United Nations | Department of Economic and Social Affairs

MONTHLY BRIEFING
ON THE WORLD ECONOMIC SITUATION AND PROSPECTS

Economic Analysis — No. 138 | 1 June 2020

A FULL-BLOWN EMPLOYMENT CRISIS IN EMERGING ECONOMIES

SUMMARY

- » Economic activity in emerging economies is shrinking at an exceptional scale and speed, triggering an enormous crisis in labour markets.
- » Millions of people are either losing their jobs or going through significant reductions of their income or working hours. This impact is unevenly distributed along education, gender, age and immigration divides.
- » The crisis is causing large increases in poverty and inequality—a major blow to sustainable development. Fiscal relief packages to support the most vulnerable are urgently needed.
- » In the medium-term, a fundamental question is whether these countries will move towards universal, redistributive and solidarity policies to avoid recurrent development setbacks and promote inclusive growth, leaving no one behind.

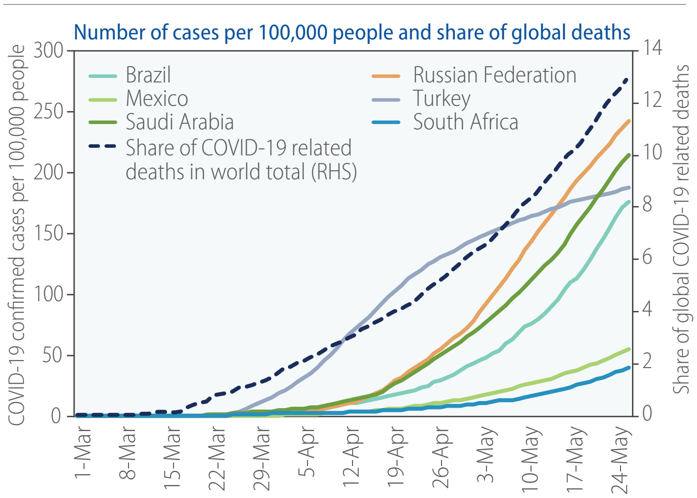
The pandemic hits emerging economies[1]

Emerging economies are facing an unprecedented health and economic crisis. The synchronous collapse in global demand and the widespread disruptions in supply chains are inflicting severe economic pain through trade, financial and commodity prices channels. To contain the pandemic, emerging economies have imposed, to varying degrees, lockdowns and social distancing measures, further disrupting economic activity. India, Indonesia, Mexico, Nigeria, the Russian Federation and South Africa have implemented full or partial lockdowns. But even as countries have followed different approaches to contain the COVID-19 pandemic, enforcement has in many cases been difficult as a result of high population density in major cities.

Against this backdrop, the virus has continued to spread in these countries, and very rapidly in Brazil, the Russian Federation, Saudi Arabia and Turkey (Figure 1). In other countries, like Mexico and South Africa, the growth of COVID-19 cases has been less explosive. While country situations remain very fluid, the global epicenter is gradually moving to emerging economies. By the end of May, about 12 per cent of total global COVID-19-related deaths were registered in these countries.

Despite the different situations regarding the spread of the virus, all emerging economies are suffering severe economic pains, with most of them experiencing a major downturn this year. Economic activity is shrinking at an exceptional scale and speed. According to projections from the *World Economic Situation and Prospects as of mid-2020*,[2] GDP in emerging economies is projected to contract, on average, by 3.2 per cent in 2020 (Figure 2). GDP in Brazil, Mexico and South Africa is projected to shrink by more than 4.5 per cent this year, and only in Indonesia, growth is projected to remain in positive territory. This contraction is unmatched by any other crisis on record. During the financial crisis, for example, India, Indonesia and Nigeria were barely affected. Others that were more impacted—Brazil, Turkey and Saudi Arabia—quickly returned to robust growth. In addition, the outlook for 2021 is highly uncertain. While the current baseline scenario projects economic activity to grow by 3.4 per cent next year in these countries, significant uncertainties and downside risks are in place.

Figure 1
COVID-19 confirmed cases and share of deaths in emerging economies, as of 25 May 2020



Source: Johns Hopkins University.

The medium-term outlook for emerging economies has also become more challenging. Amid easing monetary policies in major central banks and elevated global liquidity, many countries have built up large public and corporate debt over the past decade. Government debt in most countries is actually higher than at the onset of the global financial crisis (Figure 3). Also, corporate debt is above 100 per cent of GDP in Brazil, India, South Africa and Turkey. A significant share, especially of private debt, is denominated in foreign currency. As access to foreign exchange has tightened and balance sheets are deteriorating fast, risks of

1 The list of emerging economies includes Brazil, India, Indonesia, Mexico, Nigeria, Saudi Arabia, Russian Federation, South Africa and Turkey.

2 See bit.ly/wespmidyear.

Figure 2

GDP growth in emerging economies, 2000–2021

Source: UN DESA.
Note: Data for 2019 are estimations; data for 2020 and 2021 are forecasts.

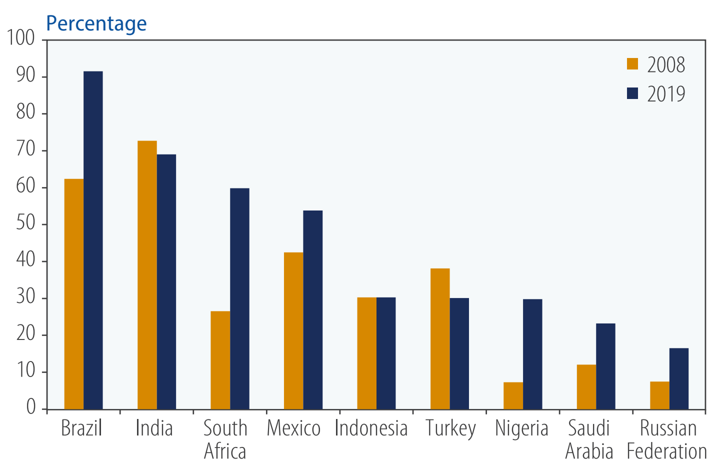
debt crisis have increased. Even if emerging economies manage to preserve financial and macroeconomic stability, the increase in deleveraging pressures will likely lead to a fragile and protracted recovery.

Some of these countries were already in difficult economic conditions before the COVID-19 outbreak. Between 2016–2019, GDP growth in emerging economies was only 2.3 per cent, much weaker than the performance of the previous decade. The causes for this are multiple, ranging from reverberations from the collapse of commodity prices in 2014/15, weak investment and structural problems to diversify sources of growth. In addition, the global context has been less supportive, with international trade losing steam and China on a gradual slowdown. In Brazil, India and South Africa, the performance of investment was particularly poor; the ratio of gross fixed capital formation to GDP has been on a continuous downward trend in recent years.

As a result, the situation of labour markets was precarious in many emerging economies even before they were hit by the COVID-19 crisis, with often high or rising unemployment, low

Figure 3

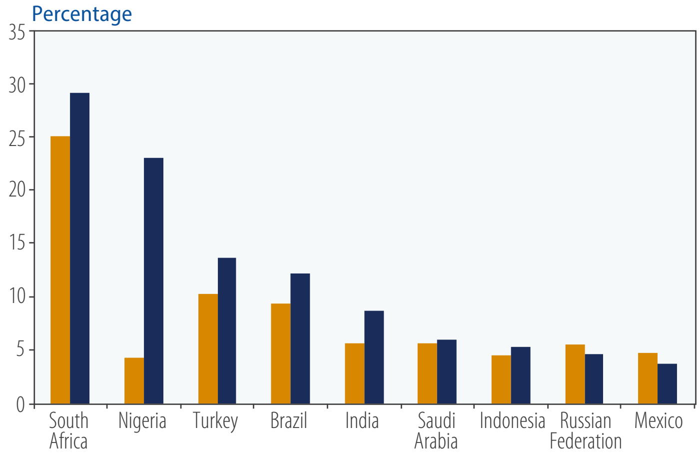
Government debt as share of GDP, 2008 and 2019



Source: IMF.

Figure 4

Unemployment rates in emerging economies, 2015 and 2019/20



Source: UN DESA based on official national data.
Notes: Data for 2019/20 is pre-pandemic. Latest available data for Nigeria is 2018, for Indonesia is August 2019, for Saudi Arabia is 2018. Data for India come from the Centre for the Monitoring of the Indian Economy.

wage growth, elevated informality and large gender, age, racial and ethnic divides. In Brazil, for example, the unemployment rate increased from about 9 per cent in 2015 to above 12 per cent by the end of 2019 (Figure 4), amid a severe and prolonged economic downturn. In South Africa, unemployment has been elevated, above 20 per cent, for decades. Yet, it has risen even further recently. Amid subdued economic activity, weak investment and policy uncertainties, the unemployment rate rose to 29.1 per cent by early 2020. In India, unemployment was also high before the ongoing crisis. According to some estimates, the unemployment rate was 8.7 per cent in March, the highest in more than 3 years.

In Turkey, a country that has struggled to create jobs, unemployment increased sharply in the second half of 2018 due to the economic recession, after the lira abruptly depreciated by 30 per cent. Unemployment increased from about 9.5 per cent in early 2018 to almost 15.0 per cent by early 2019. In Nigeria, after the collapse of oil prices in 2014/15, the unemployment rate skyrocketed, from below 7 per cent in 2015 to above 23 per cent in 2018. The challenges in these countries have been much more severe for young people. In Nigeria, youth unemployment escalated to above 35 per cent. In South Africa, almost 60 per cent of young people are unemployed. Importantly, unemployment numbers provide only a partial view of the labour market challenges these countries were facing, amid significant underemployment, an elevated proportion of workers in vulnerable jobs and slow wage growth.

Furthermore, employment lost the role it had in reducing poverty in previous years in Brazil, Nigeria and South Africa. In fact, many workers in these countries were either in a very vulnerable position or new working poor, rather than moving into the middle class. Even in Mexico and Indonesia—where unemployment rates were on a downward trend and close to record lows—employment was losing steam as an engine for further poverty reductions.

A huge blow to employment amplified by pre-existing inequalities

The COVID-19 crisis is wreaking havoc on labour markets in emerging economies. Millions of people are either losing their jobs or going through significant reductions of their income or working hours, as many labour-intensive services sectors are worst affected. Many firms, especially SMEs with little working capital and credit lines, are likely to go bankrupt. The situation is still evolving by the day and official statistics do not reflect the true magnitude of the shock. Yet, recent estimates provide some indication of the devastation.

In India, estimates show that the unemployment rate soared above 20 per cent in April. In Brazil, unemployment will likely increase to an all-time high above 14 per cent this year, while in Nigeria authorities expect the jobless rate to rise to about 30 per cent. Meanwhile, as of mid-April, around 2.8 million workers in Indonesia, or 2.1 per cent of the labour force, have lost their jobs or have been forced to take unpaid leave. The government has warned that job losses could rise to 5.2 million in the coming months. In Mexico, in addition to massive losses in the informal sector, 350,000 formal jobs were lost between mid-March and early April, and this number is increasing rapidly. In the Russian Federation, unemployment sharply increased in April, and there are expectations for substantial wage arrears, reductions in wages and shifts to part-time work. These job losses are only one dimension of the unfolding crisis in emerging economies.[3] The pandemic is also increasing under-employment, reducing working hours and rising informality.

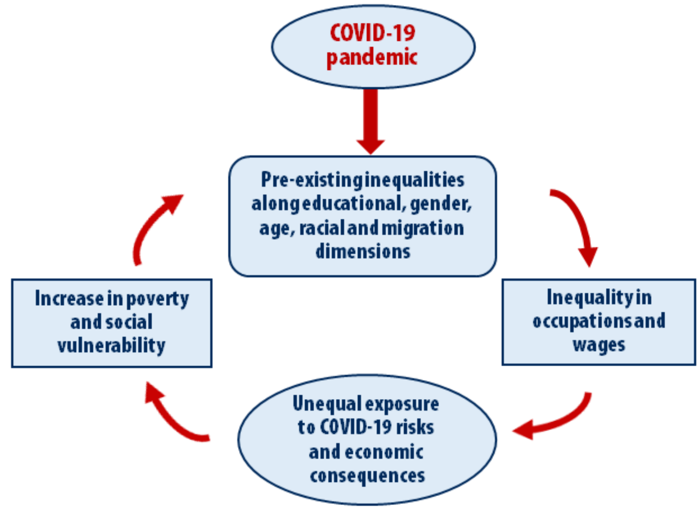
The effects in employment are critically driven by pre-existing inequalities along educational, gender, age, racial and migration divides (Figure 5). Low-skill workers are more exposed to lay-offs and wage cuts. Women, youth, migrants and members of indigenous communities are especially vulnerable. Low-wage workers also tend to be in occupations that are more machine-dependent or that require physical interaction—and less ICT-enabled—which makes them less flexible to work remotely. These workers are predominantly in retail, restaurants, hospitality, transportation and recreation sectors.

These pre-existing inequalities in labour markets are amplified in emerging markets due to elevated informality (Figure 6). India, Indonesia and Mexico, for example, have informality levels above 60 per cent. In Brazil and South Africa, informality is between 30 and 40 per cent. Social protection in the informal sector, including unemployment benefits, is nearly non-existent. For example, about 35 per cent of the vulnerable population are covered by social protection in Brazil, Mexico and South Africa, compared to only 10 per cent in India. In Nigeria, a country with about 85 million people in extreme poverty, social benefits are minimal.

3 Unemployment is also rising rapidly in developed countries. In April, the unemployment rate in the United States surged to 14.7 per cent, the highest level since the Great Depression. In developed countries, however, informality is notoriously less prevalent than in emerging economies, below 20 per cent.

Figure 5

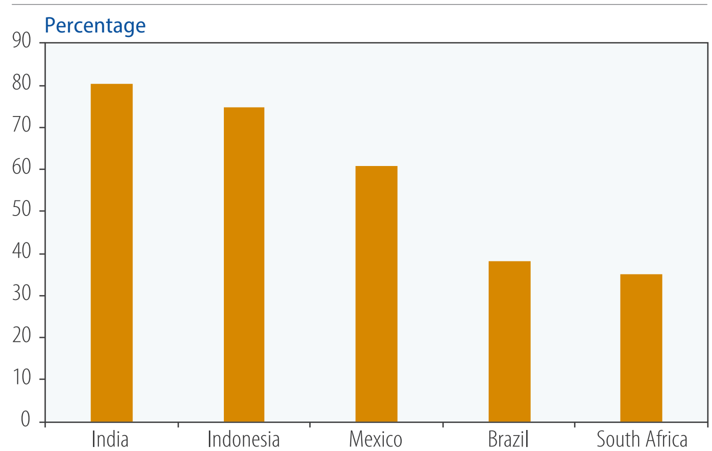
COVID-19 and pre-existing inequalities



Source: UN DESA.

Figure 6

Percentage of workers in the informal sector



Source: International Labour Organization.

Women are particularly vulnerable in confronting this crisis. On the economic side, this is illustrated in significant gender gaps, including unemployment, wage and participation rates. In Saudi Arabia, for example, female unemployment is about 30 per cent, more than double the male unemployment rate. In Brazil, monthly earnings for men are 28.7 per cent higher than women's.[4] In Turkey, male participation rate stands at about 69 per cent, while female participation rate is below 35 per cent. About 30 per cent of young women in emerging economies are not working and not in school, twice the rate of young men.

Female domestic workers are in a particularly disadvantaged position in several countries during this crisis. Female domestic workers in Brazil and Mexico are severely affected, as their work is usually informal and under weak social protection. According to data from ECLAC, domestic workers represent more than 10 per

4 IBGE (2020), "Men earned almost 30% more than women in 2019", Press release, Brazilian Institute of Geography and Statistics, 6 May.

cent of the employed women in Latin America. In South Africa, a million people, mostly women, are employed as domestic workers with lack of employment contracts or unemployment benefits. Women are also more exposed than men to the coronavirus itself. Most notably, women are at the forefront of the healthcare battle against the COVID-19, making up most of the health system workers and thus facing high infection risks. In Brazil—which has become the new hot spot of the pandemic worldwide—about 85 per cent of nurses and nursing assistants are women. Women also contribute to the lion's share of employment in sectors most affected, such as retail. Importantly, women are also disproportionately affected by the stress and anxiety caused by quarantines and school closures. Of particular concern, in this regard, are increases in domestic violence. In South Africa, gender violence is a severe problem, with the country declaring femicide as a national crisis last year.

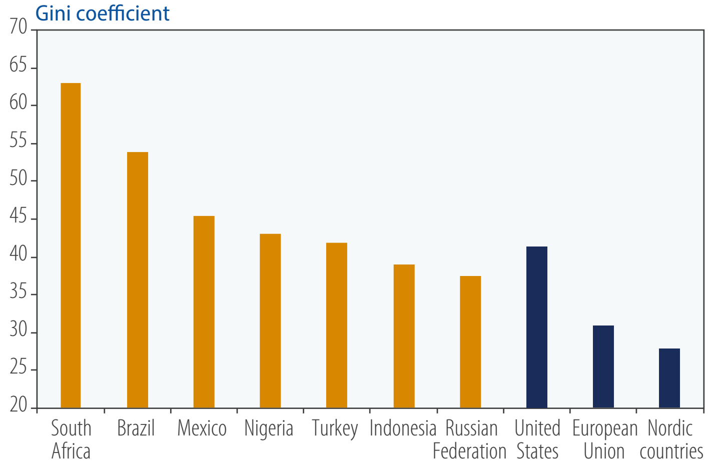
The youth are also particularly impacted, with high and rising unemployment rates and prospects for large reduction in incomes. With relatively limited networks and less experience, young workers are usually the first ones to be laid-off in recessions. In addition, many of them work in the informal sector with part-time or temporary arrangements in wholesale, retail, accommodation and food sectors. In India, it is estimated that 27 million youths lost their jobs in April. In Nigeria, the crisis is affecting the youth through pay cuts, lower working hours and further increases in unemployment. This is worrisome as, according to latest official numbers, more than 7 million youths were neither learning nor working. In Saudi Arabia, youth are expected to be one of the most affected groups in the coming months, especially in the non-oil sector. In South Africa, the current crisis will exacerbate the challenge of creating jobs for the youth.

Looking ahead, the prospects for labour markets in emerging economies are gloomy. Countries will face enormous challenges to recover. It will be difficult to re-absorb the millions of jobs that have been lost, even if there is a recovery in output. In fact, frictions in labour markets can cause a slow and jobless recovery, as matching workers and vacancies can be costly. In addition, restarting businesses that have gone bankrupt can be a long process. The ongoing crisis may also accelerate automation, which will lead to the disappearance of routine jobs, aggravating job and wage polarization and exacerbating income inequalities. Altogether, this can lead to permanently higher levels of unemployment and further polarization of labour markets.

The unequal impact of this crisis will significantly increase poverty in emerging economies, much more than any other crisis in recent decades. For example, ECLAC projects in a baseline scenario that poverty in Brazil will increase from 19.2 per cent in 2019 to 24.3 per cent in 2020, and in Mexico from 41.9 per cent to 48.9 per cent.[5] Similar increases might occur in other emerging economies. Given that this health and economic crisis is disproportionately affecting unskilled workers and the most vulnerable, it will also increase pre-existing income inequalities. From a social cohesion point of view, this is especially problematic, as several emerging

Figure 7

Income inequality, latest available data



Source: World Bank, World Development Indicators.

economies, including Brazil, Mexico and South Africa are already among those with the highest income inequality (Figure 7). Latest estimates—using data from national accounts, surveys and tax fiscal data—suggest extreme inequality in Brazil, India and South Africa. In these countries, more than 50 per cent of national income is received by the top 10 per cent of income earners, higher than the 45 per cent in the United States and much higher than the 40 per cent in Western Europe.[6]

Emergency relief is on the way—a decisive turn towards strengthening social protection systems?

Emerging economies are facing major constrains to roll-out fiscal relief measures, amid limited policy space. Government debt in most countries is actually higher than at the onset of the global financial crisis. Despite this, countries are rapidly rolling out relief measures, such as cash transfers, wage subsidies, food assistance, tax breaks and credit lines to SMEs, among others (Table 1). A key challenge for policymakers is how to reach vulnerable groups and those most affected by the crisis. Many of these people were not included in social programmes that existed before the pandemic, which calls for effective targeting strategies.

In the short-term, these are much-needed policy measures. But emerging economies will soon have to design a wider set of policies to tackle the employment crisis and support the creation of high-quality jobs. A fundamental question, however, is whether this crisis will be a turning point towards strong universal, redistributive and solidarity policies. Strengthening social protection systems is essential to promote inclusive growth, *leaving no one behind*. If they fail, emerging economies will be even more prone to recurrent development setbacks, which can lead to social unrest, political upheaval or worse. As former United Nations Secretary-General Kofi Annan once put it; "*As long as inequality and other social problems plague us, populists will try to exploit them*".

5 ECLAC (2020), "The social challenge in times of COVID", Special report, 12 May. Data on poverty is calculated by using a poverty line that considers the cost of a basic food basket for households.

6 L. Assouad, L. Chancel, and M. Morgan (2018), "Extreme inequality: evidence from Brazil, India, the Middle East and South Africa". WID.world Working Paper N° 2018/4.

Table 1

Fiscal relief packages and key employment measures in emerging economies

Country	Fiscal package (% GDP)	Key employment measures
Brazil	8.0	» Partial compensation to workers that were temporarily suspended or had a cut in working hours. » Temporary tax breaks and credit lines for firms that preserve employment.
India	10.0	» Cash transfers for vulnerable groups. » Increase of the wage under employment guarantee scheme. » Permission to 60 million subscribers to withdraw a limited amount of money from pension funds.
Indonesia	2.8	» Income tax exemptions for most affected sectors. » Expansion of existing social assistance schemes, including food aid, cash transfers and electricity subsidies. » Introduction of pre-employment card, which provides aid and training subsidies to unemployed workers.
Mexico	< 1%	» Lending to SMEs who have not laid off workers or reduced salaries. » Loans to workers against their social security accounts.
Nigeria	0.3	» Provision of incentives to employers to retain and recruit staff. » Cash transfers.
Russian Federation	2.8	» Deferrals on taxes and social security contributions to SMEs. » Wage and loan subsidies to SMEs. » Budget grants for SMEs.
Saudi Arabia	2.8	» Authorization to use unemployment insurance fund to subsidize wages.
South Africa	10	» Cash payments for workers in the informal sector. » Employment subsidies and income support payments.
Turkey	2.0	» Wage subsidies. » Relaxation of short-term work allowance rules.

Source: UN DESA.