

INFORMALITY, POVERTY, AND GROWTH: THE LABOUR FORCE IN CHINA AND INDIA

Report on

Research Design Workshop

held at

Kennedy School of Government,
Harvard University,
March 30th-April 4th 2007

Report prepared by

Sarah Cook (IDS, Sussex) and
Marty Chen (WIEGO, Harvard)

15 May 2007

Acknowledgement of Financial Support

On behalf of the China and India teams, we would like to express our gratitude to the funders who generously supported this workshop and related activities of the program on *Informality, Poverty and Growth: The Labor Force in China and India*.

- **The Asia Center, Harvard University** was the main sponsor of the research design workshop at Harvard.
- **The Global Equity Initiative, Harvard University** provided matching funds for the workshop and additional support for follow-up activities.
- **IDRC, Canada** provided a grant which supported the earlier activities of the China and India teams, including the study tour to India, thus making possible the preparation for this workshop, as well as some additional travel costs for participants to this workshop.

We are extremely grateful to all these donors for their generous financial support as well as for their enthusiastic encouragement of the project.

1. Research Design Workshop: Activities

The workshop was planned as part of a series of joint learning and program design activities involving teams of researchers from China and India working on informal employment in the two economies. Following a study tour of 16 Chinese participants to India in February¹, this workshop was planned to bring a smaller group of participants (6 members from each country team) together with other technical advisors and relevant experts in order to:

- share existing findings and thinking about research and policy on informal employment in the two countries;
- receive feedback on the findings, initial thinking and approach to the project from a wider audience of academics, practitioners and funders, as a contribution to the development of the next phase in the project; and
- work as a team on developing a proposal to be submitted to funders for future research.

The activities included internal discussions among the project team and advisors, and a larger workshop.

A. March 30th- April 1st: Internal program discussions

Team members from China and India attended the workshop having prepared a range of background materials and proposals based on discussions during the India study tour. The first two days of the meetings were devoted to revisiting the overall project framework, discussing progress on specific aspects of the work – and in particular receiving feedback from technical experts (Barbara Harriss-White, James Heintz and Joann Vanek), and finalising presentations for the workshop. (See list of participants: Annex 1)

B. April 2nd – 3rd: Workshop

A larger workshop for approximately 40 people was held over 2 days at the Kennedy School of Government. A number of invited experts presented excellent and thoughtful comments on a range of issues related to informal employment, both from their own research perspectives as well as more directly in response to presentations from the team members. An agenda for the workshop, list of participants, and links to powerpoint presentations and discussant comments are available (Annex 2).

C. April 4th: Internal program discussions

On the final day of the workshop the team along with a couple of the technical advisors worked together to

- review the feedback and comments received through the workshop
- discuss the implications for the future work on the program, and
- decide how to proceed in developing a proposal for funding.

2. Summary of Discussions and Key Issues

The following text summarises some key issues raised either in relation to specific sessions, or on more general themes throughout the workshop, which we found

¹ The report on the study tour (funded by IDRC) is available at http://www.wiego.org/program_areas/general_activities/China-India_Public/China-India_Visit_February_2007_Report.pdf

particularly noteworthy. It is not possible to report here all the valuable suggestions, comments and ideas provided, but they will inform the next stage of the work.

In general the organisers and China-India teams were delighted and gratified by the enthusiastic response and extremely constructive comments from discussants and other workshop participants. The selected discussants in particular provided thoughtful inputs which helped to push our thinking and create new avenues for exploration. We felt that the response provided us with a strong endorsement of the importance of working on informal employment and the contribution a project like this could make to the field.

Overall, we felt that there was strong support for an approach that included the following:

- providing a better descriptive picture of labour markets and particularly the more poorly defined and measured part of this: who does what, under what terms and conditions, with what outcomes?
- carrying out further analysis of existing data to answer questions which to date have not been explored in depth (particularly in China);
- undertaking more in-depth case studies and exploration of the institutional context and policy framework within which informal employment activities are conducted;
- adopting a comparative perspective particularly between two economies which, due to their scale and pace of growth, will have an overwhelming influence on the global economy and labour markets over the coming decades.

In order to achieve this, it was acknowledged that in most cases it will be necessary to improve data collection instruments and the kinds of statistics collected; and that produce-user collaborations in defining and demanding such data was an innovative approach that was worth extending particularly to China.

Several major sets of ideas ran through discussions over the two days. Some of these are summarised below.²

1. *The challenge of 'informality' to mainstream economics:* Several discussants (notably Professor Richard Freeman, Harvard University) and other participants commented on the importance of better understanding the challenge posed by the *size* and – more notably - continued *growth* of 'informal' employment, contrary to the predictions of mainstream economic analysis. Informal employment clearly has many aspects and manifestation: from more to less productive work; from acting as a 'safety net' during economic downturn to a driver of growth in rapidly expanding economies; it is found throughout the economy – in areas thought of as 'formal', in modern factories and industrial clusters, as well as in more traditional marginal sectors. These realities raise new challenges to economists in thinking about development, labour markets and appropriate macro economic policies. They have wide implications for regulatory regimes including tax and social security systems.
2. *The importance of understanding institutions and of taking an institutional approach:* One of the most creative set of inputs into the workshop was

² As this is intended as a summary of key points, no attempt is made to attribute contributions in each case to specific individuals. The range of active participation meant that key themes continued to be raised at different points in the discussions, by a number of different participants.

stimulated by the initial comments of Professor Barbara Harriss-White (Oxford University). She argued for bringing work on the informal economy together with institutional analysis, and discussed some of the challenges to thinking about institutions and institutional change in this context. One challenge is that of moving from institutional theory which remains for the most part at a general level, to understanding the concrete realities of specific institutional arrangements on the ground. A contribution of the project could be in looking at the dynamics of institutions through the lens of what is happening to informal employment during processes of rapid structural transformation. Questions might include examining the role of informal employment in the larger project of capital accumulation; understanding the different logics behind informality of employment (e.g. subsistence or survival; maximising returns; shifting costs and risks (from formal businesses) or avoiding legal obligations). Such an approach would also call for understanding both formal institutions but – more importantly the range of (non-state and informal) institutions or forms of regulation which shape labour relations and outcomes, including those such as gender and caste.

During the wrap-up discussions with the China-India teams on April 4th, Professor Harriss-White provided additional inputs and advice to guide the teams in strengthening this focus on institutional analysis and context, the regulatory environment – both formal and informal; and the kind of questions such a research program might address.

3. *The need to focus more attention on rural employment:* While much of the early literature and by default many current discussions of informal employment tend to focus largely on the urban sector, the workshop discussions kept returning to various aspects of rural and agricultural employment, the links (through e.g. migration) between rural and urban labor markets, and the importance of these relationships for poverty and poverty reduction, and for gender relations. In China for example most poverty is rural but policy debates tend to be more urban focused – on urban jobs and on social protection or insurance arrangements for urban workers. At the same time, significant government attention has been paid recently to policies to facilitate the smooth transfer of labour out of agriculture, including through training, labour exchange and other job finding services.

By contrast, it was noted that in India agriculture continues to absorb a large share of the labour force (despite the declining contribution to GDP); labour elasticities in agriculture with respect to growth are estimated to be close to zero. This has significant implications for efforts to reduce poverty. Unlike in China, however, India has no major government projects or support to assist people to move out of agriculture, and (despite predictable estimates of about 16 million people per year leaving agriculture) no major plan to address this inevitable process of labour shedding.

4. *Informality, poverty and social security:* From a normative and policy perspective, poverty and livelihood insecurity are major reasons for a concern with informality of employment. The risks associated with various forms of employment relationships, or arising from the nature of inclusion / exclusion from labour or other markets, shape the vulnerability or exposure to shocks experience by low income populations who are dependent on labour for their livelihoods. Addressing this vulnerability, and thus providing sustainable routes out of poverty, requires attention not just to employment and job creation, but to the quality of jobs and associated protections – notably a

range of social security or protection programs. The rise of informality challenges the systems and mechanisms through which social security has been provided to workers through their employment, and thus makes necessary a fundamental rethinking of how to deliver what kind of basic protections to informal (and often mobile) workers.

5. *The global context and linkages:* While this issue lay behind many of the conversations, Katherine McFate (Ford Foundation) raised it most directly, locating the discussion within the context of the development of global supply chains, the shifting power from manufacturing to distribution in this process, and the implications for labour, specifically in terms of undermining the march towards formal jobs. The outcomes of this shift has been a decline in manufacturing jobs and the threat of job loss leading workers and (local) governments to accept an erosion of labour protections in return for employment. Another implication of the growing length of chains is the reduction of moral responsibilities of corporations towards workers at the lower ends of the chains – an issue which international organisations are attempting to address through work on labour standards, corporate social responsibility, ethical trading initiatives, etc.. These factors contribute to informalisation of employment in both developed and developing countries.

Even where greater productivity gains are being captured by developing countries, the distribution of benefits within these countries remains problematic. Key questions for countries like China and India include: Can they maintain growth rates and create both more and better jobs? Which areas can they focus on to strengthen their bargaining power, retain benefits and increase employment? Both countries have negotiating power due to the size of their domestic markets. Focus should also be placed on industries that are non-moveable – e.g. health care and tourism - and with value to capture. In rural areas, value can be pulled down through creating markets for local products: for example in Brazil experiments include producing locally for e.g. local schools and hospitals.

6. *Politics, policy and policing:* Closely linked to the discussion of institutions is an issue of the role of governments in regulating the economy, when it chooses to intervene and enforce, and for what reasons. It was noted by many that India (as with China) has a strong state which can exercise or use power when it wants; for whatever reasons, the Indian state has been unwilling to enforce regulation of employment. In China, a key problem is the weakness of the legal system itself. Apart from formal institutions and laws, however, Barbara Harriss-White discussed ways in which economies function and are 'ordered' through a range of institutions and often uniquely local forms of regulation. Drawing implications for policy, however, also requires having a view about the role of the state in relation to the informal economy: for example, is the state the cause or solution to informality? is increasing informality part of a deliberate move towards flexibility? do governments have the capacity to implement or enforce solutions?

3. Next steps:

The main purpose of the meeting with the Teams on April 4th was to reflect on the discussions and feedback from the workshop, and to formulate concrete steps for further work. Following a discussion of participants reactions to the workshop, the outline for a future research program was revisited and amendments made in the

light of comments received. A plan for moving forward for writing proposals relating to different components of the research project, and involving collaboration between China and India teams was developed. The preliminary outline of the program is attached (Annex 3).

A timetable for further activities involved:

- Report on Harvard Workshop (Marty Chen and Sarah Cook, May 2007)
- Country team meetings and discussions on further work and proposal writing (May 2007)
- A visit of two members of the India team to Beijing and Shanghai for further discussions (May 2007).
- Component groups develop proposals for specific activities (June 2007)
- Additional literature reviews, background papers or preparatory work undertaken in countries (May-July 2007)
- Discussion and integration of different components and finalisation of proposal for funding (July – August 2007)

4. Annexes

1. List of Participants

2. Research Design Workshop:

Agenda

Links to Presentations and Discussant Comments

3. Research Project Outline