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A JOB-CENTRED VIEW OF INCLUSIVE STRUCTURAL TRANSFORMATION

Author(s): Kyunghoon Kim¹, Andy Sumner¹, and Arief Anshory Yusuf^{1,2}

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Affiliation(s): ¹King's College London and ²Padjadjaran University, Indonesia

Email(s): andrew.sumner@kcl.ac.uk

SUMMARY

This brief develops a concept of inclusive structural transformation and applies it to the case of Indonesia. Focusing on the employment side, it assesses the inclusivity of economic structural change of the past two decades. This brief argues that greater attention needs to be placed on analysing the effects of structural transformation on the availability of decent work.

About the GPID research network:

The ESRC Global Poverty and Inequality Dynamics (GPID) research network is an international network of academics, civil society organisations, and policymakers. It was launched in 2017 and is funded by the ESRC's Global Challenges Research Fund.

The objective of the ESRC GPID Research Network is to build a new research programme that focuses on the relationship between structural change and inclusive growth.

See: www.gpidnetwork.org

THE DEVELOPER'S DILEMMA

The ESRC Global Poverty and Inequality Dynamics (GPID) research network is concerned with what we have called 'the developer's dilemma'.

This dilemma is a trade-off between two objectives that developing countries are pursuing. Specifically:

1. Economic development via structural transformation and productivity growth based on the intra- and inter-sectoral reallocation of economic activity.
2. Inclusive growth which is typically defined as broad-based economic growth benefiting the poorer in society in particular.

Structural transformation, the former has been thought to push up inequality. Whereas the latter, inclusive growth implies a need for steady or even falling inequality to spread the benefits of growth widely. The 'developer's dilemma' is thus a distribution tension at the heart of economic development.

Distribution of the benefits of growth

The core of structural transformation lies in stimulating high-productivity economic sectors. These sectors are usually capital-intensive and require support from governments, which in developing countries are severely constrained by limited fiscal revenue and numerous social issues. In these countries, governments often opt for the ‘growth first, redistribution second’ strategy and seek growth-enhancing sectors. How to accumulate capital, and which sectors to invest in become the key dilemmas for governments to consider at this stage. Equalisation of opportunities and the creation of jobs are of second order importance. However, once growth is achieved, ‘one dollar, one vote’ often becomes the principle of the political economy and policies to make economic benefits trickle down to the bottom of the income ladder thus become difficult to implement.

Establishing relationships between structural transformation patterns and the evolution of inequality and determining the effects of the former on the latter are inherently difficult tasks. Explaining these effects is even more complicated, due to the diverse range of characteristics found within and across economic sectors. Even within the same subsector, aspects like the share of exports and domestic sales, the utilisation intensity of factors of production, and the sources of capital would have differing impacts on different people.

The research underlying this brief and a related ESRC GPID Working Paper began with the aim of determining one of the possible causal links between structural transformation and inclusive growth: the availability of decent work opportunities. Recently, the fear of social consequences that jobless growth could cause has forced democratic governments to rethink economic strategies, not only in developing countries, but also in the developed world. A consensus on the importance of job creation has also been emerging on the international stage. Goal 8 of the United Nation’s Sustainable Development Goals (SDGs) sends the message that quality jobs may be the strongest tool in fighting

poverty and inequality and achieving sustainable economic growth. Goal 9 of the SDGs emphasises industrial development, as not only a pathway to accelerating economic growth, but also a source of income generation and improvements in all people’s living standards (United Nations, 2015).

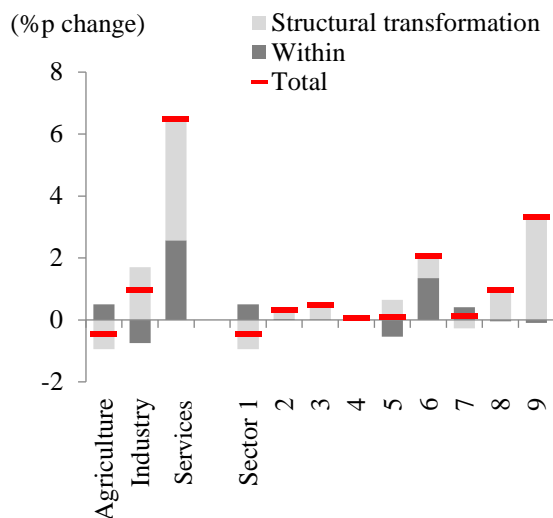
What kind of jobs and for whom?

We propose that structural transformation is inclusive when (i) opportunities are sustainable and provide a path towards a virtuous cycle and (ii) opportunities are provided to a broad spectrum of the population. Focusing on jobs, this brief introduces measurements that can be reviewed to evaluate the inclusiveness of structural transformation. We are interested in determining the engines of employment creation by identifying economic sectors that have experienced a rise in employment share in the economy. We also analyse what kind of jobs have been created and who have benefited from the creation of these jobs. We apply these definitions to the case of Indonesia.

Formal jobs, as opposed to informal jobs, provide sustainable opportunities for escaping poverty through legal protection that covers wages, working conditions, and employment termination standards (International Labour Organization, 2012). Though the definition of formal jobs varies significantly across developing countries, the available data provides meaningful information on the quality of jobs created. Therefore, we argue that an economic sector has contributed to sustainable structural transformation when its formal employment share in the economy’s total employment has increased, as a result of (i) an increase in the sector’s total employment share, and (ii) an increase in the formal employment share within the sector.

Another concern is whether less-privileged segments of the population have opportunities during the process of structural transformation. These segments, such as those with lower levels of education, are often portrayed as losers of structural transformation, who need external support to survive and adapt to the process of creative destruction.

Figure 1. Decomposition of changes in formal employment share between 2000-2004 and 2010-2014



Note: Sector 1: agriculture, livestock, forestry & fishery, 2: mining & quarrying, 3: manufacturing, 4: electricity, gas & water supply, 5: construction, 6: trade, hotels & restaurants, 7: transport & communication, 8: finance, real estate & business services, 9: community, social & personal services

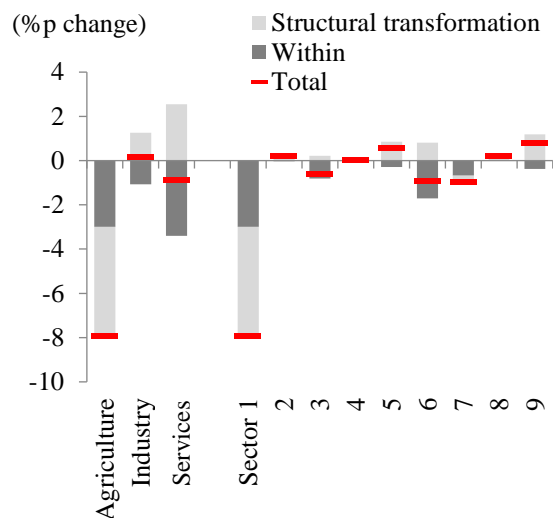
Source: Badan Pusat Statistik

However, in the case of late developing countries, while investing in science and technology has been important in upgrading their economies, providing job opportunities to a broad base of the population was also vital in improving living standards. Therefore, we argue that an economic sector has contributed to broad-based structural transformation when the share of less-educated workers in the economy's total employment has increased as a result of (i) an increase in the sector's total employment share, and (ii) an increase in the less-educated employment share within the sector.

The case of Indonesia

Focusing on the period of 2000–2014, we ask which economic sectors have contributed to Indonesia's inclusive structural transformation, based on the above definitions. The period was divided into three five-year periods: economic recovery (2000–2004), economic boom (2004–2009) and economic moderation (2010–2014).

Figure 2. Decomposition of changes in less-educated employment share between 2000-2004 and 2010-2014



Note: Sector 1: agriculture, livestock, forestry & fishery, 2: mining & quarrying, 3: manufacturing, 4: electricity, gas & water supply, 5: construction, 6: trade, hotels & restaurants, 7: transport & communication, 8: finance, real estate & business services, 9: community, social & personal services

Source: Badan Pusat Statistik

Employment data from national labour force surveys (Sakernas) was used. We used the definition of formal and informal employment given by the World Bank (2010). Less-educated workers are defined as workers with primary or junior secondary level education. In this brief, we summarise the results of comparisons between the 2010–2014 period and the 2000–2004 period.

The analysis finds that the service sector as a whole, and its 'trade, hotels & restaurants' subsector, contributed to sustainable structural transformation (Figure 1). Three subsectors of the industrial sector (mining & quarrying, manufacturing, and utilities) also contributed to sustainable structural transformation, but the industrial sector as a whole failed to contribute mainly because of a large decline in formal employment share within the construction subsector.

In the case of broad-based structural transformation, neither the service nor the industrial sector as a whole have contributed to inclusive structural transformation, largely reflecting a rising share of more-educated workers (senior secondary or above) across the total population (Figure 2). Only one service subsector, ‘finance, real estate & business services’, contributed to broad-based structural change.

Implications

With rising fears regarding footloose factories and automation, debates continue on whether developing countries’ vast young population will lead to a demographic dividend or disaster. Based on a job-centred view of inclusive structural transformation, we highlighted what types of jobs are created and who benefits from job creation. These are important questions to address for developing countries that are aiming to revive structural transformation.

We found that the levels of contribution to Indonesia’s sustainable and broad-based structural transformation have varied significantly across the subsectors. This finding suggests that governments in developing countries should not understate the potential of diverse subsectors, other than manufacturing, to contribute to inclusive structural transformation. This echoes, in the case of Indonesia, the views of Aswicahyono, Hill and Narjoko (2013) and Findlay and Pangestu (2016).

Our study raises the following future research questions:

- What is the relationship between formal employment and inequality and poverty?
- What is the relationship between job availability for less-educated workers and inequality and poverty?
- How is ‘premature automation’ affecting structural transformation trends and job opportunities in the developing world?

This brief is based on Kim, Sumner and Yusuf (2017).

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