

Economic Views – Can EMs Create Enough Jobs?

January 26, 2021

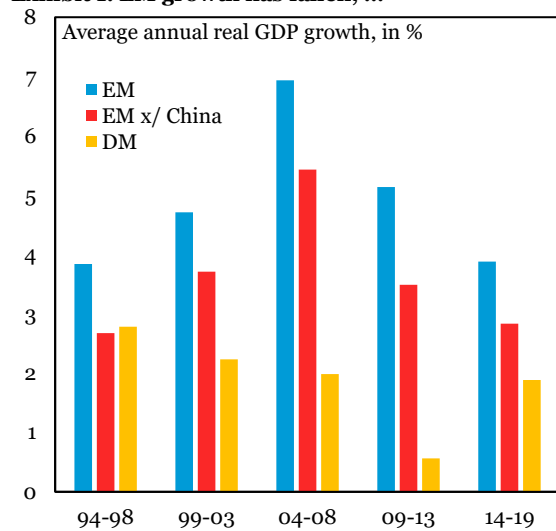
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- COVID-19 derailed global growth and EMs are still recovering.
- Beyond cyclical fluctuations, EM growth is on a secular decline, ...
- possibly making it difficult to create enough jobs in the medium term.
- We estimate the relationship between growth and job creation in EM.
- Many EMs aren't growing enough to attain good labor market outcomes.

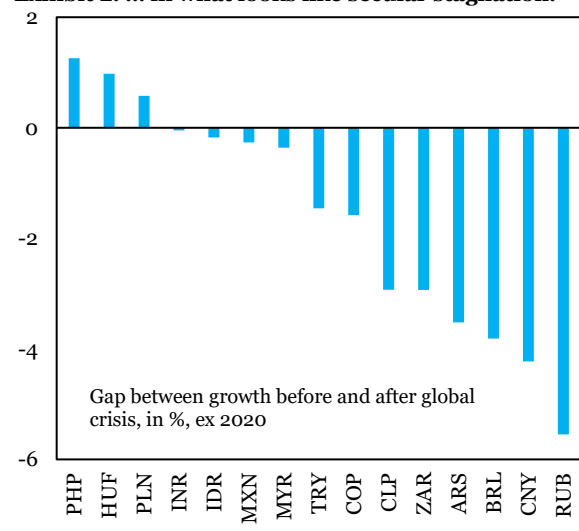
In the last year, much attention was focused on the unprecedented activity collapse in EM and the timing and speed of the recovery. In several countries, including Brazil and India, the rebound was stronger than initially expected, which is certainly good news. Growth will probably remain bumpy until vaccination is well underway, but we think that the focus will soon shift back to the medium-term growth outlook in emerging markets. In several pre-COVID-19 research [notes](#), we documented a secular decline in EM growth, an issue that we pick up again this week. Falling growth is problematic from many angles. It makes existing debt harder to handle, constrains the scope for wage increases, and complicates job creation. In this note, we focus on the latter. We calculate how much EMs need to grow to keep people employed, based on the long-run relationship between growth and job creation. Even though working age population growth will slow everywhere, creating enough jobs will be tough given sluggish growth. In some countries, keeping employment ratios constant will require significantly higher growth than in the last decade. Reducing unemployment or saving [jobs](#) in scenarios where automation increases would be even tougher. Brazil and South Africa stand out as cases where growth has fallen well short of that required to achieve good labor market outcomes.

Exhibit 1. EM growth has fallen, ...



Source: Haver, IIF

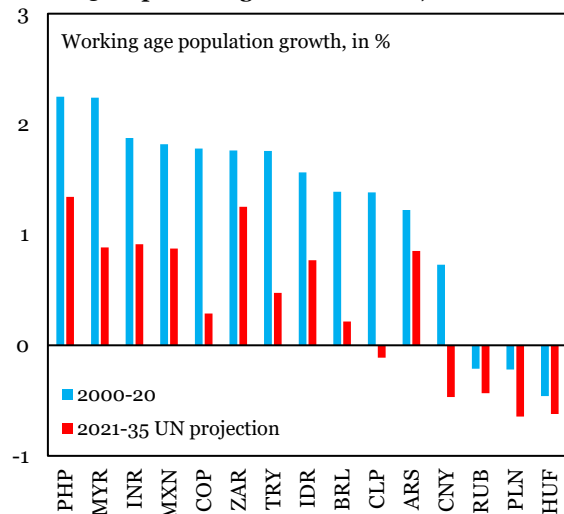
Exhibit 2. ... in what looks like secular stagnation.



Source: Haver, IIF

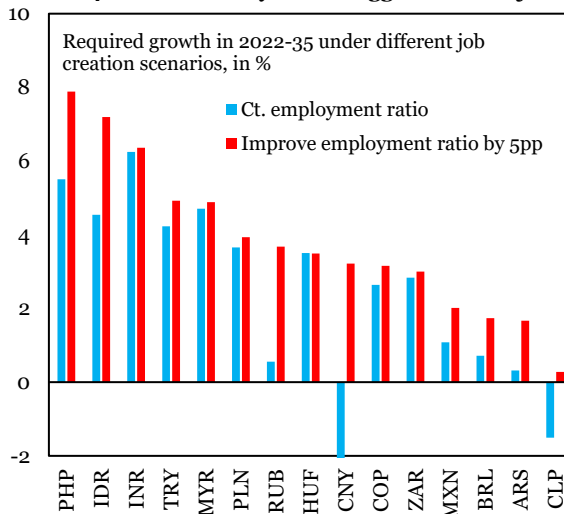
High (and sometimes volatile) [growth](#) has been one of the defining features of emerging markets for a long time. However, the EM growth story faded a bit since the global financial crisis (Exhibits 1 and 2). In many cases, falling growth was associated with a sharp decline in [investment](#), which may have lasting effects on potential growth. Extended periods of low commodity prices explain part of the slowdown, but we are concerned that EMs may suffer from more structural headwinds to growth. The issue is more manageable in parts of Asia where growth still looks healthy, but elsewhere it is pressing. For example, Brazil, Mexico, and South Africa did not experience any [productivity](#) growth since the global crisis. The medium-term implications of low growth are manifold and not easy to quantify. In this note, we focus on the impact of poor growth on job creation, an issue that matters for [social](#) and political stability. We present illustrative scenarios showing that at the growth rates of the last few years, many EMs will struggle to deliver satisfactory labor market outcomes. We base our exercise on an estimation of the long-run relationship between growth and employment. We basically calculate how much growth EMs had to generate to create a certain number of jobs in the past. This is an average relationship since 2000, which unavoidably dilutes any recent shift to less labor-intensive technology. We then use these estimated relationships to calculate how much each country needs to grow to create enough jobs for new labor market entrants. More specifically, we make a constant employment to working age population ratio our benchmark scenario. We use the UN's population projections through 2035, which show a sharp slowdown relative to the last two decades and even contracting working age population in Eastern Europe and China (Exhibit 3).

Exhibit 3. Population growth will slow, ...



Source: Haver, IIF

Exhibit 4. ... but EM may still struggle to create jobs.

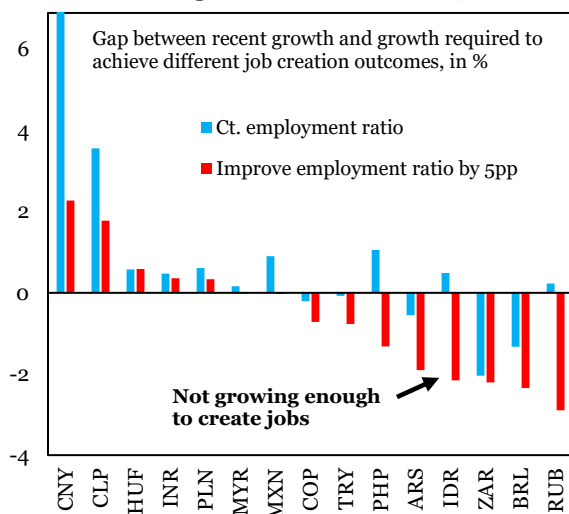


Source: Haver, IIF

Exhibit 4 shows how much each EM should grow in 2022-35 on average to keep the employment ratio constant or improve it by 5 points. In countries where growth is “labor intensive”, small increases in growth create many jobs, and improving employment does not require big jumps in growth. In a couple of cases, required growth is negative due to a combination of falling population and high labor intensity of growth. The crucial issue is whether these “job-creating” growth rates are close to outcomes in recent years. They are in a few countries if the objective is keeping people employed (constant employment ratio). In countries like India, if growth holds up, the jobs situation will not worsen (Exhibit 5). In several countries though, the growth rates of the last few years do not look compatible with a healthy job market. Unless growth picks up, unemployment will rise. The issue is serious in countries like [Brazil](#) and South Africa, which struggled to generate any growth in recent years (Exhibit 6).

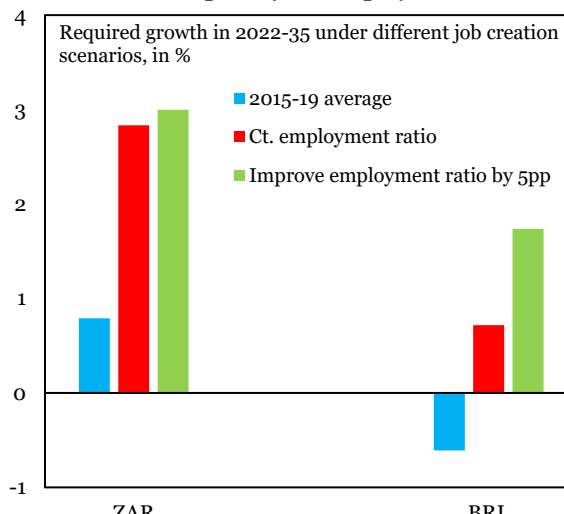
Weak growth is problematic on many fronts. It makes income inequality harder to address and debt tougher to service, among others. At an even more basic level, low growth may not create enough opportunities for job seekers. Our illustrative calculations show this is a pressing issue in EM. There will not be enough jobs for labor market entrants if EMs remain stuck in a low growth environment.

Exhibit 5. Recent growth rates are too low, ...



Source: Haver, IIF

Exhibit 6. ... to keep everyone employed.



Source: Haver, IIF