

# A Review of Informal Employment Research

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**How to cite this paper:** Kong, X.M. and Wei, J.Y. (2023) A Review of Informal Employment Research. *Open Journal of Applied Sciences*, 13, 2263-2272.

<https://doi.org/10.4236/ojapps.2023.1312176>

**Received:** November 13, 2023

**Accepted:** December 5, 2023

**Published:** December 8, 2023

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## Abstract

With the development of the economy and society, employment forms have shown a trend of diversification. Informal employment has become an important form of employment, and governments have introduced policies to protect the rights of informal workers. This paper reviews the literature on informal employment and summarizes the definition, role, and impact of informal employment, governance, rural informal employment, and women's power in informal employment. The study concludes that the impact of informal employment is twofold. On the one hand, informal employment provides employment opportunities and contributes to economic growth. On the other hand, the wages, working environment, and institutional security of informal workers are inferior to those of formal workers. In addition, most studies have focused on urban spaces, and there are fewer studies on rural informal employment, especially for rural women. Due to gender, education level, and family care, informal employment has become the main employment form of the rural female labor force, and it is particularly important to study their employment status and rights protection.

## Keywords

Informal Economy, Informal Employment, Informal Workers

## 1. Introduction

Informal employment is an important form of labor force employment. In 2018, the International Labour Organization (ILO) issued *Women and Men in the Informal Economy: A Statistical Picture*, which noted that the majority of the employed were engaged in informal work. In Africa, the percentage of employees who are engaged in informal work is 85.8 percent, in the Asia-Pacific region 68.2 percent, in Arab countries 68.6 percent, in the Americas 40.0 percent, in Europe and Central Asia 25.1 percent. 93% of global informal employment comes from emerging and developing countries. Scholars have also estimated the size of the

informal economy. Informal, family-run small businesses provide 70% - 80% of employment in low-income countries. The number of informal workers in China is about 60 million to 260 million, roughly accounting for 30 to 60 percent of the total workforce. The informal economy is counter-cyclical, acting as a “safety net” during economic downturns to absorb displaced workers and mitigate the negative effects of economic fluctuations. For example, China’s “street stall economy” has played an important role in the context of the COVID-19 pandemic. The promotion of the “street vendor economy” across the country has created about 5.12 million new jobs.

At present, the research on informal employment mostly focuses on its role and influence and the research objects are mainly urban workers, with less attention paid to the informal employment in rural spaces and female informal workers. Based on this, the paper starts with the definition of informal employment and summarizes the existing literature from the perspectives of the role and influence of informal employment, the governance of informal employment, informal employment in rural spaces, and female informal employment and its impact in order to make contributions to policy formulation to ensure the sound development of the informal economy and its practitioners.

## **2. Informal Sector, Informal Economy, and Informal Employment**

ILO defines the informal sector as “those low-income, low-paid, unorganized, unstructured, small-scale production or service establishments in urban areas of developing countries”. It also defines informal employment as “a form of employment in which the labor relations of employees are not protected by national labor regulations, income taxation, and other systems”. The informal sector, informal economy, and informal employment were considered traditional, backward, and marginal compared to the formal sector, formal employment, and formal economy. The dual economic theory, represented by Lewis, argues that the informal sector is a remnant of the traditional economy and a product of the inability of the formal sector to fully absorb the agricultural shift during industrialization. The informal economy will shrink until it disappears into thin air [1]. This effect is referred to by Todaro as the “springboard” effect of rural migration into the formal sector [2]. The competition brought about by the transformation of market economies in emerging countries has led to the growth of new sectors that have changed the labor market landscape. The proportion of the informal sector and employment, characterized by “increased flexibility and decreased security”, is increasing [3]. The informal sector, informal economy, and informal employment are no longer found to be temporary phenomena, but rather important channels of employment and income, closely related to the formal sector, and with a significant impact on GDP. The informal sector, informal economy, and informal employment have also gradually attracted attention from a variety of disciplinary fields such as development economics, geo-

graphy, sociology, and urban planning. In the statistics of informal sector/informal economy/informal employment, it is found that informal employment is not only limited to the informal sector but also exists in the formal sector. In 2003, the 17th International Conference of Labor Statisticians (ICLS) began to define informal employment in terms of “jobs” rather than “establishments”. The definition of informal employment varies among scholars based on different statistical calibers. Briefly, informal employment includes employment in the informal sector (including self-employed workers) as well as the informal employment component of the formal sector.

### **3. The Role of the Informal Economy/Employment and Its Impact**

As an integral part of the urban economy [4], the informal economy has a significant two-sided impact on economic and social development. The informal economy can provide jobs, generate income, and promote economic growth. Formal or multinational firms also outsource their operations to the informal sector to save costs. The role of the informal economy in promoting international trade and economic growth is well recognized [5]. Following Lewis’ dual economic theory, informal economic activities have counter-cyclical characteristics, which will recede when the economy is booming and will expand against the trend when the economy is in recession, thus can smooth out the shock of economic cycle fluctuations [6]. The share of the informal economy also tends to decline with the increasing level of urbanization development [7]. Under the impact of the COVID-19 pandemic, the informal economy forms such as vendor economy and odd jobs have become pragmatic initiatives to protect people’s livelihood, expand employment and promote domestic demand [8] [9]. On the other hand, some scholars argue that units in the informal sector usually operate at a low level of organization, with small-scale production and less or no separation of labor and capital as factors of production; the informal economy may also affect fiscal revenue and cause loss of tax revenue [10]. Data also shows that the share of urban informal employment has an inverted U-shaped relationship with economic growth within a certain range [11].

From the perspective of the individual worker, the role of informal employment also exhibits a distinctly dual character. For the unemployed migrants, women, and other flexible workers, the informal economy can provide employment opportunities that allow them to earn income and increase their personal and family well-being. Compared to formal employment, informal employment gives workers a higher degree of autonomy, thereby alleviating emotional exhaustion [12], and flexible informal employment also increases workers’ subjective well-being. However, compared to formal workers, those in informal employment generally face problems such as long working hours, high labor intensity, poor working environment, low and unstable income levels, and lack of social security [13] [14] [15] [16] [17]. Informally employed workers are often in

“insecure” labor status, and their subjective well-being is significantly lower than that of formally employed workers. A large number of short-term, informal forms of employment directly discourage enterprises from investing in human capital, which is not conducive to the improvement of the added value of labor [18]. From these perspectives, informal employment presents a negative impact. In addition, informal employment improves individual fertility intention by reducing the expectation of parenting costs, providing new ideas to alleviate the problem of population aging. Informal employment also affects the upgrading of household consumption structure and promotes household consumption for living and other consumption.

#### **4. Governance of the Informal Economy and Informal Employment**

The governance of the informal economy/employment has also become a focus of academic attention due to its marginalization from laws and regulations and the lack of labor security in informal employment. Excessive regulation of the informal economy/employment can undermine its flexibility and the livelihoods of the poor [19]; leaving it unchecked can lead to the creation of potentially illegal economic activities [20]. Governance should be predicated on the healthy and orderly development of the labor market [21], so the challenge is how to balance government and market forces [22]. The key to governance is not only to take the flexibility of employing workers into account but also to ensure that appropriate support policies are put in place at the government level to guarantee the skills promotion of practitioners [23]. Ma Liuhui [24] points out that based on the importance of primary relationship networks such as blood and geography in shaping the informal economy, operators can be upgraded from objects of control to subjects of governance and involved in the governance practices of the formal economy. Hernando DeSoto [25] also points out that improper regulatory structures can undermine the development opportunities of third-world countries. The participation of the people, especially those at the bottom, is of significance in the governance of the informal economy. Li Qiang, Tang Zhuang [26], Hu Angang, and Zhao Li [27] analyzed the realities of urban informal employment of rural-urban workers and argue that the positive social functions of the informal economy/employment should be fully recognized. “Supply-side interventions” of support and assistance should be taken to guide the healthy development of the informal economy/employment.

#### **5. Informal Employment in Rural Spaces**

Currently, academic studies on informal employment focus on cities, but ILO data shows a higher share of the informal economy in rural areas. A study by Chreneková Marcela *et al.* [10] using Ukrainian Statistics Service data found that some rural areas have the natural geographical advantage of proximity to EU countries. Active entrepreneurial activities make unemployment rates in these

rural areas lower than the overall national unemployment rate. Informal enterprises in rural areas create more informal jobs than in urban areas. The COVID-19 pandemic has prevented rural labor from entering urban spaces in search of jobs, and millions of Indian migrant workers had returned home with their families and possessions, and most of these laborers have chosen to be employed in the informal sector due to resource and educational constraints [28]. Therefore, safeguarding the working conditions and quality of informal employment contributes to the stability and further development of rural areas.

If we turn to rural areas in China, we will find that there are more agricultural workers and non-farm employment [29] [30] because of a combination of factors, including rural labor forces flowing to urban areas, industrial and commercial capital to the countryside”, industry sinking and national development policies of agriculture and rural areas. Huang [31] [32] argues that limiting the informal economy only to an urban phenomenon would segregate China’s towns and villages and over-segregate migrant workers and farmers, which is not in line with China’s reality. He also argues that we should include the “half-workers and half-farmers” in informal employment. Luo Xi [33] explained the logic, operational mechanism and governance of informal economy in rural areas, believing that informal economy in rural areas is a result of institution that requires to give priority to develop urban areas and market that requires to satisfy the needs of daily life of rural residents in the process of urbanization, industrialization, and marketization. Huang Jialiang and Wang Yongsheng [34] conducted a detailed examination of informal employment in two villages in Ding County, Hebei Province, and found that the development of traditional sectoral township enterprises and changes in the form of business within the rural areas promote the occurrence of informal employment. Li Shuchun, Han Bingchen [35], and Zhang Ruoyang *et al.* [36] argued that the rise of rural tourism in the context of rural revitalization has led to the development of rural informal economy/employment. Under the government’s continuous rural support policies, the combination of factors such as “industrial and commercial capital to the countryside”, “industry sinking”, and the increase in production and development costs for rural residents has laid an important foundation for the generation of rural informal economy/employment.

## 6. Study on Female Informal Employment and Its Impact

Academic research on female informal employment has focused on topics such as “spatial and temporal characteristics of female informal employment”, “the meaning of female informal employment”, among other topics. Flexibility and change with the life cycle are important features of female informal employment participation. The flexible, temporary nature of informal work allows women to balance work and family. Informal employment opportunities reduce income inequality between genders and provide a way for women with lower levels of education to become self-reliant, which has implications in terms of female con-

confidence building and self-awareness. The income earned by women is first used to improve the lives of their families and children, which facilitates their education, growth, and family welfare [37]. Some scholars have also studied the employment status of women based on regional characteristics, Singh K [38] using Indian National Sample Survey (NSS) data found that in regions where women's participation in social, economic, and political spheres is subordinate to men's, women's work participation rate (WPR) is significantly lower than that of men; even within the country, female WPR varies significantly across different states, which is evidenced by the figure that female WPR in the hill states than in the plains states. Some scholars have also studied the impact of the COVID-19 pandemic shock on women's informal employment in Nigeria and West Bengal, India [39] [40], and emphasized the need for government policy support for this vulnerable group.

Chinese scholars' studies on women's informal employment have also mostly focused on urban spaces. Switching the subject of study to rural women, we can find that the development of the working economy and urbanization has led to the marketization and urbanization of production, life, and meaning of the young rural generation, driving rural households into an expanded reproduction stage. Urbanization also makes agricultural production and farmers' lives increasingly market-oriented, and the costs of family survival and development are increasing, especially the dramatic increase in the costs of education and marriage [41]. In the "family based" context, farm households have developed livelihood patterns characterized by gender and inter-generational division of labor [42] [43]. In addition to family care, rural women who stay at home increase their family income through informal employment to meet daily consumption, and provide support for the development and the class mobility of their offspring's families [44]. Under the pressure of educational competition, young rural women go back to their hometowns to accompany their students, and their remaining time fits in with small-scale enterprises, forming "accompanying family members" [45], and informal employment becomes the common state of rural women's labor allocation [46]. When it comes to the rural women's informal employment choices, age and education level are important factors [47]. In addition, family elderly care presents a disincentive effect on rural women's non-farm employment, and this disincentive effect increases with the intensity of care [47] [48]. Kulwinder Singh [38], on the other hand, found that regional geographic landscape, marital status, family size, income, the ratio of male to female children, and educational level, etc., all influence the likelihood of women working in the area. With the development of the digital economy, Internet penetration in rural areas increases. Internet use also significantly increases rural women's non-farm employment participation rate, but does not significantly affect the quality of employment [50].

## 7. Summary and Outlook

The literature on "informal employment" and "women's informal employment

and its impact” is rich, useful, and interesting. At the same time, there are several inadequacies in the process of literature review. Firstly, international and domestic studies on informal employment mainly focus on urban space, and ignore the study in rural areas. Secondly, few studies combine informal employment with rural women. Based on the basic reality of the female labor force in rural society, it can be found that informal employment is the main survival status of most rural women, but research on their working status is not enough and deserved to be done. Thirdly, rural women are at a disadvantage in both the formal and informal employment markets due to their gender, education level, domestic work, and caregiving activities. How to ensure their better integration into the employment market becomes the focus of the future research. Combining the issues above for research has both rooms for theoretical exploration and practical importance.

### Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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