JOBS DILEMMA

Creating sufficient employment in emerging market economies will require a big boost to economic growth

LAST YEAR, COVID-19 prompted an unprecedented economic collapse in emerging market economies, although a recovery soon followed. While growth will remain bumpy until vaccination rollouts are well underway, the focus will soon shift back to medium-term growth in emerging markets.

Prior to the pandemic, emerging market growth was on a secular decline—that is, it was deteriorating over time irrespective of temporary economic bright or dark spots. Secular stagnation, as it is known, is associated with many problems, including unemployment. Keeping people at work, or helping them get jobs, is tough when growth slows down.

As our recent note from the Institute of International Finance shows, the uncomfortable truth is that creating sufficient jobs in emerging markets will require higher growth rates than those of the past decade. We calculate how much emerging markets had to grow to create a certain number of jobs in the past. We use these relationships and population projections through 2035 to calculate how much countries must grow in the future to create enough jobs for people entering the labor market, while keeping stable the ratio of employment to the working-age population (the proportion of the working-age population that is employed).

We find that creating jobs will still be challenging, even though working-age populations will grow more slowly. The high growth needed to create jobs is close to recent outcomes in only a few countries, including India. In other countries, such as Brazil and South Africa, however, unemployment will increase unless growth picks up. FD

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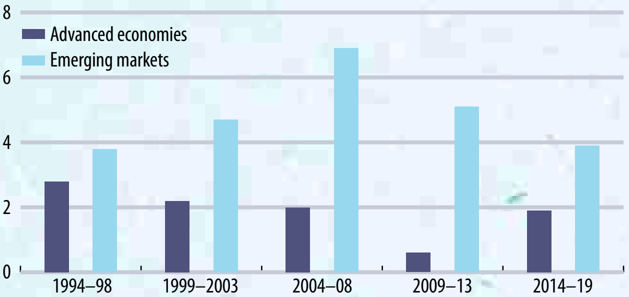
Lost decade

Dwindling growth

Economic growth in emerging markets has slowed markedly since the global financial crisis, especially relative to advanced economies.

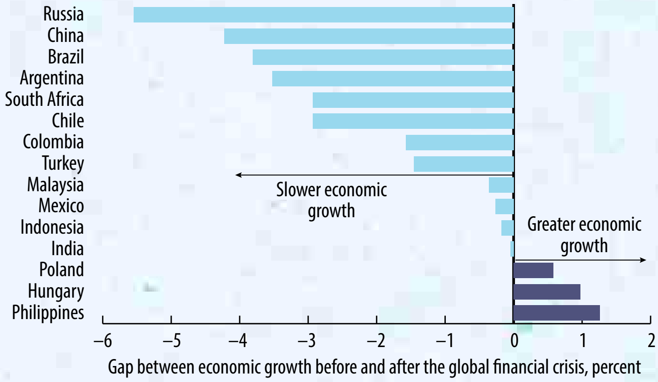
(average annual real GDP growth, percent)



Sources: Haver Analytics; and Institute of International Finance.

Stagnant economies

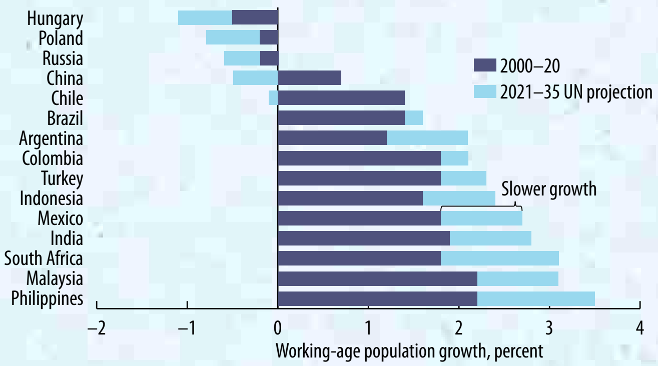
Secular stagnation in economic growth makes creating jobs a challenge.



Growth for jobs

Slowing population growth

Creating enough jobs will remain challenging even as the working-age population grows more slowly.



Significant action needed

History suggests that emerging markets need to grow significantly to create enough jobs.

Next steps

Growth turnaround

Many emerging markets did not grow enough in the past decade to keep people employed.