International Labour Organization

ILO brief

Policy Brief

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Unions at the heart of change: shaping inclusive and decent-job-rich structural transformation

Policy considerations

- **A structural problem demands a structural response.** The current polycrisis – marked by joblessness, precarity, informality, inequality and stagnant wages, compounded by the acceleration of transformational changes – exposes the limits of a development model that prioritizes narrow growth metrics over people. Yet this disruption presents a historic opportunity to rebuild economies on fairer, more inclusive and sustainable foundations, particularly as the world prepares for the Second World Summit for Social Development (Doha, 2025).
- **Structural transformation is central to this renewal.** When guided by coherent, rights-based policies, it can raise productivity, create decent and formal employment, reduce inequality, operationalize living wages and support just transitions towards resilient and green economies.
- **Trade unions have a vital stake in shaping transformation.** Through social dialogue, collective bargaining and advocacy, they help ensure that productivity gains translate into better jobs, fair wages and stronger protections.
- **Policy coherence is non-negotiable.** A coherent and integrated framework is needed to connect:
  - strategic sectoral and industrial policies that channel investment towards high-productivity, employment-rich sectors;
  - robust legal frameworks and labour market institutions that guarantee decent work for all and protect workers through transitions; and
  - pro-employment macroeconomic policies that align fiscal and monetary objectives with the goal of full, productive and freely chosen employment.
- **Institutional coordination and social dialogue are essential.** Effective structural transformation requires whole-of-government collaboration, grounded in evidence-based policymaking and the meaningful participation of trade unions throughout the policy cycle.
- **Unions are both torchbearers and sentinels of just transformation.** By advancing a people-centred vision of economic change and safeguarding against exclusion, they help ensure that structural transformation delivers inclusion, equality and rights, while accelerating progress towards social development. Strengthening representativeness, unity, inclusiveness and technical capacity will further enhance unions' ability to shape that future.

1. Introduction

Thirty years after the Copenhagen Declaration's bold pledge to eradicate poverty, achieve full and productive employment and decent work for all, and foster social integration, these commitments remain unfulfilled. Instead, humanity faces a polycrisis that has reversed decades of progress – marked by the lasting scars of the pandemic, demographic pressures, climate disasters, technological disruptions, geopolitical fragmentation and a global cost-of-living crisis. The result is a world of deepening inequalities and social fracture: nearly 700 million people still live in extreme poverty, while almost half of humanity survives on less than US$6.85 a day. For working people, the promise of decent work has deteriorated – 402 million are unemployed or underemployed, 2 billion remain trapped in informality and more than 240 million employed workers still live in extreme poverty (ILO 2025a).

These figures expose a structural failure to build diversified economies that serve people. For decades, economic growth has often been jobless and has masked widening inequalities and exclusions; productivity gains have not translated into higher wages or formalization, and technological progress has displaced rather than empowered workers. This disconnect has hampered social development, eroded trust in institutions, weakened democratic governance and frayed the social fabric that binds societies together.

Yet within this moment of urgent challenges lies a historic opportunity to rebuild the development model on new terms – fairer, more inclusive and greener. Structural transformation – the reallocation of employment and production from low- to high-productivity sectors – stands out as the most powerful lever for achieving this change. When guided by coherent and rights-based policies, it can reorient economies towards productive, decent and formal employment. Anchored to the overarching objective of decent work for all, structural transformation can boost productivity, facilitate the realization of full, productive and freely chosen employment, reduce inequality, raise wages – including through the operationalization of living wages – support a just transition and strengthen resilience to crises.

Within this context, trade unions can play a pivotal role in advancing people-centred, rights-based structural transformation. Through social dialogue, collective bargaining and advocacy, they can help translate economic change into better jobs, fairer wages - including living wages - and stronger protections. Their participation is essential to align structural transformation with social justice and to accelerate progress towards broader social development goals.

This policy brief offers strategic guidance for trade unions to engage with structural transformation as a people-centred agenda. It provides analytical insights and policy advice to strengthen their participation in national and international debates. The brief highlights how a coherent and comprehensive framework for structural transformation – integrating economic, sectoral, industrial and labour policies – can reinforce itself to create decent work, reduce informality and bridge inequalities, ensuring that no one is left behind.

2. Structural transformation: the foundation for social development

Understanding structural transformation

Structural transformation is the fundamental process through which an economy evolves, reallocating its resources – labour and capital – from low-productivity, low value-added activities towards higher-productivity, higher value-added sectors. Typically, this involves a gradual shift away from the primary sector – characterized predominantly by low-productivity agriculture – towards more productive activities in the secondary (manufacturing and industry) and tertiary (services) sectors. Trade unions play a critical role in ensuring that this transformation generates decent, secure and inclusive employment.

This process can be understood in three distinct phases, consistent with both empirical evidence and theoretical literature (Kuznets 1966; Rodrik 2016) (see **figures 1** and **2**).

- **Phase 1 – Primary sector dominance:** The economy depends largely on subsistence agriculture and other low-productivity activities, often informal and characterized by rudimentary production techniques. Labour markets in this phase are dominated by non-productive or marginally productive jobs, with limited opportunities for formal employment.
- **Phase 2 – Industrialization and diversification:** Production and employment increasingly shift towards the secondary and tertiary sectors, reflecting industrial growth and the expansion of services that support

industry. The relative share of primary sector activities declines, and overall productivity rises, creating significant potential to improve living standards and working conditions.

- **Phase 3 – Mature economy and deindustrialization:** As economies advance, employment moves further towards high value-added service sectors, while the industrial sector plateaus or slightly contracts. This reflects structural evolution towards knowledge-intensive and innovation-driven economic activities (Buera and Kaboski 2012a; Buera and Kaboski 2012b).

Empirical confirmation and regional variations

This stylized trajectory is visible across income groups (**figures 1–2**). **Figure 1** illustrates how a country's income level is closely linked to the phase of structural transformation it is undergoing. Low-income countries largely remain in the first phase, in which employment and output are dominated by low-productivity, primary-sector[1] activities such as rudimentary agriculture, artisanal forestry, fishing or mining. These activities rely heavily on unskilled labour, generate minimal productivity and sustain high levels of informality – conditions that remain especially prevalent across much of Africa.

As incomes rise, employment gradually shifts towards higher-productivity sectors. Lower-middle-income countries are typically in the second phase, characterized by significant movement of labour out of the primary sector and into manufacturing and services. Upper-middle-income countries generally enter the third phase, marked by the rapid expansion of the services sector, which often surpasses industry as the primary source of employment. High-income countries, long established in this phase, exemplify advanced deindustrialization, with shrinking shares of employment in agriculture and industry accompanied by the dominance of services.

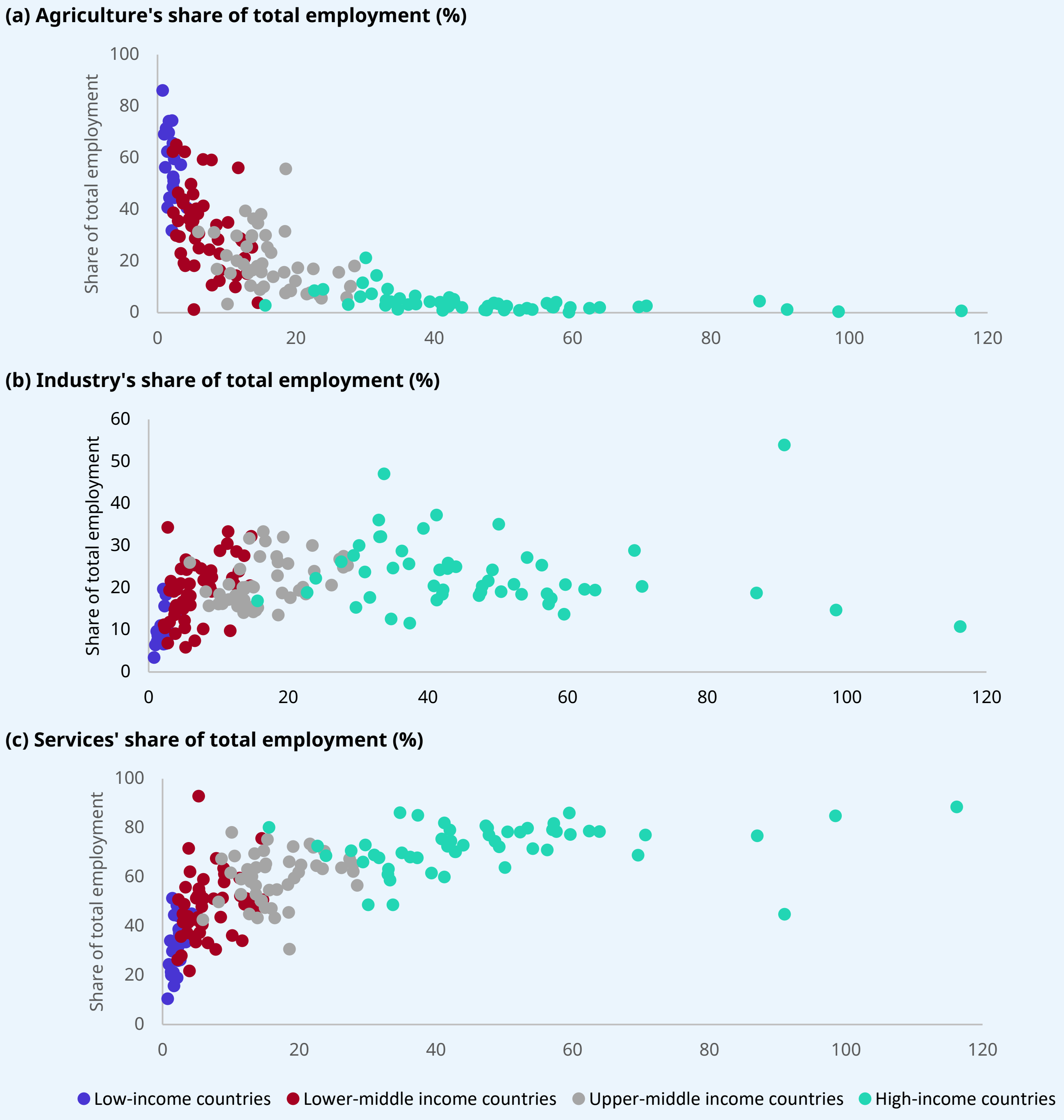
Figure 2 reveals an important nuance: many low-income countries remain trapped in stalled industrialization, with only limited growth in the secondary sector. Although some have experienced service-sector expansion, this growth often involves low value-added, informal activities that generate minimal productivity improvements or decent employment, thereby constraining opportunities for upward mobility. Persistent structural barriers – such as inadequate infrastructure, low investment, skills gaps, weak institutions, and regulatory bottlenecks – continue to hinder the emergence of robust industrial and formal service sectors.

This "missing industrialization" has been widely documented as premature deindustrialization – a process in which manufacturing peaks at much lower income and employment levels than was historically observed in advanced economies. McMillan, Rodrik and Verduzco-Gallo (2014) demonstrate that in Africa and parts of Latin America (see Box 1 for examples), labour tends to shift into low-productivity informal services rather than productive sectors, thereby undermining sustainable development. Upper-middle-income countries typically reached their industrial peaks around the 1980s, followed by rapid expansion of higher-value services. High-income countries exemplify advanced structural transformation, characterized by declining agricultural and industrial employment and a dominant service sector (Rodrik 2016; McMillan, Rodrik and Verduzco-Gallo 2014; ILO 2023).

This underscores the urgent need for coherent industrial and sectoral policies to support low-income countries in developing productive and formal employment – a critical area for trade union advocacy and engagement.

[1] The activities involved in producing goods and services in an economy can be grouped into three main sectors: (1) the primary sector, which covers the exploitation of natural resources (agriculture, fishing, forestry, mining); (2) the secondary sector, which covers the transformation of raw materials (construction, manufacturing); and (3) the tertiary sector, which covers all market services (trade, transport, finance, catering and accommodation, real estate, information-communication, etc.) and non-market services (public administration, education, health services, social work, etc.). (INSEE n.d.)

▶ Figure 1. Stylized facts of structural transformation: Employment shares by sector and GDP per capita (PPP, constant 2019), by income group, 2019

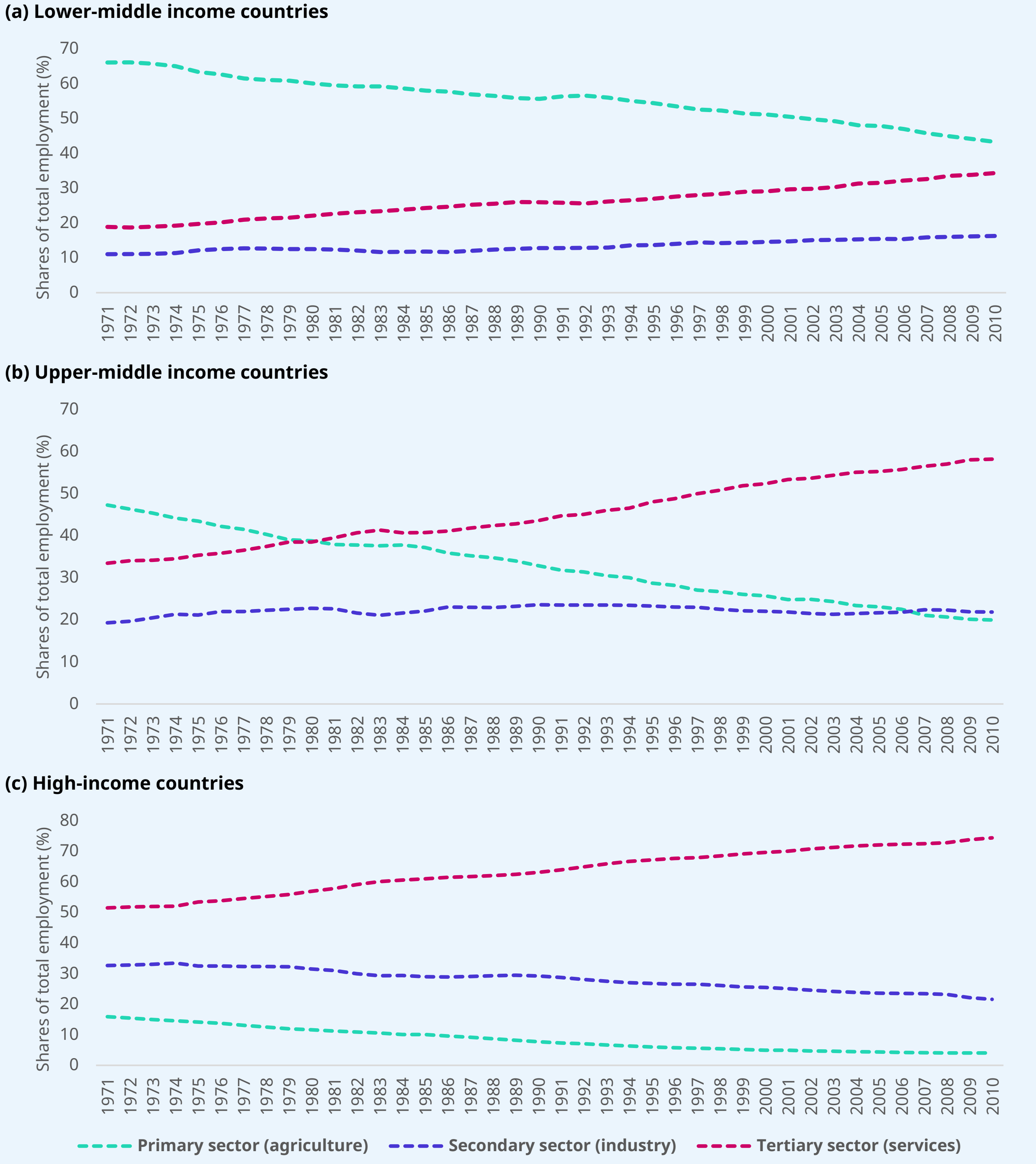


GDP per capita = Gross Domestic Product divided by total population. **PPP** = Purchasing Power Parity, conversion factor into international US dollars (2019).

Note: The figure illustrates how employment shifts across sectors as countries grow richer. Each panel plots the share of jobs in agriculture, industry, and services against GDP per capita (PPP, constant 2019 international dollars). Countries are ordered from lowest to highest income. As income rises, employment generally moves from agriculture to industry and services, illustrating how economic development transforms the structure of work.

Source: Author's calculations based on data from the World Development Indicators (World Bank), the World Economic Outlook Database (IMF), and the ILO Modelled Estimates and Projections Database (ILO).

▶ **Figure 2. Changes in the share of employment by economic sector, by country income group, 1971–2010**



Note: The figure illustrates long-term shifts (1971–2010) in employment shares across the primary (mainly agriculture), secondary (industry), and tertiary (services) sectors for different country income groups. It highlights how structural transformation unfolds unevenly across income levels, with limited industrialization in many low-income countries.
Source: Author's own calculations based on data from the Economic Transformation Database (ETD) (GGDC and UNU-WIDER 2021), the World Development Indicators (World Bank n.d.), the World Economic Outlook Database (IMF n.d.), and the ILO Modelled Estimates and Projections Database (ILO n.d.).

Why structural transformation matters for trade unions

Structural transformation lies at the heart of generating productive and decent employment, which is essential for sustainable socio-economic progress and social justice. This transformative shift depends not only on evolving economic structures but also on the implementation of coherent, sound policies – particularly industrial and sectoral strategies – that guide and accelerate the process. Effectively harnessed, structural transformation delivers multiple interconnected and powerful benefits.

A cornerstone benefit of structural transformation is strong productivity growth, which:

- arises from a combination of factors beyond labour alone, including advances in technology, capital investments, improved management practices, favourable organizational and working environments, and supportive infrastructure and regulatory frameworks (total factor productivity); and
- is characterized by the reallocation of resources towards higher-productivity sectors and the exit or transformation of less efficient firms, fostering innovation and competitiveness throughout the economy.

This dynamic has significant potential to strengthen economic foundations and drive inclusive economic expansion, boosting enterprises' revenues, profits, and competitiveness. These gains are critical for better-quality work, including higher wages – such as living wages – and improved working conditions. In this sense, structural transformation, by generating both higher productivity and more and better employment, addresses the root causes of low pay and underpins the practical achievement of formalization and the operationalization of living wages[2].

However, the translation of productivity gains into broad-based decent work is not automatic; it depends on policy choices and institutional strength.

- Technological advancements – particularly skill-biased innovations such as automation and artificial intelligence – may disproportionately benefit capital owners and high-skilled workers, exacerbating wage disparities and leaving low-skilled workers behind.
- Income inequality and weak redistributive mechanisms can concentrate gains among executives, shareholders, or financial actors, limiting the "trickling down" effect required for broad-based improvements in living standards.
- Labour market dynamics, including oversupply of workers and persistent unemployment or underemployment, weaken workers' bargaining power, reducing incentives for employers to share productivity gains through wage increases.
- An unfavourable environment for fundamental principles and rights at work (FPRW) – including the ineffective realization of freedom of association and the right to collective bargaining, and inadequate labour protections – further undermines workers' ability to claim a fair share of productivity gains, despite their essential role in value creation.
- Globalization and trade integration can introduce pressures that suppress wages in high-income countries, while trade and global value-chain dynamics may concentrate rents in multinational firms rather than lifting wages domestically (OECD 2019).

Trade unions can play a pivotal role in advancing structural transformation to ensure that it directs productivity-driven growth towards inclusive outcomes benefiting all and contributing to broader social development and social justice – particularly full, productive, and freely chosen employment, and decent work for all. When guided by appropriate policies and safeguards, these benefits include:

1. **Creation of decent jobs and formalization:** Structural transformation expands formal employment in higher value-added industries, producing jobs with improved wages, stability, and social protection. This process is vital for tackling unemployment, underemployment, and informality – the latter being a major concern for social development and social justice. The link between transformation and formalization is pivotal, as formal jobs underpin workers' rights, social security coverage, and collective bargaining. Yet this link is not automatic; deliberate safeguards, such as effective labour administration (including compliance and enforcement mechanisms), expanded social protection, and

[2] This web page offers access to essential ILO documents and publications related to living wages: ILO, The Question of Living Wages.

enforcement of collective bargaining rights, are necessary to secure formalization and prevent precarious informal work.

2. **Fiscal space expansion through formalization and productivity:** By broadening the tax base, formalization resulting from transformation increases government revenues. These fiscal resources empower states – especially in developing countries – to finance strategic investments in decent work and inclusive development, including health, education, social protection, and infrastructure, which are priorities central to trade union agendas.
3. **Poverty reduction and rising living standards:** Enhanced productivity alongside improved job quality leads to higher incomes and better living conditions, breaking the cycle of poverty and enabling inclusive economic growth. Nonetheless, poverty reduction is not guaranteed; equitable outcomes require safeguards such as fair wage policies – including living wages -, inclusive growth strategies, and comprehensive social protection to ensure benefits are fairly shared across society (World Bank 2020).
4. **Reduced inequality and stronger social cohesion:** Structural transformation creates fairer employment opportunities and supports redistributive mechanisms that narrow income gaps, fostering social stability and reducing risks of unrest. Expanding decent work is a direct pathway towards poverty eradication, reduced inequalities, and broader social development. However, reduced inequality is conditional: it depends on explicit redistribution and labour-share recovery policies – progressive tax and spending choices, strong collective bargaining, and universal public services – together with deliberate policies to reach excluded groups and regions. Otherwise, transformation may entrench or widen gaps.
5. **Environmental opportunities and just transition:** Aligned with environmental imperatives, structural transformation steers economies towards sustainable production and green jobs, facilitating a just transition that safeguards livelihoods while addressing climate change imperatives.
6. **Resilience to shocks:** Diversified, formalized economies are more resilient to shocks such as the COVID-19 pandemic, commodity price volatility, climate crises, and conflicts. Decent formal jobs provide income security and social protection, while a diversified economic base reduces dependence on volatile sectors, collectively strengthening household and national resilience.

Harnessing ILO normative guidance: strengthening trade unions’ role in advancing decent work and structural transformation

Trade unions can play a critical role in advancing a job-rich, inclusive structural transformation - an imperative firmly grounded in the normative and practical frameworks established by the International Labour Organization (ILO) and its constituents. These provide unions with normative legitimacy and actionable guidance to advocate for systemic, socially equitable economic reforms that uphold workers’ rights, social justice, and dignity.

Key milestones shaping this agenda include, among others:

- **The Declaration concerning the aims and purposes of the ILO (1944) (Declaration of Philadelphia)**, which explicitly requires aligning social, economic, and financial policies with social justice goals, including full employment, fair wages – including living wages – social protection, and inclusive social dialogue, laying the constitutional foundation for socially just structural transformation.
- **The ILO Declaration on Social Justice for a Fair Globalization (2008)**, a pivotal modern mandate that established the four pillars of the Decent Work Agenda (employment, rights, social protection, and social dialogue) as the ILO's central strategic response to the challenges of globalization, explicitly linking social justice to equitable economic integration.
- **The ILO Centenary Declaration for the Future of Work (2019)**, which commits to a human-centered approach on decent work, reducing inequalities, and fostering inclusive, transformative growth.
- **The ILO Global Call to Action (2021)**, framing COVID-19 recovery around social justice, decent jobs, and coordinated investments in employment, social protection, and skills development to build resilient labour markets.
- **The International Labour Conference resolution on employment (110th Session, 2022)**, promoting integrated strategies to combat unemployment and

informality, with quality jobs at the core of structural transformation.

- **The International Labour Conference resolution on the care economy (112th Session, 2024)**, which formally recognizes decent work in the care economy as crucial to gender equality, well-being, and sustainable development, elevating care work within labour and social policy agendas globally.
- **The International Labour Conference resolution on informality and the transition to formality (113th Session, 2025)**, representing a landmark, comprehensive mandate urging governments to develop and implement ambitious, systemic formalization strategies. These strategies aim not only to sustain productivity growth and expand access to decent, secure work, but also to rigorously enforce labour rights and protections, embed gender-responsive policies, and foster inclusive, participatory social dialogue. This resolution underscores formalization as a critical pillar for reducing inequality, strengthening social protection, and achieving just and sustainable economic transformation.

Collectively, these landmark tripartite agreements, among others, alongside flagship initiatives such as the Global Accelerator on Jobs and Social Protection for Just Transitions, provide a robust international framework to place a just, job-rich structural transformation at the heart of broader social development, as the world prepares for the Second World Summit for Social Development, marking 30 years since the Copenhagen Summit.

Box 1. Illustrative examples of stalled industrialization and informal service sector expansion

- **In Sub-Saharan Africa:** Sub-Saharan Africa remains the least industrialized region worldwide. Its share of global manufacturing value-added has stagnated at around 1.8 per cent, while the manufacturing sector's contribution to GDP declined from over 16 per cent in the 1980s to approximately 10.5 per cent by 2018 (Trade for Development News 2020; UNIDO 2020). Countries such as Kenya, Nigeria, and Zimbabwe experienced significant industrial decline during the 1990s, influenced in part by structural adjustment programmes and capital flight (Bennell 1999; Charpe 2022). The economic structure remains heavily reliant on low-productivity agriculture and a growing informal service sector, which constrains productivity growth and the creation of quality employment opportunities.
- **In Latin America:** Several Latin American countries exhibit premature deindustrialization, in which manufacturing sectors reduced their economic footprint earlier than in traditional industrializers. For example, Chile experienced a pronounced decline in manufacturing following neoliberal reforms in the 1970s, with displaced workers increasingly absorbed into informal, low-productivity service activities, aggravating underemployment and inequality (Rodrik 2016).
- **In Asia (Emerging Market Economies):** Although some countries, such as China and Viet Nam, have achieved sustained industrial growth, others, including Thailand, show signs of premature deindustrialization. In these cases, manufacturing reached its peak prematurely, accompanied by unbalanced growth of informal service activities, highlighting challenges to the traditional path toward full industrialization (Rodrik 2016).

3. A successful policy framework for structural transformation

Structural transformation can deliver shared prosperity and social justice – but its outcomes are neither automatic nor guaranteed. The stylized "phases" and benefits of transformation described earlier represent an ideal trajectory, not an assured one. Countries experience these processes at different speeds and with diverse social outcomes, depending on policy choices, institutional capacity, and the strength of social dialogue. While some achieve rapid and inclusive transformation, others remain trapped for decades in low-productivity structures. In many developing countries, employment has shifted from low-productivity agriculture to equally low-productivity and often informal services, yielding little improvement in incomes or working conditions.

This divergence underscores a fundamental truth: structural transformation is a political process—one shaped by competing interests, power relations, and strategic policy direction. Successful transformation therefore requires clear political commitment and coherent policy design, anchored in a theory of change with the explicit objective of full, productive, and freely chosen employment and decent work for all. This goal must be measurable and fully integrated into national development and budgeting frameworks to ensure that growth advances social justice and inclusive development (ILO 2025).

- ⇨ **For trade unions, this is both a challenge and an opportunity:** Transformation is not merely an economic shift to observe; it is a contested space to influence. Trade unions have a critical role in advancing policies that prioritize people over narrow growth metrics and in shaping transitions that advance decent work for all, with particular attention to groups in vulnerable situations.

The following three-pillar framework sets out the policies essential to achieving a job-rich and equitable transformation.

Pillar 1. Strategic sectoral and industrial policies: setting the direction of job creation

Sectoral policies act as the compass for reallocating production and jobs. They must be coordinated to develop activities and sectors with high potential for creating decent jobs, including both industrial and service sectors.

Objective: Build a diversified, high-productivity economy anchored in sectors with strong employment potential.

- **Target high-employment sectors:** Use industrial policies to strengthen and diversify productive capacity, especially in least developed countries. Expand service sectors with high job-generating potential – such as information and communication technologies, the care economy (with an estimated potential of 300 million new jobs by 2030, United Nations 2021), financial services, and transport – leveraging local comparative advantages.
- **Modernize all sectors:** Boost agricultural productivity to ensure food security, stabilize prices, and raise rural incomes – critical in Africa, where roughly 60 per cent of workers remain in farming (World Bank 2024).
- **Invest in productive foundations:** Channel public investment into infrastructure (energy, water, transport, ICTs, industrial zones) and promote innovation, technology transfer, and R&D to avoid productivity stagnation.
- **Enabling environment for formalization:** Requires coordinated and inclusive policies that, first and foremost, respect, promote and realize the fundamental rights of all workers, including freedom of association and the effective recognition of the right to collective bargaining. Building on this foundation, policies should simplify administrative procedures to foster enterprise creation; expand access to finance, particularly for SMEs and cooperatives; strengthen land and property rights and dispute resolution mechanisms; and guarantee comprehensive labour rights and protections – including social protection, living wages, and occupational safety and health – for all workers (ILO 2025c).
- **Strategic trade policies:** That connect the production of goods and services to a value chain that is both circular within the country and fair in the global market. This requires sound trade diplomacy, trade agreements that facilitate skill and technology transfer, and policies to strengthen domestic competitiveness – for instance, through targeted subsidies or export facilitation mechanisms that promote quality production. Evidence from Costa Rica shows that firms linked to

multinational supply chains increased employment by 26 per cent[3].

- **Anchor sustainability:** Mainstream a just transition approach, leveraging the potential of 100 million new green jobs by 2030 (ILO 2018). Ministries of environment should be fully integrated into policy design and coordination.

Pillar 2. Robust legal frameworks and labour institutions, and inclusive governance: shaping the quality of jobs

If sectoral policies determine where jobs emerge, rights and labour market institutions and policies determine what kind of jobs they are. This pillar ensures that transformation is inclusive and rights-based.

Objective: Ensure that new jobs are decent jobs, and that workers, in particular those in vulnerable situations, are protected and empowered throughout transitions.

- **Institutionalize social dialogue:** At the core of labour-led transformation lies social dialogue. It is essential for consensus-building, policy legitimacy, and industrial peace. This is enabled, first and foremost, by the respect and the realization of the fundamental rights of all workers, including freedom of association and the effective recognition of the right to collective bargaining (ILO 2024).
- **Strengthen collective bargaining and expand coverage:** Collective bargaining remains the most effective tool for aligning productivity and wage growth, improving working conditions, and ensuring a fair distribution of gains. Evidence shows that economies with robust collective bargaining achieve greater wage equality and higher productivity. Where coverage is low, revitalizing and institutionalizing bargaining frameworks must be a priority, underpinned by freedom of association to halt the global decline in labour's income share (ILO 2024; OECD 2019).
- **Robust labour institutions and governance:** Effective labour market institutions – such as public employment services, labour administration (including enforcement and compliance mechanisms), and social protection systems – are crucial for building inclusive economies. These institutions ensure that both newly created and existing jobs adhere to international labour standards, safeguarding decency, protection, and workers' rights as the labour market transforms. Robust labour market institutions help countries to achieve higher employment quality, more effective wage-setting mechanisms, and reduced informality.
- **Social protection:** Is essential for worker resilience and social cohesion during structural transformation. Following the ILO's Social Protection Floors Recommendation, 2012 (No. 202), universal, rights-based social protection – covering income support, healthcare, maternity, disability, and pensions – must protect all workers, including those in informal and precarious jobs. The COVID-19 crisis showed that strong social protection systems prevented millions from falling into poverty. For sustainable and inclusive transformation, social protection must be comprehensive, adaptive, and firmly embedded within broader policies promoting social justice and equality.
- **Implement effective transition policies:** Develop pro-employment strategies that combine passive and active measures. This includes high-quality public employment services and tailored skilling, upskilling and reskilling programs to bridge skills gaps and help workers navigate job destruction and creation, with particular attention to groups in vulnerable situations.
- **Close inclusion gaps:** Address systematic inequalities faced by women, youth, migrants, low-skilled workers, and other workers facing disadvantages in the labour market through childcare, anti-discrimination enforcement, minimum wages, and targeted support policies.

Pillar 3. Pro-employment macroeconomic policies: shaping the overall environment for full, productive, and freely chosen employment

Macroeconomic policy must be subordinated to the goal of full and decent employment, moving beyond focus on stability to actively enable job-rich transformation.

[3] A study in Costa Rica showed that national firms working in value chains with international firms experienced significant and persistent performance gains, enabling them to increase their workforce by 26%, while their productivity increased by 4-9% (Alfaro-Ureña, Manelici and Vasquez 2021).

Objective: Create a macroeconomic environment conducive to decent job creation, strong aggregate demand, and inclusive growth.[4]

- **Deploy strategic fiscal policy:** Use progressive taxation to finance universal social protection and quality public services; introduce targeted incentives for labour-intensive sectors; and apply counter-cyclical measures such as wage subsidies or unemployment benefits to stabilize employment during downturns.
- **Align monetary and financial policy:** Ensure affordable credit for SMEs and employment-intensive investments; enhance financial inclusion, and calibrate interest rates to support aggregate demand and productive investment while avoiding inflationary pressures.
- **Support domestic competitiveness:** Combine exchange rate and trade measures to prevent premature deindustrialization and protect strategic sectors.
- **Policy coherence:** Coordinate fiscal, monetary, trade, and employment policies to prevent unintended effects such as capital flight. Recognise fiscal constraints in developing countries and address them through domestic resource mobilisation and strengthened international cooperation.

Critically, the success of these three pillars depends on whole-of-government coordination. Ministries of finance, labour, industry, agriculture, education, and the environment, to name a few, must work together under a national, employment-centred development strategy. Where policy coherence is lacking, transformation falters. Evidence from South Africa, Ghana, and Viet Nam shows that fragmented policy undermined employment outcomes. Conversely, coordinated strategies – such as those adopted in East Asian economies – have generated millions of quality jobs and sustained productivity growth.

Trade unions' leadership in promoting coherence across economic, social, and environmental policies can contribute to ensuring that structural transformation delivers for workers. The next section explores in detail how policy coherence and trade union action can turn this vision into reality.

Box 2. Drawing lessons from past challenges in structural transformation: a 'what not to do list'

- **Lack of policy coherence:** Countries where public policies have been conducted in isolation often failed to achieve structural transformation. For instance, industrial or sectoral policies implemented without coordination with macroeconomic, labour market, and social policies failed to deliver sustained transformation in countries such as Viet Nam, South Africa, Spain, Ghana, and Costa Rica (Kucera, Schmidt-Klau and Weiss 2020). In other contexts, policy inconsistency over time – driven by weak institutions, governance deficits, corruption, and excessive reliance on natural resource exports – has undermined long-term development strategies.
- **Insufficient support with pro-employment macroeconomic policies:** Efforts at structural transformation often falter when macroeconomic policy remains narrowly focused on stabilization rather than employment creation. Excessive emphasis on inflation control and fiscal consolidation can suppress aggregate demand and weaken job creation. In many developing economies – particularly in Africa – limited fiscal space and monetary constraints reduce governments' ability to deploy active, employment-oriented macroeconomic tools. In contrast, historical experiences in industrialized economies show that bold fiscal and monetary interventions were essential for transformation and recovery, especially following crises.
- **Premature deindustrialization:** In other countries, industrialization occurred but halted prematurely, before a sufficiently diversified and productive industrial base could take root. This "premature deindustrialization" weakens the capacity to generate decent employment at scale and slows the transition to formality, thereby constraining sustainable growth

[4] For more details on fiscal and monetary policies, see ACTRAV Resource Package on macroeconomic policies (ILO 2025b; ILO 2025d).

Box 2. (cont'd)

- **Weak industrial policies:** In some cases, industrial policies have been too limited in scope or ambition, preventing economies from following the typical trajectory of sustained industrial upgrading. Weak or fragmented policies have led to low levels of industrial activity, causing labour and production to shift from low-productivity agriculture to equally low-productivity informal services, thereby entrenching informality and stagnating productivity growth (Di Maio 2009).
- **Insufficient innovation and technology:** Many countries have failed to stimulate innovation or strengthen domestic technological capabilities, resulting in stagnating productivity. In Ethiopia, for example, domestic firms struggled to upgrade and integrate into higher-value segments of production. More broadly, limited investment in research and development has constrained competitiveness and the diffusion of productivity gains (Vrolijk 2021).
- **Weak labour market institutions:** Even where industrialization has occurred, many countries have experienced job growth without sufficient improvements in job quality. Weak labour institutions – including ineffective enforcement mechanisms, limited collective bargaining coverage, and weak social dialogue mechanisms – have allowed the expansion of insecure, low-wage employment without social protection, undermining inclusiveness and contributing to rising inequality and the erosion of labour's share of income.

4. Action: policy coherence and the role of trade unions

Structural transformation is not a single policy, but an orchestration of policies across sectors, institutions, and time horizons. Only through such coherence can public action deliver sustained, inclusive, and context-specific results. In many developing economies, the absence of coordination and coherence has led to premature deindustrialization, persistent informality, and stalled transitions.

Policy coherence is therefore not a matter of efficiency alone; it is a normative and political necessity. It ensures that economic restructuring translates into decent work, social progress, and social justice.

This aligns with the Declaration concerning the aims and purposes of the ILO (1944) (known as the Declaration of Philadelphia), which affirmed that:

> … all national and international policies and measures, in particular those of an economic and financial character, should be judged in this light and accepted only in so far as they may be held to promote and not to hinder the achievement of this fundamental objective.
>
> ▶ **Declaration concerning the aims and purposes of the ILO (1944)**

Three dimensions of coherence:

- **Horizontal coherence: whole-of-government with social dialogue**
  Structural transformation cannot succeed if ministries act in silos. Economic, labour, industrial, educational, environmental, and financial policies must work as one, through an inter-ministerial body with authority to steer the entire policy cycle. Yet technocratic coordination alone is insufficient: legitimacy requires formal linkage with tripartite social dialogue, where trade unions and employers participate as equal partners from the outset. As reaffirmed in the ILO Centenary Declaration for the Future of Work (2019), only social dialogue grounds reform in lived realities, builds trust, and ensures that workers are at the centre of transformation.
- **Vertical coherence: aligning national strategies**
  Transformation policies must complement and reinforce other national strategies, not compete with them. They must integrate into sustainable development plans, employment strategies, poverty reduction frameworks, and just transition pathways. Crucially, this coherence must extend to fiscal policy frameworks, since annual and multi-year budgets translate political priorities into reality (ILO 2025b). The policy framework for transformation should serve as the overarching umbrella that aligns all strategies toward one measurable goal: large-scale creation of decent work. This echoes the Declaration concerning the aims and purposes of the ILO (1944), which affirmed that all policies must be judged by their ability to advance social justice, ensuring dignity, security, and opportunity for all.
- **Temporal coherence: multi-year strategies**
  Structural transformation is a long-term endeavour. Yet too often, reforms collapse when new administrations dismantle the progress of their predecessors. To prevent costly reversals, institutional frameworks must enjoy stability, independence, and broad national ownership, making transformation a shared project rather than a partisan one. Fiscal frameworks play a central role here too: multi-year budgeting and medium-term expenditure frameworks can lock in commitments to employment creation, infrastructure, and social investment beyond the electoral cycle.

An institutional framework for coherence: a non-negotiable backbone for inclusive structural transformation

Because policy coherence is essential for successful structural transformation, and fragmented policies waste resources and stall progress, a dedicated institutional framework is required to coordinate action, embed social partners' voices, and ensure accountability. This framework must perform four core functions:

- **Orchestrate whole-of-government collaboration:** Facilitate seamless cooperation among key ministries and agencies (Economy, Finance, Industry, Labour, Environment, Justice, and others) with authority to oversee the full policy cycle and align national strategies.
- **Institutionalize inclusive social dialogue:** Guarantee the meaningful, permanent participation of trade unions and employers’ organizations as equal partners. This ensures policies are grounded in workers' realities, enhancing their legitimacy and fostering just and sustainable reforms.
- **Anchor decisions in evidence:** Serve as a central hub for reliable socio-economic data, research, and monitoring. This ensures policies are relevant, effective, and can be adjusted agilely based on empirical evidence, while ensuring transparency and accountability.
- **Safeguard long-term continuity:** Be endowed with independence and broad legitimacy to protect the long-term strategy from short-term political cycles. By linking executive action with legislative oversight and social partnership, this framework ensures stability and prevents disruptive policy reversals.

By integrating government coordination, inclusive social dialogue, and evidence-based decision-making, this framework turns policy coherence from theory into practice, ensuring structural transformation is effective, legitimate, socially just and sustainable.

Torchbearers and sentinels: a central role for trade unions

Trade unions, by virtue of their mandate to advance decent work and social justice, are both torchbearers of ambition vision and sentinels of accountability in structural transformation.

- **As torchbearers**, unions can articulate a vision of structural change that places people and jobs at the centre. Their legitimacy stems from the fact that those most directly impacted by economic restructuring – workers and their families – are those they represent. Unions can advocate for ambitious, job-rich policies, grounded in ILO standards and global commitments such as the ILO Declaration on Social Justice for a Fair Globalization (2008) and the ILO Centenary Declaration for the Future of Work (2019).
- **As sentinels**, unions can play a critical role in ensuring that transformation does not deepen inequality or exclusion. They can advocate for safeguards against job losses, promote formalization, and defend rights throughout transitions. Such vigilance is essential in the face of overlapping transitions.

To play this dual role effectively, unions can strengthen:

- **Inclusiveness and representativeness**, extending organizing to workers facing disadvantages, inequalities and injustices, in the labour market, particularly women, youth, migrants, and those in the informal economy. This is essential for legitimacy and credibility in shaping transformation agendas.
- **Unity and coalition-building**, pooling resources and forging common positions to enhance negotiating power and visibility at national, regional, and global levels.
- **Capacity and expertise**, through permanent technical units and partnerships with academia, civil society, and international organizations, enabling unions to engage effectively in evidence-based policymaking.

5. Final recommendations

Structural transformation can deliver productivity, formalization, decent work, and social justice – but these are not automatic outcomes. Success depends on effective policies, safeguards, and strategic leadership. Without these, transformation may be jobless, capital-intensive, or socially regressive.

A clear theory of change anchored in the measurable goal of decent work for all is essential to steer transformation away from growth-only or exclusionary models. Building on this policy brief, the following recommendations strengthen workers' organizations' influence and effectiveness:

1. **Inclusiveness, representativeness, and unity for workers' organisations:** Strengthen internal inclusiveness and broaden representation to ensure all types of workers, especially those in vulnerable situations, are organized and heard. Unity and pooled resources ensure credibility, expand knowledge and expertise, and enhance negotiating power and policy influence.
2. **Strong and inclusive institutions to guide the structural transformation process:** This include calling for the bold financing of the process; the establishment of a permanent consultation and coordination framework for structural transformation; and effective labour market institutions, including strong social dialogue involving all stakeholders.
3. **Transparent, accountable, and efficient governance:** Promote high-quality public administration, robust monitoring and evaluation, and transparent use of public resources. Structural transformation should guide annual and multi-year budgeting.
4. **Policy coherence as a guiding principle:** Oppose fragmented policymaking; ensure industrial, macroeconomic, labour, and social policies reinforce shared objectives.
5. **Context-sensitive, evidence-based approaches:** Emphasize that transformation is not one-size-fits-all. Ensure participatory design informed by comprehensive data and continuous learning.

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