

PAGE

policy analysis on growth and employment



Priority policy research issue for the second PAGE II (2017) call for proposals

Sectoral composition, patterns of economic growth - implications for job creation, employment and poverty reduction

In what follows, we introduce the priority thematic issue of **Sectoral composition and patterns of economic growth - implications for job creation, employment and poverty reduction**, identified for the second round of PEP's call for research proposals for its PAGE II program.

To assist applicants in designing their research proposal, PEP resource persons have prepared a complete review of existing scientific literature on each of the priority themes. Follow this link to access the [recommended reading](#) lists online.

IMPORTANT: For all policy research issues identified for this round of funding, applicants are encouraged to explore impacts on inequality across gender, socio-demographic groups and age groups. Consideration of gender aspects should be included for all issues.

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Motivation and situation analysis

While it is generally accepted that rapid economic growth is a favourable factor in reducing poverty (at least absolute poverty), opinions differ widely when assessing the impact of growth on the distribution of income and equity. Many differences also exist in the literature on key engines of growth. Among the key factors considered and often put forward are the following: open trade policies, access to foreign capital and the ability of countries to create a favourable climate for foreign direct investment, human capital formation and the availability of a skilled workforce, existence of natural resources, public expenditure policies and infrastructure investments, public regulatory policies and practice, etc. There is also debate on the types of sectoral growth that will have the largest impact on aggregate economic growth, poverty and income distribution.

There is extensive literature and empirical evidence on the impact of trade policy on growth and inequality (e.g. Winters, 2003; Anderson and Martin, 2005). However, it remains unclear how these elements could be decomposed, as the sectoral composition and regional distribution of activities are interlinked and both have a strong impact on regional poverty and income distribution. There is also a considerable knowledge gap in the understanding of the impact of public investment on poverty and particularly on the regional decomposition of poverty. The purpose of this thematic area is therefore to explore the engines of economic growth, to assess at the regional level their effects on employment creation, income generation and poverty reduction, with particular emphasis on vulnerable groups and women.

Research issues

While aiming to address knowledge gaps in understanding the impact of patterns of economic growth on job creation, income generation and poverty reduction in developing countries, this thematic area also seeks to improve our understanding on the interaction between labour markets and economic growth. With these objectives, this thematic area will focus on: sectoral patterns of economic growth and their impacts on welfare and employment for a specific country, as well as cross-country comparisons; the relationship between economic growth and the regional composition of poverty; women's participation in the formal labour market; trade policy, FDI and integration into the world economy; price shocks and compensatory mechanisms in the agriculture and energy sectors.

a. Sectoral decomposition of growth and impact on employment

Countries are very diverse in their economic structures. Depending on whether the pattern of growth is based on natural resources, exports, rural-oriented agricultural production, industrial mass production (especially in Asian countries) or the development of services (telecommunications, tourism, etc.), the impacts on employment creation and income generation for the poor can be very different. We therefore intend to generate a number of studies to analyse the impact of sectoral economic growth policies and patterns on overall growth and employment creation.

Research questions that address these issues include:

- What would the sectoral effects of increases in agricultural total factor productivity (TFP) be on the employment of men and women?
- What are the benefits of specialisation, as compared to diversification, of the agricultural sector?
- Can a higher growth rate in some sectors lead to a higher growth rate in other sectors?
- Which sectors should receive public investment in order to generate a higher growth rate?
- Are sector-discriminated fiscal measures favourable to economic growth?
- What type of fiscal measures could lead to a higher growth rate?
- Which policies can be implemented to change the sectoral structure of production?
- Which sectors have higher payoffs in terms of employment creation and formality of employment?

b. Rural and urban poverty, labour mobility and regional composition of poverty

In developing countries, poverty rates are generally higher in rural areas. The regional distribution of economic growth is an important issue, especially if an equitable distribution of the benefits of growth is considered to be an important factor of stability in a country. High economic growth in urban areas may have very little impact on poverty in general and even less on extreme poverty, particularly in rural areas. The regional dimension of poverty can be related to the nature of regional economic activities. For example, some studies have shown the strong impact of agricultural growth on reducing rural poverty.

- What are the regional impacts of external shocks (positive and negative) on economic growth and regional poverty?
- Which regional policies are preferable to mitigate the negative regional impact of specific external shocks?
- How would changes in labour market regulation (e.g., minimum wages) impact regional labour markets?
- What types of policies could be implemented to reverse the migration of workers from rural to urban areas?
- What are the consequences for regional poverty of fiscal measures that favour specific sectors?

c. Women's participation in the formal labour market

Women often have less access to the formal labour market than men. Certain activities are identified, socially and culturally, as "reserved" either for men or for women. For example, in many countries, the textile and garment industries are typically female jobs, while natural resource sectors are predominantly male. As women are often relegated to employment in the informal sector with low pay and a precarious livelihood, sectoral growth strategies are important to enable women to access formal employment and participate in the modern economy. In addition, policies that acknowledge gender differentiation can be important to support women's participation in the formal labour market.

- What would be the economy-wide impact of subsidising (formal) female employment in selected sectors under alternative public financing mechanisms?
- How sensitive are the results to different assumptions regarding labour mobility among sectors, especially for women in comparison to men?
- What would be the economy-wide impact of such policies on the unpaid activities (i.e. home care) performed by women?
- What other policies would be successful in increasing female employment?

d. Integration into the world economy, trade policy, FDI and sectoral economic growth: impacts on employment and welfare

Free trade policies and integration into the global economy are often seen as means to accelerate economic growth. The reduction of trade barriers and trade-facilitation measures are expected to attract foreign firms and increase their direct investments. The distribution of these foreign direct investments by sector will have major impacts on the pattern of growth and the distribution of its benefits in terms of sectoral job creation and income generation for different strata of the population. We would therefore aim to conduct retrospective and prospective analysis on sectoral trade and foreign direct investment patterns to propose economic policy options for job creation by responding to the following research questions:

- What would be the economy-wide impact in terms of employment and welfare of various sectoral patterns of FDI-led growth? How would these differ by gender?
- How would an increase in FDI in natural resource-based and service sectors affect employment and welfare in an economy? How would these differ for men and women?
- What would be the sectoral and employment consequences of various trade reforms? How would these differ by gender?

e. Price shocks and compensatory mechanisms for natural-resource (agriculture, mining or energy sectors)-dependent economies

Fluctuating world prices of major agricultural commodities and mineral/energy resources pose major problems for economies that base their growth strategies on their export. In many cases, the impacts on employment and income can be significant, both at the household and firm level. The distributional effects of these shocks can be significant, but public policies to mitigate them are not always clearly identified. In this regard, we would seek to generate some country studies to determine the effects of public policies to mitigate the negative effects of these price fluctuations:

- What are the regional employment consequences (for men and women) of fluctuations in the international prices of key natural resources?
- What are the regional and sectoral consequences of the recent drop in international prices of oil and other natural resources?
- What would be the best strategy to compensate for volatile global commodity prices?
- What would be the effect on employment and welfare of alternative policies, such as budget rules (e.g. sovereign fund), to compensate for volatile public revenue from natural resources?

Methodological approaches

a. Microeconomic policy approaches (PMMA and field experiments)

Different past PEP projects have covered some of the thematic issues proposed in this section (see table below). In particular, under the PAGE-I initiative, some projects analysed the sectoral composition of and contribution to economic growth, household well-being and creation of jobs. For example, Dedehouanou et al. use household surveys on living conditions and sophisticated econometric approaches to assess the average treatment effect of income diversification. In particular, the authors propose endogenous switching models, a Probit switching model, propensity score matching models, etc. They find a positive impact of rural income diversification on wellbeing and agricultural investment, confirming the importance of promoting non-farm activities for economic development.

Hoang et al. examines the relationship between trade liberalisation of imported intermediate inputs (i.e. a decline in fertiliser prices) and non-farm employment in rural Vietnam. Using panel data and a selection model with instrumental variables, the authors show that a decline in fertiliser prices reduces labour participation in the non-farm sector, but increases the employment in the farm sector and income from agricultural activities.

Using the World Bank Enterprises survey, Seck et al. analyse sectoral efficiencies related to the access to credit. They use the Data Envelopment Analysis (DEA) method to estimate firm efficiency. The endogenous-switching regression approach is applied to assess the impact of credit access on firm efficiency and, more specifically, to analyse the extent to which female entrepreneurs face discrimination in the credit market and, the case being, how such a disparity in access to credit translates into productivity differentials. The authors show that firms in the trade sector are the most economically efficient and enterprises that are capital intensive need greater access to credit to improve their efficiency rates.

The microeconomic evaluation tools presented above (and others), together with appropriate data, can help to evaluate and provide policy recommendations related to:

- Changes in welfare distribution and labour market opportunities over time due to sectoral growth (e.g. oil sector).
- Patterns of economic growth and their effect on overall, intra and inter-regional poverty and inequality.
- Patterns of price shocks (e.g. agriculture/food commodities/products, oil and electricity) and reforms (e.g. removal or reduction in price subsidies), and compensatory mechanisms

(e.g. insurance schemes), and their effects on household welfare across different economic quintiles.

PEP has supported a number of projects covering the issues proposed in this section, including the following:

Research title	Authors
Spillovers from off farm self-employment opportunities in rural Niger	Dedehouanou et al.
The effect of price of intermediate imported product on nonfarm participation of households in rural Vietnam	Hoang et al.
Female entrepreneurship, access to credit, and firms' productivity in Senegal	Seck et al.
An analysis of the impact of income tax reforms on poverty and inequality in Namibia	Swartz et al.
Inequality, Polarization and Poverty in Nigeria	Awoyemi et al.
Spatial and inter-temporal sources of poverty, inequality and gender disparities in Cameroon: A regression-based decomposition analysis	Ngahet et al.

b. MPIA approaches

Although the opening of the economy and a better integration into the world market may generate a higher economic growth rate, the welfare impact on households could be very unequally distributed across sectors and regions. CGE modelling is an ideal tool for the analysis of public policies aiming to mitigate the negative effects of world price shocks for major imports and exports.

The major transmission mechanism of such external shocks to a local economy is through the labour market. The distinction between formal and informal segments of the labour market is important, particularly for women. A gendered CGE model with formal and informal labour markets would be an ideal tool to analyse the impact of government policies aimed at reducing informality among women. For example, the impact of wage subsidies for female workers in specific sectors could be analysed.

This research topic also incorporates a regional dimension, which is a comparative advantage of CGE models. Despite the greater complexity of a regionally-decomposed CGE model compared to a national model, this would generate more interesting and policy-relevant results than a pooled macro model (e.g. different types of producers in different locations producing the same commodity). In this case, one could discuss the drivers of sectoral growth. For example, increases in agricultural productivity could slow the movement of workers out of agriculture into the manufacturing/service sectors.

One important issue in the simulation of increased total factor productivity (TFP) growth in agriculture is the treatment of the foreign market (i.e. exports and imports). It would be interesting to consider alternative values for the constant elasticity of transformation (CET) between sales in the domestic and export markets, with the assumption of perfect transformability as a special case.

Also, simulations of increased foreign direct investment in selected sectors could be considered, particularly in countries with relatively abundant natural resources. Generally speaking, there are two major factors that could be used to change the sectoral pattern of economic growth: (1) an increase in sector-specific TFP due to foreign direct investment; and (2) public investment in infrastructure, which can encourage private investment and productivity growth.

A number of very interesting policy research questions can be examined using CGE models such as:

- What would be the sectoral employment effects of increases in agricultural TFP?
- Are there benefits from specialisation or diversification in the agricultural sector?
- In which sectors could public investment lead to a higher growth rate?

- Are sector-discriminated fiscal measures favourable for economic growth?
- What is the impact of wage disparities between formal and informal labour markets on employment creation?
- Given the regional composition of the labour market, what would be the regional impact of changes in labour market regulations (e.g. minimum wages)?
- What type of policy could be implemented to reverse the migration of labour from the rural to the urban sector?

PEP has supported a number of MPIA projects covering some of the issues proposed in this section, including the following.

Research title	Authors
Impacts of Agricultural Incentive Policies on Socioeconomic and Environmental Variables in Guatemala	Vargas et al.
L'impact des réformes commerciales sur la croissance économique, l'emploi et la pauvreté dans les pays de la CEDEAO: le cas du Sénégal	Mboup et al.
L'analyse socio-économique du secteur et de l'emploi informel au Cameroun	Medard et al.
Trade Liberalisation and Employment Effects in Indian Manufacturing: An Empirical Assessment	Raju et al.
La croissance chinoise, une aubaine pour l'économie centrafricaine?	Yele et al.
Impact de l'expansion économique et commerciale de la chine sur la croissance et l'emploi au Burkina Faso: une analyse en EGC	Sawadogo et al.

c. Field experiments

Please consult [Field experiments summary paper](#).

References

- Anderson, K., and Martin, W. (2005). Agricultural trade reform and the Doha Development Agenda. *The World Economy*, 28(9), 1301-1327.
- Winters, L. A. (2003). *Trade policy as development policy: building on fifty years' experience*. Cheltenham: Edward Elgar.