theguardian
DATA STORE

[Developing world's middle class is growing – but so is its 'near poor']

ILO's first global and regional estimates of developing world workforce across five economic classes promise new insights.

A young potter works on a vase at a workshop in Karachi, Pakistan, 2009.
Photograph: Asif Hassan/AFP/Getty Images

While the developing world's emerging middle class has more than doubled in size over the past decade – the number of people classified as near poor has also been on the rise, new ILO research shows.

The working middle class – defined as those living on at least $4 a day – now makes up more than 40% of the developing world's workforce and is forecast by the ILO to account for more than half by 2017.

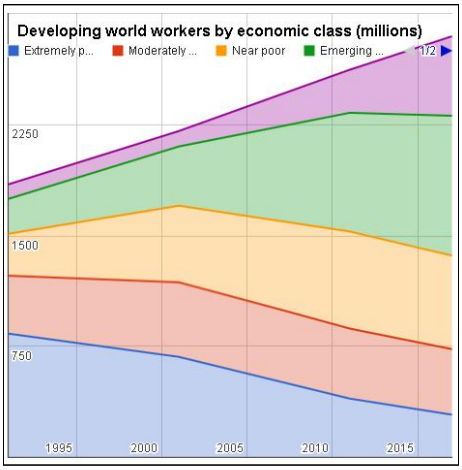
But the global financial crisis has meant that the pace at which the rate of working poverty is falling has slowed.

In its Global Employment Trends 2013 report, published last week, the ILO estimates that 397 million workers are living in extreme poverty (defined as living on less than $1.25 a day), and another 472 million "cannot address their needs on a regular basis" (or are "moderately poor", defined as living on $1.25 to $2 a day).

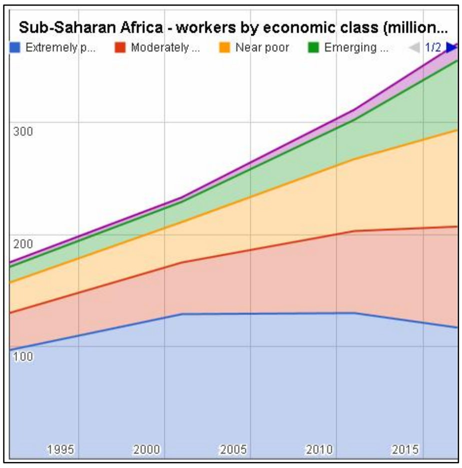
Countries with high working poverty are forecast to grow faster than average, helping the rate of working poverty to fall – but their populations will also grow, bringing the danger that the total number of people in working poverty may increase in some regions, the ILO warned.

The analysis by economic class is part of a forthcoming paper by Steven Kapsos and Evangelia Bourmpoula (release date still to be set), which was published in part in last week's report. Their research breaks down the developing world's workforce into five classes, for the first time, defined as: the extreme working poor, moderate working poor, near poor ($2-4 a day), middle class ($4-13 a day) and above middle class (above $13 a day). All the dollars figures are calculated at purchasing power parity (PPP) – a conversion rate that eliminates differences in the cost of goods and services between countries.

The number of workers in extreme poverty has fallen dramatically over the past 10 years – and this even continued during the global financial crisis. The number of workers living with their families on less than $1.25 a day fell by 281 million between 2001 and 2011 – leaving a total of 397 million working poor in extreme poverty. This equates to 15.2% of the developing world's workforce – down from 30.7% in 2001 and 45.2% in 1991. The number of workers in moderate poverty also fell – by 35 million to 472 million – which equates to around a third of the total developing world workforce (from 53.7% in 2001 and 66.7% in 1991).



But Kapsos and Bourmpoula's regional breakdown shows that much is due to the influence of China's emerging economy. Excluding China, the number of workers in extreme poverty actually rose by 26 million between 1991 and 2001, before falling by 115 million over the next decade. Excluding China again, the number of workers in moderate poverty actually rose in both decades.



The Kapsos and Bourmpoula analysis also shows that, as well as the 868 million workers living with their families below the poverty line of $2 day, there are a further 661 million "near poor" workers. This group accounts for more than a quarter (25.2%) of the developing world's workforce. In south Asia, 92% of the workforce is either poor or near poor, while in sub-Saharan Africa, 86% of workers are in these categories (see graph above).

The number of near-poor workers has increased by more than 140 million over the past 10 years, with virtually all of this increase happening outside China. In total, 58.4% of the developing world's workers remain poor or near poor.

Many of these near-poor workers are not covered by social insurance, and risk slipping back into poverty in the event of an economic crisis.

"Much work remains to be done to raise productivity levels and expand the number of quality jobs, in order to spur the growth of the developing world's middle class. Unfortunately, the crisis affecting global labour markets threatens to slow progress," said Kapsos.

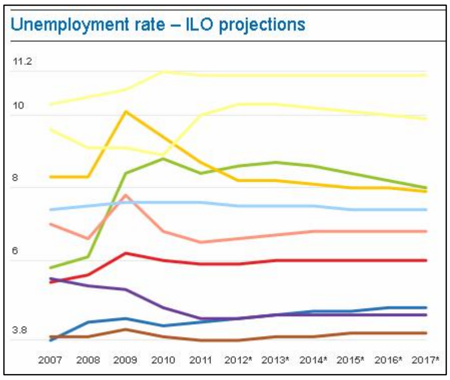
The rise of the middle class

As the total proportion of poor and near poor workers fell (ie to 58.4%), the remaining 41.6% are defined as middle or upper-middle class – up from 23% a decade earlier.

ILO forecasts show the number of workers classified as middle class and above could grow by another 309 million by 2017, with the share of middle-class workers rising to 51.9%.

Economists hope this rising middle class will boost consumption and investment, and be an important driver of economic growth in the developing world. And the ILO says there is evidence that growth in the middle class means more spent on health and education – leading to a "virtuous circle" of higher productivity and faster development for wider society, and helping create more political stability through an increased demand for accountability and good governance.

Slow growth means slow structural change



But five years into the global financial crisis, economic growth has slowed in many countries and unemployment is on the rise again around the world. The ILO report shows 197 million people were unemployed globally last year, up 4.2 million from 2011. Despite forecasts of a recovery in global growth over the next two years, the ILO predicts that global unemployment will increase by 5.1 million this year and 3 million in 2014 – predictions made on the assumption that the eurozone crisis will not deteriorate and US politicians can avoid another debt ceiling debacle. Even under that relatively benign scenario, the global unemployment rate is forecast to stay around 6% for the next five years – not far off the peak it hit at the worst of the financial crisis.

China GDP growth slowed to 7.8% last year (its slowest growth since 1999), and India slowed to 4.9% (its slowest in 10 years). In sub-Saharan Africa, GDP grew by 5.3% in 2012 (from 5.2% in 2011) and is forecast to match that again this year – although this continent-wide figure masks differing national fortunes: with Niger and Sierra Leone boasting double-digit growth; Ghana, Ivory Coast, Liberia, Mozambique, Nigeria and Rwanda posting growth above 7%; Gambia, Guinea-Bissau, Mail, South Sudan, Sudan and Swaziland recording negative growth; and growth in the largest economy in the region, South Africa, coming in at only 2.6%.

Despite the focus of the financial crisis on banks and sovereign debt problems in the eurozone and uncertainty stemming from the fiscal cliff debate in the US, the effect has spilled over into the developing world, the ILO warned. Only a quarter of the 4 million rise in joblessness last year hit advanced economies – and three-quarters fell on other regions – with east Asia, south Asia and sub-Saharan Africa hit the hardest.

The ensuing slow recovery in investment has also cut the pace of structural change (from agriculture to higher productivity sectors) in developing and emerging economies – leaving more people than expected in vulnerable employment and working poverty.

The slowdown in structural change is likely to mean less progress in cutting the numbers of people in vulnerable employment – who are far less likely than wage-earners to have the safety of adequate social protection. In the developing world, an estimated 1.49 billion workers (56% of all workers) were in vulnerable employment in 2012, up 9 million on a year earlier.

"In developing countries, there is evidence that productive structural change – the shift in employment out of lower productivity sectors into higher productivity ones – has slowed, weakening a key driver of job quality growth that has been associated with poverty reduction, falling shares of vulnerable employment and growth in the developing world's emerging middle class," the ILO report said.

"The slowdown in structural change during the crisis and the only moderate acceleration in productive transformation expected to take place until 2017 is likely to lead to a slower rate of progress in reducing working poverty around the world. Together with data on vulnerable employment, this shows a clear need for improvements in productivity, sustainable structural transformation and expansion of social protection systems to ensure a basic social floor for the poor and vulnerable."

Part of the reason for the divide in the unemployment picture between developed and developing countries (above average unemployment in advanced economies – but unemployment rates are below historical averages in nearly every developing region) is due to better economic growth in the developing world.

But it is also caused by the large shares of workers outside formal, wage employment – meaning unemployment rates are less strongly correlated with macroeconomic changes, the ILO's economists say.

Sub-Saharan Africa

In contrast to proponents of the idea that sub-Saharan Africa's generally strong economic performance over the past decade marks a turning point, and will lead to long-term improvements, the ILO argues that the region's growth "does not necessarily signify the beginning of sustained structural transformation in the region … [which] continues to suffer from large decent work deficits and the highly unequal distribution of the fruits of growth".

The ILO report concludes that strong economic growth in the region since 2001 "has not led to a significant improvement in labour market outcomes and poverty reduction": "Labour productivity in sub-Saharan Africa is still very low, particularly in the informal economy where many workers eke out a living, and the region continues to be at the bottom of the global chart in terms of labour productivity."

Sub-Saharan Africa's labour productivity was 1.3 times greater than that in east Asia in 1991 – but is now almost three times lower (although it has shown steady growth over the past seven years, and the trend is upwards).

This is partly due to a structural shift away from agriculture – but most of that movement has been towards informal service sectors, with a "quite limited" shift towards manufacturing. In the two decades to 2012, the share of employment in agriculture in the region fell from 67.5% to 62%; while industrial employment was stagnant at 8.6%.

"Consistent with this, the basic jobs story is one of persistently high levels of vulnerable employment that declined only modestly over the past two decades, despite high growth," the report said.

In 2012, there were 247 million workers in vulnerable employment in sub-Saharan Africa – 62 million more than in 2000 and 100 million more than in 1991 – although as a proportion this declined, from 83% in 1991 to 82% in 2000 and 77% in 2012. The chart above also shows evidence of a large and widening gender gap in vulnerable employment.

Data summary

Region	Year	Extremely poor (below US$1.25)	Moderately poor (between US$1.25 and US$2)	Near poor (between US$2 and US$4)	Developing middle class (between US$4 and US$13)	Developed middle class and above (above US$13)
Employment by economic class (millions) – ILO						
Developing world	1991	835	396	283	235	98
	2001	678	507	519	399	104
	2011*	397	472	661	800	290
	2017*	288	442	637	943	536
Central and South-Eastern Europe (non-EU) and CIS	1991	4	7	23	79	35
	2001	7	11	35	81	13
	2011*	3	5	17	90	48
	2017*	2	4	15	83	65
East Asia	1991	401	156	84	21	11
	2001	218	174	210	126	23
	2011*	52	76	210	375	112
	2017*	15	22	109	407	290
South-East Asia and the Pacific	1991	93	48	33	20	4
	2001	74	69	62	34	7
	2011*	37	64	102	76	18
	2017*	22	51	107	111	33
South Asia	1991	221	129	62	6	3
	2001	228	179	102	15	2
	2011*	161	230	185	47	4
	2017*	119	252	237	86	6
Latin America and the Caribbean	1991	13	14	34	73	29
	2001	17	17	44	94	41
	2011*	10	11	40	129	77
	2017*	8	9	38	140	100
Middle East	1991	1	2	7	11	9
	2001	1	3	11	17	11
	2011*	1	4	14	25	18
	2017*	1	4	16	29	22
North Africa	1991	5	7	14	9	3
	2001	4	8	20	13	2
	2011*	3	8	28	22	4
	2017*	4	9	29	25	6
Sub-Saharan Africa	1991	97	33	27	14	4
	2001	129	46	36	18	4
	2011*	130	73	64	35	9
	2017*	117	90	86	62	15