peru and Uruguay), the labour situation worsened as indicated by increased unemployment, increased informality and/or a fall in the real industrial wage (ILO, 2001).

However, as the unfavourable economic conditions have persisted into 2002, further deterioration has taken place in the labour market. Formal sector employment is reported to have declined relative to 2001, primarily in Argentina (by 10 per cent) and Mexico (by 2.5 per cent). Only in Brazil and Chile has the number of workers in formal employment increased. In almost all countries for which data are available (figure 1.1), unemployment rates increased between 2001 and 2002. The unemployment rate in Latin America and the Caribbean in 2002 could rise to around 9.9 per cent. The number of working poor in the Latin American and Caribbean region is also expected to increase in 2002.

Main characteristics of Latin America and the Caribbean's labour markets

In Latin America and the Caribbean, overall employment growth was around 1.8 per cent in the 1990s, falling slightly in the second half of the decade. This rate of growth was lower than that of the labour force and GDP, and the regional unemployment rate is thus estimated to have increased from under 7 per cent in 1990 to 9.6 per cent of the labour force in 2001. This is mainly due to developments in Latin America alone. The sub-region failed to reduce its global unemployment rate, as Argentina, Colombia, Brazil, Chile, Ecuador, Peru, Uruguay and Venezuela all experienced rising unemployment in the 1990s. Since 2000, both GDP and employment growth in the region have decelerated sharply. The change was marked in Argentina, Uruguay and Venezuela, and consequently unemployment in these countries increased significantly. The case of Argentina is analysed in detail below (pp. 17-19). However, the weighted unemployment rate stayed fairly constant in 2001.

By contrast, in the Caribbean region the rate of increase of employment during the 1990s was similar to that of the labour force, and this led to a reduction in the sub-region's unemployment rate (table 1.1). The decline in the unemployment rate was stopped, in 2001 however, in Barbados and the Dominican Republic. The rates in the sub-region remain nonetheless relatively high: 14.8 per cent in the Caribbean as a whole in 2001.⁴

An analysis of **unemployment by sex** in Latin America shows that between 2000 and 2001, unemployment rates increased for both men and women in Argentina, Colombia, Peru and Uruguay, although the increase was more widespread amongst women. In Chile and Mexico, both men and women experienced increases, but with more men affected. In Brazil, the unemployment rate declined for both men and women, with women enjoying the larger reduction. In the Caribbean, the experience was also mixed. Preliminary data reveal that in Trinidad and Tobago, unemployment rates fell for both men and women, although the decline in the male rate was much larger. In Barbados and Jamaica, men experienced higher rates of unemployment, although in Barbados the decline was larger.

⁴ Unemployment rates in the Caribbean are not strictly comparable with those in Latin America due to definitional variations.

Table 1.1
Labour market indicators for selected countries in Latin America and the Caribbean,
1990-2002

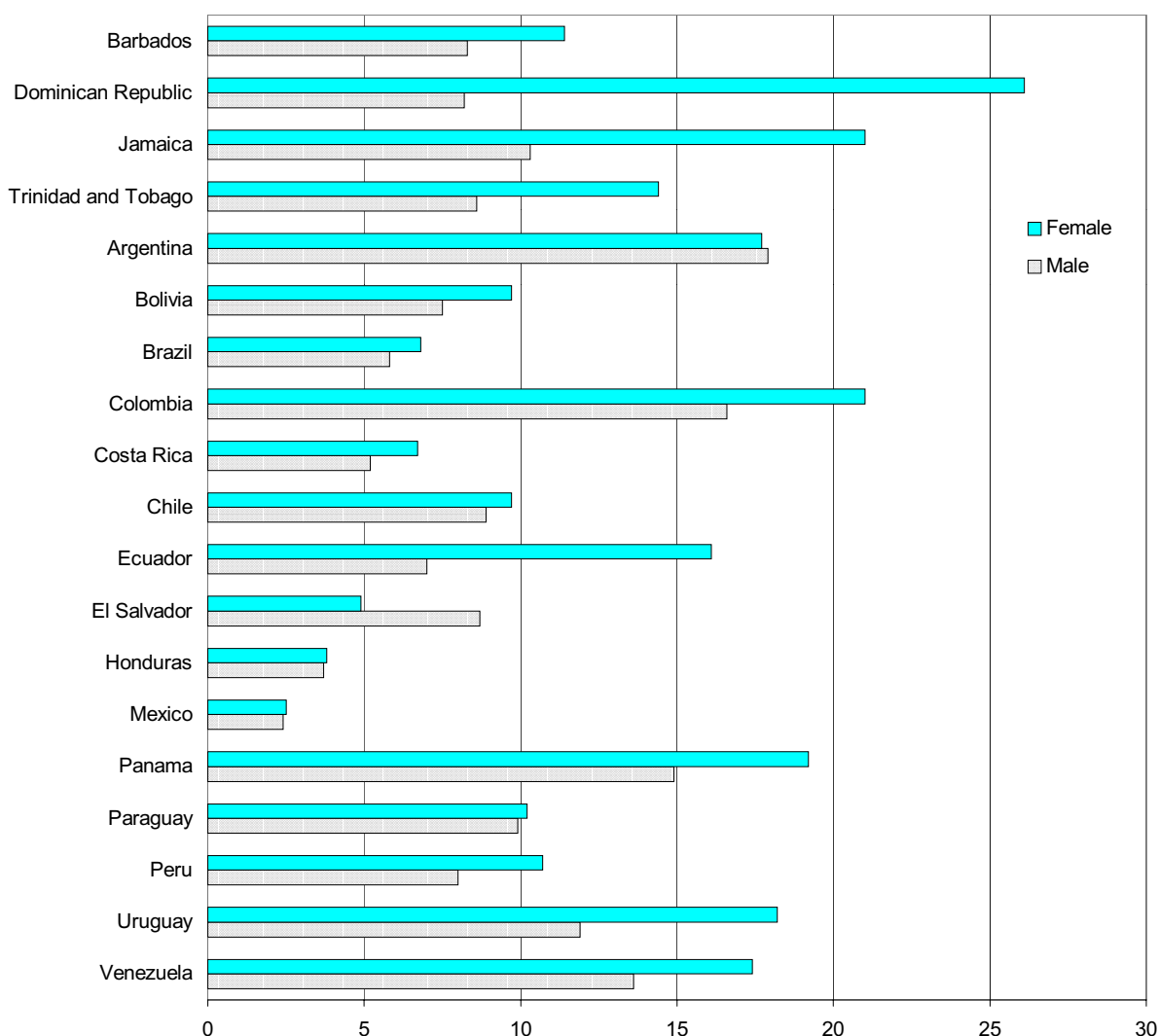
	Unemployment rate ¹				Annual employment growth rate		Annual labour force growth rate		Annual GDP growth rate	
	1990	1995	2000	2001	1990-2000	1995-2000	1990-2000	1995-2002	1990-2000	1995-2001
The Caribbean	17.7	15.5	14.0	13.8	1.8	1.8	1.9	1.7	3.1	3.7
Bahamas, The	12.3 ⁸	10.9	7.8 ³	n.a.	3.5 ²	4.2 ²	2.2	1.9	1.5	3.4
Barbados	15.0	19.7	9.2	9.9	0.8	0.6	0.0	1.9	0.7	3.2
Belize	n.a.	12.5	12.8	n.a.	3.8 ⁶	5.5 ³	3.4	3.1	4.7	4.7
Cuba	n.a.	n.a.	n.a.	n.a.	-2.2	1.4	1.5	0.9	4.1	4.3
Dominican Republic	19.6	15.8	13.9	15.2	1.9	2.9	3.3	3.4	4.6	7.2
Haiti	n.a.	n.a.	4.0 ³	n.a.	n.a.	n.a.	2.0	2.1	-0.6	2.5
Jamaica	15.3	16.2	15.5	15.0	1.5	-0.9	3.9	0.1	1.5	n.a.
Puerto Rico	14.1	13.7	10.1	n.a.	1.9	1.7	1.8	1.5	3.1	3.3
Suriname	15.8	8.4	10.6 ²	n.a.	2.2 ⁵	2.3 ²	1.8	2.1	3.1	3.7
Trinidad and Tobago	20.0	17.2	12.1	10.8	2.1	0.8	1.5	1.8	2.7	4.5
Latin America	5.7	7.5	9.5	9.4	1.8	1.6	2.4	2.2	2.9	2.5
Argentina	7.5	17.5	15.1	17.4	2.3	0.1	0.7	0.8	4.5	1.3
Bolivia	7.2	3.6	7.4	8.5	4.2	2.7	4.2	1.9	4.0	3.1
Brazil	4.3	4.6	7.1	6.2	-0.5	0.9	-1.0	0.4	1.8	2.5
Chile	7.4	6.6	9.2	9.1	1.8	0.9	1.4	0.4	6.5	5.6
Colombia	10.5	8.8	17.0	16.2	3.6	3.0	2.0	1.1	2.9	1.7
Costa Rica	5.4	5.2	5.2	6.1	3.4	2.6	3.4	2.6	5.4	4.2
Ecuador	6.1	7.7	14.1	10.4	3.8	2.4	2.0	0.9	1.9	1.1
El Salvador	10.0	7.0	6.5	7.0	1.9	2.2	1.8	1.5	4.9	3.3
Guatemala	n.a.	n.a.	n.a.	n.a.	-1.6	-2.7	3.2	3.3	4.1	3.8
Honduras	6.9	6.6	n.a.	6.3	5.3	4.6	5.6	4.9	2.8	3.0
Mexico	2.8	6.2	2.2	2.4	3.4	2.1	3.5	2.9	3.4	3.2
Nicaragua	7.6	16.9	9.8	11.3	3.5 ³	3.2	3.6	4.8	2.9	4.7
Panama	20.0	16.4	15.3	16.6	3.2	0.9	4.4	1.2	5.0	3.0
Paraguay	6.6	5.3	10.0	n.a.	3.3	0.3	2.5	-0.7	2.3	1.1
Peru	8.3	7.9	7.0	9.2	3.3	2.4	3.5	2.5	3.2	3.1
Uruguay	9.2	10.8	13.6	15.3	0.7	-0.1	-0.3	-0.7	3.3	1.2
Venezuela	11.0	10.3	13.9	13.5	3.8	2.9	3.1	2.1	2.4	1.5
Latin America and the Caribbean	6.9	8.3	9.7	9.6	1.8	1.6	2.4	2.2	2.9	2.5

n.a. = Data not available.

¹ Household Survey Data; ² 1998; ³ 1999; ⁴ 1996; ⁵ 1993-1998; ⁶ 1993-99; ⁷ 1992-98; ⁸ 1991.

Source: ILO (2002a); ILO (2001).

Figure 1.2
Unemployment rates by gender, selected countries of Latin America and the Caribbean, latest year available



Source: ILO (2001).

Progress is still needed to achieve **gender equality** in the region. Women continue to experience higher unemployment rates than men (figure 1.2), in some cases the disparity is more than twice as much (Dominican Republic and Jamaica). One notable exception is El Salvador, where the rate for men has sometimes reached levels almost three times that of women. Women also have lower labour force participation rates in all countries in the region. The gap is widest in Central America: on average, less than 40 per cent for women compared to 80 per cent for men. Although during the 1990s there was a sharp increase in the number of women entering the labour force, this has fallen off in recent years. Women also earn (on average) less than men. An ILO study of 15 countries in Latin America shows that the income gap per working hour between men and women in non-agricultural employment was 22 per cent at the end of the 1990s. While the study shows that the gap has narrowed, declining from 32 per cent at the start of the decade, it nevertheless remains large.⁵

⁵ The countries in the study are Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

Table 1.2
**Youth unemployment, selected countries in Latin America and the Caribbean, 1995,
 2001 and 2002**

	Youth unemployment rates (%)		
	1995	2001	2002
Caribbean			
Barbados			
15-24	37.8	23.6	n.a.
Jamaica			
15-24	34.1	33.0	n.a.
Trinidad and Tobago			
15-24	31.0	22.6	n.a.
Latin America			
Argentina			
15-19	46.6	37.6	46.1
15-24	30.1	n.a.	n.a.
Bolivia			
10-19	5.0	n.a.	n.a.
20-29	5.4	n.a.	n.a.
Brazil			
15-17	11.0	14.8	15.2
18-24	9.3	12.5	12.8
Chile			
15-19	15.8	20.8	21.8
20-24	10.1	19.5	20.6
Colombia			
12-17	23.3	36.3	31.8
18-24	18.2	33.9	33.4
Costa Rica			
12-24	13.5	14.0	n.a.
Ecuador			
15-24	15.3	14.8	n.a.
El Salvador			
15-24	13.3	13.2	n.a.
Honduras			
10-24	10.2	n.a.	n.a.
Mexico			
12-19	13.1	5.9	6.4
20-24	9.9	4.8	5.2
Nicaragua			
15-24	n.a.	20.0	n.a.
Panama			
15-24	31.9	35.4	n.a.
Paraguay			
15-19	10.8	15.3	n.a.
20-24	7.8	12.3	n.a.
Peru			
14-24	11.2	14.2	15.8
Uruguay			
14-24	25.5	36.2	26.8
Venezuela			
15-24	19.9	23.2	26.4

n.a. = Data not available.
 Source: ILO (forthcoming).

Box 1.3

Child labour in Latin America and the Caribbean

In Latin American and the Caribbean, an estimated 17.4 million children between the ages of 5 and 14 perform some work. Use of child labour has increased due to poverty and external pressure to increase productivity in order to compete in the global market. This is particularly the case within the agricultural sector. In Ecuador for instance – the world's largest banana exporter – child labour in banana plantations has become commonplace. Due to worsening economic conditions, more and more families have been forced to accept their children's income as a necessary input for subsistence. Some industries in Latin America consider child labour a productive and cost effective alternative to adult labour. Children are paid low rates for doing the same work as adults, but for longer hours. The ILO shows that such a situation leads to increased poverty in the long run (for more details, see www.ilo.org/standards/ipec/index.htm).

Youth unemployment remains a major challenge for the region. Although the rate of youth unemployment declined between 2000 and 2001 in most of the countries of Latin America, the 2002 rate continues to be high, and increased for most countries for which data are available, as table 1.2 shows. On average, youth unemployment rates are about twice the overall rate. Female youth unemployment was consistently higher than that of males in all countries with available data. An additional problem is that much of new youth employment is being generated in the informal economy. Declining social security coverage among young workers during the 1990s (from 44 per cent to 38 per cent) is a reflection of this growing informalization.

Child labour is a persistent problem in Latin America and the Caribbean. About one in every five children between the ages of 10 and 14 works (box 1.3). The smaller children are generally unpaid family workers. In domestic service, payment is often restricted to housing and food.

It is estimated that in 2000, around 15 million workers did not earn enough to lift themselves and their families above the USD 1 a day poverty line (table 1.3). The share of **working poor** in the total labour force in the region is high. It is highest in Ecuador, El Salvador, Haiti, Honduras and Paraguay. These are the countries that recorded the lowest productivity growth in the 1990s.

The capacity of the region to participate successfully in the globalized environment is being compromised by educational gaps not only between this region and others, but between high and low income groups within the region (Carlson, 2002). The former has occurred despite the progress in making primary education universal and extending the access to secondary education. However, while initial access to education is high, completion rates for secondary education in some countries are still very low and, as a result, higher education is very concentrated in a small group of the population. This limits the ability of these countries to assimilate new technologies and ways of organizing production (IADB, 2001). Pressures on public expenditures during the economic slowdown, the threat posed by HIV/AIDS, and the brain drain, could well exacerbate the situation, especially in small Caribbean countries.⁶

⁶ In several countries of the Caribbean basin, adult HIV rates are surpassed only by rates experienced in sub-Saharan Africa, making this the second most affected region in the world. The Pan-Caribbean Partnership against HIV/AIDS, representing a broad coalition of actors has been launched to mobilize resources, expand response and reduce the impact of AIDS.

Table 1.3
Working poverty and informal employment, selected countries in
Latin America and the Caribbean

	Working poor Latest year		Informal sector 2000
	Thousands	Share of labour force	Share of total employment
Caribbean	902.2	7.9	n.a.
Dominican Republic	111.6	3.8	n.a.
Haiti	680.0	21.3	n.a.
Jamaica	42.5	3.5	n.a.
Trinidad and Tobago	68.1	13.6	n.a.
Latin America	14 422.1	11.7	46.9
Argentina	444.0	3.4	49.3
Belize	5.5	8.0	n.a.
Brazil	3 840.2	5.6	47.1
Chile	245.7	4.4	38.0
Colombia	1 894.0	12.5	55.6
Costa Rica	129.7	10.2	45.2
Ecuador	916.3	22.2	51.6
El Salvador	629.9	27.5	n.a.
Guatemala	348.4	10.1	n.a.
Honduras	872.8	41.8	60.7
Mexico	1 763.3	4.8	39.2
Nicaragua	54.6	3.1	n.a.
Panama	114.8	11.3	37.3
Paraguay	365.0	21.3	n.a.
Peru	1 397.7	16.8	59.2
Uruguay	60.9	4.6	48.1
Venezuela	1 339.3	16.2	50.6

n.a. = Data not available.

Sources: Majid (2001) and ILO (2001).

The case of Argentina

Argentina is currently undergoing the worst economic crisis in Latin America's recent history. In the six months following the end of the exchange parity between the Argentine peso and the US dollar, the value of the Argentine currency sank by over 70 per cent. At the same time, open unemployment skyrocketed to an unprecedented estimate of 25 per cent while real wages shrunk significantly (table 1.4). Among those who still have jobs, underemployment is an increasing problem. An estimated 50 per cent of Argentines are below the national poverty line, twice as many as in 2001.

As a result of the crisis, GDP has fallen by 16 per cent at constant prices. The recent political instability and the lack of an agreement between international creditors and the government have aggravated the situation by further discouraging investors. One of the major challenges Argentina faces is the general lack of confidence in its currency and financial system. Given the significant decline of GDP per capita, it would take at least a decade of 5 per cent yearly GDP growth in order to return to 2001 levels. Due to these reasons, there is no foreseeable recovery for the Argentine economy or the employment situation in 2002.

Table 1.4
Selected economic indicators, Argentina, 1997-2002

	1997	2002	Change (%)
Nominal GDP (millions of ARS)	292.9	363.7	24.2
Nominal GDP (millions of USD)	292.9	133.1	-54.6
Real GDP (millions of ARS)	277.4	232.2	-16.3
Unemployment rate (annual average %)	14.9	25.2	69.1
Number of unemployed (millions)	2.0	3.8	88.6
Poverty (% of total population)	26.2	50.0	90.8
Working poor (millions)	1.3	2.5	96.7

Source: Estimates based on official figures; BBVA Banco Francés (2002).

Box 1.4
Argentina's development strategy in the 1990s

In 1991, after decades of economic stagnation and high inflation, Argentina initiated a phase of structural reforms that brought about a period of high growth and low inflation lasting through 1998. The foundation of these reforms was the progressive opening of the economy, the "convertibility" law that assured price stability, and the privatization process. Additionally progress was made in terms of fiscal regulation and public sector reform, placing the country on a relatively sound economic footing.

For many years, Argentina boasted the highest GDP per capita in Latin America. The Government had the support of the United States and its economic policies were highly praised by the international financial institutions. However, despite the positive assessment from the Bretton Woods institutions, poor fiscal discipline proved to be a critical factor in the downturn of the economy.

The economic boom of the early 1990s was followed by a period of erratic growth in the second half of the decade, mainly due to external economic shocks. The economy was faced with the "Tequila" crisis initiated by the Mexican devaluation of 1994, and later struggled with the spillover effects caused by the Brazilian crisis in 1998 and successive shocks coming from East Asia and Russia. Despite these setbacks, the structural reforms and monetary stability allowed investment to grow significantly in services and industry, including telecommunications, food processing, banking, energy, and mining. Argentina's exports doubled between 1992 and 2000, from about USD 12 billion to USD 25 billion. Imports also grew rapidly during the same period, rising from USD 15 billion to over USD 25 billion. Trade, however, does not represent an important part of Argentina's economy, mainly due to decades of import-substitution policies.

Beginning in 1998 Argentina entered into a period of recession and the fiscal situation deteriorated. The strong dollar was responsible for deflationary pressures that were not compensated through an increase in productivity. Despite a reduction of public expenditure – particularly in 2000 – government finances came under pressure due to the inability to generate enough income to repay the debt contracted with the multilateral lending institutions.

Although unemployment has now reached unprecedented levels, it is worth noting that high unemployment has been prevalent in Argentina for many years. For example, during the growth years between 1991 and 1996 unemployment went from 7 per cent to 18.6 per cent. At the time two reasons explained the increase in unemployment: first, the short-term effects of the strong increase in productivity as a result of privatization, the deregulation and reorganization of several companies; second, the increase in the percentage of the population joining the labour force, particularly women. The total number of women employed doubled during the 1990s compared to an approximate 50 per

cent growth for males; labour force participation for women grew from 29.1 per cent in 1990 to 41.3 per cent in 1995. The increase in unemployment during this period was the consequence of a positive transformation process. Today, given the decline in national income, capital flight and the effects of the devaluation on savings, the contraction of the economy has effectively eliminated thousands of efficient jobs and plunged millions of people under the poverty line.

Beyond the large number of jobs that have already been cut, another imminent concern is the many pending dismissals that have not yet been approved or examined by the Ministry of Labour (as required by law). An additional factor to consider is that until mid-March 2003, employers wishing to dismiss employees without a valid reason are required to pay a penalty equivalent to double the redundancy payments. This restriction acts as an additional disincentive delaying company decisions regarding lay-offs. During a recent employer survey in Buenos Aires, only 3.4 per cent of respondents anticipated hiring any workers over the following three months, while 10.7 per cent expected lay-offs.

Unemployment has risen dramatically among the population with a higher educational level: since 1990, it has tripled among secondary school graduates. In the particular case of Buenos Aires during the current crisis, unemployment for university graduates jumped from 5.5 to 25.7 per cent, placing it above the unemployment level of those with little or no education. The current situation does not point towards a reversal of this trend. On the contrary, as companies withdraw their investments in the high-tech sector and the banking industry shrinks, the problem is likely to become more acute. In 1998, youth unemployment accounted for 37.8 per cent of total unemployment. It is likely that this figure has now increased as a result of the large number of lay-offs occurring in companies employing a young, educated workforce.

Employment outlook for the region

Labour force growth in Latin America and the Caribbean is projected to grow at about 2 percent a year over the period 2000-2010. Population growth has been slowing down in the 1990s and this trend will continue further in the years to come, bringing some relief for the labour market. In order to absorb all the new entrants into the labour force, halve the unemployment rate and halve the working poverty rate, Latin America and the Caribbean needs to grow at a minimum of 4.2 percent a year during 2000-2010, a 1 per cent rise from its historical growth rate of the 1990s (Berger and Harasty, 2002).

The economic outlook for Latin America and the Caribbean in the short-term is expected to bring conditions similar to those in 2002. Sluggish domestic demand and weak fiscal positions will be obstacles in the path towards recovery in 2003. In the long-term, per capita GDP growth is projected to average 2.6 percent a year.

It is expected that risk aversion to Latin America and the Caribbean will remain strong, particularly in Latin America, where the major economies are suffering from eroded investor confidence. Political instability may also be an obstacle towards recovery, mainly in Argentina and Venezuela. Brazil, where a new government will take office in January 2003, will face a number of challenges.

The accumulation of debt in many Latin America countries still looms as a potential risk in the region: although the region's debt-to-GNP ratio is in line with other developing countries, the debt-to-export ratio remains very high. This exposes the region to external shocks from global capital markets. Latin America would experience serious difficulties should there be a renewed downturn in demand from the United States or globally. According to current projections, the Latin American and Caribbean region will not grow fast enough to ameliorate the employment situation. Job creation is expected to mainly occur within the informal economy.

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E A S T A S I A

East Asia¹ is the most populous region in the world, with China accounting for 97 per cent of its total population. It is also the fastest growing region, with annual GDP growth averaging 7.4 per cent in the 1990s. Growth in real wages and productivity levels have resulted in significant poverty reduction. Nevertheless, open unemployment is an increasing problem.

Latest economic developments and their impact on employment

East Asia experienced a significantly slower pace of **economic growth** in 2001 than in the previous year (table 2.1). Growth moderated in China, decelerated rapidly in the Republic of Korea and Hong Kong, China, and reversed into recession in Taiwan, China. Mongolia continued to struggle with low growth performance because of severe weather conditions and low commodity prices.²

Strengthening **consumption** and, to a smaller extent, the momentum of optimism surrounding World Trade Organization (WTO) accession, enabled China to sustain a relatively high growth rate despite lower **external demand**. With the increased instability of external demand, China is basing its long-term economic development strategy on domestic markets, with a deliberate rise in the growth of real wages in state enterprise to increase domestic demand. The erosion of external demand, however, sharply affected Hong Kong, China, the Republic of Korea and Taiwan, China. The severity of the turnaround in the momentum of external demand stemmed from the collapse in ICT trade. In the Republic of Korea and Taiwan, China, the deterioration in ICT exports seeped through into investment in the sector as a result of the deterioration in the outlook for sales; investment thus contracted by 1.7 per cent in the Republic of Korea and 18.2 per cent in Taiwan, China. Taiwan's investment contraction was more severe because of a trend in some countries to shift production to the mainland.

As a result of the events of 11 September 2001, the **tourism sector's** growth rate in East Asia slowed down substantially (figure 2.1). Travel and tourism account for over 7 per cent of total employment in the region and over 9 per cent of GDP.³ In absolute terms, China bore the largest job losses in 2001 and 2002 in the whole of developing Asia with 1.8 million tourist related jobs lost according to the World Travel and Tourism Council (WTTC).

¹ China; Hong Kong, China; Democratic People's Republic of Korea; Republic of Korea; Macau, China; Mongolia; Taiwan, China.

² The Mongolian economy depends mainly on the performance of agriculture and mining and their price fluctuations in international markets. Mining (coal, copper, gold and oil) generates more than 80 per cent of the economy's exports earnings.

³ Travel and tourism is widely interpreted to cover all expenditures by locals and foreigners on travel, on related food and lodging, transport, fuel and taxes.

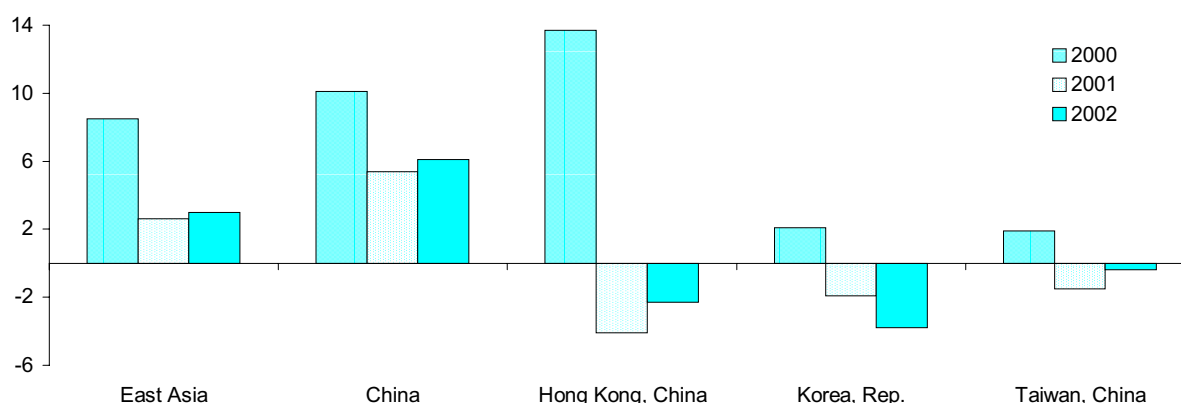
Table 2.1
Selected economic indicators in East Asia, 2000-2002

	2000	2001	2002
Real GDP growth (%)	8.3	3.9	5.2
China	8.0	7.3	7.0
Hong Kong, China	10.5	0.1	2.1
Rep. of Korea	9.3	3.0	4.8
Mongolia	1.1	1.5	3.0
Taiwan, China	5.9	-1.9	2.8
Merchandise exports (% change in USD values)	22.0	-5.8	5.0
China	27.9	6.8	6.0
Hong Kong, China	17.1	-3.0	2.5
Rep. of Korea	21.2	-14.0	7.0
Mongolia	18.2	-17.4	9.4
Taiwan, China	21.8	-17.3	5.5
Gross Domestic Investment/GDP (%)	n.a.	n.a.	n.a.
China	36.1	36.3	36.1
Hong Kong, China	27.6	25.8	28.0
Rep. of Korea	28.2	26.7	29.0
Mongolia	29.0	28.0	29.0
Taiwan, China,	22.9	18.2	18.7

n.a. = Data not available.

Source: ADB (2002).

Figure 2.1
Real growth of value added tourism in East Asia, 2000-2002



Source: WTTC (2002).

As a consequence of these developments, the employment situation generally deteriorated in East Asia in 2001 and the first two quarters of 2002 (table 2.2). The **unemployment** rate reached a record 5.3 per cent in Taiwan, China. In Hong Kong, China, it has more than tripled in the past five years and reached a record 7.8 per cent in July 2002, the highest among Asian industrialized economies; it may rise even further as growth stalls and high costs prompt companies to eliminate jobs. Conversely, in the Republic of Korea the unemployment rate fell continuously over the first two quarters of 2002

from 3.7 per cent in January to 2.9 per cent in May, after a similar trend in 2001. Coincidentally, GDP growth picked up in the first two quarters of 2002, going back to its historical growth rate of the 1990s (OECD, 2002). However most of the recovery in the Republic of Korea has been based on an increase in casual and daily labour. Large fluctuations in economic growth have led to increased instability in the demand for labour that have implied a greater reliance on non-standard forms of employment. This increased demand for flexibility in the labour market poses a social protection challenge in moving from employment security to income security.

Table 2.2
Labour market indicators for selected countries in East Asia, 1990-2002

	Unemployment rate (%)			Annual employment growth rate (%)		Annual labour force growth rate (%)		Annual GDP growth rate (%)		
	1990	1995	Latest year	1990-2000	1995-latest year	1990-2000	1995-2002	1990-2000	1995-2000	2001
China	n.a.	3.1 ^{3b}	3.6 ^{5a}	1.1 ²	1.0 ²	1.1	0.9 ^d	9.6	8.6	7.3
Hong Kong, China	1.3	3.2	6.1 ⁵	1.6 ²	1.9 ²	2.4	2.2	4.3	3.6	n.a.
Korea, Rep.	2.5	2.0	3.7 ^{5e}	1.5	0.6 ¹	2.0	1.5	6.5	5.6	3.0 ^e
Macau, China	3.2	3.6	6.4 ²	2.4 ²	2.9 ²	2.8	2.0	3.3	0.0	n.a.
Mongolia	n.a.	5.4 ^f	4.6 ^{2f}	0.6 ²	1.1 ²	3.0	2.8	-0.1	3.4	n.a.
Taiwan, China	1.7	1.8	5.3 ⁵	1.5 ⁴	0.7 ⁴	1.1	0.9	9.6	8.6	n.a.
East Asia	n.a.	3.1	3.6	1.1	1.0	1.2	1.0	7.4	6.7	3.9^c

¹ 2000; ² 1999; ³ 1998; ⁴ 1997; ⁵ 2001.

^a Official registered urban unemployment rate; official rural unemployment rate is zero, but the Chinese Bureau of National Statistics puts actual rural unemployment at 35 per cent of total rural workforce; a weighted average would thus give a total unemployment rate in China of 26.8 per cent. This estimate is reasonable as the Chinese government itself says: "there are only 75 jobs for 100 job seekers" (ILO 2002b).

^b Official registered urban unemployment rate.

^c ADB (2002).

^d Official Chinese statistics put labour force growth between 1995 and 2000 at 2 per cent annually.

^e OECD (2002).

^f European Training Foundation (2001).

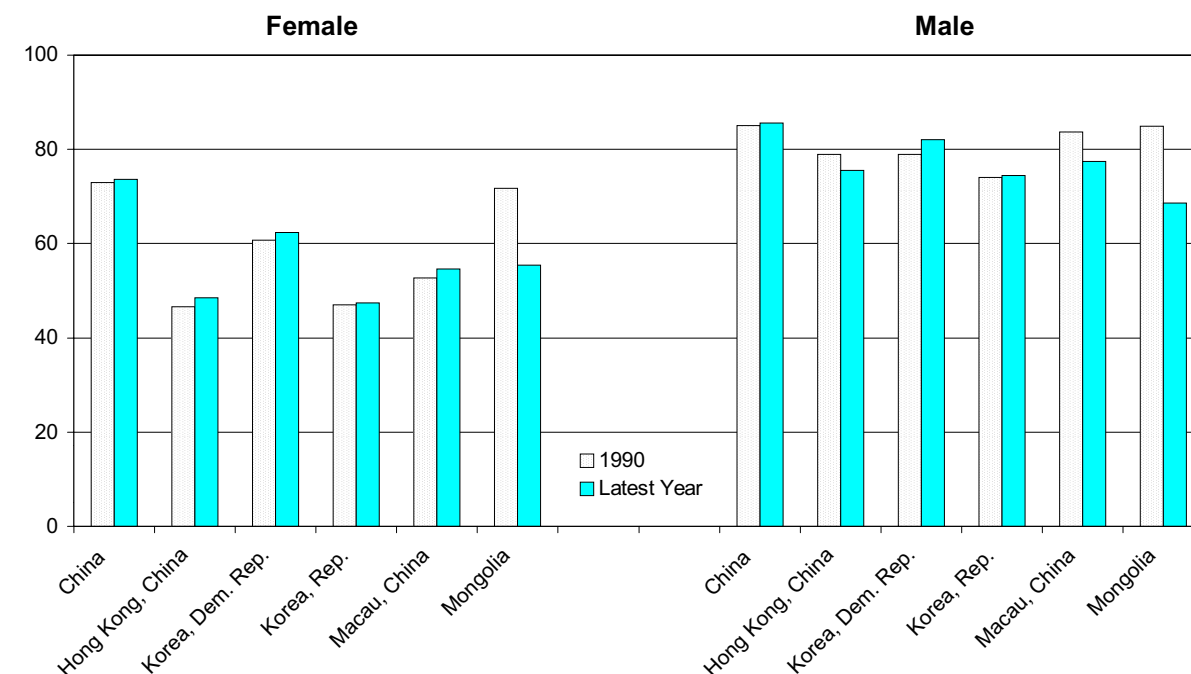
Sources: ILO (2002a) except for labour force; World Bank (2002b) for GDP growth; own estimates for regional employment and unemployment aggregates based on method developed by Berger and Harasty (2002).

Main characteristics of East Asia's labour markets

Labour force growth rates remained relatively high in the 1990s, with the Republic of Korea as a possible exception. Official Chinese statistics put labour force growth at 2 per cent annually between 1995 and 2000. In the case of Hong Kong, China, labour force surveys show a 3.8 per cent growth rate of the labour force between 1995 and 1998. The corresponding figure for Macau, China, is 4 per cent, and 3.5 per cent for Mongolia. Thus the labour force is still expanding at more than 2 per cent per annum in East Asia and 16 million workers entered the labour market every year between 1995 and 2000.

Moreover, **labour force participation rates** are high in the region. At the end of 2001, China's labour force participation rate was 77 per cent. It is above 60 per cent in the other countries in East Asia. **Women's labour force participation rates** are lower than men's in all the countries in the region, but the gap is smaller in China and Mongolia (figure 2.2). The gap is not closing, except to a small extent in Hong Kong, China, and Macau, China.

Figure 2.2
Labour force participation rates by gender in East Asia (latest year)

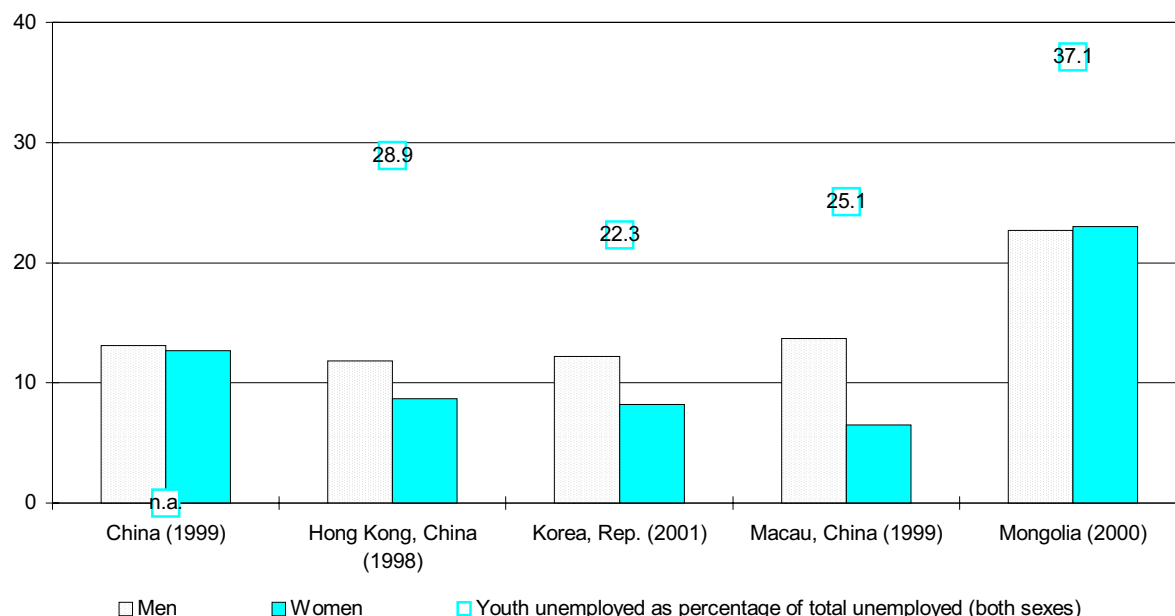


1995: Democratic Republic of Korea, China
 1998: Hong Kong (China), Macau (China), Mongolia
 1999: Republic of Korea
 Source: ILO (2002a).

The high numbers of new entrants constitute an abundant and competitive economic resource, but also put heavy pressure on the region's labour markets. **Open unemployment** is, indeed, an emerging problem in East Asia (table 2.2). In China, the registered urban unemployment rate rose to 3.6 per cent at the end of 2001, against 3.1 per cent in 2000. The figures, however, include neither migrant workers nor laid-off workers cared for in the re-employment centres who have not found new jobs nor migrant workers. Between 1998 and 2001, laid-off workers from state-owned enterprises totalled over 25 million. Moreover, labour slack in rural areas is concealed in underemployment. If those elements are taken into account, estimates point to the possibility that one quarter of the total labour force are currently unemployed in China. In Mongolia, the latest population census (Mongolian Statistical Office, 2000) shows that 17.5 per cent of the population are unemployed – 18.2 per cent of the men and 16.6 per cent of the women. New entrants have difficulties finding jobs and their skills are all too often inadequate.

High **youth unemployment rates** illustrate this mounting problem. In June 2001, 53 per cent of the jobless in China were under 35, of which half had been laid off for economic reasons – either restructuring or bankruptcy – and the registered urban youth unemployment rate has been rising since 1998 (ILO, 2002). As shown in table 2.3, youth unemployment is also high in the Republic of Korea, with half of the unemployed under 29 as of December 2001 against less than a fourth in 1999 (KLI, 2002). In Mongolia, the 15-24 age group made up over two thirds of the unemployed; 44 per cent of the young unemployed were women (Mongolian Statistical Office, 2000).

Figure 2.3
Youth unemployment rates (15-24 years) by gender, selected countries in East Asia, latest year (%)



Source: ILO (2001) data, except Republic of Korea: OECD (2002) and Mongolia: Mongolian Statistical Office (2000).

Youth unemployment rates are lower for women than for men in East Asia, but the share of youth unemployment in total unemployment is higher for women than for men (figure 2.3). A large proportion of the young unemployed are highly qualified, but their specialization does not correspond to the needs of the labour market. In Mongolia, for example, 80 per cent of university students are studying foreign languages, law and international relations. However, in practice, 80 per cent of all job vacancies are related to economic, technical and technological branches. These figures might point to the need for improving the vocational training school system. Furthermore, career guidance and vocational counselling are still under-developed in the region (ETF, 2001, and UNDP, 2001).

Table 2.3
Sectoral distribution of employment and value added, East Asia, circa 2000

	Agriculture		Industry		Services	
	Employment (% of total)	Value added (% of GDP)	Employment (% of total)	Value added (% of GDP)	Employment (% of total)	Value added (% of GDP)
China ^a	50.0	16.0	22.5	51.0	27.5	33.0
Hong Kong, China ^b	0.3	0.0	21.3	14.0	78.5	85.0
Korea, Rep. ^a	10.9	5.0	28.0	43.0	61.1	53.0
Mongolia ^b	48.5	33.0	15.2	19.0	14.2	48.0

Value added data are for 2000; employment data are for the following years: ^a 2000; ^b 1999; ^c 1990.

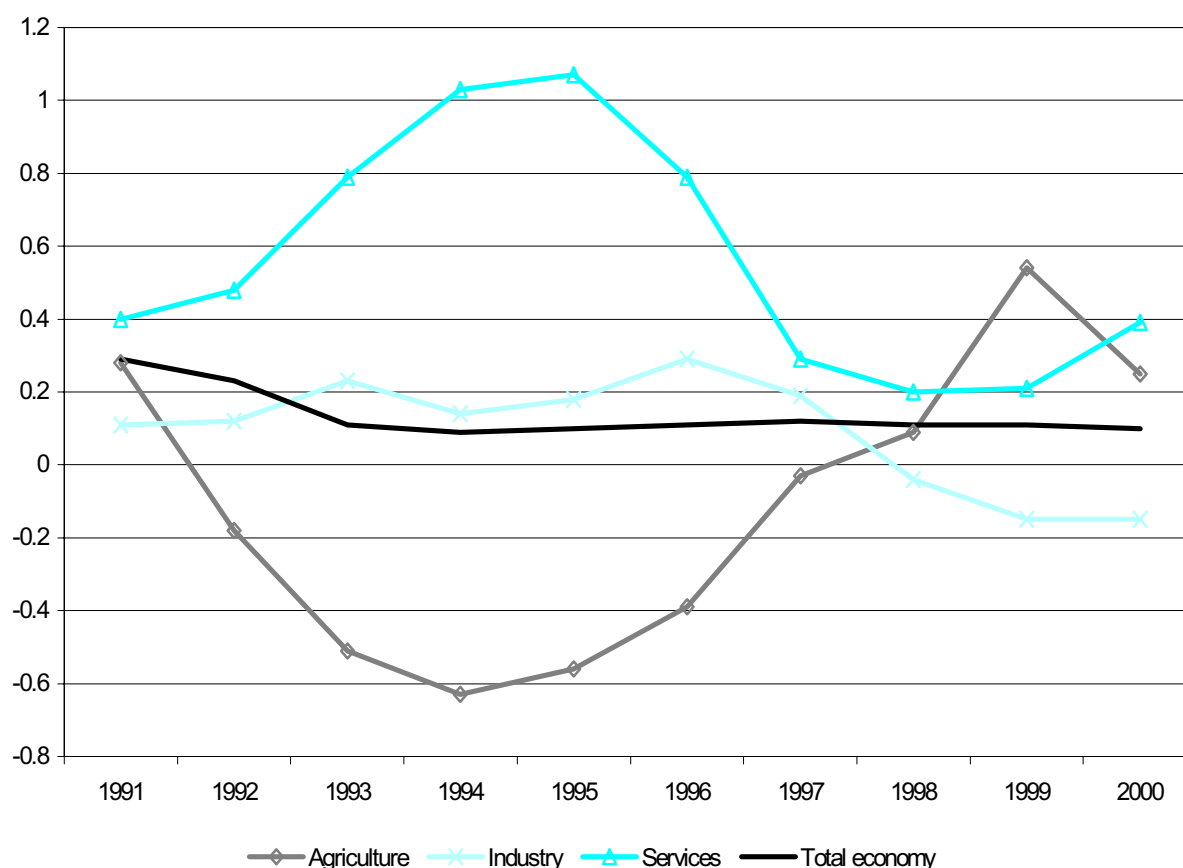
Source: World Bank (2002); ILO (2002a).

Some countries in the region still have a predominantly agricultural labour force, while others have greatly developed their service sector. China, the Democratic People's Republic of Korea and Mongolia – the most populous and larger countries in the region – belong to the first group, while the Republic of Korea, Taiwan (China), and to an even greater extent, Hong Kong (China) and Macau

(China) belong to the second group. Industry accounts for about one-fourth of total employment in the region – except in Mongolia where it is much lower. This **employment structure** has been changing, as the region underwent deep structural change in the 1990s. The move has been one away from low productivity agriculture towards employment-intensive services, and restructuring in industry with fewer people producing equal or increased output. Services have become the main source of job creation in the economies of East Asia.

In **China**, for example, the agricultural sector is no longer providing jobs to the huge rural population. Mining and manufacturing processes are being restructured and jobs reduced dramatically: 3.6 million jobs were lost in mining and 17.6 million jobs were lost in manufacturing between 1995 and 2000. Employment was nevertheless created in new industries, such as high-tech, bioengineering, ICT, etc. The number of women working in the technology sector went up by over 5 percentage points in the 1990s, while that of men went up by only 1.5 percentage point. Employment was mainly created in the tertiary sector: real estate, social services, retail and wholesale trade and catering businesses in particular. Women previously employed in traditional industries found jobs in these sectors. Their share of tertiary employment in 2000 was significant and increased by over 7 percentage points during the 1990s (ILO, 2002).

Figure 2.4
Sectoral employment elasticity to growth, China, 1991-2000



Source: ILO (2002b).

Declining **labour absorption** in China over the 1990s illustrates the structural change from employment-intensive growth towards capital-intensive growth. The total economy employment elasticity to growth decreased from 0.45 in 1989 to 0.10 in 2000, which means that a 1 percentage point increase in employment growth requires much higher GDP growth today than in 1990. At the sector level, average labour absorption between 1991 and 2000 has been negative in agriculture, 0.09 in industry and 0.57 in services (figure 2.4). Agriculture plays a cushioning role: in years when the absorption capacity of industry and services declines, absorption in agriculture increases and vice versa; the sector thus hides a very high level of underemployment. The low absorption capacity of the industrial sectors reflects the significant restructuring that the sector is undergoing (the elasticity has been negative since 1998) and illustrates rising productivity. Services are employment-intensive, as reflected by the high employment elasticity. In recent years, this elasticity has, however, been declining slightly, showing the structural change within the services sector toward more capital-intensive services such as real estate or finance and insurance (ILO, 2002).

Box 2.1

China: Declining labour absorption in manufacturing

The table below illustrates the sharp decline in labour absorption in China's manufacturing sector to negative levels after 1995. In the 1980s, state-owned enterprises were still firmly committed to the policy of providing lifelong employment to their workers while hiring large numbers of additional workers. The costs of this policy of labour hoarding resulted in a slowdown in real wage increases during 1985-90. With increasing competitive pressures on enterprises since the early 1990s, state enterprises in manufacturing started restructuring production, sharply reducing new hirings and shedding redundant labour. The extent of lay-offs has recently been fairly high – over 25.5 million persons between 1998 and 2001.

Value-added, employment, real wages and output elasticity of employment in manufacturing in China
(annual growth rates in per cent)

Time period	Value added	Employment	Real wages	Output elasticity	Wage bill
1980-85	9.9	4.7	4.5	0.47	9.4
1985-90	9.2	3.1	2.8	0.34	6.0
1990-95	17.7	2.6	7.8	0.15	10.6
1995-99	10.3	-4.6	8.3	-0.45	3.3

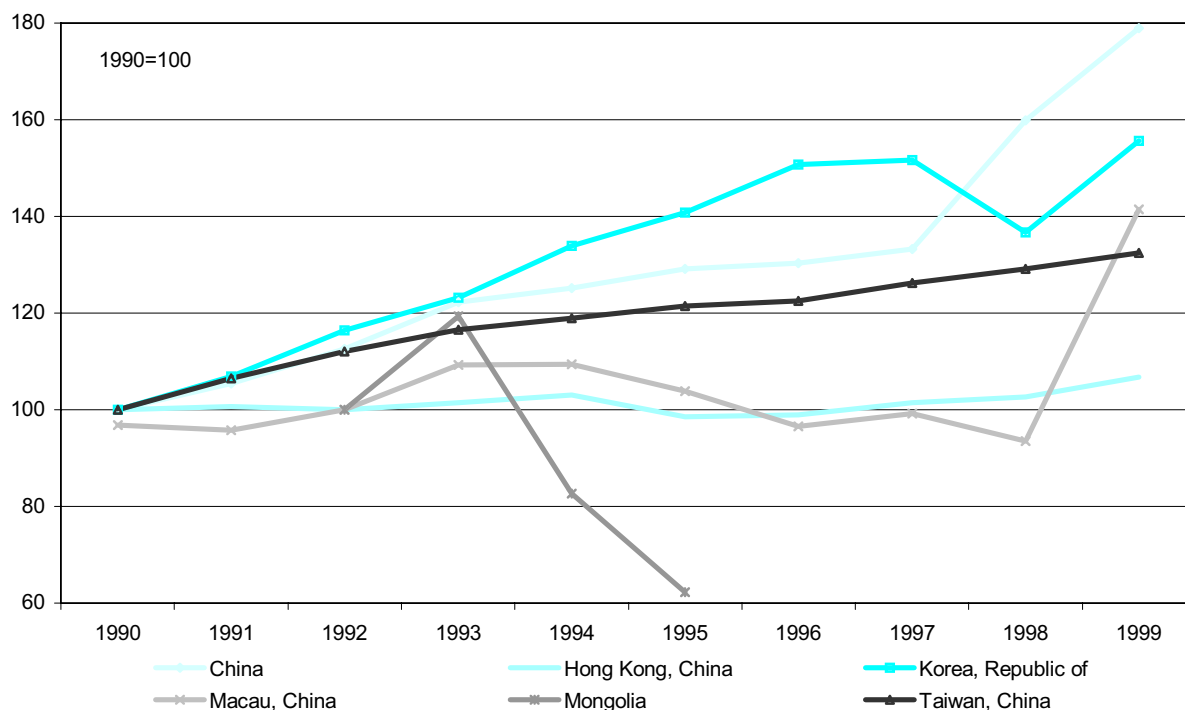
Note: Growth rates are annual compound rates between end points. Real wages have been estimated by deflating nominal wages by the urban consumer price index. Output elasticity of employment is the ratio of growth rate in employment to growth rate in value added. The wage bill is measured in terms of consumer prices, value added growth is measured by producer prices.

The table also shows that the growth of the wage bill in manufacturing has usually been far below the growth of value added. This has left a major surplus for investment. For over two decades, up to 1999, capital accumulation accounted for half of China's growth. However, growth in total factor productivity was also significant showing that technological change and a shift to better working methods was important in economic growth.

The table further shows high real wage growth in the 1990s, a period when the rate of poverty reduction declined. This suggests that high real wage growth did little to reduce income inequality.

Source: ILO (2002b).

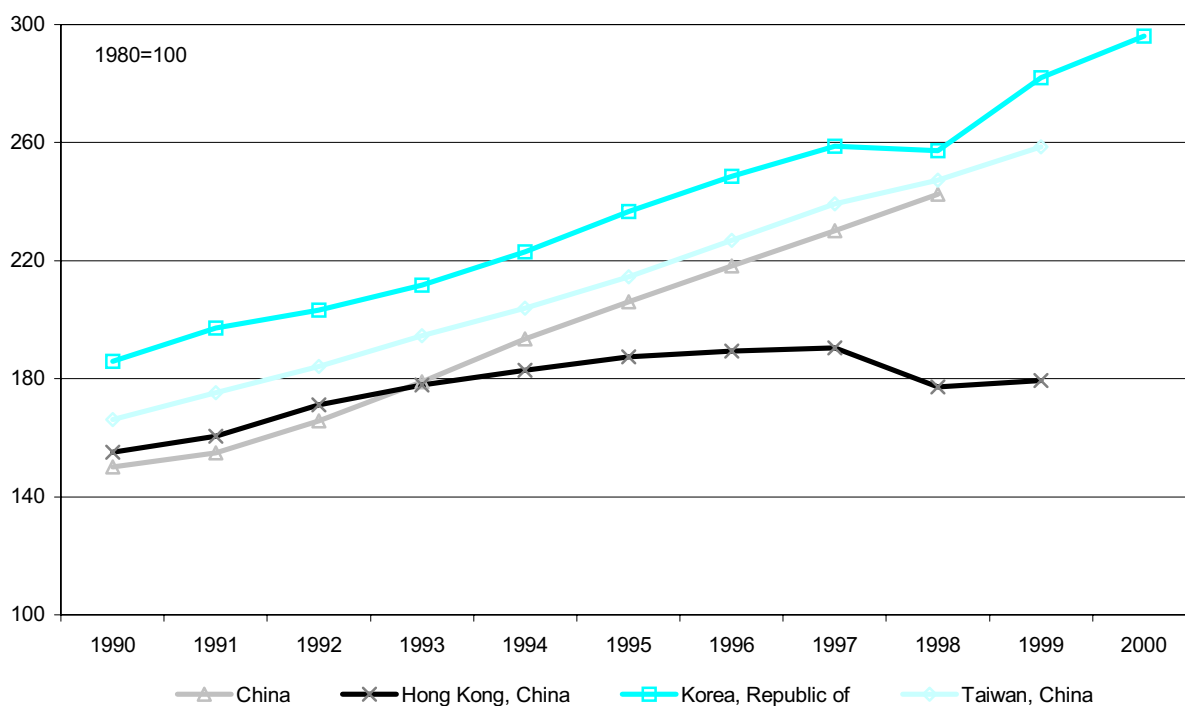
Figure 2.5
Real manufacturing wage trends, selected countries in East Asia, 1990-1999



Note: Macau, China: 1992=100

Source: ILO (2002a).

Figure 2.6
Value added per person employed, selected countries in East Asia, 1990-2000



Source: ILO (2001a).

Box 2.2

Moves to shorten the working week in the Republic of Korea

An agreement in May 2002 between banks and their labour unions to adopt a two-day weekend has been hailed as an important step towards a nationwide reduction in working hours, giving Koreans more free time to spend on leisure pursuits. Employers' organizations and labour unions have failed in months of negotiations to reach a formal agreement to implement a five-day working week. However, the banking sector's unilateral action is likely to increase pressure on other industries to follow suit, and the Government, a keen supporter of reduced working hours, has threatened to force through legislation.

Supporters of the change say an improved quality of life over the weekend would increase productivity between Monday and Friday and that increased spending on shopping and leisure would strengthen the domestic economy. Under a five-day working system, productivity would increase by 5.2 per cent and the leisure industry would grow by 10 per cent, creating 650,000 jobs, according to two Korean research institutes. Employer's groups warn that small businesses cannot afford to close on Saturdays, especially if unions win their demand that workers should be paid the same for the five days as for five and a half.

Source: Ward (2002).

There were substantial **wage** increases in East Asia in the 1990s. Wage growth was especially notable in China, Macau (China) and the Republic of Korea (figure 2.5).⁴ Women were paid less than men everywhere. In the Republic of Korea, for example, average monthly earnings for women were 60 per cent of the average for men in March 2002. Between August 2001 and March 2002, average monthly earnings for women grew at 5.3 per cent, compared to 6.1 per cent for men (KILM, 2002). In the long term, the growth has been more rapid for women than men for the 1990s: the real manufacturing wage index rose by 59.6 points for women, compared to 45 for men (ILO, 2001b). In the other economies of the region, women's wages continue to lag behind men's.

Higher **productivity** levels in East Asia supported the wage increases mentioned earlier. As shown in figure 2.6, value added per person employed and per hour worked increased significantly over the 1990s. Value added per person grew at over 5 per cent annually in China, the Republic of Korea, and Taiwan (China), between 1980 and 1999. These growth rates are higher than those recorded in OECD economies over the same period. Productivity in manufacturing grew even faster.

Despite rising productivity levels, the region still has relatively high levels of **working poverty**. In China alone, over 18 per cent of those in employment fall below the USD 1 a day poverty line (130 million). This share has, however, been decreasing rapidly in the 1990s (table 2.4). China has lifted more people out of extreme poverty quicker than any other country in modern times. According to official estimates, the number of Chinese people living on less than USD 0.66 a day fell from 260 million in 1978 to 42 million in 1998. By any measure, China still contains a huge number of poor

⁴ In China, there are significant wage differentials based on ownership type of enterprises and rural/urban location. Wages in state-owned enterprises are around the average urban wage while wages in collectively owned enterprises are some two-thirds of the urban average; wages in private enterprises are around 20 per cent higher than the urban average. In the 1990s, the overall tendency was towards lower differences among these three main types of enterprise in urban areas, probably due to labour market competition. Wages in township and village enterprises are only some 60 per cent of the urban average wage and net incomes per person around 40 per cent of the urban average wage. In countries with a similar per capita income to China, farm income per worker approximates to urban income in small-scale enterprises. Farm incomes are thus fairly low and would no doubt benefit from greater and improved internal labour mobility (ILO, 2002).

people. In Mongolia, there is over 14 per cent of working poor and this number is probably around 7-8 per cent in the Republic of Korea.

Table 2.4
Working poverty, selected countries in East Asia, 1990s

	Number of working poor (millions)	Share of working poor in total employment (%)	Annual average growth rate of working poor (%)
	1998	1998	1990-98
China	131.5 to 143.7	18.5 to 20.2	-4.7 to -6.4
Korea, Rep.	15.10	7.4	n.a.
Mongolia	0.11	13.9	n.a.
Taiwan, China	0.55	0.6	n.a.
East Asia	147.3 to 159.5	20.2 to 21.9	n.a.

n.a. = Data not available.

Source: Berger and Harasty (2002).

No comparable data on the extent of **child labour** in East Asia are available, but the percentage of economically active children in the total child population is believed to be around 7 per cent (ILO, 2001a). This aggregate figure hides wide disparities within the region. Whereas in Hong Kong, China, the percentage is believed to be very low, in Mongolia, it was estimated in 2000 that 92 per cent of children between 5 and 14 worked. Only 13 per cent of children under 10 years old did not do any kind of work. The vast majority were involved in domestic work (Population Census, 2000).

Employment outlook for the region

Labour force growth is projected to slow down further in East Asia during the decade 2000-2010 to 0.8 per cent per annum. This will be due mainly to slow labour force growth in China, but it will decrease in all countries in the region, including Mongolia. The latter will, however, retain relatively high labour force growth, with an annual rate of 2.6 per cent. The total number of new entrants into the labour force during that decade will nevertheless be high, with estimates ranging from 68 to 71 million in total over the ten year period (around 7 million every year).

In order to absorb all the new entrants into the labour force, halve the unemployment rate and halve the working poor, East Asia excluding China needs to grow at a minimum of 4.2 per cent a year from 2000-2010, which is below its historical growth rate of 5.0 per cent during the 1990s. China needs to grow at a minimum of 5 per cent a year from 2000-2010, while it grew at close to 10 per cent during the 1990s (Berger and Harasty, 2002). So even if current trends persist, East Asia's employment outlook seems optimistic.

The economic outlook for East Asia is relatively good, with economic performance expected to strengthen in 2003. In part, however, this will only come about if the external environment improves. According to the Asian Development Bank (ADB), the value of merchandise exports, which contracted in 2001, will grow moderately in 2002 before rebounding to nearly 9 per cent growth in 2003. This should allow China to boost growth modestly in 2003 after a slower period in 2002 as it begins to adjust to WTO membership. The Republic of Korea's rebound will depend on the recovery in the United States and Japan – its two most important markets. Economic growth in Hong Kong, China, will improve, but it will be limited by continued weakness in domestic markets – particularly real estate. Taiwan, China, will revive moderately from recession as a weak global recovery, uncertain investor and consumer confidence and the structural challenge of WTO membership combine to limit a rebound. Taiwan, China, also has to compete with China for corporate investment. Mongolia, while still suffering from the devastating effects of severe winter weather on agriculture, should benefit from a recovery in commodity demand (ADB, 2002).

Box 2.3

China: Some expectations about employment after WTO accession

Generally speaking, import competition after WTO entry is expected to have an overall negative employment impact in the primary sector and in capital-intensive industries in the short term. In the long term, however, productivity in more technology- and capital-intensive sectors can be expected to rise and the shift in exports to the medium technology category to increase.

Agriculture

The impact of trade liberalization on agricultural employment could well be negative, destroying up to 10 million full-time jobs. Rural labour market adjustment to changes in production and consumption patterns is critical if full gains from WTO entry are to be realized. A shift from low yielding and water-using crops, such as rice, to more labour-intensive crops, such as vegetables, horticulture as well as animal husbandry and aquaculture could lead to a win-win situation with benefits in terms of higher labour productivity and greater labour use. At the same time, this would help manage water resources better and protect marginal farmland, the intensive use of which has seriously damaged the ecology of some areas.

The employment situation in agriculture depends highly on the rate of movement away from the land either to rural industries or to urban areas. If urban migration accelerates within the coming ten years to double the rate of the 1990s, labour productivity in agriculture will certainly increase, contributing to higher farming income. Township and village enterprises (TVEs) have been a major force in creating new jobs in the rural economy in the past twenty years. China's accession to the WTO provides both an opportunity and a challenge to TVEs' future growth prospects. On balance, the current reform process of the TVEs will be further strengthened by WTO accession and would in all likelihood result in lower labour absorption and, in the short-term, a net release of labour.

Urban industrial sector

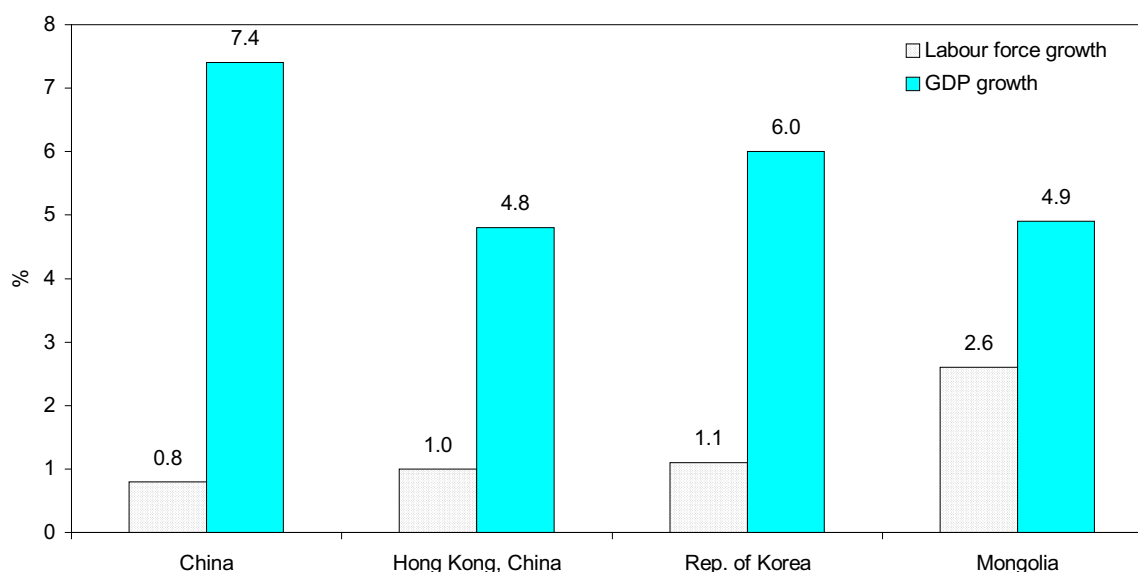
The currently protected sectors, mainly state owned enterprises (SOEs) in automobiles, petrochemicals, machinery and telecommunications, are expected to suffer the most from WTO entry. However, comparative advantage could well be developed in some of these sectors through dynamic private sector alliances and new investment. For other sectors, due to continued efforts at opening up the market, WTO entry is unlikely to cause a great shock. Labour-intensive industries with low technological barriers to entry, such as textiles, clothing and bicycle industries, are already internationally competitive. However, it is clear that many SOEs in capital-intensive industries will either go out of business or will change ownership. The employment impact of change in ownership and restructuring of SOEs is largely expected to be negative in the short- and medium-term. SOEs accounted for about 14 per cent of total employment in 1999, employing roughly 100 million workers. In the automobile-related sector, that includes the manufacture of vehicles, sales, services and repair centres, and raw material production units, there were roughly 7 million workers, constituting 3.3 per cent of urban labour force in 1998. The potential job losses in this sector are thus considerable.

Service sector

The service sector has considerable potential for growth and employment. The dismantling of state monopolies creates space for the entry of private sector firms – either in alliance with the state sector or wholly owned domestic or foreign enterprises. Tourism, wholesale and retail sale and ICT services constitute a future dynamic sector. The ICT sector has been insulated from foreign entry but grew rapidly during the 1990s. Most of China's exports were based on labour-intensive products. In 2000, China adopted new telecommunications regulations. While these regulations are still skeletal in laying out responsibilities and the involvement of different vested interests, they are a step forward in making this potentially high-growth sector more transparent and open to competition. This sector is expected to be profitable and continue to generate increasing employment in the medium to long term.

In finance, the market is highly government controlled and yet domestically fragmented. Some financial sectors have been partially open to foreign entry, such as life and accident insurance and highly restricted local currency business. Under the WTO agreement, there will likely be greater foreign entry, but on highly restricted terms. While the direct employment weight of financial services is low, their efficiency has important repercussions on enterprise performance and investment and hence, ultimately, on employment.

Figure 2.7
Labour force and GDP growth in East Asia, 2003



Sources: ADB (2002); ILO (2001).

Growth in East Asia will probably improve over the next two years, but will remain below the historic trends of the 1990s. Even then, GDP growth would in theory be sufficient to absorb all the new entrants into the labour market and make a significant difference to working poverty (figure 2.7). The reality, however, will depend on what happens to youth unemployment. Even with high rates of economic growth, structural problems will hinder the entry of newcomers on the labour market. Furthermore, governments will have to ensure that the benefits of growth are distributed in a way that reduces poverty. The countries in East Asia are committed to strengthening education, enhancing the rule of law, promoting high domestic savings and openness to trade and investment. Nonetheless, beyond commitments, these countries will face huge challenges in terms of capacity and implementation. Some have been able to scale the technology ladder and significantly close the production and income gap with the industrialized nations. Mongolia, for example, has not yet reached that level of development. However, China's entry into the WTO should have positive trade and productivity implications for the whole region, but there could also be some negative employment consequences.

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SOUTH-EAST ASIA

At a time when most countries in South-East Asia¹ had just started recovering from the Asian financial crisis, the global downturn in 2001 and the events of 11 September dealt a new blow to progress in the region. In 2001-2002, the regional unemployment rate was estimated at 6.6 per cent, up 4 per cent from just before the 1997 crisis. First time job seekers, unskilled workers and women are the first victims of rising unemployment and the ranks of the informal economy are growing. Wages stagnated in 2001 and the fight against poverty was halted.

Latest economic developments and their impact on employment

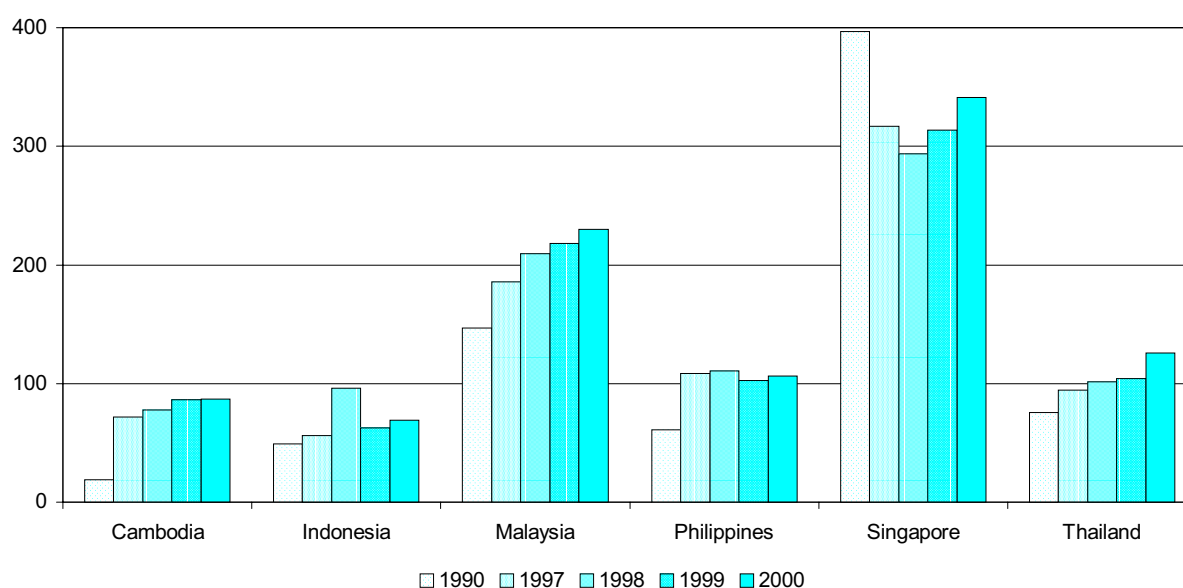
The region of South-East Asia suffered strongly from the global downturn in 2001 (table 3.1). With **GDP growth** of 1.9 per cent, growth performance in 2001 was the lowest of all Asian sub-regions. However, there was a marked contrast between the performance of Singapore and four former crisis countries (Indonesia, Malaysia, Philippines and Thailand) on the one hand and of the Mekong countries (Cambodia, Lao PDR and Viet Nam) on the other.

The former group generally suffered more severely from exposure to the global economy. Malaysia, the Philippines, Thailand and Singapore depend heavily on trade and this dependency has been growing in recent years (figure 3.1). Singapore was the most affected of the countries in the region due to the sharp decrease in ICT demand. GDP growth turned negative, from 10.3 per cent in 2000 to -2 per cent in 2001. Malaysia's economy, also trade-dependent on ICT but to a lesser extent, saw a sharp decline in GDP growth as well (from over 8 per cent in 2000 to 0.4 per cent in 2001). Thailand, being somewhat less dependent on trade, slowed down from 4.6 per cent to 1.8 per cent (table 3.1). Although the Philippines and Indonesia also suffered from the decrease in global demand, they were able to cushion the negative effects of the global slowdown through stronger domestic demand.

The latter group managed to have growth levels above 5 per cent in 2001 despite the global crisis and they even saw some growth in merchandise exports (table 3.1). In Cambodia and Viet Nam, this was due to their improved access to markets in industrial economies, allowing them strong growth in clothing and textile exports and in the case of Viet Nam also fisheries' exports. Viet Nam saw some additional investment as a result of a bilateral trade agreement with the United States signed in 2000. Moreover, in Cambodia and Lao PDR the important agricultural sector performed well.

¹ Brunei Darussalam, Cambodia, East Timor, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam.

Figure 3.1
Trade as a percentage of GDP, selected countries in South-East Asia, 1990-2000



Source: World Bank (2002).

Table 3.1
Selected economic indicators, selected countries in South-East Asia, 2000-2002

	2000	2001*	2002 ^a
Change in real GDP (%) – South-East Asia	5.9	1.9	3.4
Cambodia	5.4	5.3	4.5
Indonesia	4.8	3.3	3.0
Lao PDR ^b	5.9	5.5	5.8
Malaysia	8.3	0.4	4.2
Philippines	4.0	3.4	4.0
Singapore	10.3	-2.0	3.7
Thailand	4.6	1.8	2.5
Viet Nam	6.1	5.8	6.2
Merchandise exports growth (%) – South-East Asia	19.6	-9.8	6.1
Cambodia ^c	53.2	7.7	7.6
Indonesia	27.6	-9.8	10.5
Lao PDR	8.3	8.1	8.5
Malaysia	17.0	-8.8	7.0
Philippines	9.0	-16.2	3.0
Singapore	20.4	-11.9	5.0
Thailand	19.6	-7.0	4.0
Viet Nam	25.2	6.5	8.5

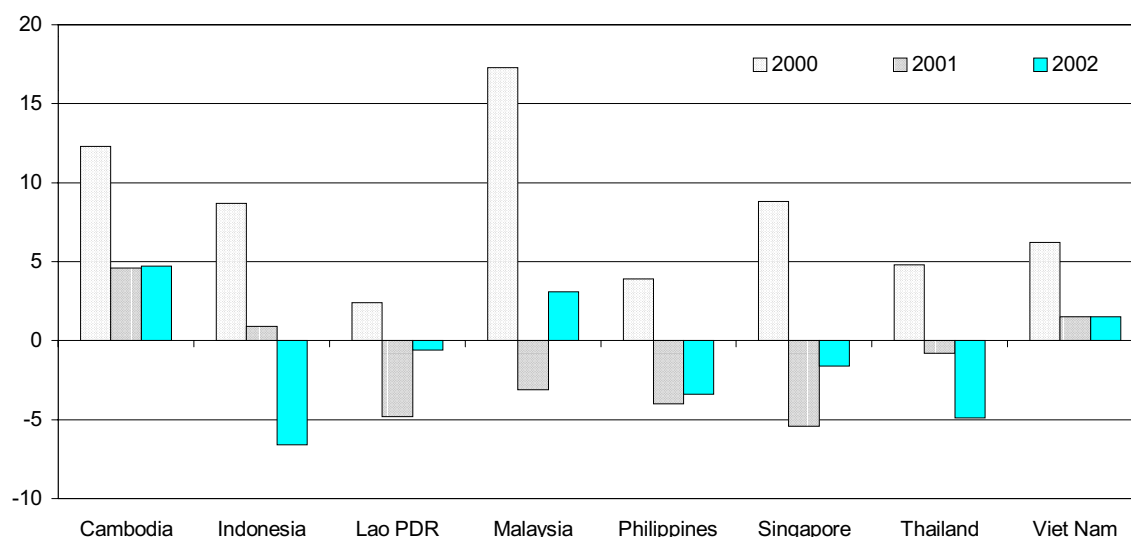
* Preliminary estimates; ^a projection; ^b constant factor cost; ^c refers to domestic exports.

Source: ADB (2002).

Tourism is playing a major role in the region and is one of the driving forces behind development in the service sector. Before the events of September 11, it was a rapidly growing sector with the potential to provide foreign exchange earnings, fiscal revenues, backward linkages to industry and most important of all employment opportunities. The September 2001 attacks in New York and the October 2002 Bali attack had an immediate and significant impact on tourism. The WTTC estimates

that they caused a swing in 2001 in the tourism contribution to GDP from projected rapid growth to a contraction of close to 2 per cent. An additional factor was the reduction in visits home by overseas workers. The WTTC projects that the industry will further contract in 2002 by close to 3 per cent (figure 3.2). The largest job losses, in absolute terms, will be borne by Thailand and the Philippines.

Figure 3.2
Real growth of value added in tourism, South-East Asia, 2000-2002



Source: WTTC (2002).

The employment situation deteriorated in 2001 as a result of the economic slowdown. Unemployment rates, which had not recovered from the 1997 financial crisis, rose in Indonesia, Malaysia and Thailand between 2000 and 2001. In the Philippines and Singapore, the unemployment rate remained high compared to its 1995 level (table 3.2). In Singapore, the 2001 economic downturn combined with a consolidation in the banking sector following the liberalization of financial markets led to an increase in unemployment from 2.9 per cent in December 2000 to above 5 per cent in December 2001. Demand for labour dropped markedly, with construction and manufacturing shedding 33,200 workers in 2001 and employment creation in services falling to 36,800 from 80,500 in the previous year (ADB, 2002). Unskilled workers are the most affected by these job losses. With the weaker than expected recovery of the global economy in 2002, unemployment is unlikely to decrease significantly in 2002. According to the Ministry of Manpower in Singapore, the unemployment rate will rise above 5 per cent in the second half of 2002.

The Philippines has the highest unemployment rate in the region at just below 10 per cent in 2001, followed by Indonesia at 8.1 per cent. This is partly the result of slow job creation combined with a large increase in new labour force entrants. In 2002, unemployment could be as high as 11.3 per cent of the labour force in the Philippines and 8.8 per cent in Indonesia. All the other countries in the region have rather low unemployment rates (between 2 and 5 per cent in 2000 and 2001), although in all cases the level has been increasing as a result of the 1997 financial crisis and has not yet returned to pre-crisis levels. Thailand is the only country that has experienced a downturn in employment growth after the 1997 crisis, reaching unemployment levels more than double those prior to the 1997 crisis (but still very low at 2.6 per cent).

Table 3.2
South-East Asia: Labour market indicators, 1990-2002 (%)

	Unemployment rate				Annual employment growth rate		Annual labour force growth rate		Annual GDP growth rate	
	1990	1995	2000	2001 ¹	1990-2000	1995-2000	1990-2000	1995-2002	1990-2000	1995-2001
Brunei	n.a.	n.a.	4.9 ^a	5.3.	6.9 ⁴	n.a.	2.9	2.6	2.2	2.9
Cambodia	n.a.	n.a.	2.6	n.a.	n.a.	n.a.	2.5	2.4	4.6	4.6
Indonesia	2.5	4.0 ²	6.1	8.1	1.8 ¹	2.2 ¹	2.5	2.3	4.8	2.4
Malaysia	5.1	2.8	3.0	3.6	3.2	3.7	2.6	2.5	7.2	5.0
Myanmar	2.8	2.4 ³	4.8 ⁶	n.a.	2.3 ¹	1.4 ¹	2.1	1.8	6.1	7.2
Philippines	8.1	8.4	10.1	9.8	2.1	1.6	2.8	2.6	2.8	3.8
Singapore	1.7	2.7	4.4	3.4	2.7 ⁵	2.6 ⁶	1.5	0.9	7.7	6.7
Thailand	2.2	1.1	2.4	2.6	0.4 ⁸	-0.3 ⁸	1.6.	1.3	5.2	1.9
Viet Nam	n.a.	n.a.	6.4 ^c	6.3 ^b	2.9 ³	3.4 ³	2.1	2.0	7.4	7.2
South-East Asia	3.6	4.1	6.0	7.1	1.9	1.9	2.3	2.1	5.5	4.0

n.a.= Data not available.

^a National source ; ^b World Bank 2001; ^c urban unemployment rate.

¹ 1998; ² 1996; ³ 1997; ⁴ 1995; ⁵ 1991-99; ⁶ 1999.

Source: ADB (2002); ILO (2002a); World Bank (2002).

Figures on unemployment may not reflect the true picture of the labour market. In some countries of South-East Asia, notably in Indonesia and the Philippines, underemployment remains a serious problem. It increased in 1998 (albeit in varying degrees) in all the countries affected by the 1997 crisis. Data for Indonesia and the Philippines indicate small declines in underemployment both during 1999-2000 and 1999-2001. But the level of underemployment remains high. In terms of the sectoral distribution of employment, the share of industrial employment in total employment declined in 2001 (Islam and Krishnamurty 2002).

Wages in the region experienced close to zero growth in 2001, especially for unskilled workers. In Phnom Penh, for example, wages declined in 2001. This was mainly due to the inability of the industrial and service sectors to absorb all new entrants into the urban labour markets. In Indonesia, real wages increased significantly in the growing manufacturing sector, but stagnated in agriculture where growth was less than 1 per cent in 2001. Administratively mandated rises in the minimum wage may have been important in manufacturing wage movements late in 2001. Real manufacturing wages in Indonesia appear to have risen enough to make up for the declines that occurred during the financial crisis. In Singapore, nominal wage growth dropped to 2.3 per cent in 2001, down from 8.9 per cent in 2000 (ADB, 2002).

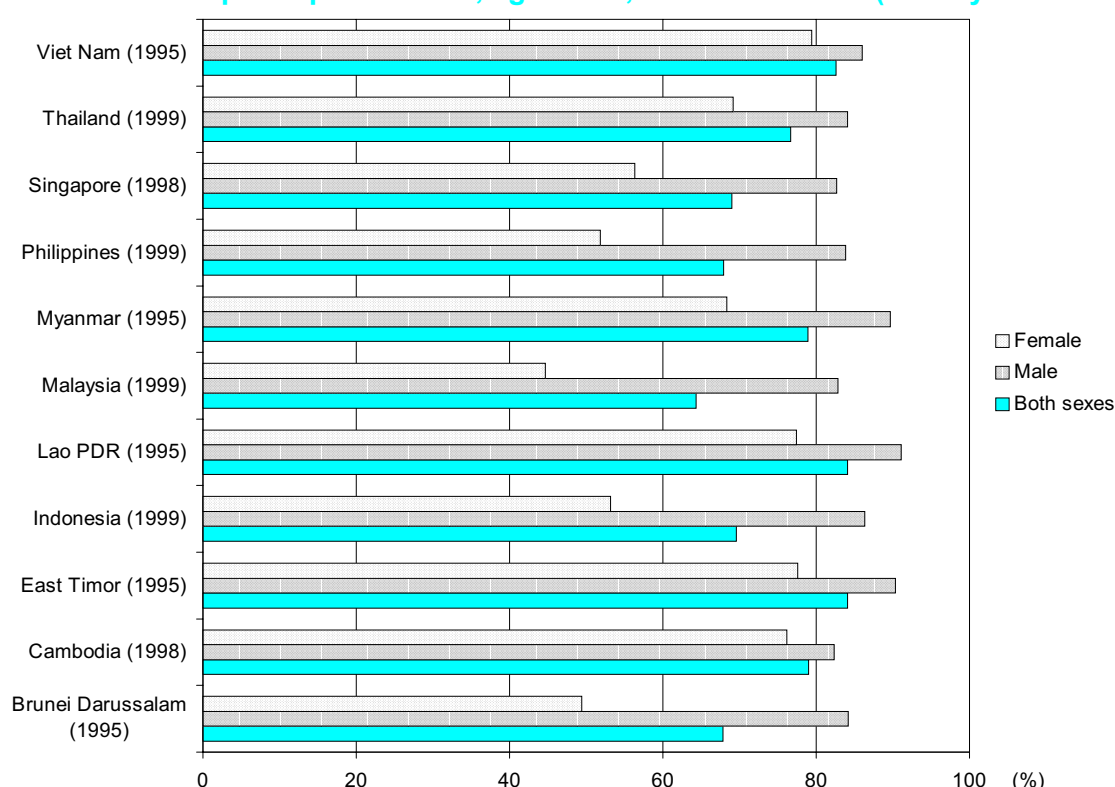
In countries suffering from low global demand in 2001, recent progress in **poverty reduction** was partially eroded. This is especially true for Indonesia, the Philippines and Thailand where poverty incidence is still higher than before the Asian crisis. In countries with a steady growth performance and expanding job creation mainly in the exports sector (Cambodia, Lao PDR and Viet Nam), poverty was further reduced in 2001.

Main characteristics of the South-East Asia's labour markets

All countries in the region saw sharp declines in population growth rates in the 1990s, mainly as a result of lower fertility rates. In Thailand and Singapore, fertility rates are currently below replacement level, thereby comparable to levels in industrialized countries. Lower population growth rates translated into lower labour force growth rates. Both slowed down in all the countries in the region during the second half of the 1990s. The urban population – and the urban labour force – is growing faster than the rural population, putting pressure on the urban labour market.

Labour force participation rates are high in South-East Asia. However, countries in the region vary widely in terms of both labour force participation rates and the gap between male and female participation rates (figure 3.3). The low participation rate in Malaysia is mainly the result of the wide gap between the participation rates of men and women: women's participation rate is 38.1 percentage points lower than men's. The gap is nearly as wide in Brunei, Indonesia and the Philippines, and remains above 20 percentage points in Singapore and Myanmar. The smallest gap is recorded in Cambodia, with a difference of only 6 percentage points. Cambodia has nevertheless seen an increase in the male–female gap since 1995, (the latest figures are from 1998 when the gap was only 2 percentage points). Between 1995 and 1999 the gap also grew in Thailand, Malaysia and Indonesia, most likely the delayed result of the 1997 Asian financial crisis, when female participation rates dropped more than male in almost all countries affected.

Figure 3.3
Labour force participation rates, age 15-64, South-East Asia (latest year available)



Source: ILO (2002a).

The **sectoral employment structure** also illustrates the wide disparities between countries in South-East Asia (table 3.4). Cambodia, East Timor, Lao PDR, Myanmar and Viet Nam rely heavily on the agricultural sector in terms of value added, but even more in terms of employment. In these countries, two-thirds or more of total employment is in agriculture. These five countries are nevertheless engaged in the transition to industry, with all of them recording high rates of growth of value added in industry in the 1990s (table 3.4). The garment industry, mainly export-oriented, leads this growth. The industrial sector is far more capital-intensive than the agricultural sector, with its employment share being less than 5 per cent in Cambodia and up to only 12.5 per cent in Viet Nam, while its value added share represents between 20 per cent of GDP in Cambodia and 37 per cent of GDP in Viet Nam (table 3.3). The services sector is employing more and more people and its share in GDP is growing, especially in Viet Nam (table 3.4).

Table 3.3
Sectoral distribution of employment and value added,
selected countries in South-East Asia, 2000

	Agriculture		Industry		Services	
	Employment (% of total)	Value added (% GDP)	Employment (% of total)	Value added (% GDP)	Employment (% of total)	Value added (% GDP)
Cambodia	75.0	37	4.5	20	20.5	42
Indonesia	45.0	17	16.3	47	38.8	36
Lao PDR	78.1	53	6.3	23	15.6	24
Malaysia	18.4	11	31.7	45	49.9	44
Myanmar	62.7	60	12.2	9	25.1	31
Philippines	37.5	16	16.1	31	46.4	53
Singapore	0.3	0	28.5	34	71.1	66
Thailand	48.5	10	18.4	40	33.1	49
Viet Nam	68.8	24	12.5	37	18.7	39

All data 2000 or latest year.
 Sources: World Bank (2002); ILO (2002a).

Indonesia, the Philippines, Thailand and to some extent Malaysia still have a high share of employment in agriculture. This employment is not very productive, as shown by its small contribution to GDP (table 3.3). However, all – except the Philippines – recorded negative agricultural employment growth in the 1990s, while output growth remained positive, albeit low (table 3.4). In the Philippines, agricultural employment hardly grew, but was accompanied by high value added growth. Productivity levels in agriculture have risen in these countries. The industrial sector has been growing strongly both in terms of employment and value added. However, while its share in total employment remains relatively low it nonetheless records high productivity levels, with its share in GDP ranging from 31 per cent in the Philippines to 47 per cent in Indonesia (table 3.4).

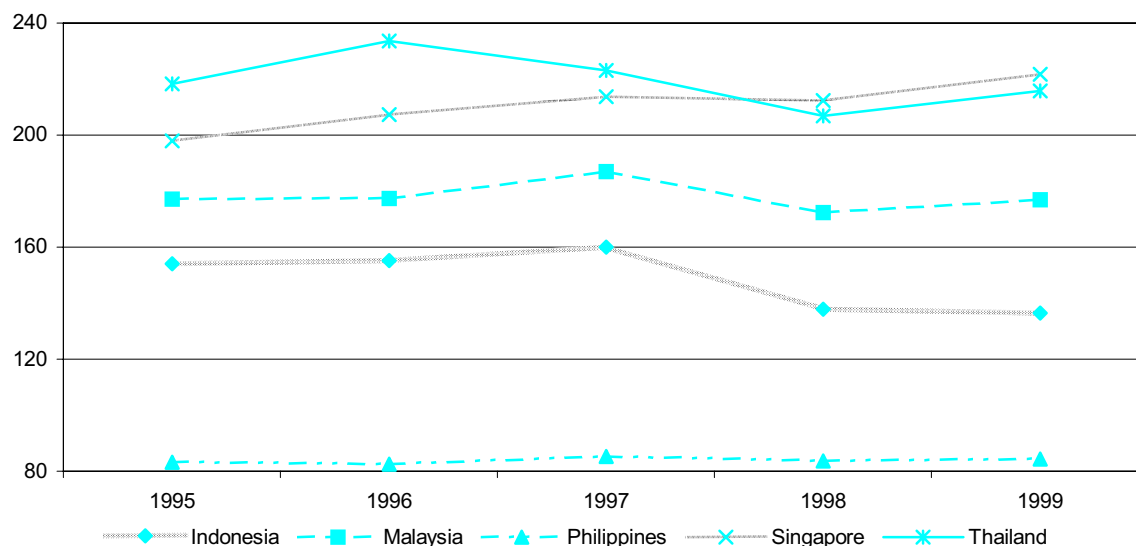
Table 3.4
Sectoral growth rates of employment and GDP and sectoral elasticities of employment
to GDP, selected countries in South-East Asia, 1990-2000 (%)

	Employment growth			GDP growth			Employment elasticity to GDP growth		
	Agriculture	Industry	Services	Agriculture	Industry	Services	Agriculture	Industry	Services
Indonesia	-0.91	3.94	4.92	2.10	5.20	4.00	-0.43	0.76	1.23
Malaysia	-0.75	4.67	3.90	0.30	8.60	7.20	-2.51	0.54	0.54
Myanmar	1.01	5.79	4.56	5.30	10.10	6.80	0.19	0.57	0.67
Philippines	0.21	2.72	3.68	5.80	5.40	4.10	0.04	0.50	0.90
Singapore	n.a.	0.01	3.90	n.a.	7.90	7.80	n.a.	0.00	0.50
Thailand	-2.63	3.44	4.99	2.10	5.30	3.70	-1.25	0.65	1.35
Viet Nam	1.59	3.59	8.65	4.80	12.10	7.70	0.33	0.30	1.12

n.a. = Data not available.
 Sources: World Bank (2002); ILO (2002a).

The employment intensity of the service sector is reflected in the high average employment elasticities in all countries where data are available. The service sector has seen very high and stable growth rates in employment, but even more so in value added all through the 1990s. Services dominate in Singapore, both in terms of employment and value added (tables 3.3 and 3.4).

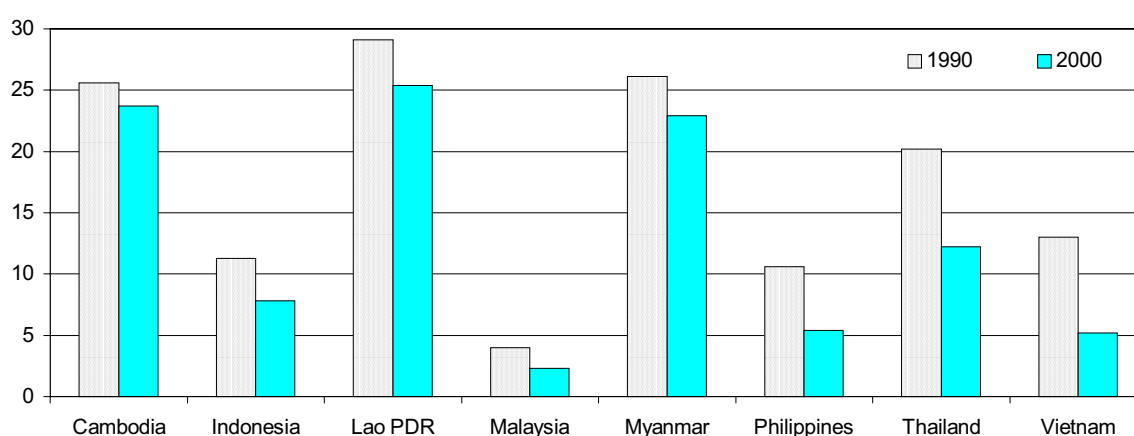
Figure 3.4
Labour productivity levels for selected countries in South-East Asia, 1995-99
(value added per person employed, 1980=100)



Source: ILO (2002a).

Wages have been growing with **productivity growth**. In Malaysia, Thailand and Singapore, labour productivity in the mid-1990s was far higher than in 1980 (figure 3.4). In Myanmar, the high level of growth in industry in the 1990s has not translated into higher wages, although employment growth was modest. In fact, real manufacturing wages fell. In Singapore and Thailand, wages followed productivity growth. In Singapore, female wages in manufacturing saw higher increases than those of males in the 1990s.

Figure 3.5
Labour force participation rate of children 10-14 (% of age group), South-East Asia

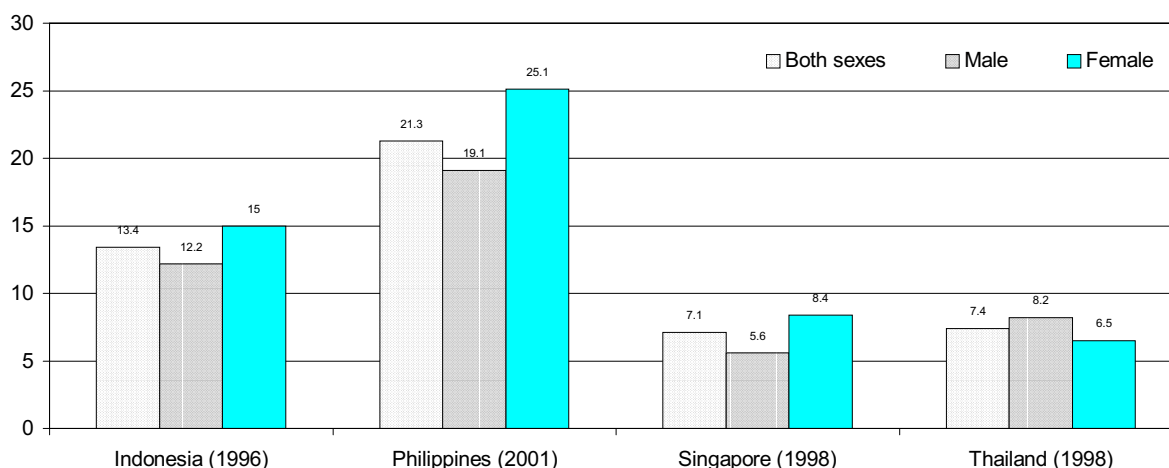


Source: ILO (2001).

Child labour remains a worrying problem in South-East Asia. Although the number of children working in the 10-14 age bracket decreased in the 1990s (figure 3.5), the child labour force is still above 20 per cent of the age group in Cambodia, Lao PDR and Myanmar. These figures do not mean that more than one-fifth of the children in this age group are working full time, but rather that they are

generally working intermittently. At any rate, this situation is likely to have an adverse effect on their education and the acquisition of valuable work skills. Youth employment (age 15-24) has been generally on the increase in recent years (figure 3.6).

Figure 3.6
Youth unemployment rate in selected countries in South-East Asia (%), latest year available



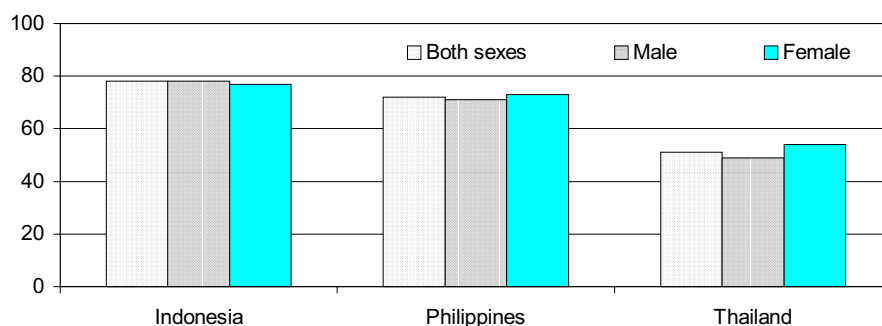
Sources: World Bank (2002); ILO (2002a).

Malaysia, Thailand and Singapore have a large **migrant** labour force. Malaysia has 900,000 registered foreign workers (box 3.1), Thailand has 890,000 registered migrants and in Singapore, 25 per cent of the workers are foreign nationals. High economic growth has created a demand for additional workers.

The informal **economy** accounts for one third of non-agricultural GDP in the Philippines and Indonesia and its employment share is much higher: 72 per cent in the Philippines and 78 per cent in Indonesia. The shares are equally distributed between men and women (figure 3.7).

Informal employment comprises both self-employment and wage employment. As in most countries in the world, outside of agriculture self-employment accounts for a bigger share than wage employment. Self-employment in the informal economy has a higher proportion of women than men. In addition, more women are self-employed than wage-employed (figure 3.8).

Figure 3.7
Informal employment in non-agricultural employment by sex, selected countries (%) in South-East Asia, 1994-2000



Source: ILO (2002b).

Box 3.1 Migrant labour in Malaysia

The Malaysian economy has for a long time depended on migrant workers, mostly undocumented or illegal and mainly from Indonesia and the Philippines. These workers performed jobs most Malaysians refuse to do. Trade unions estimate that 70 per cent of unskilled building workers, for example, are Indonesians.

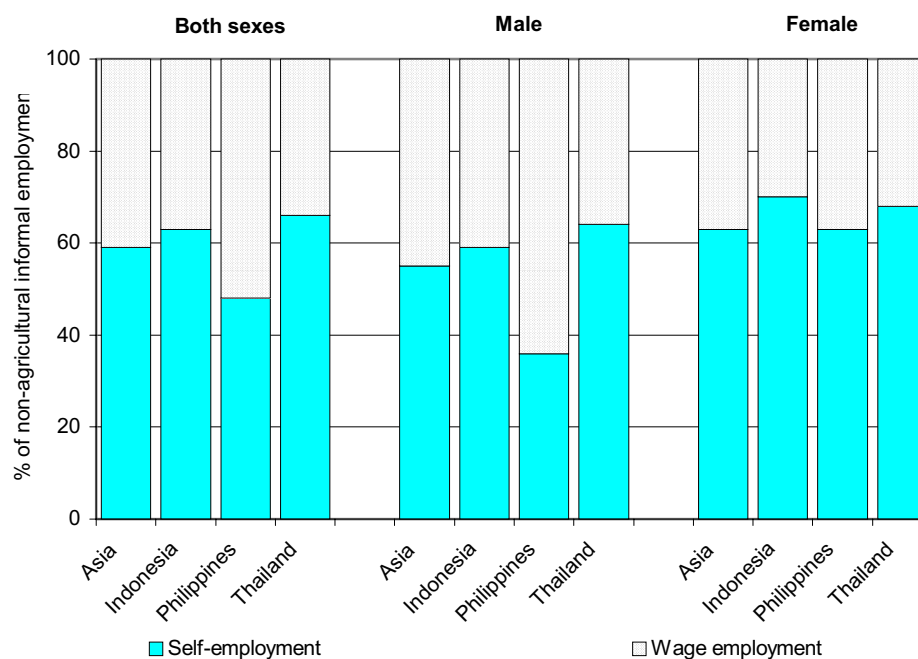
Recently, the Government's behaviour towards migrant workers has changed. This was expressed through a new immigration act adopted in April 2002, in accordance with which illegal immigrants are being handled with a severity previously unknown. The Government argues that this is to protect jobs for locals, and to promote more capital-intensive industries. It accuses the immigrants for the rising crime rate. After the law was adopted, 300,000 illegal immigrants left the country, half the estimated number employed in Malaysia.

The countries of origin complain about the masses of people returning; the camps provided for the returning immigrants are overcrowded and unsanitary. Human rights groups say that the whole campaign fails to deal with associated issues such as human trafficking by agents and employers, and the trade in fake documents. Local employers see a big danger for the economy.

While there are dramatic outflows from Malaysia, there is some evidence of greater inflows to Thailand. Where domestic labour is more organized and has a greater voice, firms may be attempting to use migrant labour with its lower reservation wage to reduce their labour costs and restore their competitiveness. This change in the pattern of demand for labour may have increased migration flows within the region and made them more volatile.

Source: *The Economist* (2002).

Figure 3.8
Wage and self-employment in non-agricultural informal employment by sex,
selected countries in South-East Asia, 1994/2000



Source: ILO (2002b).

Working poverty is a frequent feature of the large informal economy (and of agriculture). The working poor rate was somewhere between 11 and 15 per cent in 1998 for East and South-East Asia, excluding China (Berger and Harasty, 2002)². This is much lower than in South Asia or China. The number of working poor saw a tremendous decrease of around 4 per cent annually between 1990-1998 because of a combination of high GDP growth rates and modest labour force growth.

Among the four countries that suffered most heavily from the 1997 financial crisis, the Philippines and Malaysia have recovered their pre-crisis income levels, whereas Indonesia and Thailand still lag behind. The first two countries have reduced poverty, whereas it has increased in Indonesia and in Thailand. Poverty is particularly high in the transition countries of Cambodia, Lao PDR and Viet Nam, affecting between one-third and half of the population. Cambodia is still recovering from 20 years of war and international isolation. Although the country has recorded impressive growth rates, an estimated 36 per cent of the population lives below the poverty line. One of the biggest challenges in Cambodia is translating the high growth rates and solid economic conditions into employment growth and poverty reduction. Poverty is concentrated in rural areas because of slower agricultural growth, employment destruction in agriculture and a declining absorption capacity in the urban labour market. Moreover, agricultural productivity is less than half the average productivity level in the economy.

The region has not only seen progress in terms of income poverty reduction, but also in terms of education and health, leading to improved **human capital**. Literacy rates increased in all countries during the 1990s, for men as well as for women. Literacy rates for women are now above 90 per cent in the Philippines, Thailand and Viet Nam. The process of women catching up in terms of education slowed down in the crisis-affected countries during and shortly after 1997. In recent years, this process has been resumed and further progress made, especially in the Philippines and Malaysia. Progress in terms of gender equality is also noticeable in secondary education. In all countries where data are available, the ratio of girls to boys in primary and secondary education has increased. In all countries, expenditure on health and education has grown in recent years.

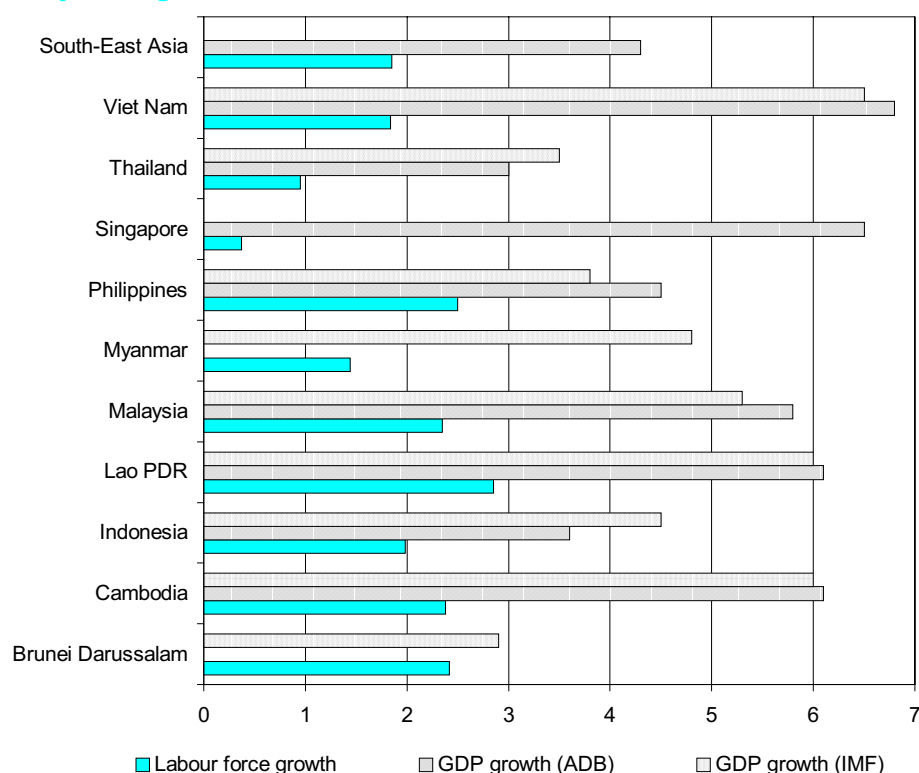
Employment outlook for the region

Economic growth prospects for 2002 are positive. Countries most affected by the downturn in 2001 are recovering well with GDP growth rates well above 3 per cent (table 3.1). Growth perspectives in the medium term may also be good, albeit not as bright as before the 1997 crisis. This is mainly due to developments in Indonesia, the Philippines and Thailand, as external demand, on which they are heavily dependent, will not recover quickly. Due to high levels of public debt, incomplete financial sector restructuring, investors' caution and weak political will to introduce reform, domestic demand in a number of countries will not be able to cushion weaker external demand. Moreover, the terrorist attack in Indonesia will further dampen the tourism industry. In contrast, Cambodia, Lao PDR and Viet Nam are expected to perform well in terms of economic growth.

Labour force growth will slow down to 1.9 per cent annually in 2000-2010 compared to 2.3 per cent annually in the 1990s. Until 2010, just over 5 million people will enter the region's labour market each year. This is nearly the same as in the 1990s when the region did well in terms of reducing the number of working poor. Indonesia, Myanmar, Viet Nam and Thailand should make rapid progress reducing working poverty as they have fewer people entering the labour markets in the next ten years than in the 1990s.

² In that publication estimates are not given for South-East Asia separately. As the countries of East Asia account for only a small share in the estimates (excluding China), the figures mainly reflect the situation in South-East Asia.

Figure 3.9
Projected growth of labour force and GDP, South-East Asia, 2003



Sources: ILO (2001); ADB (2002); IMF (2002).

In most countries of the region, GDP growth rates are expected to be much higher than labour force growth rate in 2003 (figure 3.9). The scenarios drawn up by Berger and Harasty (2002) estimate that the GDP growth needed to halve unemployment rates and working poverty rates by 2010 for the whole region would have to be around 3 per cent annually, a goal which seems reasonable in the long run. Prospects in terms of poverty reduction thus look bright in all countries in the region. Nevertheless the employment challenge for the South-East Asia is to address the problems of the large informal economy, in terms of wages, social protection and workers' rights. Unless this is addressed, significant improvements in the fight against poverty will not be achieved.

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CHAPTER 4 f o u r

SOUTH ASIA

In the past decade, South Asia¹ has been one of the fastest growing regions in the world. Yet this growth has been uneven across countries and its impact on productive employment generation and poverty reduction has been on balance disappointing. As a result the region still has the highest concentration of working poverty. South Asia also faces the daunting challenge of high labour force growth, at around 2.3 per cent, with 14 million people entering the labour force annually. While in most countries in the region open unemployment remains low, in others (such as Pakistan) it has increased significantly in recent years. The real challenge facing countries in South Asia is to increase the productivity, incomes and working conditions of the almost 40 per cent (223 million) of the labour force in working poverty, mainly in the informal economy. Discrimination – gender discrimination in particular – and child labour are other important labour market concerns in the region.

Latest economic developments and their impact on employment

During 2001 and 2002 South Asian economies have shown resilience in the face of the global slowdown and post 11 September developments. But the economic outlook remains clouded by security concerns, poor weather conditions, a slowing down in exports, especially in the ICT sector, and declining tourism. On balance the employment situation has deteriorated, with a negative impact on the poverty situation and a rise in working poverty.

During the second half of the 1990s, GDP growth in South Asia averaged 5.5 per cent per annum. In 2001, it slowed down to 4.8 per cent (table 4.1). The region was expected to see its GDP growth rate recover in 2002 to 5.4 per cent, but with continuing poor weather conditions, stagnant exports and security concerns, overall growth is significantly lower.

The region remains very dependent on **agriculture** as value added in agriculture contributes 25 per cent of the region's GDP and employs half to two-thirds of the labour force. A drought-related contraction of agriculture in Pakistan in the fiscal year ending mid-2001 and slower growth in Bangladesh and Nepal after bumper crops in the previous year explain their weak economic performance. Fears of a drought in India – where the annual monsoon is crucial for the farm sector, which contributes to a quarter of GDP and employs close to 70 per cent of the country's labour force – have led to a downward revision of the GDP growth rate for 2002 from 4.5 to 3.1 per cent.

Changes in **external demand** also explain the economic slowdown. The region experienced a severe drop in merchandise exports in 2001. India in particular saw a drop in demand for its computer and ICT-related services. Exports of textile and garments remained robust in 2001, benefiting in part

¹ Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka.

from strong consumption growth in the United States, but weakened in the first half of 2002. Bangladesh reported sharply lower garment exports as early as mid-2001. The Bangladeshi garment industry absorbed a large proportion of new entrants into the labour market in the 1990s, especially women. But between July and September 2001 alone, about 1,200 garment factories closed and an estimated 350,000 workers in the garment industry lost their jobs (ADB, 2002a).

Falling revenues from **tourism** is another factor explaining the weaker economic performance in 2001 and 2002. International tourist arrivals in the region are estimated to have fallen by over 6 per cent in 2001. The economy of Maldives in particular, where tourism accounts for more than one-third of GDP, came under pressure after 11 September. GDP growth fell from 4.6 per cent in 2000 to 2.1 per cent in 2001. The downturn in the tourism sector had spill-over effects on the rest of the Maldivian economy, with GDP growth in 2002 stagnating at around 2 per cent (ADB, 2002a). In 2000, over 27,000 expatriates worked in the Maldives, more than 75 per cent of them in sectors such as tourism and construction – the sectors most hit by the events of 11 September (ADB, 2001). Fewer workers from neighbouring countries found jobs in the Maldives in 2001.

Table 4.1
Labour market indicators for selected countries in South Asia, 1990-2002

	Unemployment rate (%)			Annual employment growth rate (%)		Annual labour force growth rate (%)		Annual GDP growth rate (%)		
	1990	1995	Latest year	1990-2000	1995-latest year	1990-2000	1995-2002	1990-2000	1995-2000	2001
Afghanistan	n.a.	n.a.	n.a.	n.a.	n.a.	4.3	2.4	n.a.	n.a.	n.a.
Bangladesh	1.9	2.5 ¹	3.7 ^{3a}	1.4 ¹	1.6 ^{3a}	2.9	2.6	4.57	5.08	6.0
Bhutan	n.a.	n.a.	1.4 ^{2c}	n.a.	n.a.	1.9	2.6	6.05	6.87	6.5
India	3.5 ^{6b}	2.3 ^{7b}	2.7 ^{8b}	2.4 ^{5b}	1.0 ^{4d}	2.1	2.0	5.45	6.55	5.4
Maldives	0.9 ^a	0.8 ^a	2.0 ^{9a}	3.9 ^{9a}	4.2 ^{9a}	3.2	3.4	6.45	6.65	2.1
Nepal	n.a.	n.a.	1.1 ²	3.1 ²	5.9 ²	2.6	2.6	4.69	4.45	4.9
Pakistan	3.1	5.4	7.8 ³	2.1	3.2 ³	3.2	3.4	3.86	3.80	3.3
Sri Lanka	15.9 ^a	12.3 ^a	7.8 ^{9a}	2.2 ^a	2.4 ^{9a}	1.9	1.8	5.00	4.94 ²	-1.5
South Asia	3.6	2.9	3.4	2.3	1.4	2.3	2.2	5.16	5.48	3.8

n.a. = Data not available.

¹1996; ²1999; ³2000; ⁴1993/1994–1999/2000; ⁵1987/1988–1999/2000; ⁶1987/1988; ⁷1993/1994; ⁸1999/2000; ⁹2001.

^aADB (2002b).

^bOwn estimates based on NSSO data.

^cADB (2001).

^dChadha & Sahu (2002), table 11.

Sources: ILO (2002); ILO (2001); own estimates for regional employment and unemployment aggregates based on method developed by Berger and Harasty (2002).

The **unemployment** rate for the region increased from 2.9 per cent of the labour force in 1995 to 3.4 per cent in 2001 and given the continuing economic slowdown would have edged up higher by the end of 2002 (table 4.1). But the adverse consequences of this unfavourable employment situation are likely to have resulted in more low paid jobs and poor working conditions in the **informal economy** rather than in a sharp increase in unemployment rates. In Pakistan, for example, two-thirds of those employed in the non-agricultural sector are in the informal economy. In India, over 91 per cent of total employment is generated in the informal economy (table 4.2). Informal micro, small and medium manufacturing enterprises in India account for nearly 80 per cent of manufacturing employment, and this sector's employment elasticity is almost three times that of the organized sector (Maitra, 2002). While the potential for micro, small and medium enterprises to generate employment is thus high, its capacity to generate decent work conditions is still very weak. In Nepal, about 1.7 million people are

currently employed in the informal economy and account for about 73 per cent of all employment outside of agriculture. Of those working in the informal economy, 63 per cent are men. Nine out of ten non-agricultural women workers are in informal employment, against two out of three for men (Papola et al., 2002).

Table 4.2
Informal employment and working poverty in South Asia, 1990s

	Informal employment				Working poor		
	Absolute number ('000)		Share of the labour force		Absolute number ('000)		Growth rate of absolute number
	1990	Latest year	1990	Latest year	1997	1997	1986-1997
Bangladesh	198 ^{1a}	11 873 ²	10.0 ^a	17.0 ²	18 348	30.0	7.8
Bhutan	n.a.	n.a.	n.a.	n.a.	73	20.7	-3.4
India	n.a.	n.a.	90.1 ^{3b}	91.1 ^{4b}	187163	45.4	-2.5
Maldives	n.a.	n.a.	n.a.	n.a.	10	10.4	-6.1
Nepal	n.a.	1 657 ^c	n.a.	90.8 ^{5c}	3 871	38.9	0.9
Pakistan	5 820 ^{6d}	n.a.	67.1 ^d	n.a.	14 734	32.6	2.8
Sri Lanka	240 ^{7e}	n.a.	n.a.	n.a.	527	7.3	-14.5
South Asia	n.a.	n.a.	n.a.	n.a.	223 122⁴	35.9⁴	-1.7

n.a. = Data not available.

¹1993; ²2001; ³1987/1988; ⁴1993/1994; ⁵1998/99; ⁶1992; ⁷1985; ⁸1998.

^aData refer to manufacturing, trade, hotels and restaurants and selected services and are limited to urban areas.

^bSundaram & Tendulkar (1995); includes agriculture and allied activities.

^cSource: Labour Nepal; includes non-market agriculture.

^dData are limited to the urban areas of Punjab and North West Frontier provinces and exclude agriculture.

^eData are limited to urban areas and exclude electricity, gas and water.

Sources: ILO (2002); Majid (2001).

The economic deceleration in 2001, and weak recovery in 2002, has most probably led to an increase in **working poverty** in the region by pushing up informal employment. The region has the highest incidence of working poverty in the world, with over 223 million workers belonging to poor households. As shown in table 4.2, India has the region's highest share of working poor in the labour force at over 45 per cent, putting the number of people working and belonging to poor households at over 187 million. In Nepal, it is estimated that about 3.9 million are working poor (39 per cent of the labour force). In , the share of working poor in the labour force rose by 2.8 per cent annually between 1987 and 1997. The number of working poor is estimated to be close to 15 million (37 per cent of the employed). In Sri Lanka, about 530,000 are working poor, which represents 7.3 per cent of the labour force.

Labour market developments at the country level

Economic growth has been strong in **India** for the past decade. GDP growth in 2001 is estimated at 5.4 per cent, stronger than the 4 per cent in 2000, but below the 6.6 per cent average of the previous 5 years. Due to poor monsoons, it is expected to slowdown to 3 per cent in 2002. In spite of steady and robust growth since 1995, productive employment generation has not been forthcoming. Between 1993-94 and 1999-2000, India's GDP grew at 6.6 per cent annually, but the employment growth rate was only 1 per cent (table 4.1). In the previous decade – 1983 to 1993 – India's GDP growth averaged 5.4 per cent, yet the employment growth rate was 2.1 per cent – twice the employment growth rate of the “booming” 1993-94 to 1999-2000 period. The employment intensity of production – measured by the employment elasticity to GDP growth – declined from 0.36 in 1993-94 to 0.13 in 1999-2000 (table 4.3). One reason for this lack lustre employment growth is slower growth in industry and retrenchments in the public sector. Together they have resulted in a deterioration of urban labour

market conditions. The output elasticity of manufacturing employment has declined from 0.32 in 1983-94 to 0.2 in 1994-2000 (table 3). Insufficient investment in both public and private physical infrastructure remains a major constraint to the expansion of industrial activities.

Table 4.3
Investment, growth and employment by sector, India, 1983 to 1999-2000

	GDP		Employment		Labour productivity		Elasticity of employment relative to GDP	
	1983-1993/94	1993/94-1999/00	1983-1993/94	1993/94-1999/00	1983-1993/94	1993/94-1999/00	1983-1993/94	1993/94-1999/00
Agriculture and allied activities	3.08	3.14	1.39	0.05	1.38	3.04	0.48	0.01
Mining and quarrying	7.28	4.61	3.95	-2.78	1.97	7.68	0.61	-0.49
Manufacturing	6.13	7.40	2.17	1.80	3.60	5.88	0.32	0.20
Utilities	8.97	6.76	4.56	-4.77	3.45	12.18	0.48	-0.52
Construction	5.52	6.26	5.60	6.36	-0.96	-0.01	1.27	1.00
Trade	5.55	9.06	3.84	3.99	1.49	5.00	0.67	0.38
Transport, storage and communication	5.94	8.62	3.53	5.31	2.30	3.24	0.55	0.56
Finance, insurance and real estate	10.14	9.47	5.71	6.07	3.87	2.25	0.49	0.68
Community, social and personal services	5.86	8.61	3.69	0.21	1.74	8.19	0.63	0.02
All sectors	5.37	6.64	2.06	1.02	2.95	5.60	0.36	0.13

Note: GDP figures are at 1993/94 prices.

Source: Chadha and Sahu (2002).

In contrast to sluggish growth of employment in large-scale manufacturing, the ICT sector has shown remarkable growth in output, exports and employment. The ICT sector is expected to provide jobs to 1 million persons by 2008.² While this is not insignificant, its part in solving the overall problem is small.

India's formal economy – larger business and production facilities – accounts for only 8.3 per cent of total employment, of which one-third only are private sector undertakings (Maitra, 2002). Even though employment growth in the formal private sector averaged 1.3 per cent a year in the 1990s – compared with 0.2 per cent in the public sector – its ability to generate employment for the 9.3 million people who enter the labour force every year is likely to be minimal.

In 2000, agriculture still employed two-thirds of the workforce and the sector contributed to a quarter of GDP (table 4.5). As shown in table 4.3, the responsiveness of agricultural employment growth to agricultural GDP growth was low over the second half of the 1990s. The significant increase in the rate of growth of productivity, from 1.4 per cent to 3 per cent, explains why agriculture was not a source of job creation in the 1990s (table 4.3).

It is important to point out that following the economic reforms implemented in the 1990s, greater foreign and domestic competition, steady economic growth and favourable weather conditions have on balance led to a decline in poverty levels. Though the extent of this decline is disputed (due to differences in methodology in data collection), it is generally acknowledged that poverty levels fell between 1993-94 and 1999-2000 even though the official estimates of a nearly 10 percentage point decline probably have to be scaled down by 2 to 3 percentage points (Sundaram and Tendulkar, 2002). How does one reconcile this decline in poverty with the very low capacity of the Indian economy to create productive and remunerative new jobs in the 1990s? The answer to this lies mostly in the reduction of underemployment or working poverty in this period. This was especially true of the

² Address by Shri K.C. Pant, Deputy Chairman, Planning Commission at Tripartite Workshop on "Employment Dynamics in the Information Economy", organized by the ILO on 7-8 May, 2002, New Delhi.

agricultural sector where the real wages of the casual labour force increased and working poverty declined significantly (Sundaram and Tendulkar, 2002).

Economic growth in **Pakistan** slowed in 2001 due to a severe drought, after a significant improvement in 2000 compared to the 1990s. In 2002 the growth rate is expected to pick up slightly to 4.3 per cent. Security concerns continue to contribute to a dull investment climate. Employment growth, in these circumstances, has not been able to keep up with the high labour force growth rate estimated at around 3 per cent, and unemployment and poverty are on the rise. The unemployment rate was 7.8 per cent in 2001 – 6.1 per cent for men and 17.3 per cent for women – up from 5.9 per cent in 1999, and has probably increased marginally in 2002 given the continuing low economic growth rate (table 4.1). Unemployment is higher in urban than rural areas. In urban areas, the male unemployment rate was 7.7 per cent in 2001 and for females the rate was very high at 31.7 per cent. Almost 60 per cent are illiterate. This suggests that both lack of demand and lack of skills are contributing to the rising unemployment situation. The labour market has to face the challenge of absorbing 2.3 million people every year. In the 1990s the service sector had the highest absorption capacity (table 4.4). The slowing down of the economy and its lower labour absorption capacity has led to a significant historical reversal of the normal changing structure of employment: employment in agriculture increased from 42.7 per cent in 1997-98 to 48.4 per cent in 2002, reflecting both increased underemployment in this sector and lack of demand for labour outside the agricultural sector.

Table 4.4
Sectoral growth rates of employment and GDP and sectoral elasticities of employment to GDP, South Asia, 1990-2000 (%)

	Employment growth			GDP growth			Employment elasticity to GDP growth		
	Agriculture	Industry	Services	Agriculture	Industry	Services	Agriculture	Industry	Services
Bangladesh	0.6	-3.6	8.7	2.9	7.3	4.5	0.21	-0.50	1.94
Bhutan	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
India	0.05 ^a	1.9	6.1	3.1 ^a	6.4	8.0	0.02 ^a	0.29	0.76
Maldives	1.0	4.9	4.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nepal	-0.5	17.9	9.2	2.5	7.2	6.2	-0.19	2.48	1.49
Pakistan	1.6	0.8	4.8	4.4	3.9	4.4	0.36	0.22	1.08
Sri Lanka	-1.8	1.1	1.3	1.9	7.0	6.0	-0.94	0.16	0.22

n.a. = Data not available.

^a Chadha and Sahu (2002).

Sources: World Bank (2002); ILO (2002).

In **Bangladesh**, unemployment increased between 1996 and 2000 from 2.5 to 3.7 per cent. It was probably a little higher in 2001 and 2002 due to the loss of employment in the sectors immediately affected by the global slowdown. Agricultural employment hardly grew in the past decade, but the sector still employs two-thirds of the labour force. Formal employment in the industrial sector decreased significantly during 1990-2000 (table 4.4). The only source of employment for the millions of new entrants in the labour market is thus self-employment or casual employment in the low-productive segments of the informal economy, mainly in services.

After a serious setback in 2001, the economy of **Sri Lanka** picked up slightly at the beginning of 2002. Indicators suggest a rising level of unemployment from 7.6 to 7.8 per cent. (table 4.1). The unemployment rate is highest among youth and shows a sharp decline after the age of 24 for men and 29 for women. In the 1990s employment in agriculture fell substantially and by 2000 the share of employment in industry was as high as 23 per cent. Over the 1990s unemployment levels fell substantially as employment growth exceeded labour force growth. The economy's outward

orientation has helped growth and in addition the Government has pursued a very active fiscal policy in order to finance its security expenditures.

Table 4.5
Sectoral distribution of employment and value added, South Asia, 2000^a

	Agriculture		Industry		Services	
	Employment (% of total)	Value added (% GDP)	Employment (% of total)	Value added [†] (% GDP)	Employment (% of total)	Value added (% GDP)
Afghanistan	70	n.a.	11	n.a.	19	n.a.
Bangladesh	63	15	10	37	25	47
Bhutan	94	n.a.	1	n.a.	5	n.a.
India	67	25	13	27	20	48
Maldives	22	n.a.	24	n.a.	50	n.a.
Nepal	79	40	6	22	21	37
Pakistan	47	7	17	17	36	76
Sri Lanka	42	20	23	27	33	53
South Asia	n.a.	25	n.a.	26	n.a.	49

n.a. = Data not available.

^a Or latest year.

Sources: World Bank (2002); ILO (2002).

Overall economic performance remained generally favourable in 2001 in **Nepal**, but was adversely affected by security problems in 2002. The slowdown of GDP growth to 5 per cent in 2001 from 6.1 per cent in 2000 is mainly due to agriculture's slightly weaker performance after an exceptional year in 2000. The economy is still predominantly agricultural, with 80 per cent of the labour force engaged in agriculture and value added in the sector accounting for 40 per cent of GDP (table 4.5). Labour market conditions in urban areas – characterized in 2000 by a 47 per cent underemployment rate and a 7 per cent urban unemployment rate – likely deteriorated in 2001 given the high pace of urban expansion and the rapid enlargement of the labour force. The total unemployment rate remains very low (table 4.1). In urban areas it is higher among females (6.3 per cent) than males (4.0 per cent) (Papola et al., 2002). Between 1991 and 1999, there has been a gradual change in the structure of the workforce across sectors: the share of agriculture in total employment and in GDP declined and the manufacturing sector recorded the highest growth in the share of employment. Construction has been the single most important source of off-farm employment for unskilled and semi-skilled labour, because of fast urbanization as well as construction of physical infrastructure in the country (Papola et al., 2002).

Vigorous economic activity characterizes **Bhutan**'s economy, which grew at over 6 per cent per annum in the 1990s (table 4.1). The main force behind economic growth is the construction of hydropower plants to serve the Indian market. Accordingly, the industry sector grew by 8 per cent in 2001 (ADB, 2002a). Given that an estimated 85 per cent of the population live in rural areas, agriculture remains by far the largest source of employment, engaging around 75 per cent of the labour force – 94 per cent of total employment (table 4.5). Traditionally the slowest sector, agriculture grew at almost 5 per cent in 2001 (ADB, 2002a). Public administration and defence – the second largest source of employment – accounted for only 4.7 per cent of the labour force in 1999, while the private sector employed 2.9 per cent of the labour force (ADB, 2001). The unemployment rate was estimated at 1.4 per cent in 1999 (table 4.1). It was higher in urban than in rural areas and among the young: 15-34 year olds accounted for 69.1 per cent of the unemployed (ADB, 2001). The biggest challenge Bhutan faces is thus youth employment.

Box 4.1

Afghanistan: Employment gap – about 2 million open unemployed

The employment situation in Afghanistan is extremely grim. Of the total estimated labour force of around 8 million³ (of which about one-third are women), at the end of 2001 open unemployment could be as high as 2 million, based on information from secondary sources. The unemployment rate estimate is based on a conservative estimate of 30 per cent unemployment rate in urban areas (which accounts for 25 per cent of the labour force, i.e. 2 million) and 20 per cent unemployment rate in rural areas (which account for 75 per cent of the labour force, i.e. 6 million). With a planned return migration of 1 million refugees from neighbouring countries in 2002 this figure would increase by another 225,000. Female unemployment rates in urban areas are especially high given their desire to re-enter the labour market after the fall of the Taliban regime.

The proposed programmes formulated under the preliminary needs assessment exercise (jointly undertaken by ADB/UNDP/World Bank) would go some way in bridging the employment gap. But a cursory analysis of the proposed programmes shows that they would at best result in an additional 500,000 to 600,000 new jobs being generated if the total recovery package of USD 1 billion could be spent in 2002, which now appears most unlikely.

Given that the creation of productive and remunerative employment creation to close the employment gap must form the backbone of the recovery programme, a number of measures need to be taken. These should include:

- First and foremost the employment-intensity of the recovery programme needs to be deepened and the resources allocated for direct employment creation need to be increased.
- With the vast majority of the labour force engaged in agriculture, the revival of this sector for increasing incomes and creating both direct and indirect employment opportunities should be given the highest priority.
- The revival of small-scale trade, services, manufacturing (workshops) is imperative as this will be the major employment-generating sector in the urban economy.
- The recovery and reconstruction programmes need to be simultaneously supported by the development of an overall economic policy and institutional framework and plans for sustainable and decent employment creation in the economy which would have to be provided by the revival and expansion of the private sector.

The country needs to absorb the 31,000 younger people entering the labour market every year. Recent substantial improvements in access to education have indeed led to greater numbers of educated youth entering the labour market. A skills mismatch on the labour market leaves them unemployed. The country employs thousands of Indian expatriates to do blue-collar, building and road construction work, or domestic help, which the young Bhutanese do not want to take up. There is no clear data on the exact number of Indian migrant workers in Bhutan, but it is thought to be somewhere between 20,000 and 30,000. The creation of new job opportunities for the young educated Bhutanese is therefore urgent, but the small size and recent creation of the private sector is an obstacle.

The government in the **Maldives** faces a similar new challenge of youth employment and one made more difficult to meet by the recent economic slowdown. The unemployment rate in the Maldives, at 2 per cent, remains low, but has more than doubled in the past years (table 4.1). There is a growing mismatch between the local supply and demand of skills: a growing number of highly

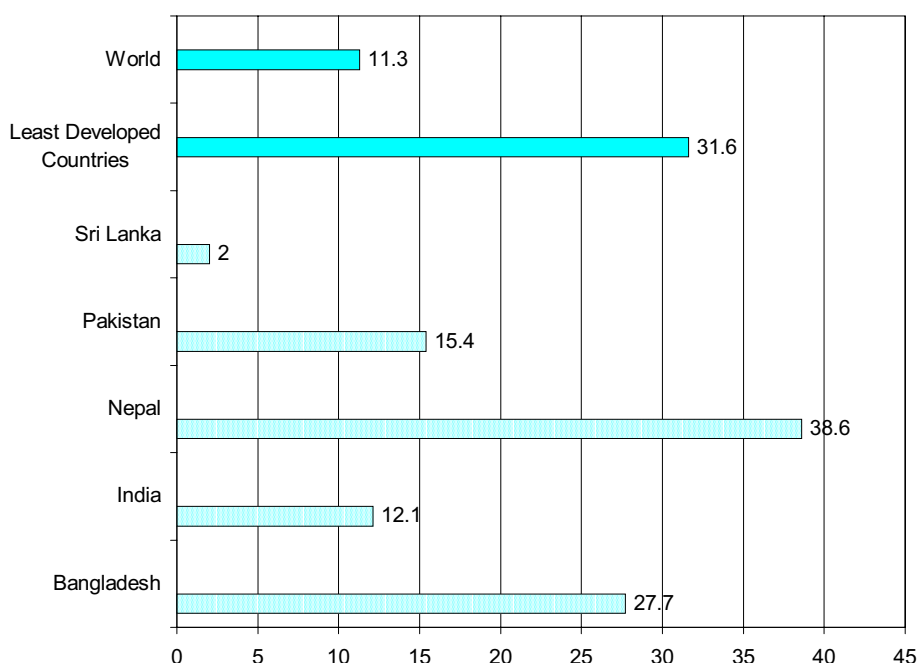
³ This estimate is based on UN Population Division 2000 projections and ILO labour force participation rates adjusted for the decline in female participation rates in recent years.

educated students are entering the labour market, but job opportunities require unskilled and semi-skilled workers.

Main characteristics of the South Asian's labour markets

Labour force growth remains relatively high in the region, well above employment growth for many countries (table 4.1). The region therefore faces a challenge to absorb massive numbers of new entrants into the labour market every year. Labour force growth in Sri Lanka is the lowest in the region at 1.8 per cent annually, with 143,000 people entering the labour market every year. Labour force growth in India is the second lowest in the region. Despite a slowing down in recent years, labour force growth in Bangladesh is still double the employment growth rate. Employment growth between 1995 and 2000 was insufficient to cater for the 1.6 million people entering the labour force every year. In Nepal, the labour force is growing at 2.6 per cent annually, bringing 330,000 new people into the labour market every year. Of these, about 5 per cent do not find jobs. In Pakistan, the labour force is still growing fast at 3.4 per cent per annum and the slowdown in economic growth has been reflected in a rise in open unemployment and almost a doubling of working poverty.

Figure 4.1
Labour force participation rate of children (age 10-14), South Asia, 2000 (%)



Source: ILO data (www.labournepal.org)

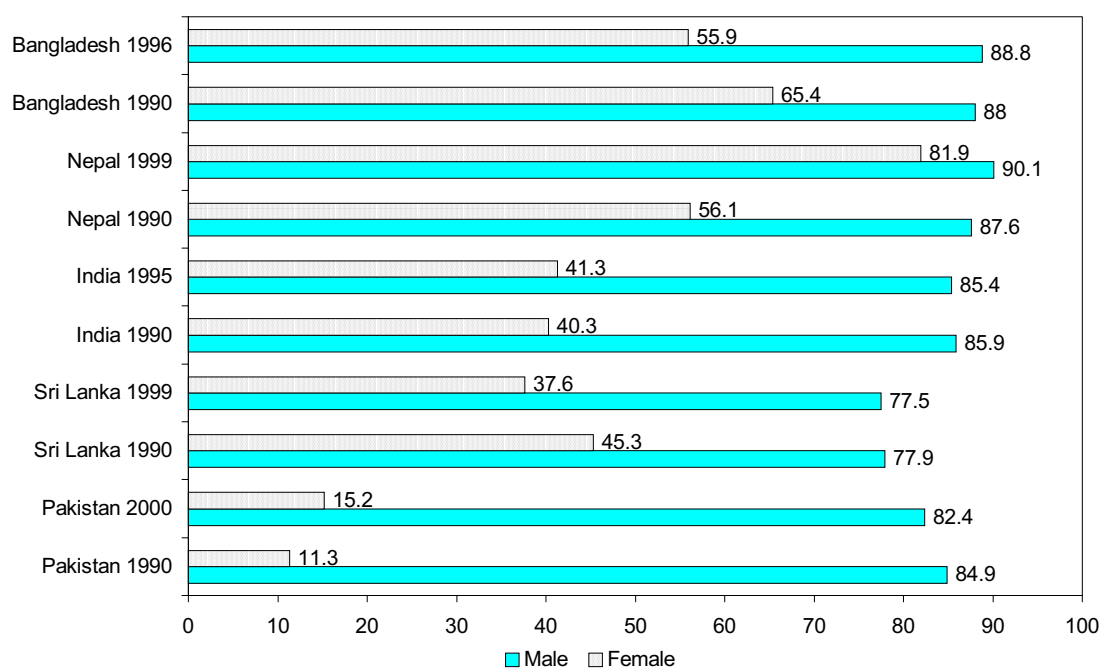
The **labour force participation rate of children** aged 10 to 14 in the region continues to be very high (figure 4.1). In Nepal, 41 per cent for the age group 5-14 does some work (36.8 per cent for boys and 45.1 per cent for girls). Among the 2 million children employed, almost 90 per cent are in subsistence agriculture, most of them as unpaid family workers, but there are also paid cattle herders. Only 3 per cent of children are estimated to be in wage jobs, fully employed and deprived of schooling, but this is probably an underestimate and the number might be as high as 25 per cent. In 1999 in Sri Lanka, 21 per cent of the children in the age group 5-17 were engaged in some form of economic activity. A majority (62 per cent) are boys and 77 per cent of all working children are

unpaid family workers assisting in their family enterprise, either on a full-time or part-time basis, mostly in the agricultural sector (Sri Lanka, 1999).

Bangladesh is home to 6.6 million working children, accounting for more than 5 per cent of the world's working child population of 120 million. In Bangladesh, one out of five children works; 40 per cent are girls. Children are found working in nearly all sectors of the economy.⁴ Many of them work on average 48 hours a week and earn less than 500 Taka per month (about 9 euros). A large number of children work in dangerous occupations and hazardous industries. They are often submitted to poor working conditions making them susceptible to infectious diseases, injuries and other workplace-related ailments. Children in certain occupations experience particular types of abuse: child domestic workers are often found to be victims of verbal and sexual abuse, beating or punishment by starvation; children engaged in scavenging, rag-picking, prostitution or marginal economic activities in the streets, are exposed to drugs, violence, criminal activities, physical and sexual abuse.

Women's labour force participation increased during the 1990s, but it remains low compared to men (figure 4.2). Nepal has by far the highest female labour force participation rate in the region, and it apparently rose in the 1990s. The rate in Pakistan is by far the lowest.

Figure 4.2
Labour force participation rates by gender, selected countries in South Asia, 1990 and latest year



Source: ILO (2002).

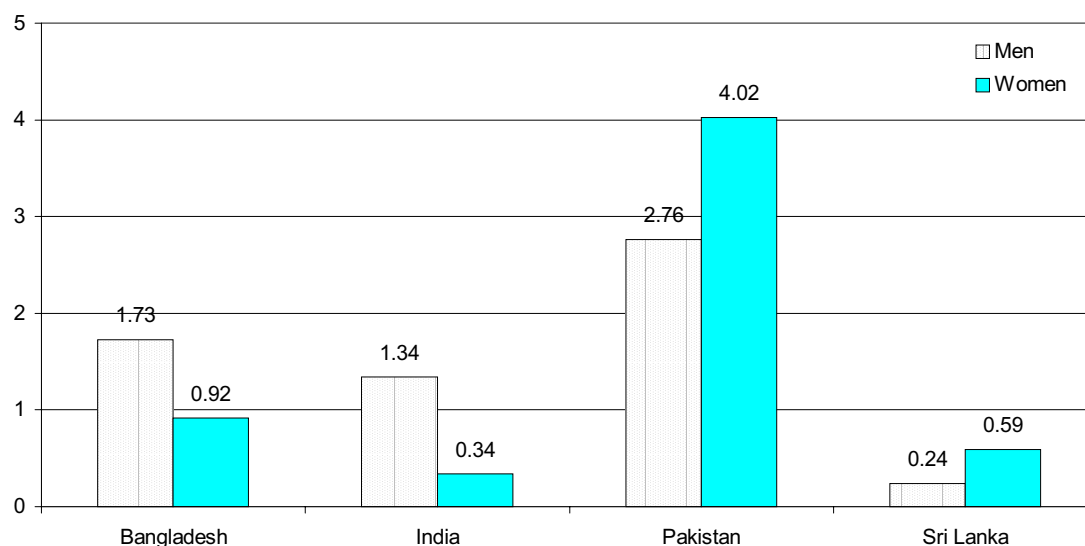
The composition of output has often been favourable to **women's employment**, which grew faster than men's in some countries of the region (figure 4.3). But the predominance of women as unpaid family labour and the generally lower wages commanded by women workers continue to dominate gender comparisons. Even though **Sri Lanka** fares better than the other countries in the region in terms of gender equality, women's earnings are only 81 per cent of those of men's and this share fell

⁴ Agriculture accounted for 65.4 per cent of the child workers, followed by services (10.3 per cent), manufacturing (8.2 per cent) and transport and communication (1.8 per cent). Other activities, including domestic work, accounted for 14.3 per cent of working children (Hussein, 1999).

in the last years of the 1990s (figure 4.4). Women in **India** earn only about 50 per cent of men wages, but are slowly catching up (Sundaram et al., 2002).

Figure 4.3

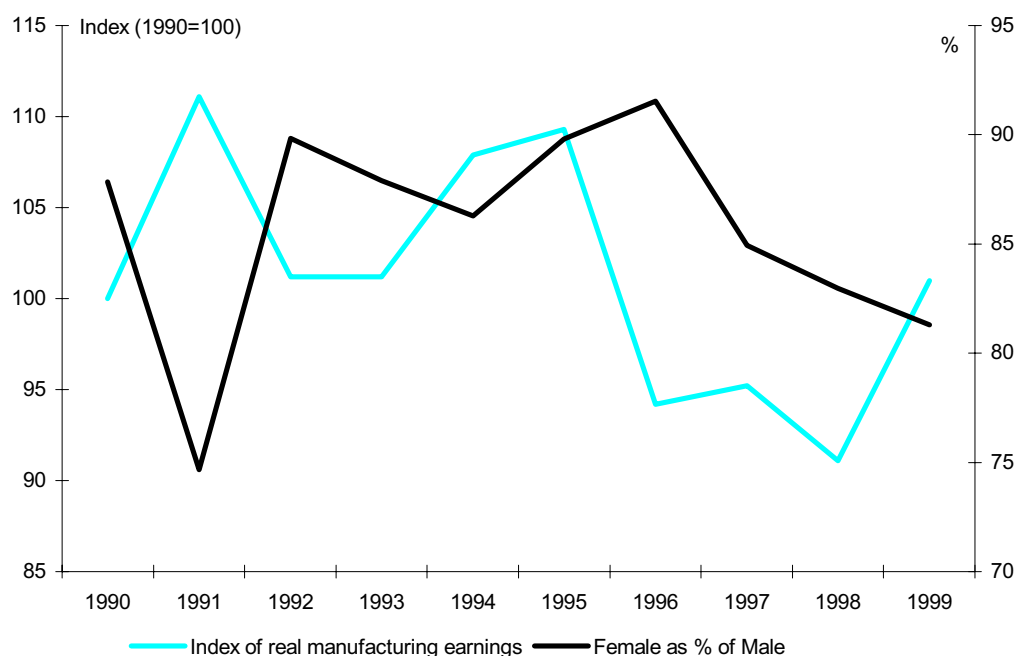
Employment growth by gender, selected countries in South Asia, 1990-2000 (%)



Source: ILO (2002).

Figure 4.4

Wages and salaries in manufacturing in Sri Lanka, 1990-1999

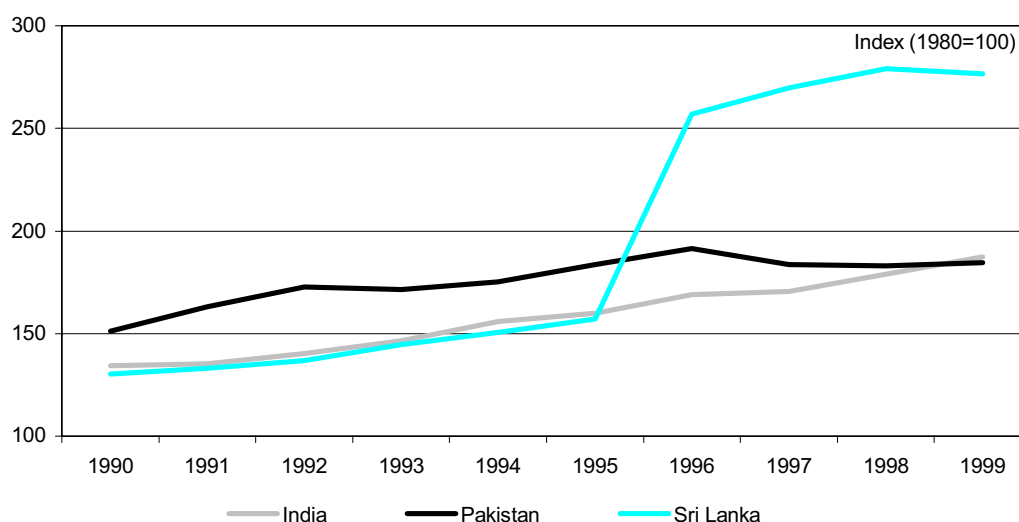


Source: ILO (2002).

Productivity levels have generally not been increasing rapidly over the past few years in South Asia (figure 4.5) although growth is positive. Labour productivity is increasing in India, both in the organized and informal economy. Although the **wage level** in Bangladesh is low, increases in real

terms have been maintained in recent years. Real wages during 2001 went up by 3.3 per cent from the 2000 level (ADB, 2002b). In Sri Lanka, real manufacturing wages declined in the second half of the 1990s (figure 4.4) due to a combination of low producer and high consumer prices.

Figure 4.5
Value added per person employed, selected countries in South Asia, 1990-1999



Source: ILO (2002).

In a context of global slowdown, **migration** has been a declining option for job seekers in the region. In recent years, the overseas job market has employed about 250,000 Bangladeshis annually and their remittances constituted about 4 per cent of GDP; however, overseas opportunities seem to be

Box 4.2 Nepalese migrant workers

Due to the lack of local employment opportunities, a large number of Nepalese workers go abroad in search of work. The primary destination is India, which may host over 2 million Nepalese workers. Although dominated by low-skill, low-paid workers, the areas of foreign employment have widened to cover professional and skilled labour. Most Nepalese migrants are educated; they go abroad with the hope of earning a large amount within a short period of time. A large number work illegally. Nepalese working as domestic helpers abroad have been the victims of under payment and exploitative conditions. Women workers suffer the most among Nepalese migrant workers. Thousands of Nepalese women in India are smuggled and sold into prostitution. Often they suffer sexual diseases, including HIV/AIDS, and consequently many face social problems when they are forced to return home.

Although Nepal is a least developed country, it still attracts migrant workers from abroad. This is mainly due to an open border with India and the Treaty of Peace and Friendship (1950) between the two countries giving their citizens the right to work in both countries. There are no reliable statistics, but it is believed that the number of Indian migrants in Nepal is high.

Source: Rimal, B. *Migrant workers: Snap shot*, available at <http://www.labournepal.org/labourissues/migrantworker.html>.

declining, with only around 230,000 leaving for jobs abroad during 2001 (ADB, 2002b). Sri Lanka's worker emigration slowed down between 1999 and 2001. Departures increased by 11 per cent in 1999, but in the following years, departures only increased by 1 to 2 per cent annually. Most Sri Lankan migrants are unskilled – two-thirds are working as housemaids. However, the number leaving for skilled and professional occupations has increased at a much higher rate than those leaving for unskilled jobs. In 2001, departures for foreign employment totalled 184,000 (2 per cent of the labour force). Most (90 per cent) are bound for Middle Eastern countries. Saudi Arabia alone absorbs over 30 per cent of all Sri Lankan emigrants. Other destinations include Singapore and Hong Kong, China, and also European countries such as Italy and Greece (Sri Lanka, 2002). In Pakistan, though migration levels have slowed down, there has been an apparently dramatic increase in remittances mainly due to workers sending back their earnings through legal rather than through informal channels.

Employment outlook for the region

Key areas of concern for the future in South Asia include:

- high levels of open unemployment in Sri Lanka and Pakistan;
- an overwhelming proportion of workers in the generally low productivity informal economy with little or no protective cover in terms of welfare benefits and job security;
- a pattern of labour absorption where high-productivity sectors absorb little of the expanding labour force, while sectors with low levels of labour productivity absorb labour faster than they grow (Anant et al., 1999)

Beyond the trends underlined here, high levels of illiteracy (the proportion of illiterate women workers is close to or above 75 per cent) and, even among the literates, low levels of educational attainment of the workforce are of concern for the future.

The South Asian labour force is expected to grow at over 2 per cent a year over the period 2000-2010, bringing in more than 14 million new workers every year. Sri Lanka remains most favourably placed as far as the expected labour force expansion over 2000-2010 is concerned, with a growth of 1.6 per cent. Afghanistan and Pakistan are at the other end of the spectrum, with very high labour force growth rates of over 3.3 per cent.

If the poverty trends of the 1990s persist, the share of the working poor in the South Asian workforce will be over a third in 2010. In order to bring this share down to 20 per cent and to absorb all the new entrants into the labour market, South Asia would need to grow at a minimum of 6.3 per cent annually for the ten-year period, a 1 per cent rise from its historical growth rate of 5.2 per cent during the 1990s (Berger and Harasty, 2002). Is this achievable?

Table 4.6
Projected growth of labour force in South Asia, 2000-2010

	Annual rate of growth (%)	Annual addition to labour force (millions)
Afghanistan	3.87	0.435
Bangladesh	2.13	1.627
Bhutan	2.67	0.031
India	1.89	9.254
Maldives	3.32	0.005
Nepal	2.53	0.326
Pakistan	3.36	2.344
Sri Lanka	1.59	0.143
South Asia	2.11	14.164

Source: ILO (2002).

The region is believed to be growing at 5.7 per cent in 2002 – although estimates are currently being revised downward because of a severe drought in India – and is forecast to grow at 6.4 per cent in 2003 (ADB, 2002a). The largest countries in the region are all forecast to return to their long-term trend growth rates by 2003. If these projections are correct, the region should meet the GDP growth target that would allow it to absorb the newcomers into the labour market and halve its working poor rate. An assessment of risk factors is necessary, however, to get the complete picture of possible future economic performance and employment outcomes in South Asia.

There are widespread security risks coupled with the exposure to a faltering global economy. If the recovery in external demand proceeds at a slower pace than anticipated, slower region-wide economic growth would result. The fact that performance of the global economy in recent months has been worse than expected and that the pace of recovery is weakening could lead to weaker export growth than expected. A prolonged period of weak export earnings would erode corporate and financial sector health further. And a continued fiscal constraint would keep public expenditure at low levels, reducing governments' ability to tackle unemployment and working poverty. Because the outlook for external demand recovery might remain moderate, achieving the growth target rests more than ever on the strength of domestic demand. If domestic demand policies, including progress on corporate and financial restructuring, as well as competition policy and labour market reform, do not receive adequate attention, the region risks a prolonged period of slow growth. In this case, reducing working poverty and absorbing the massive number of new entrants into the labour market would not be feasible.

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CHAPTER 5 f i v e

MIDDLE EAST AND NORTH AFRICA

The Middle East and North Africa¹ is an economically diverse region that includes both the oil-rich economies of the Gulf and countries that are resource-scarce in relation to population such as Egypt, Morocco and Yemen. Despite reasonably good economic performance throughout the 1990s, the Middle East and North Africa still faces serious economic and social challenges. The regional unemployment rates averages over 17 per cent and several countries continue to be extremely vulnerable to climatic and commodity price shocks. Poverty, though relatively low compared to any other developing region, persists in large pockets. Indeed, human capital development is low, especially in education, and under-employment burdens the income generation potential of the rapidly growing labour force. Difficult internal reforms are needed to increase integration with the rest of the world. These would have significant consequences in terms of both economic and employment growth.

Latest economic developments and their impact on employment

Over the 1990s, while still sensitive to oil and agriculture price fluctuations, **economic growth** became less irregular in the Middle Eastern and North African region. It averaged 3 per cent annually during that decade (table 5.1). Economic growth slowed down in 2001. Preliminary estimates indicate that the combined real GDP of twelve countries² in the region registered a growth rate of 2.2 per cent in 2001 compared to 4.3 per cent in 2000. In those twelve countries, growth is projected to rise at 2 per cent in 2002 (ESCWA, 2002). In 17 countries³ of the region, growth is projected to rise at 2.9 per cent in 2002 (World Bank, 2002a).

The deterioration in overall **economic conditions** in the region in 2001 may be mainly attributed to the slowdown in world economic growth in that year and its direct adverse effect on the demand for oil, the region's main contributor to GDP and its main export. Furthermore, the attacks of 11 September 2001 have had a negative effect on **tourism** and **transport**, another sizable contributor to GDP. Moreover, the conflict in the West Bank and Gaza Strip has had an undesirable impact on the

¹Algeria, Bahrain, Djibouti, Egypt, Islamic Republic of Iran, Iraq Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Somalia, Syrian Arab Republic, Tunisia, United Arab Emirates, West Bank and Gaza Strip, Yemen.

²Bahrain, Egypt, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates (UAE), West Bank and Gaza Strip, Yemen.

³The twelve countries cited in footnote 2, plus + Algeria, Morocco, Tunisia, Iran and Djibouti.

whole region. Foreign direct investment, on which the region is becoming more dependent, has also been adversely affected (ESCWA, 2001).

Fiscal positions deteriorated in most countries in 2001 due to the sharp decrease in oil revenue, which was far greater than previously projected. Similarly, the region's external sector performance deteriorated considerably in 2001. In the Gulf economies this was because of low oil prices, while the more diversified economies experienced wider trade deficits, lower tourism revenue and lower remittances from nationals working abroad. The region was nevertheless able to keep inflation rates low. Most countries had inflation rates of lower than 3 per cent in 2001.

Table 5.1
Labour market indicators for the Middle East and North Africa, 1990-2002

	Unemployment rate				Annual employment growth rate		Annual labour force growth rate		Annual GDP growth rate	
	1990	1995	Latest year	1990-2000	1995-latest year	1990-2000	1995-2002	1990-2000	1995-2001	2001
Algeria	19.8	27.9	28.7 ¹	4.4 ²	9.3 ²	4.1	3.9	1.9	3.3	n.a.
Bahrain	1.4	2.3	3.1 ^{3a}	n.a.	n.a.	2.5	2.4	5.5	4.0	4.8
Egypt	8.6	11.3	9.2 ³	1.5 ⁴	1.8 ⁴	2.8	2.9	4.6	5.0	3.3
Iran, Islamic Rep.	n.a.	n.a.	n.a.	3.1 ²	n.a.	3.7	3.9	3.5	3.8	n.a.
Jordan	n.a.	14.4 ¹	14.9 ^{3*}	n.a.	n.a.	5.6	4.2	5.0	3.6	3.5
Kuwait	n.a.	n.a.	7.1 ^{5b}	4.1 ⁴	n.a.	-1.3	4.6	3.2	0.4	1.7
Lebanon	n.a.	n.a.	14.0 ^{7a}	6.3 ¹	n.a.	3.7	2.8	6.0	3.1	1.4
Morocco	15.8	22.9	22.0 ⁵	2.7 ³	1.9 ⁵	2.5	2.4	2.3	2.6	n.a.
Oman	n.a.	n.a.	17.2 ^{2c}	n.a.	n.a.	3.7	3.8	5.9	3.2	5.0
Qatar	n.a.	n.a.	5.1 ^{1d}	n.a.	n.a.	1.7	1.3	n.a.	n.a.	6.4
Saudi Arabia	n.a.	n.a.	15.0 ^{3e}	n.a.	n.a.	2.8	3.5	2.7	1.5	1.7
Sudan	1.3	n.a.	n.a.	n.a.	n.a.	2.7	2.7	8.1	9.7	n.a.
Syrian Arab Republic	n.a.	n.a.	9.5 ^{7a}	n.a.	n.a.	4.0	4.0	5.8	3.5	2.8
Tunisia	5.3	5.7	n.a.	n.a.	n.a.	3.0	2.8	4.7	5.1	n.a.
United Arab Emirates	n.a.	2.6 ^f	n.a.	n.a.	n.a.	2.2	1.6	3.8	3.2	2.3
West Bank and Gaza	n.a.	18.2	14.1 ^{7g}	n.a.	n.a.	5.0	3.7	3.4	1.7	-30.0
Yemen	n.a.	n.a.	11.5 ^{7a}	n.a.	n.a.	5.7	5.0	5.8	6.4	4.5

n.a. = Data not available.

* Constant 1998 local prices (ESCWA, 2001).

¹1997; ²1996; ³2001; ⁴1998; ⁵1999; ⁶1998; ⁷2000.

^aESCWA, 2001.

^bMajor characteristics of population and labour force, 30/6/99, Ministry of Planning, Kuwait.

^cLabour force survey for 1996 carried out in December, results shown in 1999 social statistics, Ministry of Economics.

^dGeneral census of population and houses, 1997, Planning Council.

^eMen only. Source: Saudi-American Bank report, estimated number of unemployed out of labour force, 1996, with a growth rate of 3.3%.

^fUAE annual statistical yearbook.

^gEstimates put unemployment rate at 35.3 per cent in the second quarter of 2001.

Sources: ILO (2002a); ILO (2002d); ILO (2001) for labour force; World Bank (2002b) for GDP growth.

The **employment situation** in the Middle East and North Africa remained generally unfavourable and, in most cases, deteriorated in 2001. Economic growth was not sufficiently high to provide work opportunities for the unemployed and to accommodate the rising number of new entrants to the labour market. Labour force growth remains high at 3.3 per cent per annum, which means that the labour market had to absorb 4.1 million people in 2001 and 4.2 million in 2002. The region has clearly been unable to do so.

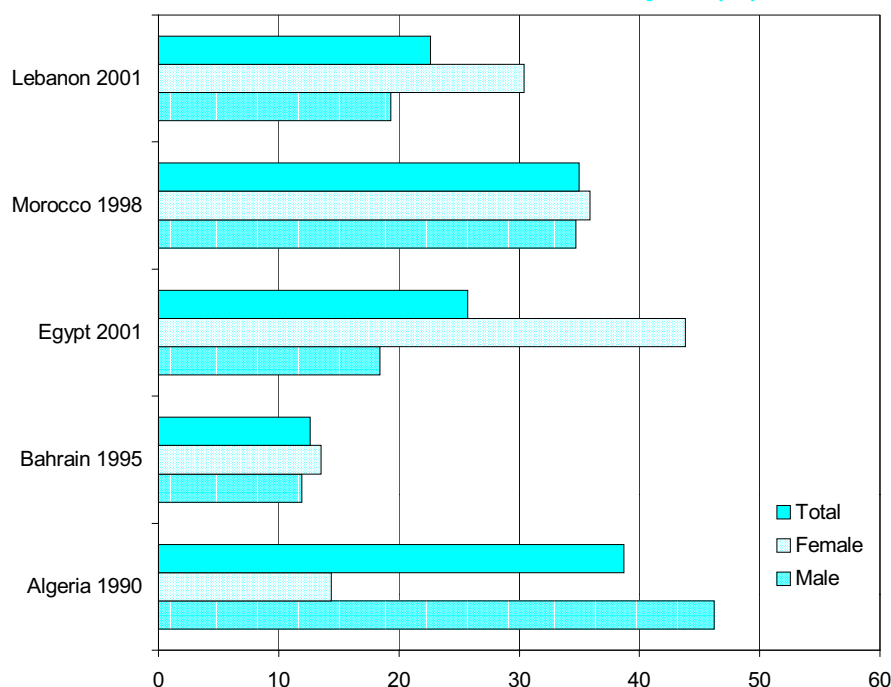
The Middle East and North Africa recorded the highest **unemployment** rates among the developing regions in the 1990s. Unemployment rates ranged from over 3 per cent in Bahrain to close

to 29 per cent in Algeria (table 5.1). In 2001, the number of unemployed in the region was estimated to be over 22 million (17.6 per cent of the labour force). While several countries made progress in combating unemployment during the first half of 2001, the events of 11 September had negative consequences for employment. The labour-intensive **tourism** sector, which provides significant employment opportunities for both skilled and semi-skilled workers in Egypt, Jordan, Lebanon, Morocco and Tunisia, was badly hit.

The rate of **women's unemployment** is higher than men's and disproportionately high given women's smaller share in the labour force. In Egypt, for example, the 22.6 per cent unemployment rate for women is four times higher than that of men, and in Jordan, it is almost double (ESCWA, 2001). Unemployed women appear to be mainly new labour force entrants – both with secondary school education and with only primary school education – but also include previously employed women who lost their jobs following restructuring or privatization, especially in Jordan, Morocco and Tunisia (ERF, 2000). The **level of education** has a strong influence on the unemployment rate in the region. In the Syrian Arab Republic, for example, over 82 per cent of the unemployed are illiterate or have only a primary or intermediate level of education (ESCWA, 2001). Women with incomplete education appear the most vulnerable, but in Jordan, educated women, especially graduates of community colleges, can also expect high unemployment levels. In Egypt, educated women are more likely to be unemployed than educated men.

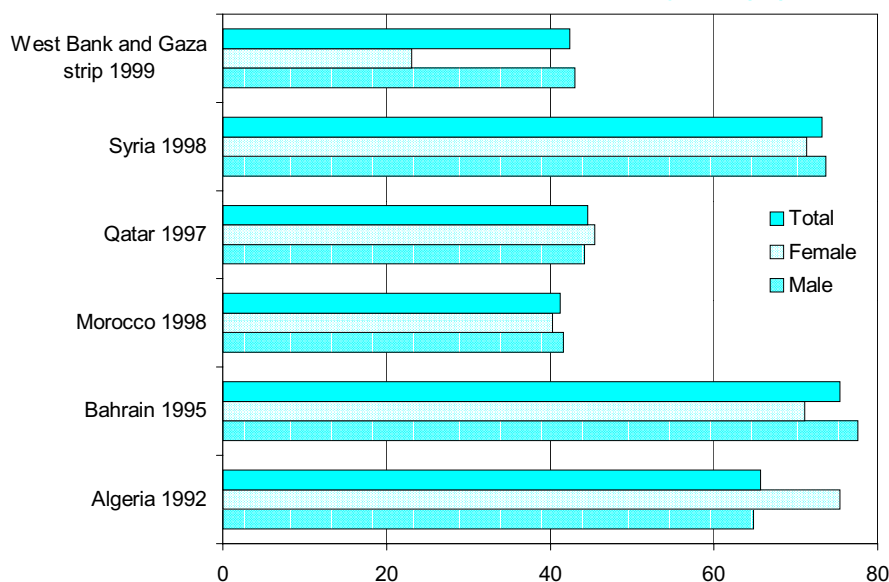
Given the still very high population growth rates in the region, **youth unemployment** is a major challenge. Unemployment among the 15 to 24 age group is high for women as well as men and ranges from close to 13 per cent in Bahrain to almost 39 per cent in Algeria. The share of the 15 to 24 population in total unemployment is distressingly high in the region, up to over 73 per cent in Syria for example (figures 5.1a and 5.1b). Youth unemployment increased over the 1990s.

Figure 5.1a
Youth unemployment rates (15-24), selected countries in the
Middle East and North Africa, latest year (%)



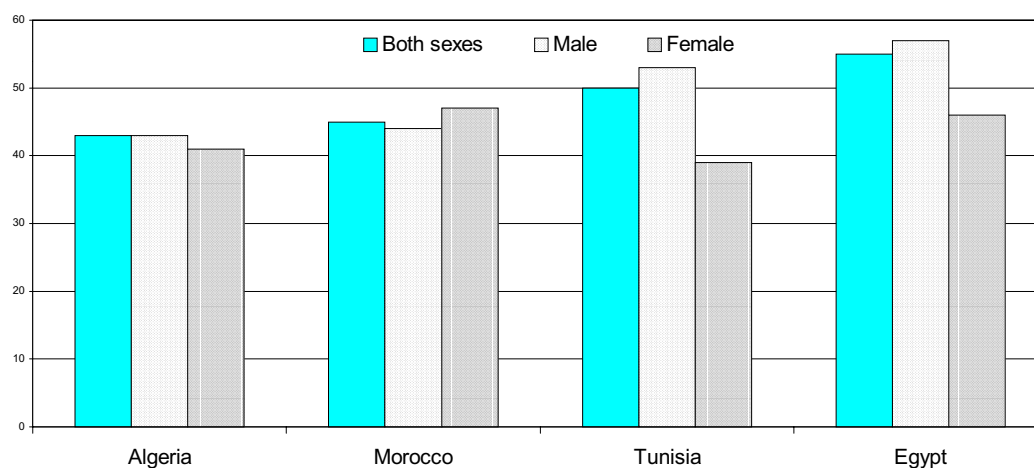
Source: ILO (2002a); except Lebanon: Université St Joseph de Beyrouth (2002), and Egypt: Central Agency for Public Mobilization and Statistics (2002).

Figure 5.1b
Share of youth unemployed in total unemployment, selected countries in the Middle East and North Africa, latest year (%)



Sources: ILO (2002a); except Qatar and Syrian Arab Republic: UNDP (2002).

Figure 5.2
Informal economy employment as percentage of non-agricultural employment, selected countries in North Africa, latest year (%)



Source: ILO (2002b).

The **informal economy** has accounted for the bulk of employment creation in the recent past. In North Africa alone, it is estimated that 48 per cent of non-agricultural employment is informal (figure 5.2). Self-employment, estimated at 31 per cent of non-agricultural employment in North Africa, is up from 23 per cent ten years ago (ILO, 2002b). The informal economy contributes up to 27 per cent of GDP in North Africa. Data on poverty are scarce in the region, but some estimates put the number of working poor at over 7 million, about 6 per cent of the total labour force, at the end of the 1990s (table 5.2). The absolute number of **working poor** was on a declining path in the 1990s, apart from North Africa, but it is probable that the deterioration of economic conditions in 2001 and 2002 reversed this trend.

Table 5.2
Working poverty in the Middle East and North Africa, 1990s

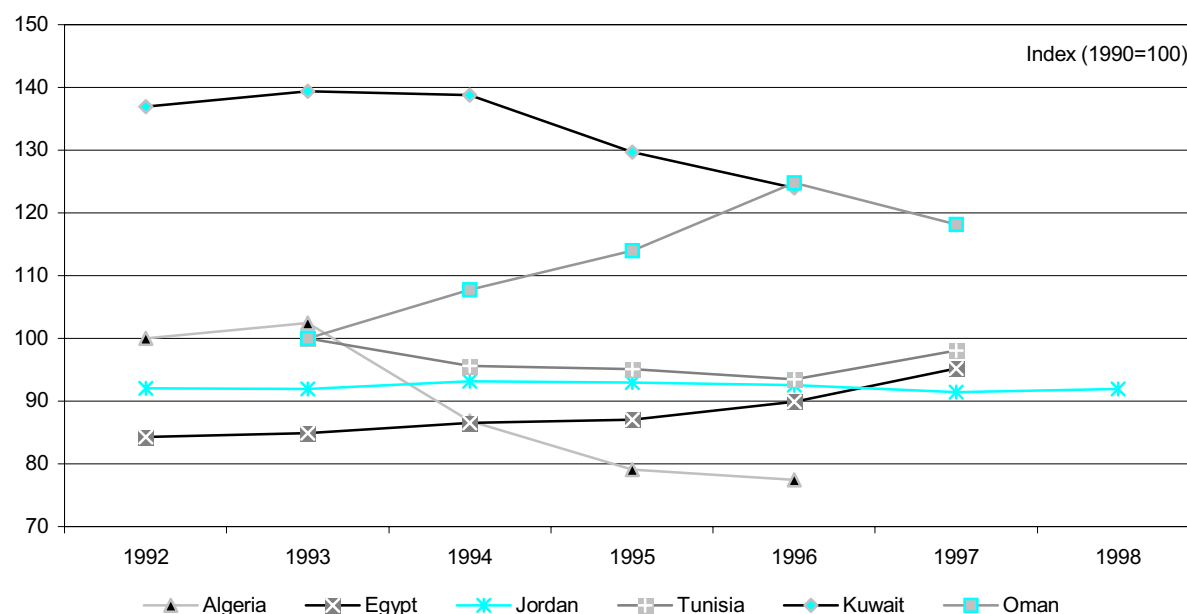
	Absolute number (‘000)	Share of labour force(%)	Growth rate of absolute number (%)
	1997	1997	1987-97
Algeria	187.5	2.7	6.8
Morocco	1480.5	15.3	8.9
Tunisia	228.9	7.2	6.0
Egypt	692.2	3.4	-13.9
North Africa	2589.1	4.2^a	n.a.
Iran	1160.0	7.0	-4.1
Jordan	25.7	2.2	-13.4
Sudan	2489.1	23.7	-1.4
Syrian Arab Rep.	507.8	12.1	-0.5
Middle East and North Africa	6771.7	6.0	n.a.

n.a. = Data not available

^a Taken from Berger and Harasty (2002).

Source: Majid (2001).

Figure 5.3
Real manufacturing wages, selected countries, Middle East and North Africa, 1992-98



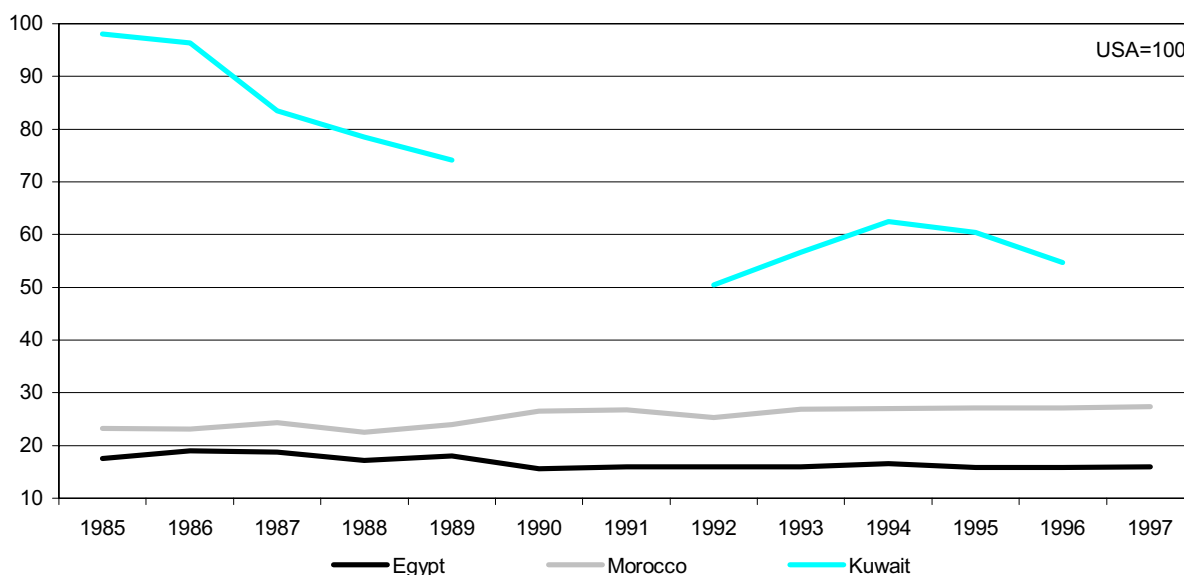
1992=100 for Algeria and 1993=100 for Oman and Tunisia

Source: ILO (2002a).

Unemployment and working poverty were compounded by substantial declines in **real wages** and productivity in certain countries of the region (figure 5.3). Though little is known about the behaviour of informal wages over time, it is likely that these have fallen as the formal economy has become increasingly less able to absorb new labour market entrants (ERF, 2000). Low **labour productivity** is a major challenge for the region. According to a UNDP Report, GNP per worker in all Arab countries

combined⁴ was less than half that of the Republic of Korea (UNDP, 2002). Real GDP per worker stagnated in Egypt over the 1990s at only 16 per cent of the productivity level in the United States. It increased marginally in Morocco where it was 27 per cent of the American level in 1998 (figure 5.4).

Figure 5.4
Real GDP per person employed in manufacturing, 1985-97



Source: Groningen Growth and Development Centre, ICOP Industry Database. Except for Kuwait: ILO (2002c).

According to the UNDP, “**Countries affected by wars, civil conflict, sanctions and occupation** have experienced multiple shocks to stability that have exacerbated unemployment and poverty. Algeria, Djibouti, Iraq, Lebanon, the Occupied Territories, Somalia and Sudan, for example, illustrate this point” (UNDP, 2002). Workers emigrated, and unemployment (youth unemployment in particular) rose as the economies of these countries declined. In the **West Bank and Gaza Strip**, labour market developments were catastrophic in 2001 and continued to deteriorate in 2002 as political unrest, curfews and Israeli blockades of Palestinian areas meant Palestinians with jobs in Israel were unable to go to work. The unemployment rate shot up to 34 per cent by mid-2002, up from 10 per cent in 2000.⁵ About 366,000 Palestinians were out of work at the end of June 2002, while another 23,000 were underemployed. At least one-third of men between 15 and 50 were out of work. Income losses are estimated at USD 7.6 million a day. At least USD 1 billion was lost in agriculture and several thousand acres of farmland have been destroyed in the Gaza Strip over the last two years. The destruction has had a dramatic effect on food prices. The proportion of the population living in poverty is increasing dramatically, reaching the alarmingly high levels of 55 per cent in the West Bank and 70 per cent in the Gaza Strip (ESCWA, 2001; BBC News 2002; UNSCO, 2002).

⁴ Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Somalia, Sudan, Syrian Arab Republic, Tunisia, UAE, West Bank and Gaza Strip and Yemen.

⁵ According to the ILO definition of the unemployment rate. Various sources, using different definitions, diverge on the estimate of unemployment in 2002; United Nations figures put it at 38 per cent in the West Bank and 46 per cent in the Gaza Strip in April 2002 (quoted in *International Herald Tribune*, 27 July 2002); UNSCO estimates that the overall adjusted unemployment rate during the second quarter of 2002 increased from roughly 36 per cent to approximately 50 per cent and that on curfew days unemployment in the non-Jerusalem West Bank rises to over 63 per cent.

Main characteristics of the Middle East and North Africa's labour markets

The **structure of employment** is diverse in the countries of this region. As shown in table 5.3, three countries, Somalia, Sudan and Yemen, have more than two-thirds of their employment in agriculture, but this sector contributes comparatively little to GDP. Industry and services employ a lot less people, but are a lot more productive. Bahrain, Djibouti, Iraq, Jordan, Kuwait, Lebanon, Libya, Qatar, Saudi Arabia and the UAE employ over two-thirds of the workforce in services, a sector which contributes to over a half of the GDP, while agriculture is small in terms of both employment and GDP. Finally, Algeria, Egypt, Iran, Oman, Syria and Tunisia show an equitable distribution of employment among the three sectors of the economy, but agriculture remains a low productivity sector contributing little to GDP (table 5.4), while industry and services make up to 90 per cent of GDP.

Table 5.3
Sectoral distribution of employment and value added, selected countries in Middle East and North Africa, late 1990s

	Agriculture		Industry ¹		Services	
	Employment (% of total)	Value added (% of GDP)	Employment (% of total)	Value added (% of GDP)	Employment (% of total)	Value added (% of GDP)
Algeria ^a	26.1	9.0	31.3	60.0	42.6	31.0
Bahrain ^b	0.8	n.a.	54.2	n.a.	43.3	n.a.
Djibouti ^c	2.3	n.a.	7.9	n.a.	80.2	n.a.
Egypt, Arab Rep. ^d	29.8	17.0	22.3	34.0	47.9	49.0
Iran, Islamic Rep. ^e	23.0	19.0	30.7	22.0	44.5	59.0
Iraq ^a	16.1	n.a.	17.5	n.a.	66.4	n.a.
Jordan ^f	6.0	2.0	25.0	25.0	68.6	73.0
Kuwait ^a	1.2	n.a.	25.2	n.a.	73.6	n.a.
Lebanon ^a	7.3	12.0	31.0	22.0	61.8	66.0
Libya ^a	10.9	n.a.	23.0	n.a.	66.1	n.a.
Morocco ^g	5.7	14.0	33.4	32.0	60.6	54.0
Oman ^a	44.7	n.a.	23.7	n.a.	31.6	n.a.
Qatar ^a	2.6	n.a.	32.1	n.a.	65.3	n.a.
Saudi Arabia ^a	19.2	7.0	19.8	48.0	61.0	45.0
Somalia ^a	75.3	n.a.	8.3	n.a.	16.4	n.a.
Sudan ^a	69.5	37.0	8.5	n.a.	22.1	n.a.
Syrian Arab Republic ^c	28.2	24.0	25.0	30.0	46.8	46.0
Tunisia ^b	21.6	12.0	33.5	29.0	42.5	59.0
United Arab Emirates ^a	7.8	n.a.	26.8	n.a.	65.4	n.a.
West Bank and Gaza strip ^a	20.3	8.0	41.5	27.0	38.1	15.0
Yemen ^a	61.0	20.0	16.8	46.0	22.2	38.0

n.a. = Data not available.

Employment data are for the following years:

^a 1990; ^b 1994; ^c 1991; ^d 1998; ^e 1996; ^f 1993; ^g 1999.

Sources: World Bank (2002b); ILO (2002a).

Table 5.4

Sectoral growth rates of employment and GDP and sectoral elasticities of employment to GDP, selected countries in the Middle East and North Africa, 1990-2000

	Employment growth (1990 to latest year)			GDP growth (1990-2000)			Employment elasticity to GDP growth (1990-c.2000)		
	Agriculture	Industry	Services	Agriculture	Industry	Services	Agriculture	Industry	Services
Egypt	-1.9	2.4	3.7	3.1	4.9	4.5	-0.60	0.49	0.83
Iran	0.8	4.5	2.8	3.8	-3.8	9.2	0.21	-1.17	0.30
Morocco	6.9	1.7	2.8	-0.9	3.2	2.8	-7.70	0.52	1.02

Sources: World Bank (2002b); ILO (2001a).

The Middle Eastern and North African region entered the 1990s with the highest share among developing regions of **government employment** in the labour force, the highest share of government wage bill to GDP and extensive involvement of the state in economic production. Worldwide, the share of civilian government employment accounts on average for about 11 per cent of total employment, but for the Middle Eastern and North African countries it stands at 17.5 percent. Only in Morocco and Lebanon is this share lower than the world average. In the early 1990s, the share of government wage bill to GDP was highest in the Middle East and North Africa, averaging almost 10 per cent compared to a worldwide estimate of about half that figure. In general, public sector wages were significantly higher than private sector wages. Combining government employment and employment in public enterprises brings the share of employment in the broader public sector among wage employees to as much as 35 per cent in Egypt, 50 per cent in Jordan and almost 60 per cent in Algeria (ERF, 2000). Public sector reforms initiated in the 1990s have meant significant downsizing of the public sector. The subsequent redundancies were significant and exceeded the initial estimates. In Egypt, for example, redundancies could reach up to 35 per cent of total employment in public enterprises. In Algeria, more than 500,000 employees were retrenched in the 1990s. Much of the restructuring of the public sectors in the region remains to be carried out and will have additional consequences for employment in the region.

The decline in government spending also has consequences for a **private sector** that also needs to consolidate, streamline and downsize as a means of coping with both the on-going economic reforms and the economic slowdown. The result has been more open unemployment. In the Gulf countries, this has happened while a substantial number of **foreign workers** are employed in all sectors of the economy. National workers cannot find jobs that match their skills at the reservation wage rate,⁶ which is determined largely by the wage rate in the government sector. The current unemployment rate in the Gulf countries has been estimated at 5 per cent of the total labour force, but at 18 per cent of the total national labour force (ERF, 2000).

Migrant workers in the Gulf countries were estimated to number about 8 million in 1999. The composition was believed to be roughly 45 per cent Arab and 55 per cent Asian. Workers from Egypt and to a lesser extent Palestine and Sudan dominated the former group. Migrant workers accounted for 33 per cent of the total labour force in Bahrain and up to 90 per cent in the UAE (ESCWA, 2001). Because of the pressing need to create employment for their own nationals due to strong labour force growth – 70 per cent of the population in Gulf countries is under 30 – the governments of the Gulf countries have adopted a policy of substitution of nationals for expatriate workers whenever feasible. However, replacing foreign workers by higher paid national workers is very costly.

⁶ This is the minimum wage rate at which a worker is ready to work.

Box 5.1

Trade liberalization and the Egyptian labour market

Trade liberalization has been suggested as a means for job creation in Egypt, particularly in manufacturing industry. However, there is a fear that this measure will not affect production and trade patterns enough to create as many jobs as desired. If no trade reforms are undertaken and skill levels continue to rise at the present rate, the rate of job creation would be about 3.3 per cent per year and the growth of GDP about 5.8 percent. Most of the jobs would be in agriculture, services and construction: sectors that are oriented toward the domestic market.

A pending trade liberalization agreement with the EU could stimulate a surge in foreign direct investment and make imported equipment cheaper. Moreover, an increase in the transfer of foreign technology could generate productivity gains. Under the agreement, the EU would provide Egypt with financial support to ease the transition and technical assistance to harmonize standards and administrative procedures.

The manufacturing sector would be the most affected by trade liberalization. Although manufacturing represents half of the jobs in the state-owned enterprises, it accounts for only 14 per cent of total employment. The impact on manufacturing employment would depend on whether the technology favoured by trade liberalization is labour or capital intensive. Moreover, any change is likely to affect not only workers currently in manufacturing in Egypt, but also expatriate Egyptians working in Gulf countries, unemployed workers, skilled workers under-employed in low-productivity jobs and women outside the labour force. An optimistic view is that Egypt can achieve a surge in exports by employing newcomers in the labour force.

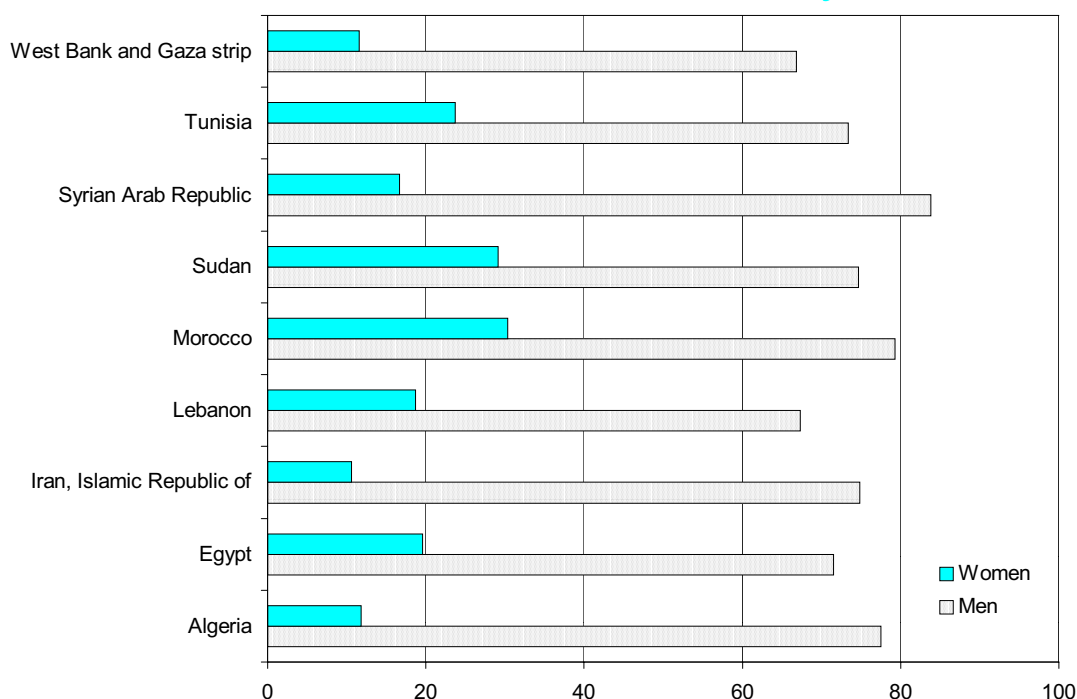
On the other hand, the agreement is not without risk. First, there is a real possibility that EU products could crowd-out other (and perhaps cheaper) manufactured goods and services from other sources. In addition, domestic industries that compete with imports might be harmed by the availability of better-quality European products. At the same time, export industries might not respond to the new opportunities because of limited factor mobility.

Any liberalization of trade that is limited strictly to industry will increase employment by only a small degree. Nevertheless, its effect on the growth of GDP will depend on what combination of technology and labour is chosen in manufacturing, and this in turn depends on their relative costs (with capital more likely to become cheaper as trade is liberalized).

Source: Economic Research Forum (2002).

Moreover, this will have regional consequences: given the very high level of remittances (about 70 per cent of migrant earned income), the total loss of foreign exchange to labour-exporting countries is very significant. Furthermore, unemployment levels in these countries could rise by as much as the number of displaced workers (ERF, 2000). Therefore, the labour-exporting countries in the Middle Eastern and North African regions will receive fewer remittances, hence less foreign exchange, thereby creating strains on their domestic economies pushing up unemployment rates even further. The employment cushion provided by the Gulf countries to the middle-income Arab countries in fact no longer exists and the prospects for greater emigration to other destinations have been reduced since the events of 11 September (UNDP, 2002).

Figure 5.5
Labour force participation rate by gender, selected countries of the Middle East and North Africa, latest year



Source: ILO: (2002a).

One of the region's longstanding labour force characteristics has been the low rate of **female labour force participation** compared to male rates (figure 5.5) and also compared to other regions in the world. In 2001, it has continued to grow no more than modestly and remained low (ESCWA, 2001). The highest female labour force participation rate was in Morocco – slightly over 30 per cent – but this was considerably below the rates for countries with comparable education and fertility amongst women. Another related characteristic was the limited **access of women to wage employment**. The highest percentages of women employees were found in Kuwait, Egypt, Lebanon, Morocco and Tunisia, but again they were still less than half the proportions in industrialized countries (ERF, 2000). Even more distressing, educated women were not joining the labour force at a rate matching their increased schooling. In Egypt, for example, even though a greater percentage of women were working, the percentage of employed educated women has actually fallen. In Iran, the percentage of women with a high school education who joined the labour force had dropped to 13 per cent in 1997 from a high of 19 per cent in 1990 (ERF, 2000). There was an important role for **women workers in the manufacturing sector**, especially in Tunisia, Morocco and Jordan. However, there was also a high incidence of non-regular and non-salaried activity among women in this sector and a wide gender gap in earnings. In the West Bank and Gaza Strip, 90 per cent of all home-based workers in the textile and clothing industry were women and 35 per cent of them were unwaged. In Iran, the registered female manufacturing workforce was largely rural and unwaged home workers (ERF, 2000). The share of **women in public sector employment** has been growing in many countries in the region.

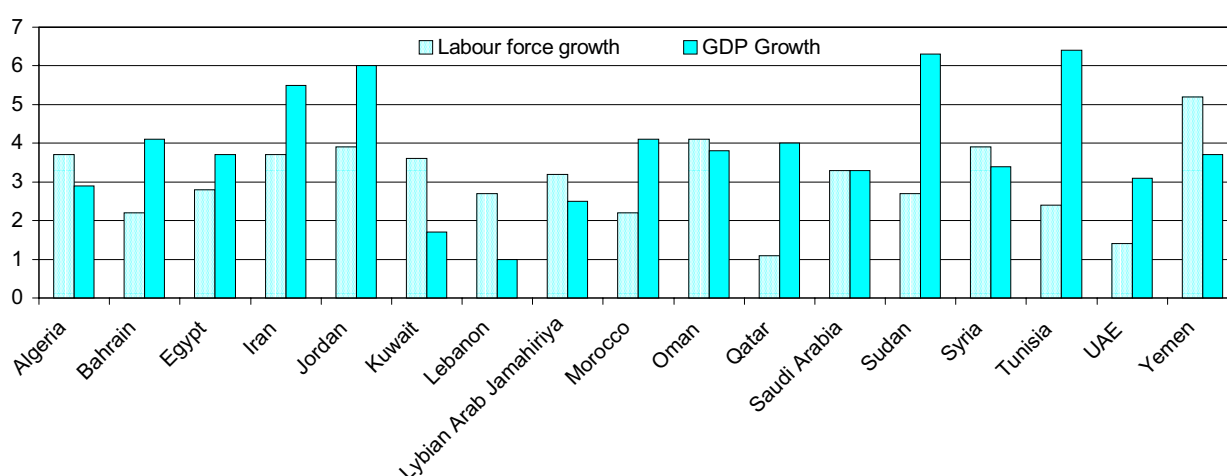
Child labour is a persistent problem in the Middle Eastern and North African region. The ILO estimates that in 2000, over 13 million children were economically active in the Middle East and North Africa, which represents 15 per cent of the total child population in the region.

Employment outlook for the region

The **labour force** in the Middle East and North Africa is expected to grow at over 3 per cent a year from 2000-2010, bringing in almost 5 million new workers every year. Among the Middle East and North African countries, Qatar and the UAE are the most favourably placed as far as the expected labour force expansion from 2000-2010 is concerned. Yemen and to a slightly lower extent Oman, Jordan and Syria are at the other end of the spectrum (figure 5.6).

In order to absorb all the **new entrants** into the labour force, halve the unemployment rate and halve working poverty, the Middle Eastern and North African region needs to grow at a minimum of 4.7 per cent a year during 2000-2010, an almost 2 per cent rise from its historical growth rate of 2.9 per cent during the 1990s (Berger et al., 2002)⁷.

Figure 5.6
GDP and labour force growth 2003 projections for Middle East and North Africa



Source: ILO (2001) for labour force growth; IMF (2002) for GDP growth.

The **economic outlook** for the Middle Eastern and North African region is for a continuation of the 1990s trend over the medium and long term. Growth in 2004-2010 for the region is expected to average 3.3 per cent, higher than the average of the 1990s (figure 5.3). This growth rate results from lower GDP growth in the oil-exporting countries (2.7 per cent) and higher growth in the countries with more diversified economies (4.3 per cent). The reasons for the lack of any significant acceleration of growth in the forecast period include the long-term decline in the purchasing power of oil and other commodity prices expected in the next ten years, and the low level of attractiveness of the region for foreign investment outside commodity sectors (World Bank, 2002a).

If these projections are correct, the Middle East and North Africa will not grow fast enough to solve its employment problems. The region will not be able to absorb all the new entrants into the labour market, nor to cut unemployment significantly. Moreover, employment opportunities abroad will be reduced, at least in the short term, because of the economic slowdown in the industrialized countries.

⁷ In constant 1995 USD for the period 1990-99.

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SUB-SAHARAN AFRICA

The countries in sub-Saharan Africa¹ are characterized by a great diversity in size, economic structure and level of development, all leading to different employment challenges. However, these countries face many common problems. These include persistently low levels of economic development and high rates of population growth, both contributing to a lack of decent employment opportunities. Population growth is high despite the HIV/AIDS epidemic that has hit this region particularly hard, destroying desperately needed human capital. External indebtedness has also hampered economic development and poverty reduction, despite the Heavily Indebted Poor Countries Initiative (HIPC).

Latest economic developments and their impact on employment

Sub-Saharan Africa's real **GDP** grew by an average of 1.6 per cent between 1980 and 1990 and by 2.5 per cent between 1991 and 2000. In 2000 the region had a GDP growth rate of 3 per cent. This was almost replicated in 2001, largely because countries did not suffer unduly from the global downturn. However, for those countries in the region more integrated in world trade, such as South Africa, the shock was – according to the African Development Bank – “devastating”.

Both the World Bank and the African Development Bank forecast growth at slightly more than 3 per cent in 2002 (table 6.2), but with the region suffering from the worst food crisis in a decade, it might well be below. Countries most affected by the crisis are Lesotho, Malawi, Mozambique, Swaziland, Zambia and Zimbabwe.²

In recent years, absolute **aid flows** and aid per capita have been decreasing (figure 6.1). While aid flows declined most sharply to war-affected African countries, assistance to governments recognized as having sound policies also dwindled. Ghana, Mozambique, Tanzania and Uganda are examples. This downward trend can be assumed to have continued in 2001. It has important consequences for employment, since unless supported by aid flows, domestic investment is insufficient to generate jobs.

¹Countries belonging to this region are: Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Democratic Rep. of Congo, Republic of Congo, Côte d'Ivoire, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, South Africa, Swaziland, United Republic of Tanzania, Togo, Uganda, Zambia and Zimbabwe.

²The World Food Program (WFP), estimates that 7 million people require food immediately, with this figure rising to just over 11 million from September to November 2002 and peaking at 12.8 million for the period from December 2002 to March 2003, when the next harvest is due (WFP, 2002). According to WFP “a regional cocktail of drought, flooding, mis-government and devastated economies lies at the heart of the current crisis.”

Table 6.1
Labour market indicators for selected countries in sub-Saharan Africa, 1990-2002

	Unemployment rate			Annual employment growth rate		Annual labour force growth rate		Annual GDP growth rate	
	1990	1995	1999	1990-1999	1995-1999	1990-2000	1995-2002	1990-2000	1995-2001
Angola	n.a.	n.a.	12.8	1.6	n.a.	3.1	3.1	1.0	6.5
Benin ^a	23.0	9.0	n.a.	n.a.	n.a.	2.8	2.9	4.5	5.2
Botswana	n.a.	21.5	21.5 ¹	n.a.	n.a.	2.7	1.9	5.0	5.2
Burkina Faso	n.a.	n.a.	26.2 ^a	n.a.	n.a.	2.2	2.3	4.7	5.3
Cameroon	n.a.	n.a.	7.9 ^{2b}	n.a.	n.a.	2.9	2.8	0.8	4.6
Ethiopia	n.a.	n.a.	n.a.	5.3	n.a.	2.5	2.4	3.8	5.4
Kenya	n.a.	n.a.	n.a.	n.a.	8.9 ²	3.3	2.6	1.9	2.2
Lesotho	n.a.	n.a.	21.8 ^a	n.a.	n.a.	2.4	2.3	4.2	4.0
Madagascar	n.a.	n.a.	n.a.	n.a.	n.a.	2.7	2.8	1.6	3.5
Mauritius	n.a.	9.8	9.8	0.5	n.a.	2.7	2.7	5.5	5.6
Namibia	n.a.	n.a.	7.5	n.a.	n.a.	2.4	1.8	4.2	3.9
Niger	n.a.	n.a.	20.9 ^a	n.a.	n.a.	2.9	3.0	1.9	3.1
Nigeria	n.a.	16.9	n.a.	2.7	n.a.	2.7	2.6	3.1	2.7
Senegal	n.a.	n.a.	10.1 ^a	n.a.	n.a.	2.5	2.6	3.3	5.3
South Africa	n.a.	n.a.	25.3	n.a.	6.3 ³	2.0	1.5	2.0	2.6
Swaziland	n.a.	n.a.	10.7 ^a	n.a.	n.a.	3.6	3.4	3.7	3.5
Tanzania	n.a.	n.a.	22.0 ^a	n.a.	n.a.	2.7	2.3	3.1	4.0
Zambia	12.4	n.a.	15.0	n.a.	n.a.	2.6	2.6	0.6	2.3
Zimbabwe	n.a.	n.a.	6.0	1.6 ⁴	0.9 ⁵	2.0	1.8	2.2	0.3

n.a. = Data not available.

¹ 1996; ² 2001; ³ 2000; ⁴ 1990-1994; ⁵ 1997-1999

^a Data from ILO (2001b).

^b 2001 Household Survey.

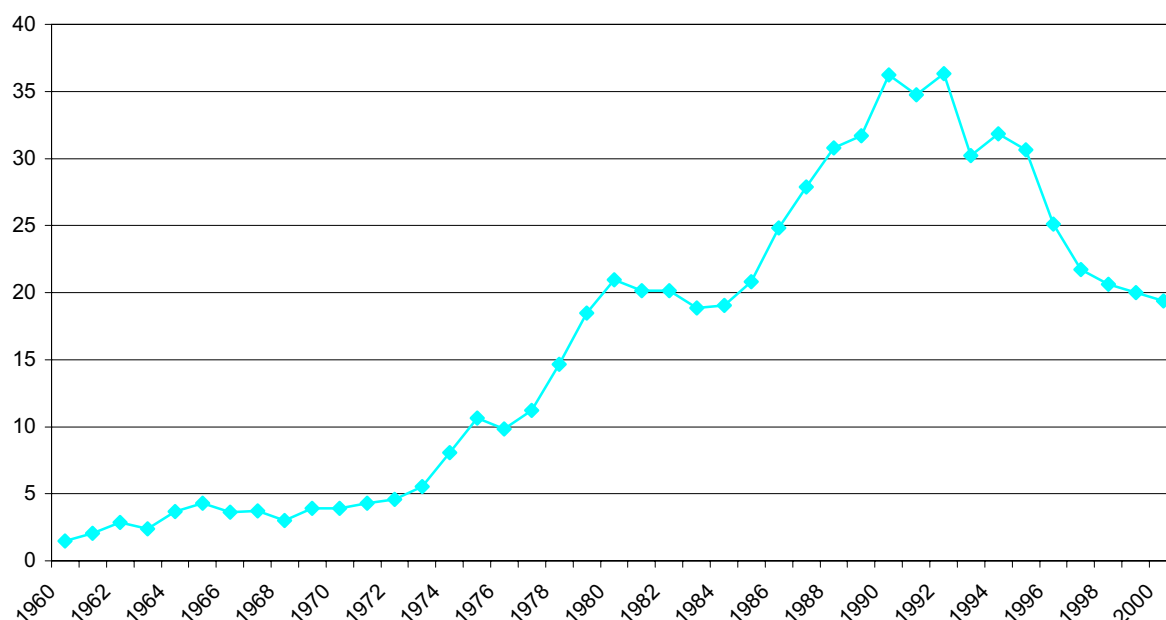
Sources: ILO (2000a); World Bank (2002c).

Table 6.2
Projected growth in selected countries in sub-Saharan Africa, 2002 (%)

Projected GDP Growth	
Gabon	-6.0
Zimbabwe	-5.0
Liberia	1.0
Kenya	2.5
South Africa	2.9
Equatorial Guinea	4.0
Senegal	5.9
Burkina Faso	6.0
Mali	6.0
Ethiopia	6.8
Chad	10.0
Angola	10.3

Source: The Economist Intelligence Unit (2002) (<http://www.eiu.com>).

Figure 6.1
Aid per capita, sub-Saharan Africa, USD, 1960-2000



Sources: World Bank (2002c); UNDP (2002).

Sub-Saharan Africa remains the region most dependent on **commodity exports** (table 6.3). In addition to vulnerability to weather conditions and to fluctuations in international commodity prices, it is a sector pitched at the least skill-intensive stage of production. In times of slowdown or recession, unskilled workers lose their jobs and incomes. In 2002 weak global demand exacerbated the downward pressure on commodity prices. The impact on employment, although not quantified, has been disastrous, leading to a rise of informal economy under-employment.

Box 6.1

Could Africa's labour force benefit from growing trade?

If markets functioned like textbooks, employment-intensive activities like agriculture could benefit from growing trade. World Bank research has shown that cotton exporters in West and Central Africa would see their annual revenues increase by USD 250 million if the world's biggest cotton producer, the United States, stopped subsidizing production. By supporting uneconomic cotton production, subsidies have driven down world cotton prices to nearly one-third of their peak level of the mid-1990s. Even though West and Central African cotton farmers rank as the lowest cost producers in the world, their governments are still spending USD 50 - USD 60 million annually to help their cotton industries survive – money that could instead be used for education, health or roads if cotton prices improved.

Source: World Bank (2002b).

Table 6.3
Composition of exports (% of total exports), sub-Saharan Africa

	1980	1990	1997
Crude petroleum	75.6	61.3	54.7
Non-oil primary commodities	19.7	22.8	26.6
Manufactures	4.0	15.5	18.4
Unclassified	0.7	0.4	0.3

Source: US Department of Commerce, 2002.

Main characteristics of sub-Saharan Africa's labour markets

High population growth rates are one of Africa's biggest problems. The current annual population growth rate is estimated at almost 3 per cent. At present, one person in three is of primary or secondary school age, as compared with only one in five in Latin America or Asia. The number of people living in sub-Saharan Africa will increase from 653 million in the year 2000 to 854 million by the year 2010. The urban population is growing far faster than the rural population. Between 1975 and 2000, the share of the urban population in total population rose from 20.9 per cent to 33.9 per cent. It is projected to increase to 42.7 per cent by 2015. These developments are reflected in the evolution of the labour force. At current rates, the regional labour force will double in 25 years and exert strong pressure on urban labour markets.

Labour force participation rates are very high (above 70 per cent) in most countries in sub-Saharan Africa. This is true for both women and men. There are, however, some variations between countries. The overall labour force participation rate is influenced by the HIV/AIDS epidemic. Unfortunately, there are only a few countries for which labour force participation data are available post 1995, but where this is the case, dramatic changes appear.³ The dramatic decline in participation rates mainly affected the 15-24 age group.

Labour force participation for women is high in countries with lower levels of development, where most people are active in rural areas. It declines, however, as a consequence of rural to urban migration. Although participation rates have always been high for women, sub-Saharan Africa also has very high fertility rates.

Rural-urban **migration** is the main flow of labour in sub-Saharan Africa. However, in only eight countries does half or more of the population live in a town, and the urban population is expected to increase by 5 per cent each year, twice as fast as population growth. Migration to foreign countries is also important. The most preoccupying phenomenon is the brain drain. Given the lack of resources for higher education in Africa, increasing numbers of Africans get their education abroad, but very often do not return to their country. In addition, many Africans educated in their own countries leave for better employment opportunities abroad. Others leave to avoid political repression or war. Whatever the reason for the migratory trend, the departure of so many educated Africans is having a devastating effect on the continent. The United Nations estimates that between 1960 and 1975, some 27,000 well-educated Africans departed for the West. From 1975 to 1984, the number of emigrants rose to 40,000 per year, and reached 80,000 by 1987. The numbers have since levelled off, with an estimated 20,000 professionals leaving Africa each year since 1990.

³ In South Africa, male labour force participation rate (15+) went down from 79.1 per cent (1995) to 57.7 per cent (1999), in Lesotho from 85.2 per cent (1995) to 69.2 per cent (1997) and in Botswana from 83.5 per cent (1995) to 60.1 per cent (1999).

Box 6.2 Addressing the brain drain in South Africa

In South Africa, as many as 500,000 skilled workers are missing. Schools and universities do not provide enough skilled people and many educated people left South Africa when apartheid came to an end. Despite an estimated unemployment rate of 40 per cent, there are not enough qualified people to fill the vacancies in high-tech industries, engineering, finance and medicine.

The brain drain is seriously undermining the country's efforts to rise above 3 per cent economic growth. An estimated 39,000 South Africans left the country in 1999 to join the 1.6 million already living abroad. About 70 per cent of skilled South Africans consider emigrating. According to an analysis of the *Financial Times* the brain drain costs South Africa USD 250 million a year.

A new immigration law was put forward in May 2002 allowing the entrance of skilled workers to the country. Before that, very strict immigration laws prevented skilled people from immigrating, especially when they were from other African countries.

Source: *The Economist* (2002).

Un- and under-employment of young people is a serious problem in most of Africa (Kanyenze et al., 2000). Although statistics are rare, unemployment in the 15-24 age group is certain to significantly exceed the unemployment rate for the sub-Saharan Africa labour force as a whole. The problem is particularly large in urban areas. According to the 1999 Ethiopia Labour Force Survey, for example, the overall unemployment rate is 8.1 per cent and the youth urban unemployment rate is 37.5 per cent (with women's rate being 43.7 and men's rate 29.4). In Namibia, the total unemployment rate is reported to be 19.5 per cent, while the urban unemployment rate for the 15-19 age group is 56.8 per cent. The share of youth unemployment in total unemployment is very high (table 6.4). Low demand for labour in a context of a rapidly growing labour force makes it extremely difficult to absorb the new entrants. Labour supply often does not correspond to the needs of the employers, with highly educated young people unable to find jobs to suit their skills or, at the other end of the spectrum, unskilled youth unable to respond to a demand for higher skills. There is thus an obvious need for both creating an investment climate favourable to employment generation and for improving the human capital of the region.

Table 6.4
Youth unemployment in selected countries of sub-Saharan Africa, latest year (%)

	Youth unemployment rate			Share of youth unemployed to total unemployed		
	Total	Men	Women	Total	Men	Women
Ethiopia 1999	n.a.	n.a.	n.a.	84.4	79.1	91.2
Mauritius 1999	n.a.	n.a.	n.a.	43.9	51.6	37.8
Namibia 1997	37.0	32.9	41.4	37.1	33.4	40.9
South Africa 2000	55.8	57.9	53.3	14.9	15.7	13.9

n.a. = Data not available

Source: ILO (2002a).

Sub-Saharan Africa has seen some improvement in the **education** of its people (UNESCO, 2001). Literacy rates have gone up everywhere since 1985, although there is still a long way to go. Rural enrolment rates tend to be lower than urban rates, especially at secondary level. In all but a few countries and at all levels of education, women score dramatically lower than men (only one in four girls in rural areas attends school). Very few people get subsidized training. Private providers are still very rare (commercial or non-profit institutions) and, although they have a better reputation, their impact is still very limited. Finally, some companies have their own vocational training programmes,

but these opportunities are limited to medium- and large-scale companies that account for a very small share of jobs. “Most working people, therefore, acquire the skills they use, however inadequate these may be, by trial and error, on the job, or through some form of organised learning such as traditional apprenticeship” (Fluitman, 2001).

Box 6.3

Initiatives to help highly skilled expatriates return to sub-Saharan Africa

Besides the depressed economic situation that drives skilled Africans to emigrate, it is often a lack of knowledge of job opportunities that makes it hard for them to return. In addition, it is sometimes the bad politics of donor's which keep them away: when donors release aid packages, they often dictate a higher pay scale for expatriate workers, while local workers, no matter how skilled, are paid less. Therefore, highly educated Africans have little economic incentive to work on local improvement projects. They are often far better off taking opportunities abroad. Moreover, plans to convince the more than 300,000 African professionals and experts working in Western countries to return to their continent is being frustrated by conflicts and growing poverty in Africa.

Recently, the International Organization for Migration (IOM) launched a campaign aimed to attract African professionals back to their home countries. The programme “Return and Reintegration of Qualified African Nationals” (RQAN) is funded by the EU and implemented by the IOM in cooperation with participating African governments. The programme provides returnees with air tickets and travel expenses, provides a relocation allowance and supplements salaries by as much as USD 800 a month for six to twelve months.

IOM has had other similar programmes in the past; the largest programme to date has helped about 1,500 highly skilled people to return to six countries: Ghana, Kenya, Somalia, Uganda, Zambia and Zimbabwe.

Source: Johnson (2000).

The **health situation** is a concern in Sub-Saharan Africa. In addition to the very high prevalence of HIV/AIDS, Sub-Saharan Africa accounts for 90 per cent of the world's cases of malaria and for over 1.5 million cases of tuberculosis every year. The escalation of **wars and internal conflicts** contributed heavily to rising poverty in the 1990s. The region accounts for an estimated 5.1 million refugees.⁴ These large-scale population movements create immense difficulties for the delivery of public services, such as healthcare and education, and also for the labour markets.

In Sub-Saharan Africa, under-employment and low-income employment in the **informal economy** are common. In many African countries, less than 10 per cent of the labour force is employed in the formal economy, and this share seems to be shrinking in some countries. For example, in Ghana, in 1997, only 7 per cent of the employed were public or semi-public sector workers, and 4 per cent worked in private sector enterprises of the formal economy. The other 89 per cent were self-employed in the informal economy (Ghana, 1999). In 1997 in Côte d'Ivoire, only around 5 per cent of the labour force was in wage employment in the formal economy, and 43 per cent of those were employed by the public sector, which left 95 per cent of the people working in the informal economy (Fluitman, 2001). In 2001 in Cameroon, over 84 per cent of total employment was in the informal economy. As table 6.5 shows, the average share of informal employment in non-agricultural employment in sub-Saharan Africa is 72 per cent. The majority (59 per cent) of people working in the informal economy in sub-Saharan Africa are women and 84 per cent of all the women working in the non-agricultural sector are in informal employment.

⁴ According to UNESCO, this figure is comprised of 3.5 million refugees and asylum seekers, 1.1 million internally displaced people and half a million former refugees who have only recently returned home.

Box 6.4 The labour market effects of HIV/AIDS

Of all the people in the world suffering from AIDS, over 70 per cent live in sub-Saharan Africa; and of all AIDS orphans – children of whom one or both parents died of HIV/AIDS – more than 90 per cent live in this region. The economic and social impact of HIV/AIDS in sub-Saharan Africa is far more severe than previously thought and will seriously undermine the development prospects of affected countries. It is the destruction of human capital that causes these losses. It is becoming increasingly difficult to replace skilled as well as unskilled labour lost to HIV/AIDS. And as AIDS affects workers who provide essential services, many countries are increasingly unable to find the resources badly needed to sustain even current levels of economic development.

The epidemic is eroding the capacity for development through its effects on labour supplies, saving rates, national security and social cohesion. Studies in Kenya and the Côte d'Ivoire found that sickness and mortality due to HIV/AIDS resulted in the dramatic depletion of savings, the loss of key skills and organizational capacity and a fall of up to 50 per cent in food production in households where only one member was sick with HIV/AIDS.

The situation in the education sector is particularly difficult: on the one hand, government spending on health accounts for an increasing proportion of the budget, crowding out other social development expenditures; on the other hand, HIV-related illnesses are rapidly eroding the supply of administrative and teaching staff and are thereby leading to increased classroom sizes. Health care is also directly affected by the same problems of replacing lost labour and skills.

The epidemic is primarily concentrated in the working age population (15-49), placing a disproportionate burden on an age group with critical social and economic roles. In Africa, the epidemic places a greater burden on women who experience more infections at an earlier age than men, with a consequent greater loss of healthy years of life and a greater share of the burden of care.

Source: Cohen (2002).

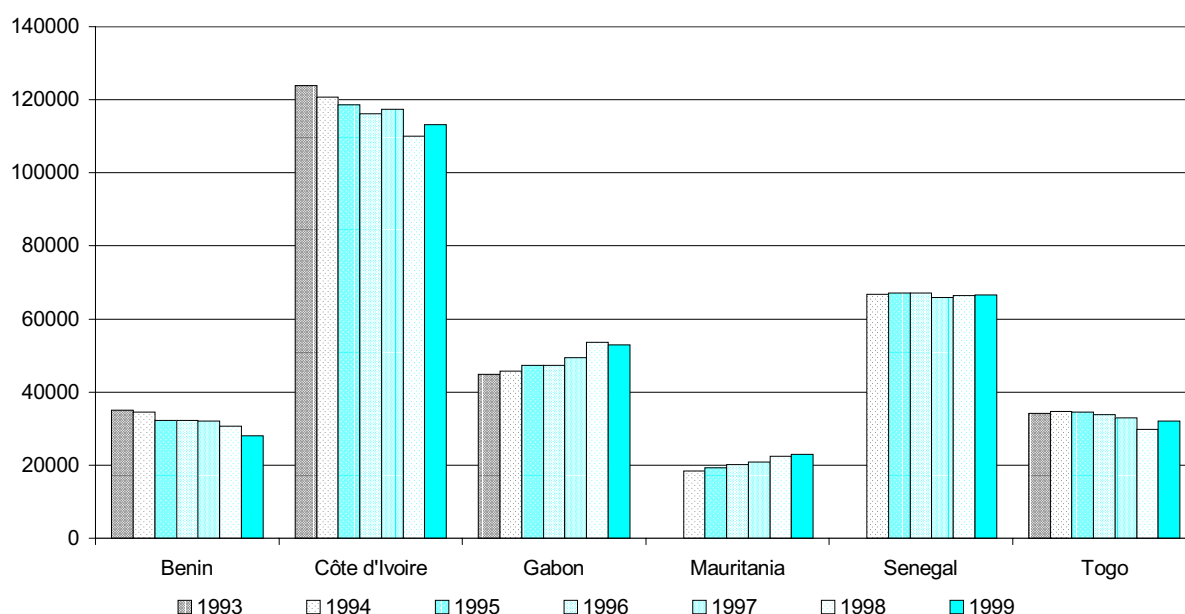
In Sub-Saharan Africa as a whole, the informal economy contributes 41 per cent to GDP; for those countries where estimates exist, the share in non-agricultural GDP ranges from 25 per cent in Kenya to 58 per cent in Ghana (ILO, 2002). The informal economy is – compared to the formal economy – characterized by lower wages and higher wage gaps between men and women. Growing **self-employment** has been a significant trend, particularly among women, often as a consequence of not finding a secure paid job. The share of self-employed among non-agricultural women workers doubled in sub-Saharan Africa (excluding South Africa) from 44 per cent in 1980 to 90 per cent in 1990. Many of the self-employed women are working in micro and small enterprises. Among the self-employed, women are much more likely than men to be own-account workers rather than employers (ILO, 2002).

Table 6.5
Informal employment in non-agricultural employment by sex,
sub-Saharan Africa, 1994-2000

	Share of informal employment in non-agricultural employment	Women's informal employment as percentage of women's non-agricultural employment	Men's informal employment as percentage of men's non- agricultural employment
Benin	93	97	87
Chad	74	95	60
Guinea	72	87	66
Kenya	72	83	59
South Africa	51	58	44
Sub-Saharan Africa	72	84	63

Source : ILO (2002b).

Figure 6.2
Public sector wage employment, selected sub-Saharan African countries, 1993-99



Source: Observatoire Economique et Statistique d'Afrique Subsaharienne (<http://www.afristat.org>).

In most African countries, the **public sector** accounts for the largest share of wage employment (figure 6.2). As part of the economic reform programmes initiated since the early 1990s, many countries in sub-Saharan Africa reduced employment in the public sector, although the number employed has often remained high. The private sector has been too weak to compensate for the decline in public sector employment, which has led to further informalization of the economy.

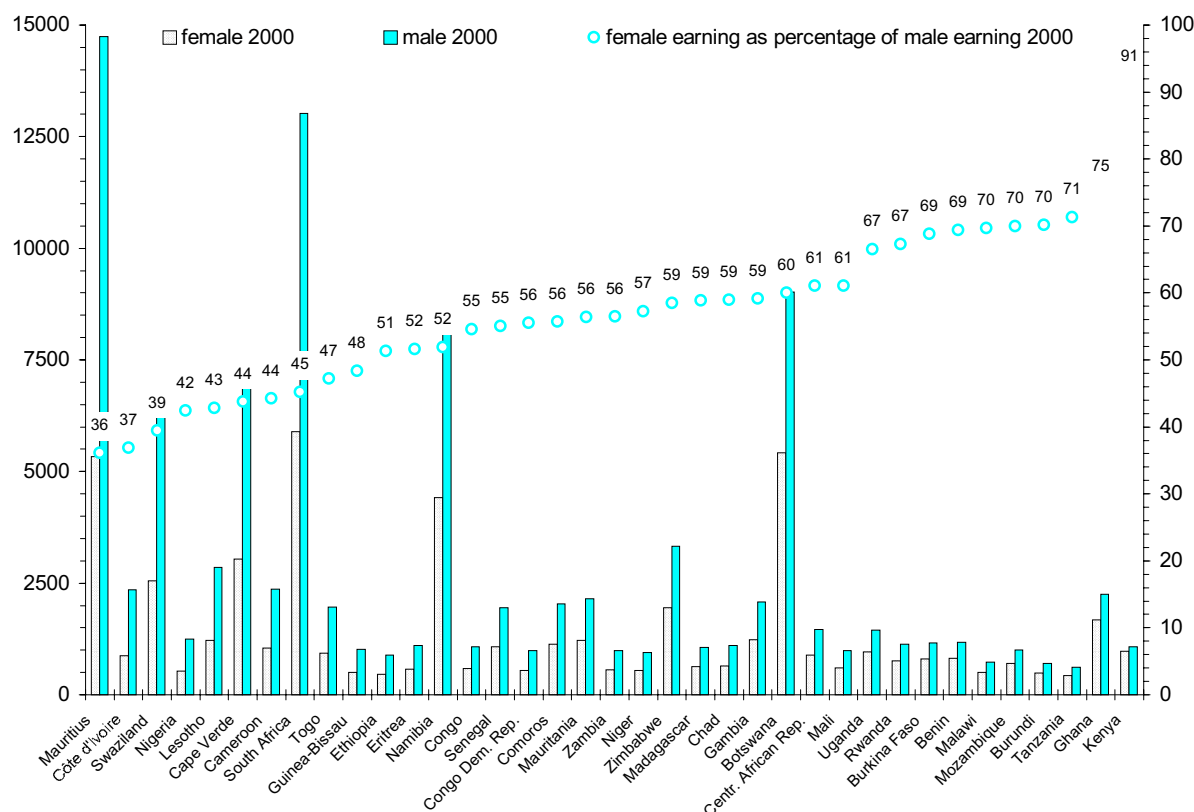
The **agricultural sector** is still by far Africa's most important source of employment. Its share in total employment has been declining in all countries, but because of the overall increase in the labour force, the absolute number of people working in the agricultural sector has been growing in most countries. Most agricultural workers are self-employed or unpaid family helpers on household farms, many of them producing exclusively for subsistence. **Productivity in the agricultural sector** is very low and available data suggest that, over the years, labour productivity in agriculture declined. Other indicators hint at this development as well: according to the World Bank, the number of tractors per 1000 agricultural workers was higher between 1979-81 than between 1996-98 (it decreased from three to two), sub-Saharan Africa thereby being the only region in the world with a decrease. The same is true for the amount of tractors being used per 100 hectares of arable land. The number decreased from 23 (1979-81) to 17 (1996-98).⁵ Hectares of arable land per capita have also decreased. On the other hand, positive signs are the increase in irrigated land as a percentage of cropland and almost double the amount of land under cereal production.

Sub-Saharan Africa has the highest share of **working children** in total child population. Twenty-nine per cent of children in this region are economically active, compared to 19 per cent in Asia and the Pacific, 16 per cent in Latin America and the Caribbean, and 15 per cent in the Middle East and North Africa (ILO, 2002).

Labour market gender inequalities remain a major constraint on sub-Saharan Africa long-term development. As shown in figure 6.3, the estimated **earned income** (PPP USD) varies widely between men and women in sub-Saharan Africa. In 2000 in Mauritius, women only earned 36.2 per cent of what men earned. Only in Kenya do women earn nearly as much as men (91 per cent). Between 1999 and 2000 the earning gap has actually increased in 21 countries of the 38 countries where data was

⁵ As a comparison: In EMU 953 tractors were used per 100 hectares of arable land between 1996 and 1998.

Figure 6.3
Earned income by sex, selected countries in sub-Saharan Africa, 2000 (PPP USD)



Source: UNDP (2002).

available. It stayed unchanged in 3 countries and improved in 14 countries. The biggest improvement has been seen in Burkina Faso, whereas the situation deteriorated most in Zambia. Since 1995, the share of female earning in total earning has increased in most countries where data are available (figure 6.3): in 25 out of 36 countries women's share was bigger in 2000 than in 1995, with the highest improvement in Kenya. But there are also 11 countries where the situation of women in terms of earning shares has worsened, Tanzania having seen the biggest decline.

The share of **working poverty** is very high in sub-Saharan Africa. In 1998, between 115 million and 153 million people were in working poverty, and this figure increased by around 2 per cent annually between 1990 and 1998. The working poor accounted for between 46.3 per cent and 61.5 per cent of total employment, the highest share worldwide (Berger and Harasty, 2002). According to the latest estimates of the World Bank, the number of people living on less than USD 1 per day has grown between 1990 and 1998 in sub-Saharan Africa from 242 to 302 million people (47.7 per cent to 48.1 per cent of the total population respectively). Urban poverty has grown faster than rural poverty, owing to the massive migration from rural areas to the cities. Urban poverty as a consequence is now just as high as rural poverty.

Employment outlook for the region

Although growth perspectives in sub-Saharan Africa have improved, it will be difficult to tackle the problems of unemployment, underemployment and poverty effectively. According to estimates, the GDP growth needed to halve unemployment and working poor rates by 2010 would have to be 5.1

per cent annually for 10 years in an optimistic scenario and 9.8 per cent in a pessimistic one (Berger and Harasty, 2002). Even in the optimistic case, these rates do not seem possible over the next few years. Every year until 2010, in net terms, over 7 million people will enter the sub-Saharan Africa labour markets, despite the HIV/AIDS epidemic and slightly lower birth rates. Eastern Africa has to absorb the largest numbers with over 3 million, followed by Western Africa (2.8 million), and Central Africa (1.4 million). The only region that might be able to integrate all the new entrants could be Southern Africa, as on average they will only have to include 190,000 entrants every year.

In terms of economic development, there are some hopeful signs for the region: recent fundamental structural changes and strengthened institutions will have a significant impact on Sub-Saharan Africa's prospects. The fact that median inflation and fiscal deficits have been reduced, while moderate gains in real investment and in foreign direct investment have also been achieved (although not in the last two years), give further reasons for hope. The debt relief some countries experienced recently has contributed to strengthen their economies: by the end of December 2001, 20 countries⁶ qualified for debt relief under the HIPC initiative. The same is true for increasing school enrolment and the decline in illiteracy rates, as well as decreasing birth rates.

Unfortunately these positive signs have been countered by a fall in saving rates and a rise in external deficits. HIV/AIDS is a big threat to the human capital slowly building up in the region. Political instability needs to be tackled in many countries. In addition, sub-Saharan Africa faces conditions that its governments cannot influence, such as the unpredictable weather and world commodity prices. Poor transportation and communication infrastructure is still one of the biggest drawbacks for higher investment.⁷ Low savings and private domestic investment as well as the limited access to foreign capital are further long-term restrictions.

Specific problems of the labour markets are also manifold and desperately need to be solved:

- High youth unemployment rates have major consequences for the behaviour of young people in the labour market: they lose the motivation to invest in their education, as the investment appears wasted. Second, as getting a job seems more likely at an older age, young people give up trying to find a job in the formal economy rather quickly.
- The share of the informal economy in the economy is very high and women are over represented.
- The level of education is still not high enough to build up the required level of human capital, especially as so many educated people leave the region.
- If not successfully tackled in the next few years, HIV/AIDS will remain a formidable threat to the development of the labour force. This is also true for other health problems in the region, often caused by polluted water supplies and poor sanitation.
- Child labour remains a huge challenge.
- In the long run, structural changes are needed so that agriculture does not continue to be the main employer in the region.
- Very few African governments pursue comprehensive labour market and employment policies, although this is an important precondition to tackling major labour market problems.

⁶ Benin, Burkina Faso, Cameroon, Chad, Ethiopia, Gambia, Guinea, Guinea-Bissau, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Sao Tome and Principe, Senegal, Tanzania, Uganda and Zambia.

⁷ There are more people connected to the Internet in New York City than on the entire African continent. With the exception of South Africa, there are only five telephone mainlines per 1000 people, compared with 655 mainlines per 1000 people in, for example, Canada.

It would help the region if the developed countries opened their markets to African exports. Greater exports could give African governments the chance to use foreign aid to strengthen communities, educate children, provide opportunities for women and eventually reduce their reliance on grants and cheap loans. Higher and more decent employment opportunities through investment in infrastructure could not only create employment opportunities but also help to raise the domestic saving rates via higher income. Further solutions would be to diversify production, so that countries become less dependent on weather conditions and fluctuating terms-of-trade.

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TRANSITION ECONOMIES

Unemployment is one of the biggest problems of the transition economies of Central and Eastern Europe (CEEC)¹, the Commonwealth of Independent States (CIS)² and the Baltic States.³ It increased significantly in the 1990s as a consequence of economic restructuring and reforms, reaching alarmingly high levels by the beginning of the new millennium. However, there are reasons to believe that future employment prospects will improve. First, fertility rates and labour force growth rates are low and decreasing, which will substantially ease pressure on the labour market. Second, while the process of restructuring led to significant productivity gains and job losses in the short term, this should translate into employment and/or wage growth in the longer term provided GDP sustains its current rate of growth.

This is not to say that the labour markets of the transition economies do not have to face other formidable challenges. The continuing emigration of skilled workers results in a drain of human capital for the region, a skill shortage and a constraint on economic growth. Wages still have to increase in many sectors, especially in the public sector, if inequalities and working poverty are to be tackled. The high incidence of long-term unemployment means that economic growth alone will not be sufficient to solve the unemployment problem and that specific, supplementary, labour market policies will be needed.

Latest economic developments and their impact on employment

The transition economies' aggregated GDP increased by 5 per cent in 2001. High growth over the last three years has translated into a GDP per capita growth seen in no other region of the world. The main factors behind this good growth performance in 2001 were strong domestic demand in the Russian Federation, as well as the positive development in many CIS countries where GDP growth remained remarkably resilient to the global slowdown in 2001 for the third year in a row. In the case of energy-exporting Kazakhstan, the growth rate of just over 13 per cent was both the result of high prices for energy as well as balanced macro-economic policies. In Ukraine – as in Russia – strong domestic demand made a GDP growth of over 9 per cent possible. CEEC and the Baltic States did rather well in 2001. All but two countries posted positive growth rates in 2001, and in Croatia, the

¹ CEEC: Countries in this group are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia, The former Yugoslav Republic of Macedonia, Yugoslavia.

² CIS: This group includes Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

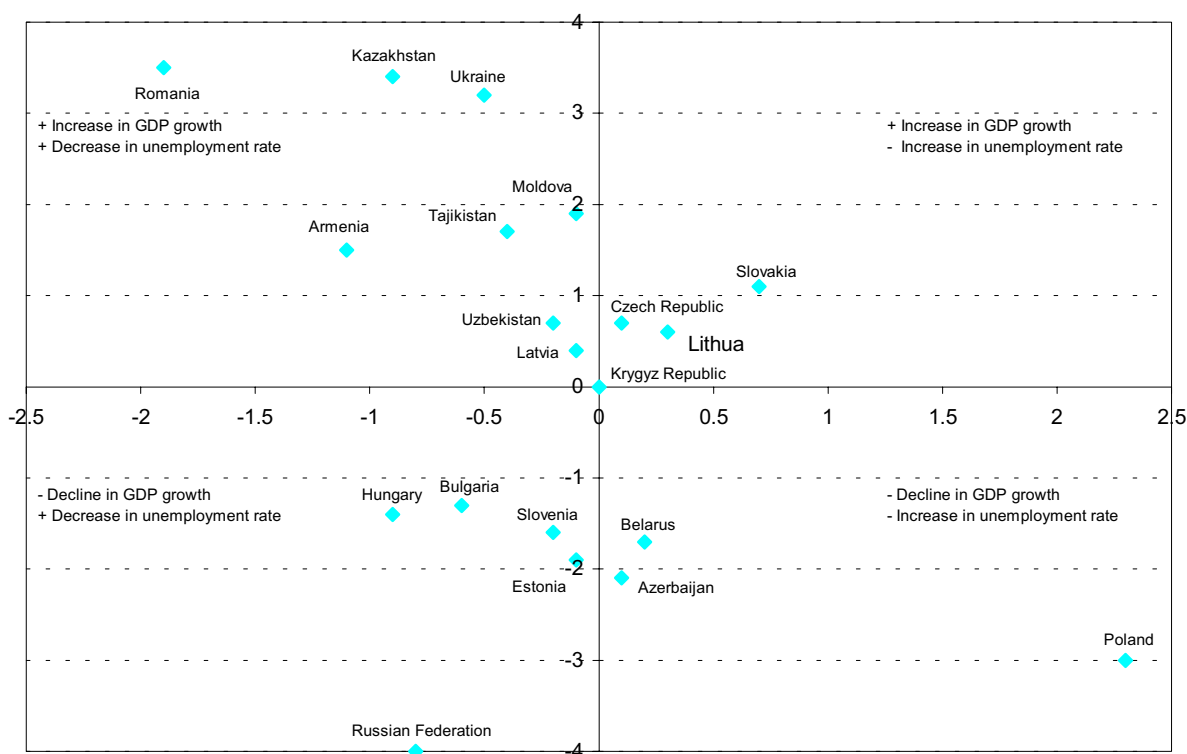
³ Baltic States: Estonia, Latvia, Lithuania.

Czech Republic, Romania, Slovakia, Latvia and Lithuania the rate of GDP growth was higher than in 2000.

In contrast, growth decelerated in Hungary and Slovenia, mainly due to weak demand from Western Europe. Yugoslavia experienced a relatively strong post-war recovery, but its sustainability is uncertain. Two countries, Poland and the former Yugoslav Republic of Macedonia, have considerable economic problems. Poland came to a near standstill after nine years of growth. The reasons for this recession are complex. Enterprise restructuring combined with a tight monetary policy – leading to an appreciation of the exchange rate to the detriment of exports – and the simultaneous implementation of four major reforms (in education, health, public administration and pensions) imposed a shock treatment on the economy. In Macedonia, weak economic performance is mainly the result of the past internal military conflict.

Strong private domestic demand resulting from growing confidence of both investors and consumers in most countries led economic growth in 2001. The region also enjoyed some productivity gains over the last few years, including 2001, leading to an improvement in cost competitiveness vis-à-vis their main trading partners. East European exporters thus performed better on West European markets in 2001 than some of their competitors. The fact that transition economies are not so dependent on trade with North America also cushioned the region from the economic slowdown in the United States. Finally, the increase in foreign direct investment inflows into these countries also helped sustain a high level of growth in 2001.

Figure 7.1
Economic trends in transition economies:
Change in GDP growth rate and change in unemployment rate between 2000 and 2001
(percentage point difference)



Sources: IMF (2002); UNECE (2002).

Table 7.1
Labour market indicators for transition economies, 1990-2002

	Unemployment rate			Annual employment growth rate		Annual labour force growth rate		Annual GDP growth rate	
	1990	1995	2000	1990-2000	1995-2000	1990-2000	1995-2002	1990-2000	1995-2001
Albania	9.5	n.a.	18.0 ¹	n.a.	n.a.	-0.1	0.4	0.8	5.7
Bulgaria	1.7	16.5	14.1 ¹	n.a.	-0.7 ¹	-0.5	-0.4	-2.5	0.3
Croatia	8.2	n.a.	20.6	n.a.	-1.1 ⁵	0.1	0.0	-1.0	4.2
Czech Republic	0.7	4.0	8.8	-0.4 ⁷	-0.9	0.6	0.3	0.1	1.8
Hungary	1.7	10.2	6.5	2.9	12.4	0.1	-0.1	0.5	3.6
Poland	6.5	13.3	16.7	-1.7	-0.4	0.7	0.7	-0.8	1.3
Romania	n.a.	8.0	10.8	n.a.	-0.5 ⁵	0.1	0.2	3.7	4.8
Slovakia	n.a.	13.1	18.9	n.a.	-0.2	0.9	0.8	-3.8	1.1
Slovenia	4.7	7.4	7.5	-1.0 ⁶	n.a.	0.4	0.0	0.4	4.3
Macedonia, FYR	23.6	35.6	34.5 ¹	-4.9 ²	n.a.	0.8	0.9	-7.7	-1.7
Armenia	n.a.	n.a.	9.3 ¹	n.a.	n.a.	0.4	0.8	-2.4	6.0
Azerbaijan	n.a.	0.8	1.2 ¹	-0.4 ⁸	0.6	1.5	1.7	-5.0	4.6
Belarus	n.a.	2.7	2.0 ¹	-1.6 ¹	n.a.	0.2	0.2	-0.9	3.6
Georgia	n.a.	n.a.	13.8 ¹	n.a.	n.a.	-0.9	-0.5	-11.4	5.2
Kazakhstan	n.a.	11.0	13.7 ¹	-2.5 ³	n.a.	0.1	0.3	-3.5	2.5
Kyrgyzstan	n.a.	n.a.	n.a.	0.1 ¹	n.a.	1.1	1.4	-2.7	3.7
Moldova, Rep.	n.a.	1.0	11.1 ¹	-3.6 ¹	n.a.	0.4	0.6	-8.5	-1.1
Russian Federation	n.a.	9.5	11.4	-2.4	-1.5	0.2	0.3	-2.0	0.6
Tajikistan	n.a.	2.0	2.7 ¹	-1.9 ⁴	n.a.	2.4	2.6	2.0	4.3
Ukraine	n.a.	5.6	11.9 ¹	-2.6	-4.6 ¹	-0.1	0.0	-7.6	-2.1
Uzbekistan	n.a.	0.4	n.a.	1.3	2.2	2.5	2.5	-0.1	2.8
Estonia	0.6	9.7	14.8	-3.1	-1.5	-0.9	-0.7	-1.6	4.8
Latvia	n.a.	18.9	8.4	-3.8	0.4	-1.2	-1.0	-3.5	3.8
Lithuania	n.a.	17.1	16.6	-1.6	-0.5	0.0	0.0	-2.1	3.5

n.a. = Data not available --- insignificant

¹ 1999; ² 1992-99; ³ 1993-98; ⁴ 1996; ⁵ 1996-99; ⁶ 1993-99; ⁷ 1993-2000; ⁸ 1997.

Source: ILO (2002a).

Good economic performance in 2001 led to an improving employment situation that year. As shown in figure 7.1, most countries in the region registered a fall in their unemployment rates (left side of the graph). The unemployment rate fell by almost a percentage point in the Russian Federation despite the economic slowdown. It also decreased in Hungary, Bulgaria, Slovenia and Estonia despite lower GDP growth in 2001 than in 2000. In high growth Romania, Ukraine and Kazakhstan, the unemployment rate fell significantly, whereas it increased significantly in under-performing Poland.

However, in the 1990s, over the longer term, **employment growth** was low or negative and **unemployment** increased for most countries, irrespective of how they performed in terms of economic growth (table 7.1).⁴ Hungary, where employment grew by 12.4 per cent in the second phase of transition after 1995, is the only remarkable exception. Employment in Hungary declined steeply during the first phase of the transition and shifted to both open unemployment and hidden employment in the informal economy; in the second phase, starting from a low level of formal employment, the

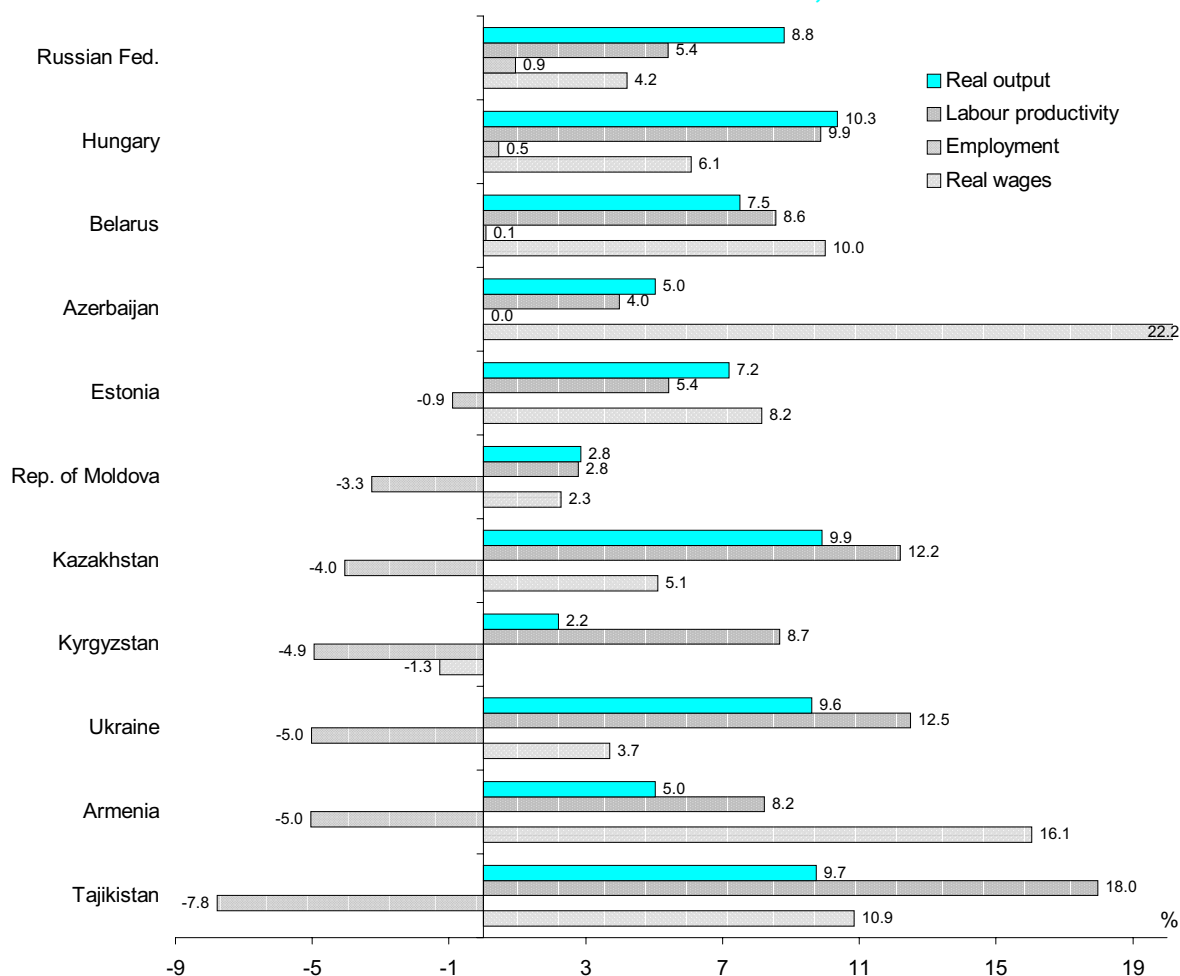
⁴ See Cazes et al. (2001) for more details about cyclic labour flow behaviour, and turnover explaining employment patterns in transition economies.

implementation of a very successful employment policy led to excellent results in the fight against unemployment. In countries that had to face war or conflicts, unemployment levels have risen more than in politically stable countries.

Rising unemployment in the 1990s was mainly the short-term consequence of rapid productivity gains achieved through restructuring and technological innovation. Low or negative employment growth also partly reflects the absorption of the overhang of excess manufacturing employment in the early 1990s. Comparing changes in total industrial output, labour productivity and employment between 1998 and 2001, suggests that the response of employment to relatively robust growth was weak, and in some countries employment continued to decline despite the growth of output. The increase in labour productivity was mostly translated into wage increases rather than employment (figure 7.2).

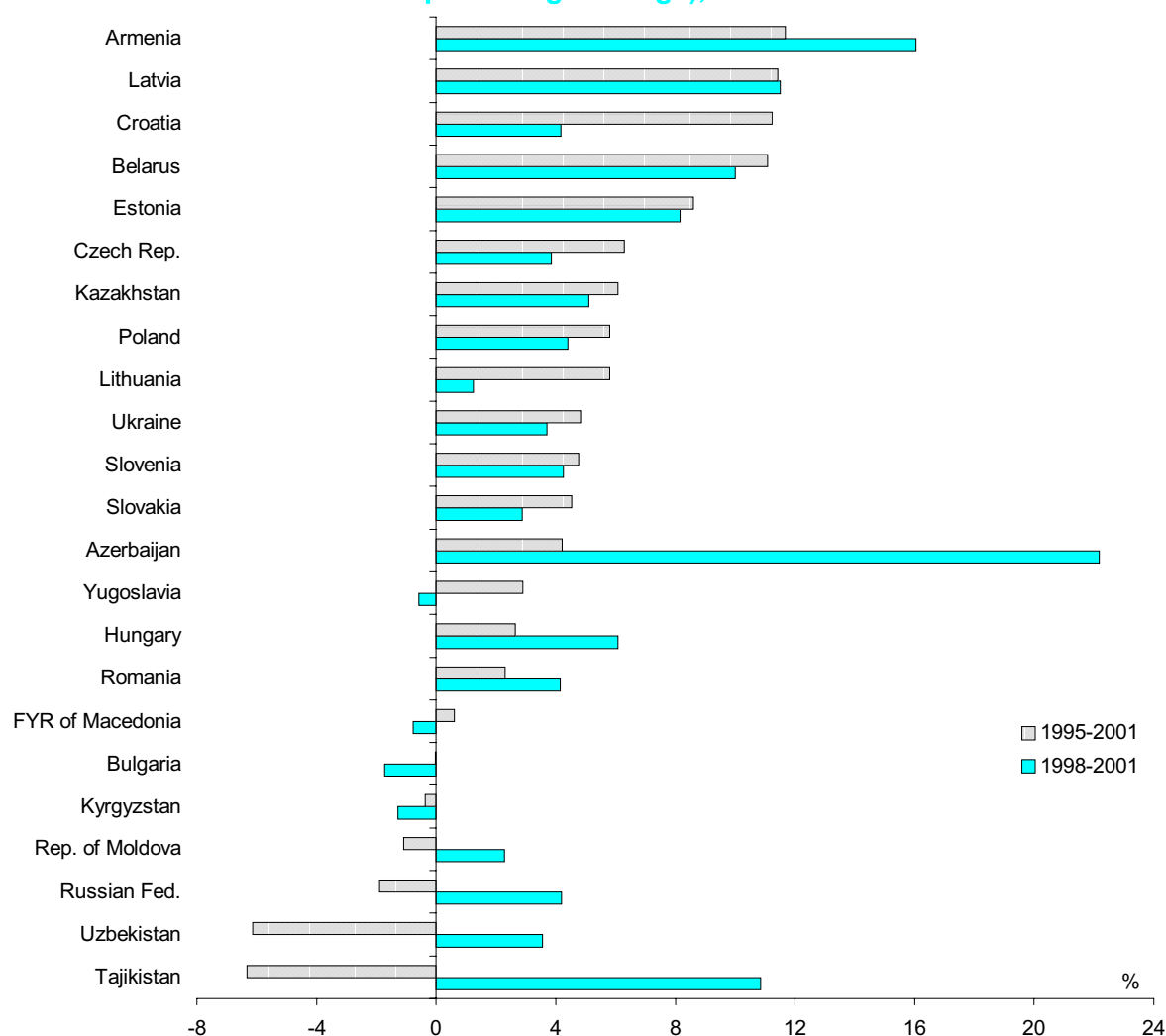
Inflation has become less and less of a constraint for economic development in the transition countries. If inflation continues to decrease in the coming years, it should have positive effects on real wages and incomes of the poorer people in the region. In recent years there have been upswings in real manufacturing wages (figure 7.3). In the Russian Federation, for example, GDP growth was much higher than employment growth between 1998 and 2001, thereby leaving some space for wage growth via higher productivity (figure 7.2).

Figure 7.2
Growth of output, labour productivity, employment and real wages in industry, selected countries in transition economies, 1998-2001



Source: UNECE (2002).

Figure 7.3
Growth of real wages in industry, selected countries in transition economies (average annual percentage change), 1995-2001



Source: UNECE (2002).

Furthermore, increased unemployment in the 1990s took place despite structural factors that should have contributed to improving the employment situation. Low fertility rates and associated low **labour force growth** combined with decreasing participation rates are substantially easing pressure on the labour market. The transition economies' low fertility rates have been continuing to decline in recent years. As it is very likely that they were not simply a reaction to the political, economic and social uncertainty of the initial years of the transition process, but also an expression of changes in social norms and values, consistent with the new economic and political order, they will probably remain low (ECE, 2002). Annual labour force growth rates for the transition economies are low, below 1 per cent in most countries, and are sometimes even negative. Tajikistan and Uzbekistan, which still record high fertility rates, are the exceptions to this tendency.

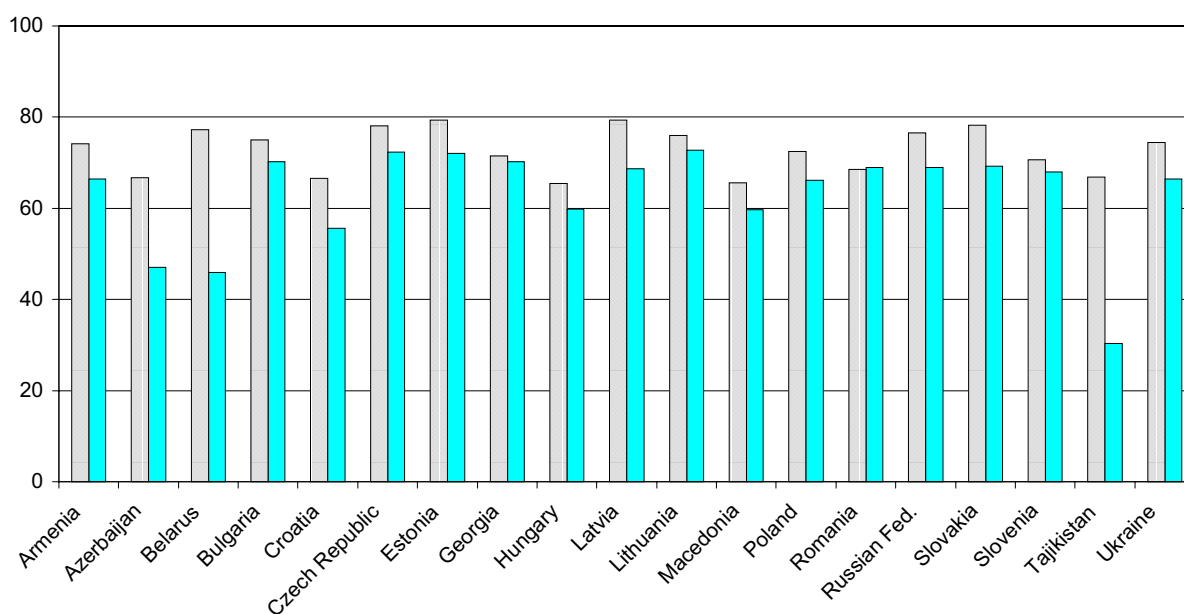
Labour force participation rate trends should also have amplified positive outcomes for employment.⁵ Participation rates decreased significantly between 1990 and 1999, in particular for the 15-24 age group. The lack of alternatives and the fact that on average returns on educational

⁵ Most of the information used in this paragraph refers to Nesporova (2002).

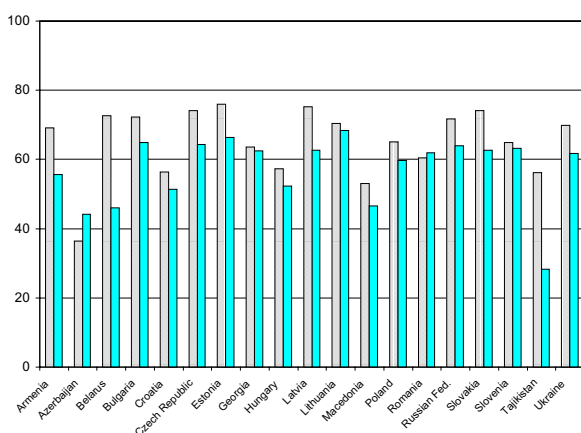
investment have increased, mean that young people are extending their education and thus reducing their labour force participation rates. But, the education system does not always provide young people with the skills required by the labour market, making the transition from education to work very difficult and pushing some of them into economic inactivity. Workers over 50 were the first to lose their jobs at the beginning of the transition process, often helped by early retirement schemes. This led to a decrease in their participation rates. However these schemes have now been reduced or even discontinued because the over-burdened national pension system was already struggling under a deficit. As early retirement became too expensive, the retirement age was raised. Very small pensions are the deciding factor for workers who choose to remain in employment as long as possible, and participation rates for 50 to 64 year-olds are on the rise again.

Figure 7.4
Participation rates (ages 15-64) in transition economies, 1990-99 (%)

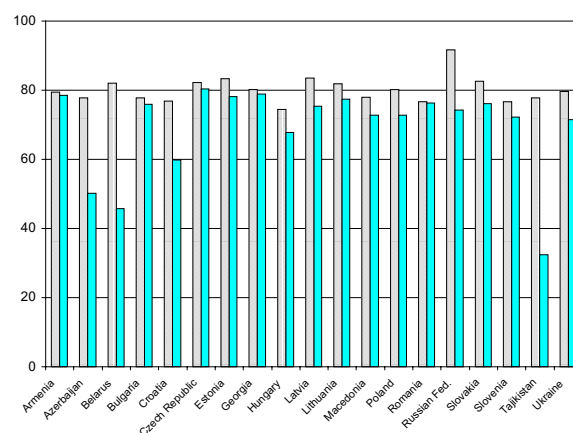
A. Total



B. Female



C. Male



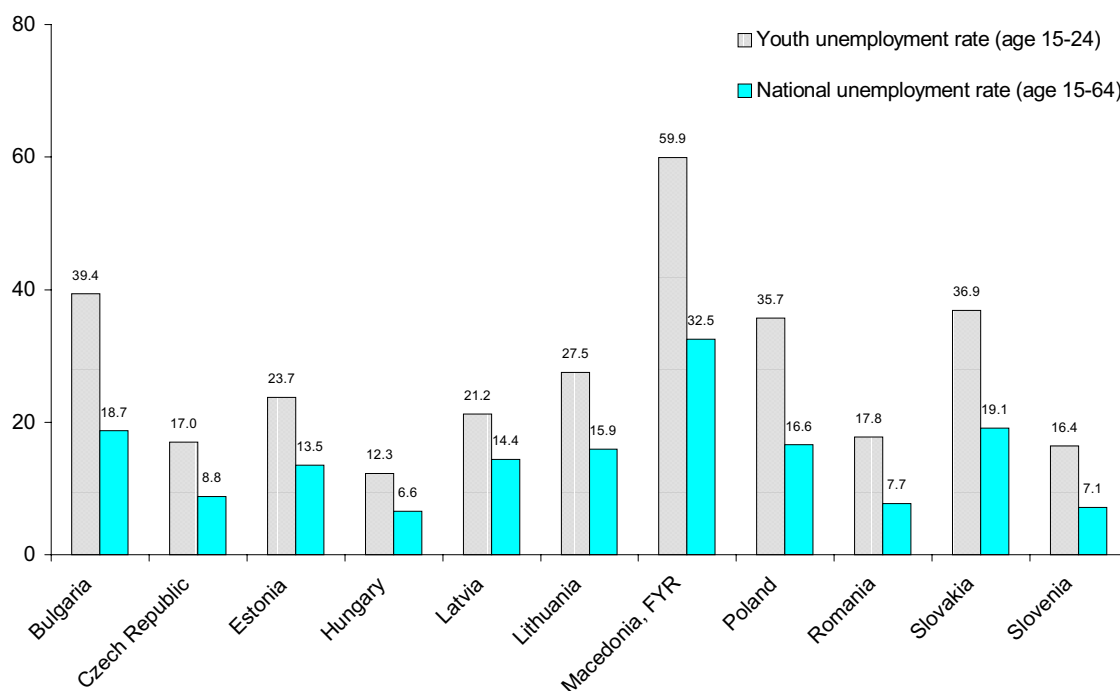
There are reasons to believe that in the medium term the employment situation ought to continue to improve. If labour productivity levels stabilize as the restructuring process matures, sustained GDP growth rates will allow employment to grow. This demand-induced employment growth combined with a reduced supply of labour should translate into decreasing unemployment rates.

Main characteristics of transition economies' labour markets

According to the number of registered unemployed, **women** face higher unemployment levels than men in all the transition economies, with the exception of Hungary. However, according to survey data some countries have higher unemployment for men than for women. This is the case for Armenia, Georgia, Lithuania, the Russian Federation and Ukraine. This disparity is explained by the fact that on the one hand women rely more than men on job-search facilities and income support assistance from the Public Employment Service, hence their higher level of official registered unemployment. On the other hand, women are more willing than men to take up low paid, precarious jobs, hence their lower reported unemployment rates when surveyed (Nesporova, 2002). Recent labour market policy changes in favour of the unemployed have, however, reduced this gap.

Youth unemployment is another continuing problem in the transition economies. No other group is as affected by unemployment as young people who have just left school and do not have any work experience. In most transition economies, unemployment rates among the under 25 are twice as high as the national average (figure 7.5). Young people with less education are more affected than those with an advanced level of education. The main reason is the mismatch between skills offered by young people and skills demanded by the labour market. To avoid this mismatch, the education system would have to adapt, as most companies show little sign of willingness to offer on-the-job training program-

Figure 7.5
Youth unemployment rates in selected transition economies, 2000



Source: Eurostat (2001).

mes. The adaptation process would require major investments if the region wants to tackle the problem of youth unemployment seriously.

Long-term unemployment is another major challenge to the transition economies. In 1999, the incidence of long-term unemployment exceeded 40 per cent in most countries (with the exception of Lithuania) and 2000 saw a further increase in the Czech Republic, Estonia and the Russian Federation. Workers in this group face a range of problems. They are often older, low skilled, lacking job mobility, may suffer from poor health and are confronted with discrimination. With the lack of public funds, it becomes even harder to get them back into the employment market. Furthermore, lack of income support in the form of unemployment benefits and rare active labour market policies discourage workers from registering as unemployed. They frequently find jobs in the informal economy.

Employment losses in the formal economy corresponded to rapid growth in **informal economy** employment. Estonia, for example, has seen quite a sharp decrease in wage and salaried employment between 1989 and 1999, leading to an increase in self-employment. However the change was most dramatic in Romania where between 1990 and 1999 wage and salaried employment went down from 75.1 per cent to 57.8 per cent. Nonetheless people became contributing family workers, most likely due to the lack of other opportunities. Most informal employment is in addition to normal jobs and there are regional differences in its occurrence. For example, it is higher in CIS countries than in CEEC countries. The informal economy is not reserved for low-skilled workers but includes workers from all educational levels. Women's share in self-employment is lower than men's in all transition countries where data exist. But women earn less than men when employed in the informal economy (Esim, 2001).

There is little information available on the different variants of **child labour** in transition economies. According to the latest ILO figures, 2.4 million children aged 5 to 14 years work in this region (4 per cent of all children). Transition countries are witnessing an upsurge in trafficking of young children for a variety of purposes, prostitution in particular (ILO, 2002c).

People who work and nevertheless do not earn enough to live above the poverty line – the **working poor** – have been a problem in the transition economies ever since the transition process started. Although absolute working poor figures in the region are low compared with other regions, they increased rapidly in the 1990s, at well above 10 per cent annually (Berger and Harasty, 2002). The poorer CIS countries have seen a sharp rise in the share of the working poor in total employment. As a result of the employment situation and the weak pension system, older people are deeply affected by income poverty, young people rely heavily on their families until they find a job, and poverty among children is increasing more than among any other age group.

Throughout the region, there has been a resurgence of “poverty diseases” such as diphtheria, tuberculosis and hepatitis. Alcoholism and HIV/AIDS represent growing health problems in many countries of the region, and are responsible for decreased life expectancy. Furthermore, the adult literacy rate has decreased in some countries of the region, even though literacy rates are still very high. Average growth rates of expenditure on education decelerated in the 1990s. All this results in the **loss of human capital** in the region.

Employment outlook for the region

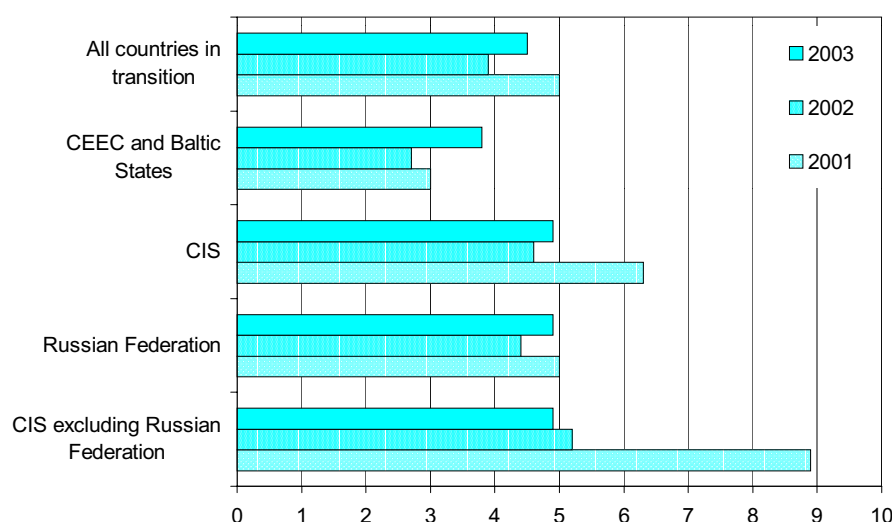
There are some hopeful signs that the employment situation will improve in the years to come. Labour force growth rates will remain low. And with the strength some countries have shown in the recent global downturn, GDP growth rates are expected to be sustained.⁶ Output growth should start

⁶ Investors have shown more trust into the economic stability of the region and flows of foreign direct investment have increased, an important precondition for further development.

translating into employment growth as significant productivity gains have already been registered in the region. In CIS countries, 840,000 jobs will have to be created on average annually until 2010 in order to employ all the new entrants to the labour force; in CEEC only 73,000 are needed per year, and in the Baltic States no net employment creation is necessary as the labour force is expected to decrease until 2010.

This optimistic outlook nevertheless needs to be qualified. The whole region, the CIS countries in particular, depends on the developments in the Russian Federation. However, Russia's long-term economic prospects are uncertain and the process of market reform is far from finished. It is not clear whether the institutional environment will be capable of implementing and enforcing efficiently all the recently adopted laws and regulations. In addition, the heavy dependence of the Russian economy on oil exports entails significant risks for macroeconomic performance, due to the persistent volatility of international oil prices. These are some of the reasons why growth is generally expected to be moderate in 2002 and 2003 (figure 7.6).

Figure 7.6
Output growth in transition economies (annual change) 2001-2003



Source: IMF (2002)

Whereas in most transition economies output growth should lead to employment creation, some countries will have to face further rises in unemployment. Poland's employment outlook is particularly bad, with GDP growth expected to only rise by 1 per cent in the next two years. Furthermore, the Government has to tackle the fiscal deficit, which will further dampen domestic demand and reduce the financial options for employment policies.

The ageing population will present a problem sooner or later, not just in terms of pension systems but also in terms of growing poverty among the older generation. The strong persistence of youth and long-term unemployment is another big constraint for further development. Demotivated young people without a job mean a loss for every society and many will look for an opportunity to migrate – legally or illegally. This will be the scenario for the more educated young people, but the less skilled will also try to find jobs in other countries, taking, for example, illegal jobs in the construction industry or seasonal harvesting jobs. In the long run, transition economies cannot afford to lose all these young people and their human capital.

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INDUSTRIALIZED COUNTRIES

Currently, most of the industrialized countries¹ are experiencing sluggish economic growth. Estimates put their GDP growth at 1.7 per cent in 2002, although this is up from 0.8 per cent in 2001 (IMF, 2002). The industrialized countries differ considerably as far as their economic and labour market institutions are concerned and they are tackling the employment consequences of this slowdown in different ways.

Latest economic developments and their impact on employment

Employment growth in industrialized countries decreased from 2000 to 2002, with the exception of Italy and New Zealand where employment growth was sustained in 2001 at the cost of a fall in productivity growth. The data in Table 8.1 show that labour productivity growth fell in nearly all industrialized countries in 2001, with the number often becoming negative. This has reduced the impact of the economic slowdown on employment and shows that employment does not necessarily fall from year to year as quickly as output falls. This may be due to a lagged effect or it may reflect employers' beliefs that good times will return. Employment protection legislation also plays a role in cushioning the employment effect of the economic slowdown.

Economic downturns translate not only into higher unemployment rates, but also withdrawal from the labour force. In many industrialized countries, labour force participation rates fell in 2001 compared to 2000, thus suggesting that they are indeed sensitive to an economic downturn (figure 8.1). Unemployment decreased in the EU between 2000 and 2001; it increased in 2002, but remains below its 2000 level. Unemployment increased rapidly in 2001 and 2002 in North America from a low level in 2000 (table 8.2).

In the past, recessions in the EU were apt to have “ratchet” effects on unemployment levels raising them permanently: from the first oil crisis onwards, the unemployment rate was higher at each onset of recovery than before the start of the recession (figure 8.2). It reached around 2-3 per cent in the mid-1970s, 6 per cent in the early 1980s and 8 per cent in the early 1990s. More workers, unemployed for long periods, saw their skills become obsolete. Efforts to raise the “employability” of the long-term

¹ Industrialized countries break down into Western Europe (EU countries, plus Norway and Switzerland), North America (Canada and United States), Australia, Japan, New Zealand and Turkey. The industrialized countries form a very diverse group in employment terms. Australia and New Zealand share many employment and labour market characteristics of North America, but are closer to Canada than to the United States in terms of social policy. In the EU, despite the adoption of common employment goals and programmes, the labour market situation varies greatly between countries. It is thus difficult to give a global picture for the region and this chapter aims at underling the differences rather than finding common traits.

Table 8.1

Growth of GDP, employment and productivity, selected industrialized countries (%)

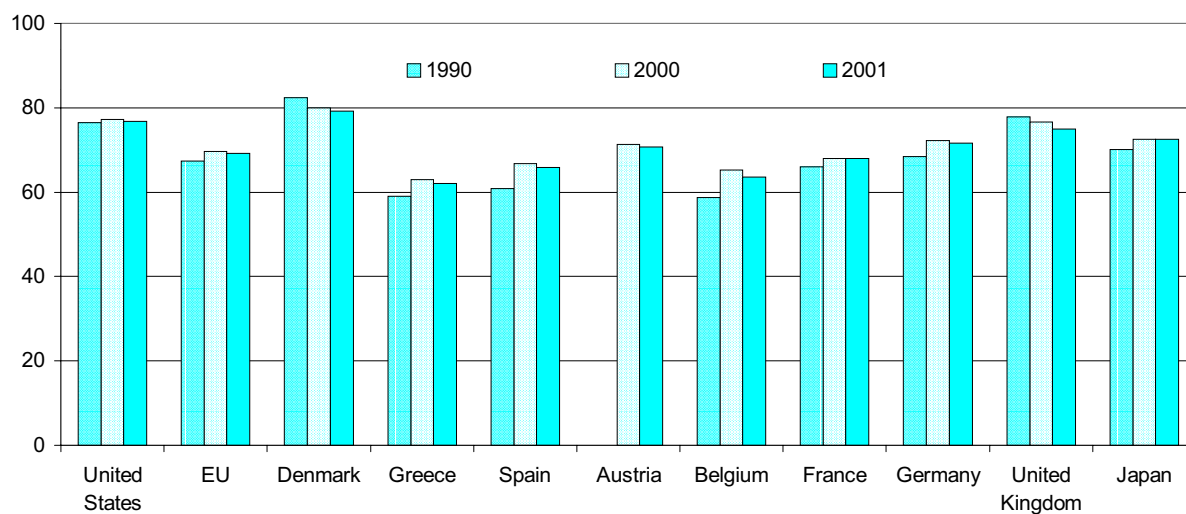
	GDP growth			Employment growth			Labour productivity growth ¹		
	1989-99	2000	2001	1989-99	2000	2001	1989-99	2000	2001
Canada	2.3	4.4	1.5	1.1	2.6	1.1	1.2	1.8	0.4
United States	3.0	4.1	1.2	1.3	1.3	-0.1	1.7	2.8	1.3
EU	2.1	3.4	1.7	1.1	2.0	1.3	1.0	1.4	0.4
Denmark	2.1	3.0	0.9	0.3	0.7	0.4	1.8	2.3	0.5
Finland	1.6	5.6	0.7	-0.9	1.7	1.4	2.5	3.9	-0.7
Sweden	1.5	3.6	1.2	-0.9	2.2	2.0	2.4	1.4	-0.8
Italy	1.5	2.9	1.8	-0.1	1.9	2.0	1.6	1.0	-0.2
Spain	2.6	4.1	2.8	1.4	5.5	3.7	1.2	-1.4	-0.9
Belgium	2.0	4.0	1.1	0.4	1.6	1.1	1.4	2.4	0.0
France	1.7	3.6	2.0	0.5	2.5	1.5	1.2	1.1	0.5
Germany	2.3	3.0	0.6	0.7	1.6	0.2	1.6	1.4	0.4
United Kingdom	2.1	3.0	2.2	0.2	1.0	0.8	1.9	2.0	1.4
Australia	3.3	3.4	2.4	1.2	3.0	1.0	2.1	0.4	1.4
New Zealand	2.4	3.6	1.8	1.8	1.6	2.5	0.6	2.0	-0.7
Japan	1.7	2.4	-0.4	0.5	-0.2	-0.5	1.2	2.6	0.1

¹ Labour productivity growth = GDP growth - employment growth

Source: OECD (2002).

Figure 8.1

Labour force participation rates, selected industrialized countries (%)



Source: OECD (2002).

unemployed were thus stimulated and a few countries have brought down rates of long-term unemployment considerably (table 8.5). The United States has been able to avoid the ratchet effect. As shown in figure 8.2, the EU has succeeded in reversing this process during the current recession. In 2000/2001, unemployment in the EU was brought below the initial level of the previous recession for the first time.

Table 8.2
Unemployment rates in the industrialized countries, 1990-2002

	1990	1995	2000	2001	2002 [*]
Australia	6.7	8.2	6.3	6.7	6.6
Austria	4.0 ¹	3.9	4.7	3.6	5.6
Belgium	6.6	9.7	6.9	6.6	6.7
Canada	8.1	9.4	6.8	7.2	7.6
Denmark	7.2	6.8	4.4	4.3	4.3
Finland	3.2	15.2	9.8	9.1	9.4
France	8.6	11.4	9.4	8.6	9.2
Germany	4.8	8.2	7.5	7.9	7.8
Greece	10.5 ¹	10.5	11.2	7.6	10.3
Iceland	2.7	n.a.	1.4	2.3	2.5
Ireland	13.4	12.3	4.3	3.8	4.9
Italy	8.9	11.5	10.7	9.5	9.1
Japan	2.1	3.1	4.7	5.1	5.8
Luxembourg	1.7	2.9	2.6	2.4	2.9
Netherlands	5.9	6.6	2.6	2.4	2.7
New Zealand	7.8	6.3	6.0	5.3	5.7
Norway	5.3	5.0	3.4	3.6	3.6
Portugal	4.8	7.3	4.0	4.1	4.4
Spain	16.1	22.7	11.4	13.0	10.7
Sweden	1.7	8.8	4.7	5.1	4.2
Switzerland	2.0 ²	3.5	2.0	2.6 ³	2.5
Turkey	8.2	n.a.	6.4	10.9	9.2
United Kingdom	6.9	8.5	5.5	5.0	5.3
United States	5.6	5.6	4.0	4.8	5.6
EU	8.1 ²	10.5	7.8	7.4	7.6

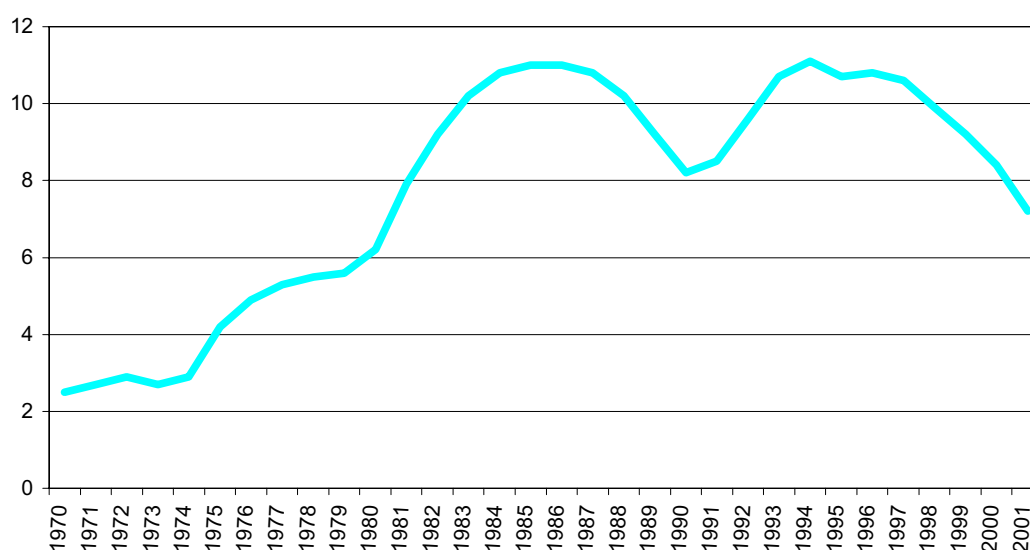
^{*} Projection

¹ 1993; ² 1991; ³ 2000.

Source: OECD (2002).

Men's labour force participation rates have been falling nearly everywhere. This reflects both a larger student population and increased voluntary retirement for workers in their early 60s. The exceptions are countries where many jobs have been created, such as in Ireland, the Netherlands and Norway. However, most countries with high male labour force participation rates of over 80 per cent in 1990, including the Australia, Canada, Denmark, Sweden, Switzerland, the United Kingdom and the United States, have since seen them fall.

Figure 8.2
Unemployment rate in the EU (%), 1970-2001



Source: Auer and Popova (Forthcoming).

Main characteristics of the industrialized countries' labour markets

In Ireland, the Netherlands, Norway, Portugal, Spain and the United States, **unemployment rates** fell between 1990 and 2000, while **labour force participation rates** rose, indicating a rise in employment to population rates.² In Germany, labour force participation rose but was mainly reflected in unemployment and not employment growth. The only other countries to suffer large increases in unemployment were Finland and Sweden, both enduring a period of negative growth and labour market disruption, though for different reasons. However, in the late 1990s, Sweden reduced its unemployment rate to half that of its peak in 1993/94. Other countries, for example Belgium and France, ended the 1990s with much the same unemployment level as earlier in the decade, although in both cases employment growth picked up a little in 2000 (counteracting the rise in labour force participation).

Both unemployment and labour force participation have gender dimensions (table 8.3). The **gender difference in unemployment** is most obvious in Southern Europe, where female rates can be double those for men, and to some extent in France, where a difference of five percentage points existed in 1990. Austria, with a difference of at least two percentage points in favour of women is a clear example of the opposite. A large difference in men's favour in the Netherlands in 1990, and to some extent also in Germany, has been considerably reversed.

At the same time, female labour force participation rates have risen in all instances except two, Denmark and Sweden, the countries which have consistently had the highest female labour force participation rates. The highest rise did not come in Southern Europe, but in Ireland and the Netherlands. In these two countries, jobs were created for women and at a fast pace. In Canada, the United States, and the United Kingdom, female labour force participation rates rose little, but remain higher nonetheless than in France and Germany, and are well above the EU average of some 60 per cent. In the 1990s, the gap between male and female labour force participation rates fell considerably.

² The employment to population ratio (EPR) relates to the unemployment rate (UR) and labour force participation rate (LFPR) as follows:

$$EPR = \frac{LFPR}{1 - UR}$$

In the EU, the gap fell from 25 to 18 percentage points. This gap nonetheless remains significant and it is a matter of concern that it may not be entirely the result of voluntary choice. More women would probably choose at least to look for work if economic structures were changed or regulatory hurdles removed to allow the creation of acceptable jobs.

Table 8.3
Male and female unemployment and labour force participation rates, industrialized countries (%)

	Unemployment rate						Labour force participation rate					
	Male			Female			Male			Female		
	1990	2000	2001	1990	2000	2001	1990	2000	2001	1990	2000	2001
Canada	8.3	7.0	7.6	8.1	6.7	6.8	84.9	82.1	82.1	68.3	70.5	70.8
United States	5.7	3.9	4.9	5.6	4.2	4.7	85.6	83.9	83.4	67.8	70.8	70.5
EU	6.7	7.2	6.5	10.1	10.0	8.7	79.9	79.1	78.3	54.8	60.1	60.1
Denmark	8.0	4.0	3.7	9.0	5.0	4.8	87.1	84.0	83.3	77.6	75.9	75.0
Finland	3.6	9.2	8.7	2.7	10.6	9.7	79.6	76.4	76.7	73.5	72.1	75.0
Norway	5.8	3.6	3.6	4.9	3.2	3.4	83.4	84.8	84.0	70.7	76.5	76.4
Sweden	1.8	6.3	5.4	1.8	5.4	4.7	86.7	81.2	81.4	82.5	76.4	77.1
Greece	4.4	7.5	6.9	12.0	16.9	15.6	76.8	77.1	76.2	42.6	49.7	48.8
Italy	7.9	8.2	7.4	17.7	14.6	13.1	75.1	74.3	74.2	44.0	46.3	47.3
Portugal	3.3	3.3	3.4	7.0	5.3	5.4	82.8	78.9	79.4	59.6	63.7	64.6
Spain	11.8	9.6	7.5	24.4	20.6	15.3	80.4	80.4	79.8	41.8	52.9	51.6
Austria	n.a.	6.6	6.9	n.a.	4.6	4.1	n.a.	80.1	79.0	n.a.	62.5	62.3
Belgium	4.6	5.3	5.7	11.5	8.3	6.9	71.3	73.8	72.7	46.1	56.6	54.5
France	7.0	8.5	7.1	12.1	11.9	10.8	75.0	74.4	74.3	57.2	61.7	61.8
Germany	4.1	7.7	7.9	6.0	8.7	8.2	79.0	81.1	79.3	55.5	63.2	63.8
Ireland	13.0	4.5	3.9	14.0	4.2	3.5	77.5	79.1	79.0	42.6	55.7	56.0
Netherlands	5.7	2.2	1.8	10.9	3.9	2.5	79.7	83.9	84.2	52.4	65.7	66.9
Switzerland	1.2	2.3	1.8	2.6	3.2	3.5	91.1	89.4	89.2	68.2	71.6	73.0
United Kingdom	7.1	6.1	5.3	6.6	4.8	4.2	88.3	84.3	82.2	67.3	68.9	67.6
Australia	6.9	6.6	6.9	7.2	5.9	6.3	84.4	82.0	81.7	61.5	65.5	65.8
New Zealand	8.3	6.2	5.5	7.3	5.9	5.3	83.0	83.2	83.4	63.2	67.5	68.5
Japan	2.1	5.1	5.4	2.3	4.7	5.1	83.0	85.2	85.0	57.1	59.6	60.1

n.a. = Data not available.
Source: OECD (2002).

Table 8.4 looks at the comparison of **labour productivity** and compensation of employees (average earnings).³ A first point is that when the average for 1989-99 is taken, earnings nearly universally failed to rise at the same rate as labour productivity. This was caused by a mixture of fairly high unemployment at the beginning of the period, stabilization policies adopted in the EU in order to prepare for the introduction of the euro, and anti-inflationary policies, which discouraged nominal wage growth as well as reduced working time. There are some exceptions, namely Belgium, Portugal and Spain. Belgium continued on a relatively high earnings path into the next decade. The data show clearly the negotiated wage restraint in Ireland, which by 2001 seems to have disappeared. In 2000, the earnings-productivity gap on average for the EU narrowed and was reversed in 2001 as a tighter

³ The latter are deflated here by the GDP deflator so they probably differ slightly from a series of real wages using the consumer price index. However, in this way the same price deflator is used for both productivity and earnings.

labour market caused earnings growth to exceed productivity growth. In the United States, labour finally came to benefit from a decade of relatively fast employment growth as earnings began to exceed productivity growth by a substantial margin.

Given the large lag between productivity growth and earnings growth that emerged in the 1990s, it is hardly surprising that labour is reluctant to see earnings fall in line with the decline in productivity in 2001. Nonetheless it is remarkable to see earnings and productivity growth moving together in the Netherlands. New Zealand, a country with a highly deregulated labour market, displayed earnings behaviour very sensitive to productivity growth. However, in another deregulated country, the United Kingdom, where possibly unemployment will not fall much further, this was not the case and earnings rose substantially more than productivity in 2001. This might be due to there being stronger trade unions in the United Kingdom than in New Zealand.

Table 8.4 also shows the behaviour of total **labour costs** in the past two years. On average in the EU, and for many individual EU countries, total labour costs rose more slowly than compensation of employees. This was not the case in the United States, which suggests that EU countries have generally attempted to reduce non-wage costs. The effect on workers' welfare is not obvious since the services provided by charges levied on employers may have been financed by general taxation instead. However, it is possible that such elements as pensions, health care or accident insurance, are of lower quality than before.

Table 8.4
Productivity, earnings growth and total labour costs, industrialized countries (%)

	Productivity			Employee compensation (earnings)			Total labour costs		
	1989-99	2000	2001	1989-99	2000	2001	1989-99	2000	2001
Canada	1.2	1.8	0.4	1.7	-0.6	-0.5	1.5	-1.9	-0.4
USA	1.7	2.8	1.3	1.3	3.3	3.0	1.4	3.6	2.3
EU	1.0	1.4	0.4	0.8	1.3	0.8	0.1	1.1	0.6
Denmark	1.8	2.3	0.5	1.1	0.3	1.3	0.6	-0.3	0.1
Finland	2.5	3.9	-0.7	1.6	1.1	1.9	0.9	0.9	2.9
Sweden	2.4	1.4	-0.8	2.0	6.7	3.3	1.5	7.4	1.8
Greece	1.3	4.4	4.2	-0.3	1.9	2.5	-0.8	1.4	2.0
Italy	1.6	1.0	-0.2	0.2	0.5	1.0	0.0	0.4	-0.4
Portugal	1.3	1.6	0.3	4.3	-1.8	0.1	3.6	5.0	0.4
Spain	1.2	-1.4	-0.9	1.4	0.3	0.7	1.1	-2.2	0.6
Austria	2.1	2.5	0.8	1.9	1.6	1.1	0.9	1.2	1.2
Belgium	1.4	2.4	0.0	1.7	2.1	0.4	1.4	1.6	0.3
France	1.2	1.1	0.5	0.6	0.8	0.4	0.4	0.9	0.4
Germany	1.6	1.4	0.4	0.2	1.7	0.2	0.1	1.7	0.3
Ireland	3.2	6.8	3.7	0.7	4.3	3.9	0.6	4.0	3.6
Netherlands	0.8	1.2	-0.8	0.8	1.2	-0.8	0.4	1.1	-0.6
United Kingdom	1.9	2.0	1.4	1.6	1.7	2.8	2.0	1.6	2.5
Australia	2.1	0.4	1.4	1.9	-0.3	0.8	1.8	-0.3	0.2
New Zealand	0.6	2.0	-0.7	0.0	1.0	-1.1	0.1	0.6	-1.6
Japan	1.2	2.6	0.1	0.8	2.1	1.5	0.8	-2.1	-1.5

Source: OECD (2002).

Box 8.1

Employment and the labour market in Turkey

The employment and labour market situation in Turkey differs greatly from that of other countries discussed in this chapter. The labour force is more agrarian, there is considerable population movement to the towns, and the country has been in recession for some years. GDP fell by nearly 5 per cent in 1999, picked up in 2000 by some 7 per cent, and fell again in 2001 to the level of 1999. Unemployment rates mirrored these fluctuations: they rose substantially at the end of 2001 and reached nearly 12 per cent at the beginning of 2002. The rate of employment creation has been low: workers have been leaving agriculture, but have been unable to find formal economy jobs in the towns. Investment in new enterprises has been insufficient and the education levels of many workers are low. The Ministry of Labour is stepping up efforts at job placement and vocational counselling, with ILO support, but the institutional infrastructure remains to be built, especially in regard to active labour market policies.¹

¹ Auer and Popova (Forthcoming).

One worrying problem among many industrialized countries is that of **long-term unemployment**. Table 8.5 shows the share of the total unemployed out of work for 12 months and over for a selection of countries and for the EU. It shows firstly that long-term unemployment is negligible in the United States, largely because unemployment benefits can only be drawn for six months. For the EU average, nearly half of all jobseekers in 1990 were long-term unemployed and this share fell by around 5 percentage points in 11 years. Some countries, especially those with very high rates initially (such as Belgium) showed some success, but performance in France and Germany has been disappointing. The reduction of long-term unemployment is an important EU policy goal and has been supported in many countries by promotional programmes and job subsidies. Combined with a reform of labour market institutions in a way that makes receipt of benefits more conditional on job search, such policies may be an effective weapon in the campaign against long-term unemployment.

Data on long-term unemployment are sometimes made questionable by official use of measures to remove many long-term unemployed from the labour market through retirement or disability pensions. The OECD *Employment Outlook* for 2002 comments that “In European countries, even among prime aged males the total inactive population is several times the population in long-term unemployment, as conventionally defined” (page 226). Countries with a small percentage of long-term unemployed may also in fact have a large number of workers passing in and out of unemployment. Others may take the long-term unemployed into special programmes only to see them return quickly to unemployment. There is little doubt that a substantial number of workers do have difficulty in returning to, or indeed finding in the first place, a suitable job, or suitable series of jobs.

Youth unemployment is seen as a particular problem as it quite probably affects a worker’s future labour market course in an adverse manner. As shown in figure 8.3, youth unemployment rates have been decreasing over the 1990s up to 2001 for most industrialized countries. Germany, with an almost doubling of its (low) youth unemployment rate is the exception. Youth unemployment also increased slightly in the United Kingdom. Despite this progress, some countries still record very high youth unemployment rates. Italy, for example, has more than a quarter of its labour force below 24 years of age unemployed.

Figure 8.4 shows that **part-time employment** has been a more important source of activity for women than men. However, its expansion during the 1990s was not generally very great, so its contribution to employment growth has not been substantial. Its incidence varies widely and is in fact nearly 60 per cent for women in the Netherlands, whereas Spain has the lowest incidence with 17 per cent. Part-time employment is voluntary for some and involuntary for others.

Table 8.5

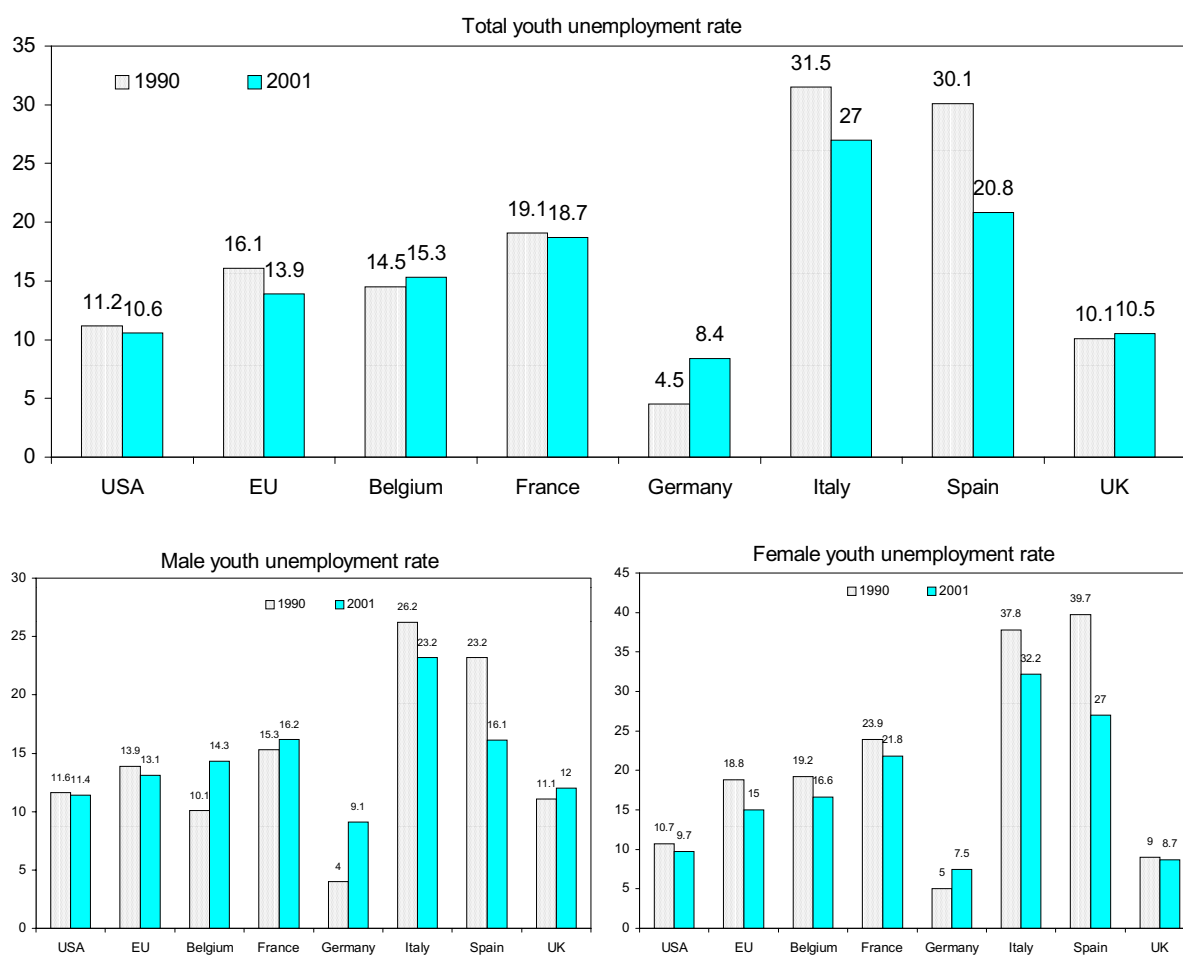
Long-term unemployment (%) unemployed 12 months and over in total unemployed)

	1990			2001		
	Total	Men	Women	Total	Men	Women
United States	5.5	7.0	3.7	6.1	6.3	5.7
EU	48.6	47.0	50.1	43.7	42.9	44.5
Belgium	68.7	66.1	70.0	51.7	52.5	50.8
France	38.0	35.4	40.0	37.6	37.5	37.6
Germany	46.8	49.1	44.5	51.5 ¹	50.1 ¹	58.1 ¹
Italy	69.8	68.6	70.7	63.4	63.7	63.1
Spain	54.0	45.8	61.5	44.0	37.9	48.6
United Kingdom	34.4	41.8	23.7	27.7	33.0	19.5

¹ 2000.

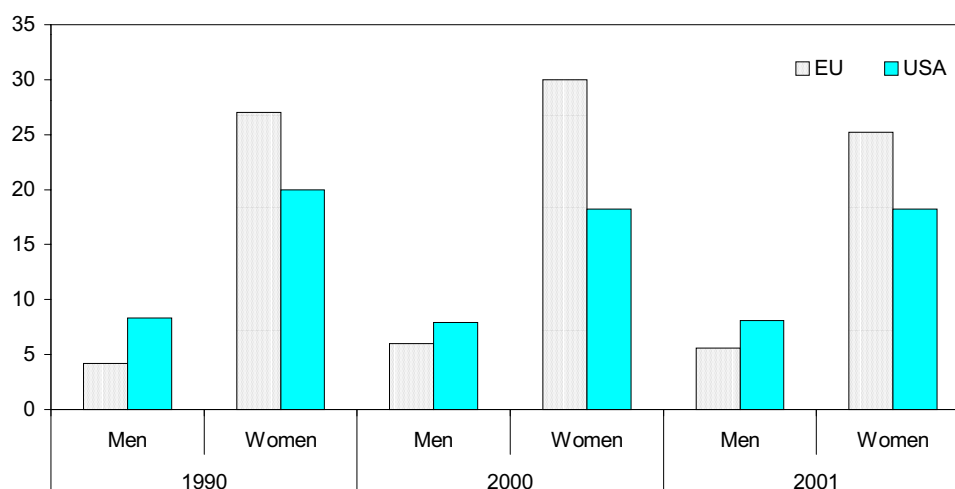
Source: OECD (2002).

Figure 8.3

Youth unemployment rate (age 15-24), selected industrialized countries, 1990 and 2001 (%)

Source: OECD (2002).

Figure 8.4
Part-time employment as share of total employment in the EU and the United States (%)



Source OECD (2002).

Perhaps of greater significance for labour market policy than part-time work is **temporary work**. The OECD sees some 12 per cent of female and 10 per cent of male wage jobs as temporary. Temporary workers are likely to be young, with low levels of education, and to work in small enterprises. They are rarely covered by collective bargaining, earn about 15 per cent less on average than permanent workers with similar educational levels and experience, and are far less satisfied with their job security. During the 1990s, temporary work contributed about one-third of total employment growth in the industrialized countries. In Italy, temporary work accounted for all of the increase in employment and in Spain for some 40 per cent. In France, it contributed to around 60 per cent of employment growth (largely public sector temporary jobs). In Ireland, Norway and the United States, however, temporary employment fell. This drop was presumably caused by employers either becoming more confident they could hold on to their labour force, or fearing losing workers as the labour market tightened. The relative level of employment protection legislation, business conditions and the rise of temporary work agencies are all factors explaining national differences in the share of temporary employment. An important question is, will workers remain trapped in temporary jobs or will these jobs act as bridges into the regular labour market? Recent studies (see OECD, 2002, and European Commission, 2002) suggest that many temporary jobs are ultimately transformed into permanent jobs.

A part of the EU employment strategy is to raise the employment-to-population rate, which is currently some 73 per cent for the United States and 64 per cent for the EU, falling as low as 55 per cent in Italy. The EU's basic rationale is that "Persons living in households where no persons of working age are in employment are 2.3 times more likely to be *poor* than persons living in households where at least one person is working" (European Commission, 2002). On average in the EU, only 7 per cent of workers are by the EU definition "at risk of poverty", compared to 40 per cent of the unemployed. Social benefits reduce poverty in all EU member countries, but the reduction is less than 30 per cent in Southern Europe – precisely where employment-to-population rates are low – and up to 70 per cent in some Nordic countries. Generally the reduction is by 30-50 per cent.

Working poverty amounted in 2000 to a little under 5 per cent of the labour force in the United States. Unemployment was rarely the cause of poverty: of those experiencing unemployment, only 6 per cent were poor. About two-thirds of the working poor were full-time workers and another fourth were voluntarily working part time. The principal cause of their poverty was low earnings, combined

in about a third of instances with spells of unemployment and involuntary part-time work (US Department of Labour, 2002).

A final point of considerable importance concerns **labour migration** to industrialized countries. This is not always easy to quantify since much migration is illegal. In the United Kingdom a figure of some 90,000 illegal immigrants annually is given much credence. In the United States the census of 2000, which included temporary residents such as students, showed that out of a nearly 10 million population increase since 1995 around 30 per cent were foreign born, making up around 10 per cent of the total. Virtually the same share of the foreign born population had a bachelor's degree or over as did the locally born population. However, a somewhat larger share, some 30 per cent compared to 13 per cent, were at the lowest level of the education range, i.e. many immigrants were low skilled. In 1998 around 660,000 immigrants were legally admitted to the United States.

In the EU about 3.4 per cent of the population are non-EU nationals and in 1999 some 1.1 million persons migrated to EU countries. Net immigration was in the region of 700,000. This accounts for about a quarter of a per cent of the population – but up to 70 per cent of all population growth, which itself is extremely low. Migration is welcome as a solution to the pension problem caused by the EU's aging population. However, the age structure of the EU population will inevitably increase old age dependency rates, and even net migration rates of 1 million annually would make little difference. However, it should be pointed out that migration into the United States is proportionately higher than into the EU and that fast employment growth can both benefit from and absorb high levels of migration. Furthermore a large share of non-nationals are from EU applicant states who once integrated into the EU will ultimately vanish from the statistics – leaving immigration, principally from North Africa and Asia – as a lower share of the EU labour force.

Employment outlook for the region

The employment outlook in the industrialized countries is very uncertain (box 8.2). There could be a few years of very slow growth as recent growth forecasts have been corrected downwards. The experience of some countries, the United Kingdom, for example, demonstrates that employment can rise only if wage and productivity growth is low. However, in all respects, fast output growth is more favourable for employment than slow growth.

During the last upswing in the EU, which lasted much of the 1990s, it became apparent that once a certain growth threshold had been passed, the employment intensity of output growth increased and each percentage point of output growth added more employment than in former periods. In addition, the ratchet effect of unemployment came to a halt. A combination of structural reforms of the labour market, and economic growth, have helped achieve this result.

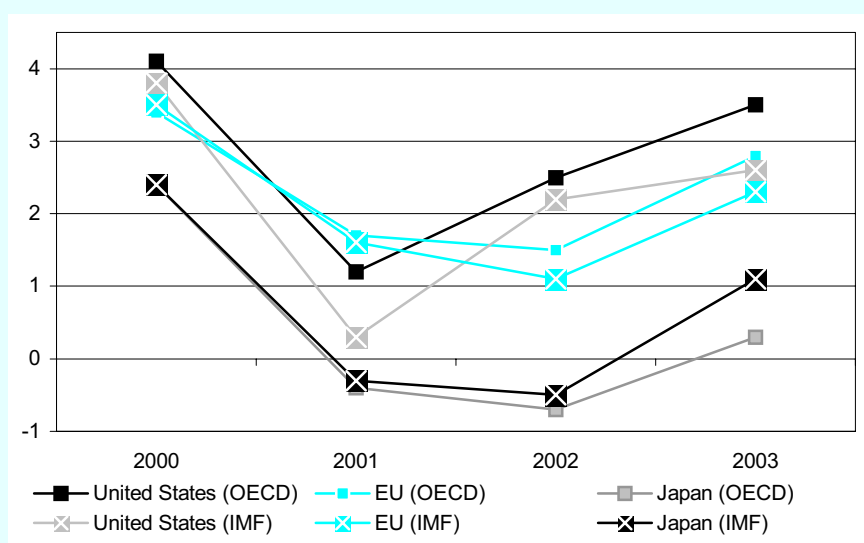
In many EU countries, past trends were dominated by output growth resulting principally from high labour productivity and low employment growth. For a long time in the United States, however, output grew through high employment growth but low labour productivity growth. From the mid-to-late 1990s until 2000, the United States has had both: that is, productivity and employment growth. But is the United States' growth pattern sustainable? Is a new pattern emerging with higher productivity growth and less employment growth? Similarly, will EU countries experience lower productivity but higher employment growth? Developments that point in this direction are too short term to be considered as trends. However, they might indicate a more substantial change in these patterns.

In Japan, there are fears that a deflationary spiral is developing that might bring down growth and employment. However, despite increasing unemployment and negative employment growth, employment rates are still quite high.

Box 8.2 An uncertain economic outlook

For three principal countries or regions, rates of economic growth have been estimated by the OECD and IMF as shown below. Probably because they are the more recent, the IMF estimates for 2002, and usually 2003, are lower than the OECD estimates. For 2001, the IMF believes that growth in the United States was no more than 0.3 per cent, which is below the OECD figure of 1.2 per cent (table 8.1).

Trends in GDP growth in principal countries and areas (%)



Source: OECD (2002); IMF (2002).

Areas where change can be predicted in the industrialized countries over the next few years include population ageing, gender equality and international migration. Population ageing may imply a fast rate of creation of part-time jobs, suitable for older workers. Aging also implies that younger workers will become relatively scarce so that possibly youth unemployment rates will fall relative to those of other workers. Also, young workers may be increasingly able to pick, choose and move between jobs. Gender equality should imply a further convergence of male and female labour force participation rates. However, in Southern Europe where the gap in this respect is greatest, a fast expansion of jobs in general would be needed first. Greater international labour mobility from outside industrialized countries could be an answer to the labour force ageing problem. However, replacement migration faces considerable political barriers.

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