

Policy Brief: Aligned skills development and migration to address unemployment and poverty in the face of premature deindustrialization.

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Introduction

Deindustrialization refers to decline in the manufacturing share of employment or GDP after reaching a given peak. The term is typically used for advanced economies that have industrialized and that are gradually substituting away from manufacturing towards services. However, countries that have not yet industrialized or those in the process of industrializing are also facing deindustrialization. In this case, the term premature deindustrialization is used.

Deindustrialization is characterized by loss of low-skilled jobs. For pre-industrialized countries, it has also occurred at far lower per capita income levels than historically experienced by advanced countries. Loss of jobs and incomes has major implications for poverty in these countries, especially among the youth. Sub-Saharan Africa for example is projected to have the highest populations in the next few decades. Given this expected skyrocketing of the young, working age population, it is critical to find alternative ways to deal with unemployment and poverty due to premature deindustrialization.

Implications for Employment and Poverty

Deindustrialization in both advanced and developing economies has implications for loss of jobs in poor countries. Dani Rodrik and other authors suggest that factors that have led to deindustrialization include rapid automation and technological advancement. Both factors have led to high efficiency and productivity which has maintained high manufacturing output in advanced economies despite declining manufacturing employment. Christiaensen notes that with increasing automation in developed countries, firms may find it more profitable to produce goods at home with machines than outsourcing work to low-income countries. Reshoring of jobs to developed countries would result in loss of those jobs for poor countries. Outsourcing is one of the ways that the Asian economies were able to industrialize but it would not be an option for pre-industrializing countries.

Considering that a youth bulge is expected in the future and that employment opportunities for that population would be severely reduced, poverty is likely to increase if no interventions are undertaken. A possible intervention that could be used to reduce poverty would be universal basic incomes (UBI). This is the idea that we give people universal unconditional periodic cash grants to keep them out of poverty. Poverty and inequality could decrease with UBI, especially among the poorest people. However, institutions would matter for how effective such a policy would be. Corruption or democracy for example would determine how well UBI works to reduce poverty in a region. It is also difficult to know how such an initiative would be sustainably funded.

Policy Recommendations

Skills development to improve comparative advantage in service sector and monitored migration could be effective policies in dealing with unemployment and poverty from premature deindustrialization.

Amirapu and Subramanian found that in India's shift to services from manufacturing, the service industry still shared manufacturing industries problems of being too skill intensive and being unaligned to the country's comparative advantage. On the basis of this finding, investments in skill development in service industry and targeting of the skills to a country's comparative advantage could work better to address the issue of finding employment opportunities for the youth.

Relaxing of migration policies of advanced countries could facilitate migration of skilled and unskilled workers to those countries. Migration should however be monitored such that an equilibrium of employment outcomes is reached between countries of origin and destination countries, without adverse effects on incomes or employment for either country.