

ILO, WTO joint study on trade and informal employment: Globalization and Informal Jobs in Developing Countries

This study finds that the high incidence of informal employment in the developing world suppresses countries' ability to benefit from trade opening by creating poverty traps for workers in job transition. It is a product of the collaborative research programme of the ILO International Institute for Labour Studies and the WTO Secretariat.

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Focusing on the linkages between globalization and informal employment, the study finds that informal employment is widespread in many developing countries, leaving thousands of workers with almost no job security, low incomes and no social protection. Levels of informality vary substantially across countries, ranging from as low as 30 per cent in some Latin American countries to more than 80 per cent in certain sub-Saharan African and South Asian countries.

"The study confirms what we know from experience, that by promoting complementarity between decent work objectives and trade, financial and labour market policies, developing countries are much better placed to benefit from trade opening, advance the social dimension of globalization, and to cope with the current crisis," ILO Director-General Juan Somavia said as he presented the study together with WTO Director-General Pascal Lamy. He added that this echoes the recent call by the G20 to implement "recovery plans that support decent work, help preserve employment, and prioritize job growth...and to continue to provide income, social protection, and training support for the unemployed and those most at risk of unemployment."

Informal employment involves private, unregistered enterprises which are not subject to national law or regulation, offer no social protection and involve self-employed individuals, or members of the same household. In most cases, informality has remained high and has even increased in some countries, particularly in Asia.

"Trade has contributed to growth and development worldwide. But this has not automatically translated in an improvement in the quality of employment. Trade opening needs proper domestic policies to create good jobs. This is all the more evident with the current crisis which has reduced trade and thrown thousands into informal jobs," Pascal Lamy said.

Analyses suggest that the effect of trade opening on informality depends crucially on both country-specific circumstances and the design of trade and domestic policies. The empirical analysis in this study shows that more open economies tend to have a lower incidence of informal employment. The short-term effects of trade reforms may in the first instance be associated with higher informal employment. But longer-term effects point in the direction of a strengthening of formal sector employment, provided that trade reforms are more employment friendly and the right domestic policies are in place.

Reducing informality can release additional productive forces, enhance diversification and strengthen the capacity to trade internationally. Adverse effects of informality can mainly be related to the absence of productivity gains and low average firm size resulting from barriers to firm growth in the informal economy. Entrepreneurship and risk-taking is reduced when informality is high, partly as a result of badly designed tax systems, weak social protection and poor business regulation. Informality also prevents countries from fully benefiting from trade reforms by creating poverty traps for workers in job transition.

The higher the incidence of informality, the greater the vulnerability of developing countries to shocks like the ongoing global crisis. Countries with larger informal economies suffer more frequently from shocks and experience lower sustainable growth rates. Also, informal employment reduces the effectiveness of automatic stabilizers.

Integration into world markets and tackling informal employment through decent work policies should be considered complementary. Facilitating formality of firms and jobs helps a country to benefit fully

from trade openness, improves living standards and gives workers access to decent working conditions. Social protection is also crucial for supporting transitions and realizing the gains from open trade. Greater attention should be devoted to social protection policies as well as to the design of trade reforms.

The study suggests that trade reforms should be designed and implemented in an employment-friendly way, making the reallocation of jobs more conducive to formal employment growth.