



Uneven Recovery from the Global Crisis in Developing Country Labor Markets

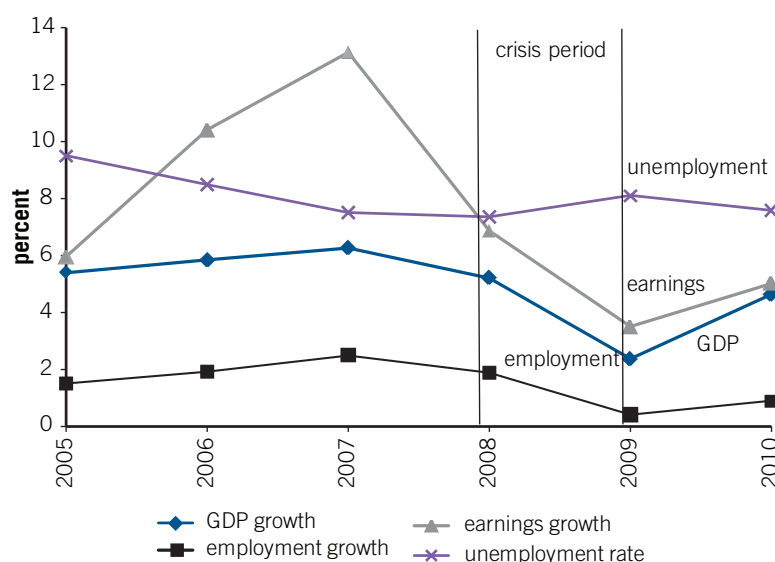
Labor market recovery from the financial crisis remains sluggish in parts of the developing world, with employment and earnings growth far below their pre-crisis rates. The global crisis caused a sharp reduction in economic growth across the developing world, but the impact on labor markets varied widely. Labor markets in East Asia largely escaped the crisis, and employment indicators in Latin America recovered rapidly by 2010 from the previous year's contraction. In contrast, Europe and Central Asia continued to experience low earnings growth and high unemployment in 2010. More recent trends in nine large developing countries show mixed earnings growth and weak job creation thus far in 2011.

Labor market recovery from the global financial crisis in developing countries is lagging behind economic growth, according to the latest data (see figure 1). GDP grew nearly 2.5 percentage points in 2010 in 136 developing countries, nearly half way back to the pre-crisis peak of 6 percent. However, earnings and employment growth remained far below their pre-crisis rates in 2010, despite a slight improvement over 2009. Slow employment growth amidst falling unemployment is symptomatic of a delayed recovery in labor force participation, suggesting that discouraged or laid-off workers may be slow to re-enter the labor force.

Global numbers, however, hide important intra- and inter-regional differences (see figures 2–5). Europe and Central Asia was by far the hardest hit by the crisis: average GDP growth plummeted from 6 percent in 2008 to a 3 percent contraction in 2009. This plunge led to major reductions in both earnings and employment growth, as well as a sizeable increase in unemployment.

GDP growth also declined steeply in both Latin America and East Asia, but with sharply differing impacts on labor markets. In Latin America, employment and earnings growth contracted and unemploy-

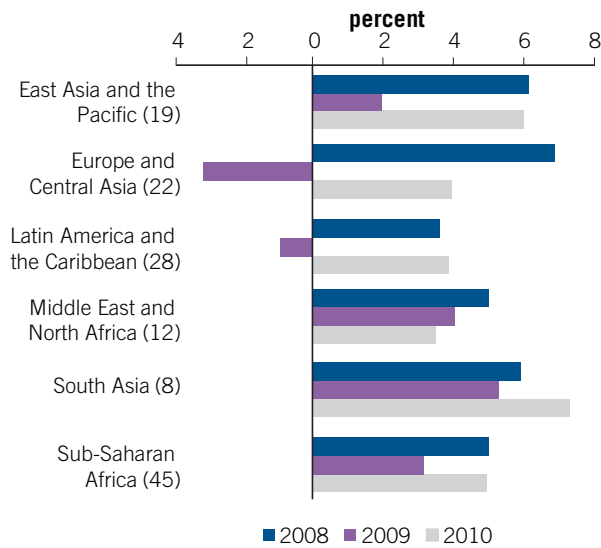
Figure 1. GDP and Labor Market Indicators in Developing Countries



Source: International Monetary Fund (IMF), International Labour Organization (ILO), CEIC Data Company, and national statistical offices.

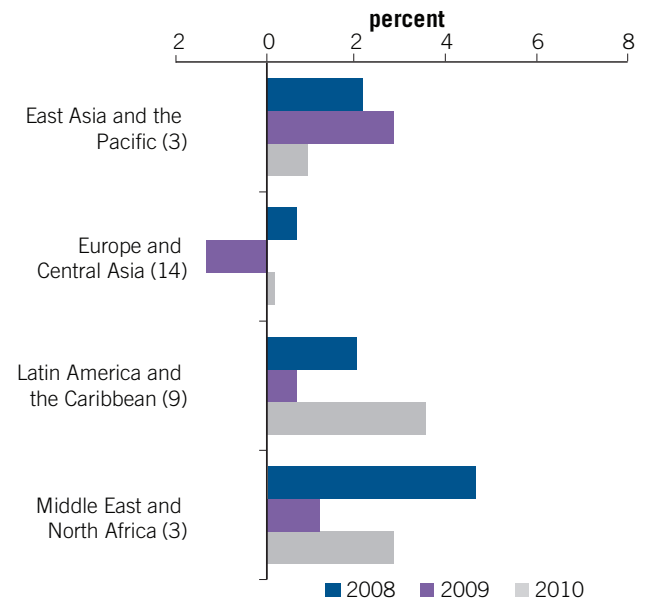
Note: Developing countries refers to those countries classified by the World Bank as low or middle income.

Figure 2. GDP Growth



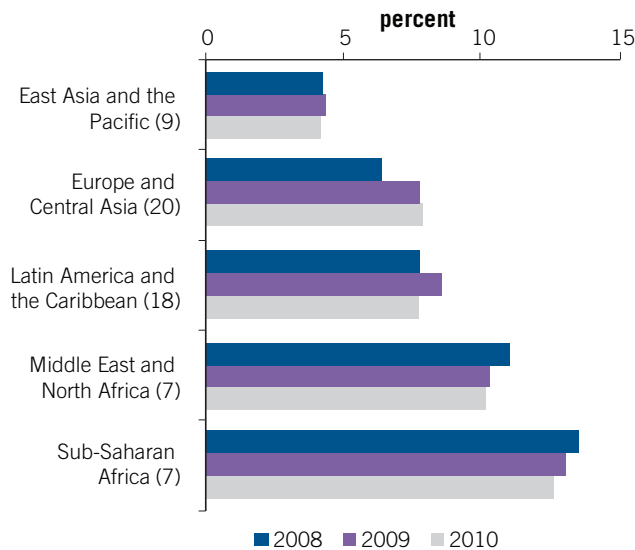
Source: IMF, ILO, CEIC Data Company, and national statistical offices
 Note: Numbers in parentheses refer to number of countries.

Figure 4. Change in Employment



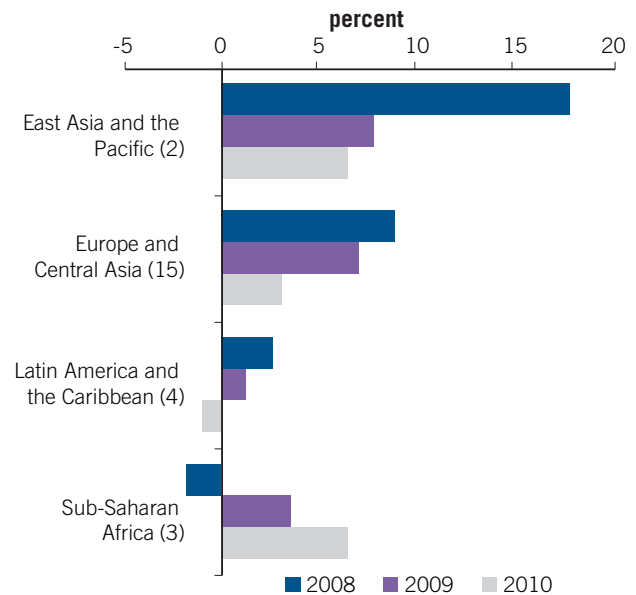
Source: Same as figure 2.

Figure 3. Unemployment Rate



Source: Same as figure 2.

Figure 5. Change in Earnings by Region



Source: Same as figure 2.

ment increased. In East Asia, by contrast, labor markets remained remarkably stable. Average unemployment registered only a tiny uptick in the nine East Asian countries reporting annual unemployment data, and employment growth actually improved slightly in 2009. These relatively positive employment outcomes

in East Asia during the crisis could stem from several factors, including more flexible labor markets, the continued strong growth of China, and a marked expansion in fiscal spending.

In Africa and the Middle East, the fall in GDP growth was more contained and labor markets appear to have been relatively

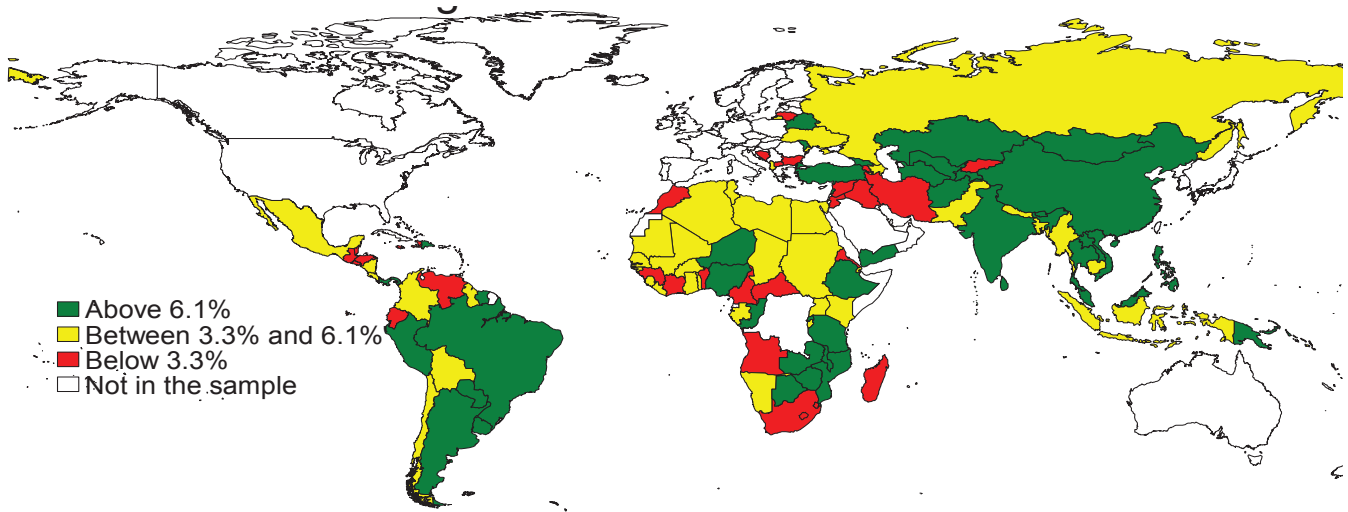
unaffected by the crisis. The world oil price decline associated with the crisis had little effect on unemployment in the Middle East and North Africa. In Sub-Saharan Africa, average unemployment across seven countries trended down in both 2009 and 2010, while earnings growth in South Africa, Botswana, and Mauritius increased both years. Africa may have benefited from less economic integration with the hard-hit countries in Europe and United States. South Asia also appears to have escaped the brunt of the crisis.

Not only did the crisis have varying impacts across the developing world, but labor market recovery has varied as well. Latin

American economies picked up again in 2010, with average growth exceeding the 2008 rate. This growth recovery created jobs—unemployment fell to its 2008 level and employment growth averaged nearly 4 percent. In contrast, the recovery was slower in Europe and Central Asia. Employment growth markedly improved in 2010, but unemployment remained high and median earnings growth slowed from roughly 6 percent in 2009 to 2 percent in 2010.

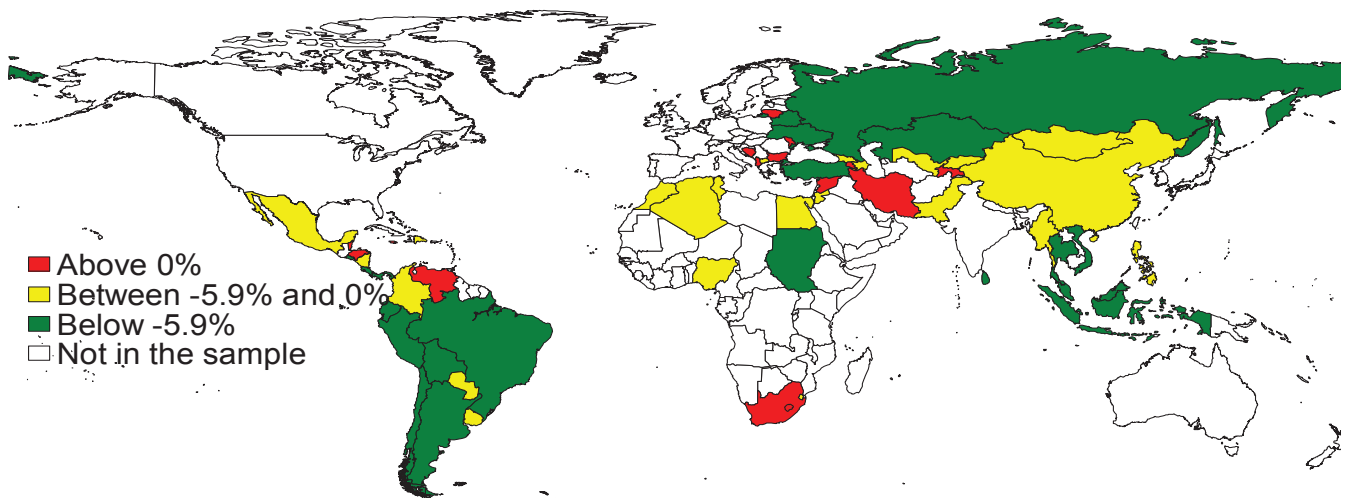
Even within regions there is considerable heterogeneity in labor market outcomes as a result of the crisis (see figures 6 and 7). While labor markets in most Latin American countries are

Figure 6. GDP Growth for 2010



Source: IMF.

Figure 7. Change in the Number of Unemployed Persons, 2010



Sources: IMF; ILO; CEIC Data Company; and national statistics offices.

showing strong signs of revival, the pace of growth and unemployment reduction remains much slower in Central America, Venezuela, and Mexico. In Europe and Central Asia, European Union members Romania, Bulgaria, and Lithuania are lagging behind Turkey, Belarus, Ukraine, and Kazakhstan.

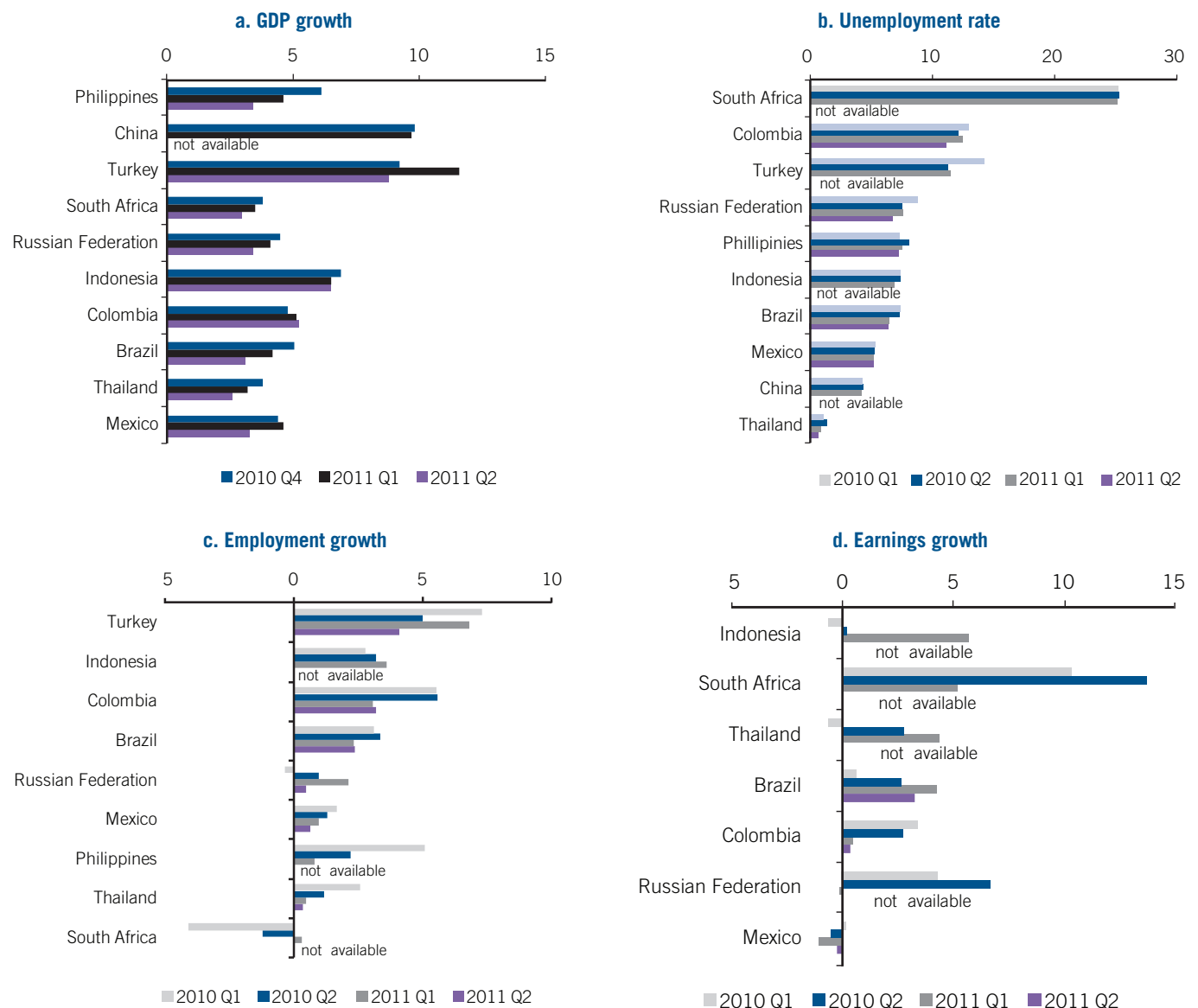
The most recent available data from nine large developing countries suggests continued uneven labor market recovery in 2011, with weak job creation and mixed earnings growth (see figure 8). Annual employment growth accelerated rapidly in South Africa compared to the previous year, and picked up slightly in Thailand and Indonesia. However, employment growth fell in the other six countries. Earnings growth improved considerably in Indonesia, Thailand, and Brazil, but stalled in

South Africa, the Russian Federation and Colombia, and remained low in Mexico. Unemployment rates fell slightly in the latest quarter with available data, but still exceeded 6 percent in most countries.

Conclusions

- Although GDP growth showed signs of improvement in 2010, the labor market was slow to recover. Earnings and employment growth remain far below their pre-crisis levels.
- In 2010, Latin America's GDP rose by around 6 percent and labor markets recovered as well, with robust job growth and unemployment declining to pre-crisis levels. GDP grew by 4 percent in Europe and Central Asia in 2010, but

Figure 8. GDP Growth, Unemployment Rate, Employment Growth, and Earnings Growth by Quarter



Source: ILO, CEIC Data Company, and national statistical offices.

unemployment remained high and employment growth low.

- East Asian labor markets remained remarkably stable throughout the crisis despite declines in GDP, while Africa and the Middle East were relatively unaffected by the crisis in both economic growth and labor market indicators.
- Labor markets trends show considerable heterogeneity within regions, as pockets of countries in Latin America and Europe continue to experience slow GDP and labor market improvements.
- 2011 data from nine large developing countries show mixed earnings growth and sluggish job creation.

JobTrends is a regular series monitoring labor markets in developing countries. It is a collaborative effort between the Human Development Network (HDN) and the Poverty Reduction and Economic Management (PREM) Network of the World Bank. This note was prepared by Javier Arias-Vazquez, Gladys Lopez-Acevedo, Lucia Madrigal, and David Newhouse. For more information on this series, contact David A. Robalino, Lead Economist in the Social Protection Unit of the Human Development Network, or Gladys Lopez-Acevedo, Senior Economist on the Poverty Reduction and Equity Group of the Poverty Reduction and Economic Management Network. The team gratefully acknowledges partial financial support from the governments of Austria, Germany, the Republic of Korea, Norway, and Switzerland through the Multi-Donor Trust Fund on Labor Markets, Job Creation, and Economic Growth.