

Large imbalance in formal and informal employment footprints between the Global North and South

Topic: Input-Output Analysis: Employment policies (1)

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Advancing decent work creation within sustainable and inclusive economic growth necessitates a comprehensive understanding of how formal and informal are distributed and linked to global production networks. By integrating a unique long-term database of employment formality with an EE-MRIO model, our study provides a granular and quantifiable insight into employment distribution across global, regional, national, and sectoral levels, as well as the role of trade in reshaping employment formality. This approach not only confirms the unequal appropriation of Southern labour by the Global North, but also reveals a pronounced disparities between formal and informal employment footprints, which are often masked by estimation on unclassified averages.

Our results suggest a persistent employment formalization gap between the Global South and North in domestic terms: from 2004 to 2021, informal employment constituted 61.3%–69.1% in the South compared to a formal employment share of 76.9%–80.9% in the North. This unequal appropriation directly arises from the South-North disparity in industrial specialization: the agricultural sector absorbed over 55% of global informal employment, predominantly located in the South. In other words, Southern workers face limited access to sectors that are more likely to generate formal employment, such as consumer services and producer services, which require sustainable human capital accumulation and economic diversification after industrialization. This indicates that supporting the South in transitioning toward higher-formality sectors is essential to rectifying this inequity and promoting decent work globally.

The higher formalisation of Northern domestic employment also masks a disproportionate reliance on Southern workers, especially informal employment. Our analysis shows that the ratio of North's formal employment footprints to its domestic formal workforce relatively modest (1.2 in 2021), while that of informal counterparts was much higher (3.7). Specifically, the North outsourced 74.5% of its informal EFs to the South, while its outsourced formal employment remained concentrated within the North and its near-shore networks, such as outsourcing from Eastern Europe to Western Europe. In contrast, the South outsourced only 0.3% of its informal EFs to the North. This reveals that trade enables the North to unequally appropriate informal labour from the South while preserving formal employment within its own group.

This unequal appropriation facilitated by trade is further magnified by our analysis based on the Master-Servant Index (MSI). This index reveals whether an economy relies on labour abroad to satisfy domestic demand, in addition to its own workers. We find that in 2021, the MSI for informal employment was wider than that for formal employment ($\hat{\alpha}^{0.4}$ to 51.1 versus $\hat{\alpha}^{0.31}$ to 1.34). This indicates that when employment types are aggregated, the extent of labour exploitation driven by trade is significantly underestimated. Notably, all Northern economies exhibited MSI values greater than zero for both formal and informal employment, confirming their master positions in both categories. In contrast, major Southern economies like India and Brazil are servant positions in both formal and informal employment. This result identifies the North as bearing primary responsibility for reducing cross-border labour exploitation, and pinpoints which southern economies should be prioritized for Northern support in advancing employment formalization. One practical approach is for Northern economies to prioritize sourcing from suppliers in the South that demonstrate a commitment to hiring formal workers. However, our analysis reveals that the share of formal employment embodied in exports from South to North before 2016 was actually lower than that embodied in Southern domestic consumption. This suggests that Northern consumption patterns continuously caused informalizing pressure on global labour markets, as we confirm in structure decomposition analysis of informal employment footprints, therefore highlighting the alternative

pathways to decent job creation.

Specifically, our analysis of driving force provides detailed insights into the formalization enhancement. The observed role of employment intensity in decreasing both employment footprints demonstrates that productivity gains from technological advancement do not automatically create more decent jobs, although they can generate more decent workplaces. This highlights the inclusive policies that enable workers transitioning from informal arrangements to meet formal deployment requirements, such as labour rights protection, community-based vocational training, and education loans for upskilling. In addition, encouraging firms to reduce their informal employment outsourcing offers the most direct pathway, as the employment formality effect within sectors shows opposing influences on formal and informal footprints.