Beata Javorcik

tr-ebrd.com

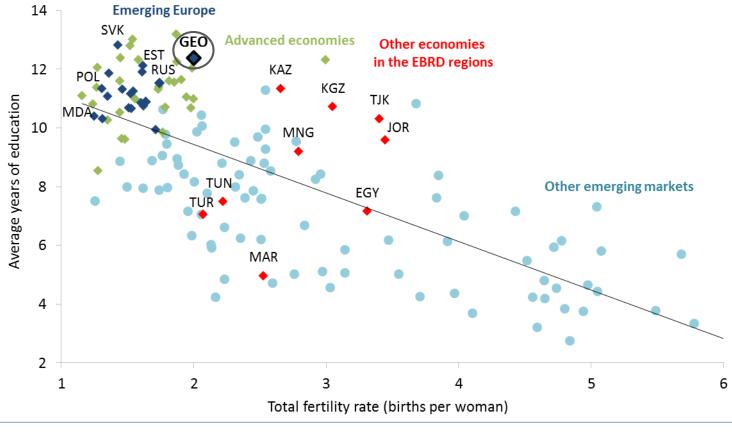# ARE LABOUR MARKETS IN TRANSITION COUNTRIES READY FOR THE FUTURE?

Demographics:

Getting old before getting rich?

As countries develop, lower birth rates and higher life expectancy deliver demographic dividends

Larger number of workers relative to the overall population size (1st dividend)
Higher savings and enhanced human capital (2nd dividend)

Average years of schooling increase as the total fertility rate declines

Source: Barro and Lee (2013), UN and authors' calculations.

Aging and below-replacement birth rates may quickly turn demographic dividends into headwinds

Share of countries with positive demographic indicators, by contribution to GDP (%)

■ Economies where the EBRD invests   ● Emerging markets   ◆ World

SEMED/Central Asia/Turkey/Aze are at earlier stages of demographic transformation than Emerging Europe

The youth bulge: The population of Central Asia, SEMED, Azerbaijan and Turkey is much younger than the population of Emerging Europe
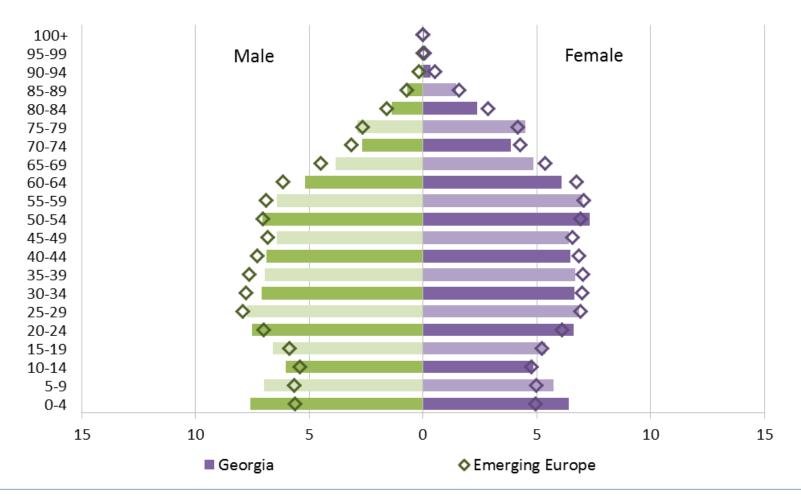

Source: United Nations and authors' calculations. Based on data for 2017 or latest available.

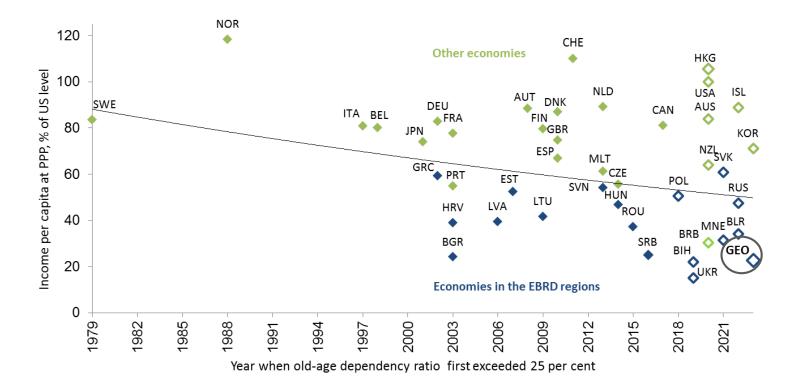# The demographic pyramid in Georgia is close to the Emerging Europe average

Demographic pyramid in Emerging Europe and Georgia

Source: United Nations and authors' calculations. Based on data for 2017 or latest available.

Getting old before getting rich

Countries reach the old-age dependency ratio of 25 per cent at ever lower per capita income levels relative to the US

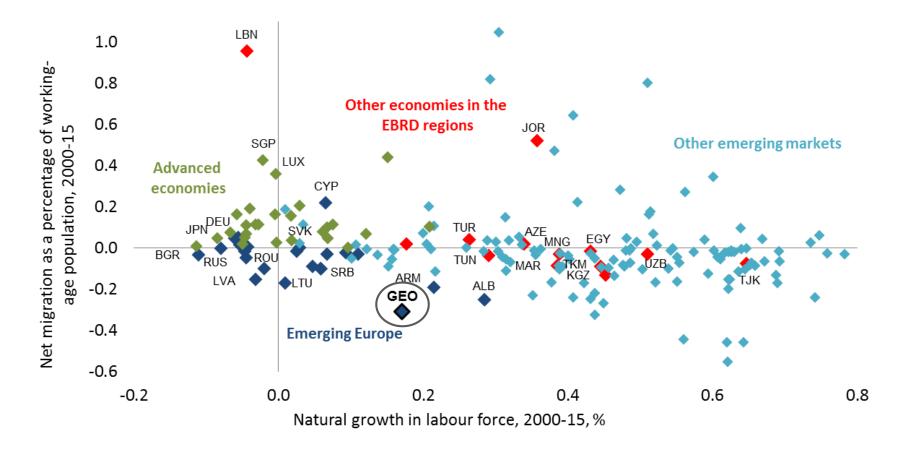Source: IMF, UN and authors' calculations. The old-age dependency ratio is the number of people aged 65 or over as a percentage of the number of people aged between 15 and 64.

Emigration exacerbates the effects of demographic change in Emerging Europe

Uniquely, emigration exacerbated the effects of demographic change in Emerging Europe

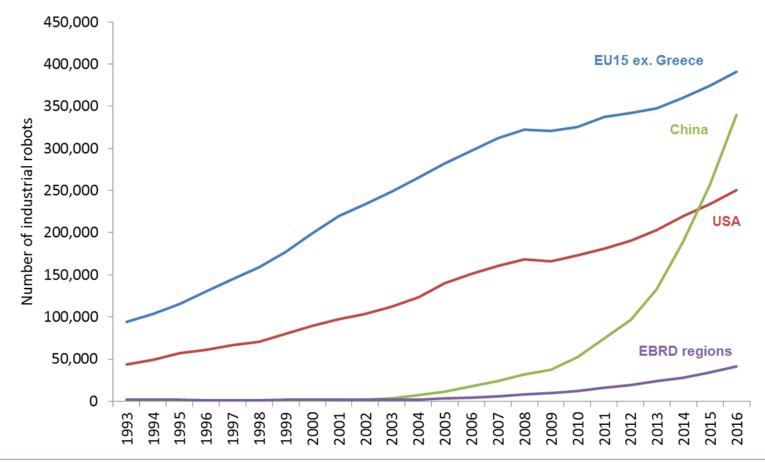### Change in working age population: native versus net migration

Source: UN, World Bank and authors' calculations. Natural growth of labour force reflects both demographic trends and changes in labour force participation rate.

Addressing demographic challenges: Automation

European Bank
for Reconstruction and Development

Profound technological transformation is reflected in the rapidly rising numbers of industrial robots

The global stock of industrial robots is projected to increase by 14% annually, reaching 3 million units by 2020
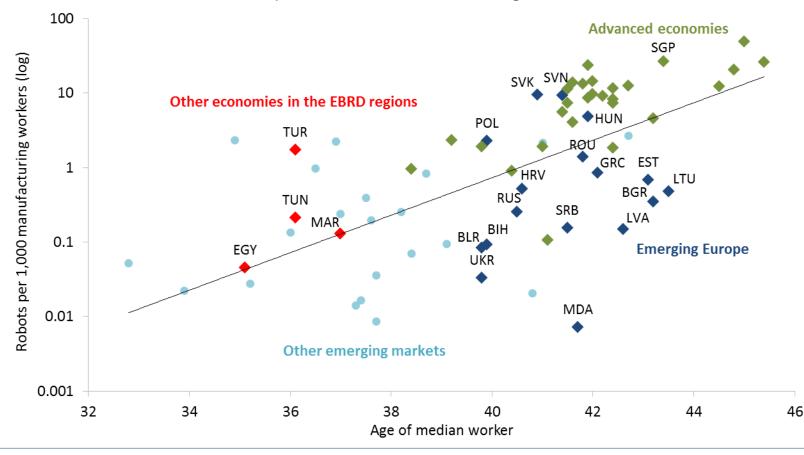
Stock of industrial robots has been increasing across the world

Source: Authors' calculations based on the International Federation of Robots.

Robots are used more widely in economies with older workforces

As labour force shrink in Emerging Europe and labour costs rise, incentives to automate jobs may be stronger than in other EMs
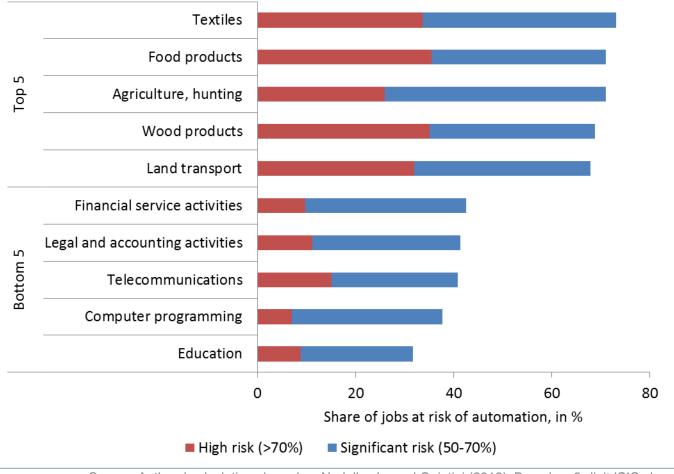

Robots per worker and median age of worker

Source: International Federation of Robotics (IFR), ILO and authors' calculations. Based on data for 2017 or the latest year available.

Automation is expected to affect primary sector jobs most and services least

Industries expected to be most and least affected by automation in the EBRD regions

Share of jobs at risk of automation, in %

■ High risk (>70%)   ■ Significant risk (50-70%)

Addressing demographic challenges: Keeping older workers working

European Bank
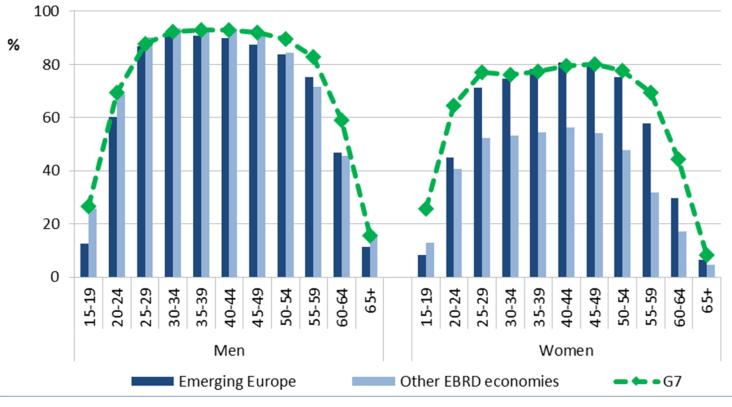for Reconstruction and Development

In Emerging Europe, labour force participation among older age groups has remained relatively low

- G7 labour force participation among those aged 50-64: 68% in 1997 → 74% in 2017
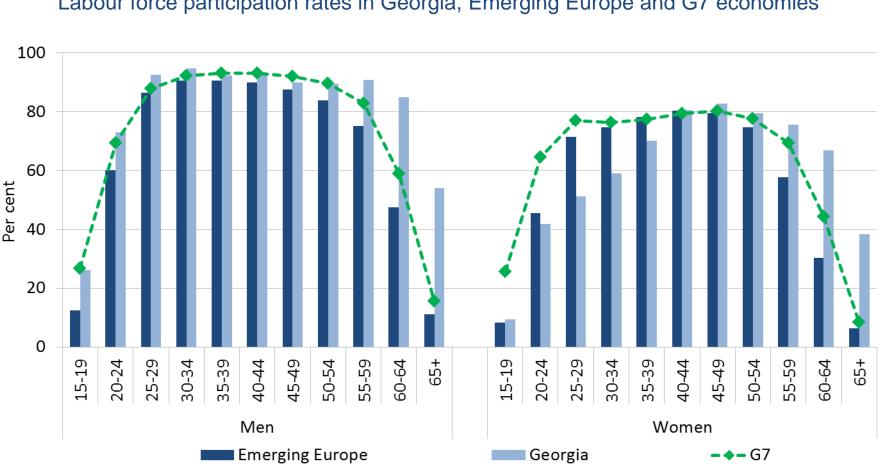- EBRD regions: 56% in 1997 → 60% in 2017

Labour force participation rates decline with age faster in the EBRD regions than in G7 economies

Source: ILO and authors' calculations. Data for 2017 or latest available.

In Georgia participation rates decline at a much slower pace compared to Emerging European (and even G7) economies
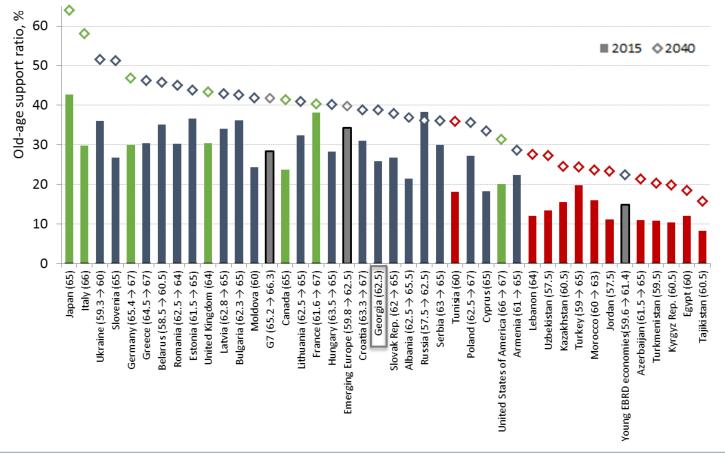
Labour force participation rates in Georgia, Emerging Europe and G7 economies

Legend: Emerging Europe | Georgia | G7

Source: ILO and authors' calculations. Data for 2017 or latest available.

Pension reforms raising retirement ages can strengthen incentives for older individuals to seek employment

As well as tax incentives for firms to hire older workers

Old-age support ratios are projected to rise significantly between 2015 and 2040

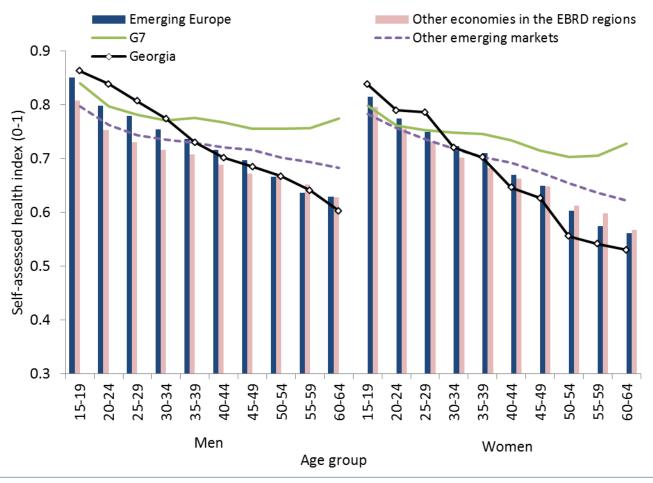Source: US SSA, UN, authors' calculations. Simple averages of statutory pension ages for women and men in brackets . Support ratio is the ratio of retirement-age population to working-age population based on the statutory retirement ages. Different colours denote regions.

Improvements in health care are much needed to facilitate longer working lives in EBRD regions

Mirroring declines in labour force participation – in particular, for males aged 50+

Self-assessed health declines rapidly with age in the EBRD regions

But skills decline with age, in the EBRD regions as well as in advanced economies: PIAAC surveys

Aging + newer cohorts may have more up-to-date skills

Average skill scores over the working life

Source: OECD PIAAC and authors' calculations.

Weak ICT skills in EBRD regions among older workers

Share of population with good ICT skills, by age group

Percentage of population with good ICT skills, in %

- All age groups
- Age 55 to 65
- Age 25 to 34

Source: OECD and authors' calculations. Good ICT skills correspond to level 2 or 3 results in PIAAC. Surveys conducted in 2011-14.

Labour market changes:
De-industrialization & job polarisation

Many economies in the EBRD regions have experienced de-industrialisation

Share of employment in agriculture, manufacturing ↓;
share of professionals, service and sales workers ↑↑

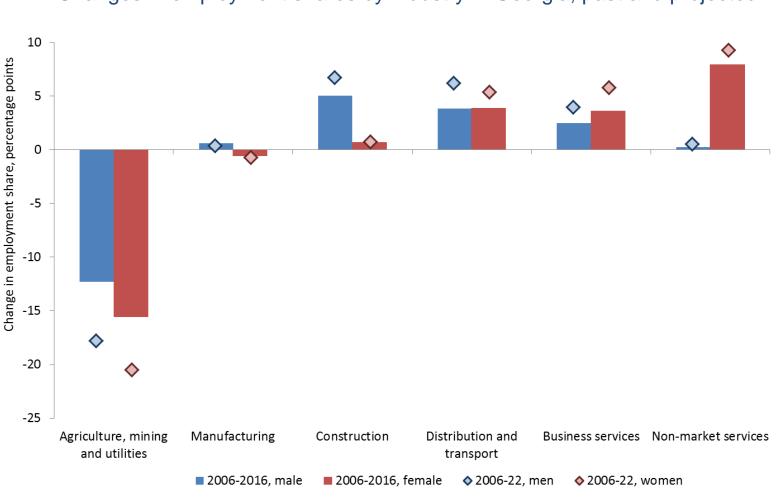### Changes in employment shares by industry, past and projected

Y-axis: Change in employment share, percentage points (from -6 to 4)

X-axis categories: Agriculture, mining and utilities | Manufacturing | Construction | Distribution and transport | Business services | Non-market services

Legend: ■ 2006-16, men ■ 2006-16, women ◇ 2006-22, men ◇ 2006-22, women

Source: ILO, authors' calculations. Averages weighted by labour force. Non-market services comprise ISIC sectors O (public administration and defence), P (education), Q (health care and social work) and R, S, T, U (other services).
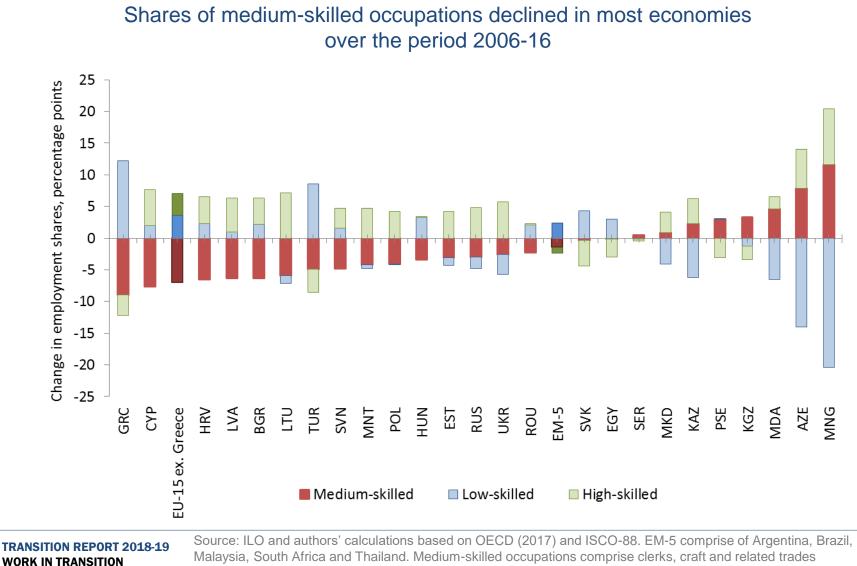
De-industrialisation dynamics are visible in Georgia as well, though less pronounced

Changes in employment shares by industry in Georgia, past and projected

Legend: 2006-2016, male ■ · 2006-2016, female ■ · ◇ 2006-22, men · ◇ 2006-22, women

Source: ILO, authors' calculations. Averages weighted by labour force. Non-market services comprise ISIC sectors O (public administration and defence), P (education), Q (health care and social work) and R, S, T, U (other services).

Job polarisation: % of medium-skilled occupations ↓; low-skilled and high-skilled jobs ↑↑

Shares of medium-skilled occupations declined in most economies over the period 2006-16

Medium-skilled ■ **Low-skilled** ■ **High-skilled**

Source: ILO and authors' calculations based on OECD (2017) and ISCO-88. EM-5 comprise of Argentina, Brazil, Malaysia, South Africa and Thailand. Medium-skilled occupations comprise clerks, craft and related trades workers and plant and machine operators and assemblers.
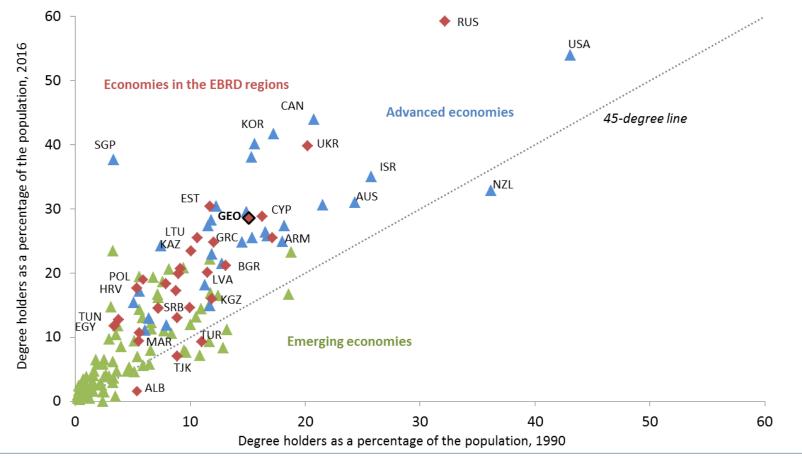
Increase in educational attainment

Countries across the EBRD regions saw large increases in educational attainment
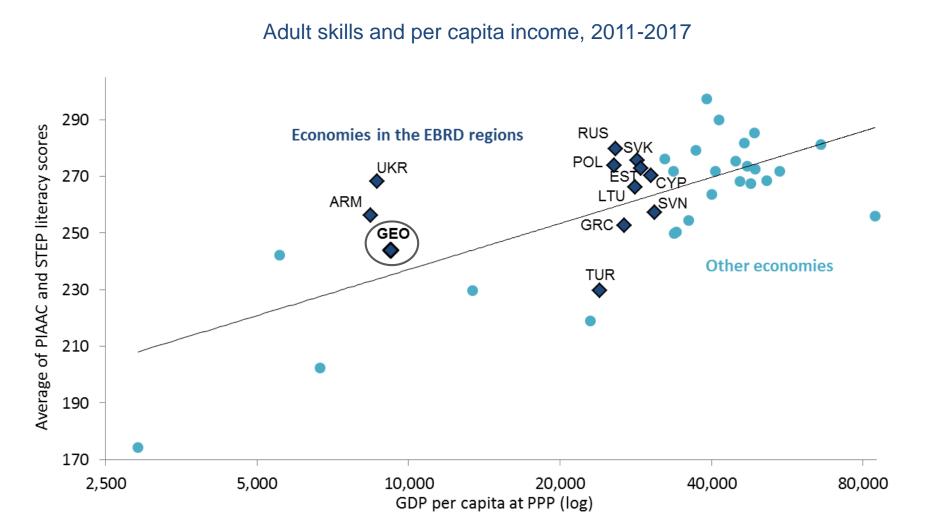
In Russia, Ukraine and Estonia percentage of tertiary degree holders is above the advanced-economy average of 28%

Percentage of tertiary degree holders in population increased between 1990 and 2016

Source: Barro and Lee (2013) and authors' calculations . Note: Data for Georgia from national sources

Mirrored in good performance in adult skill surveys relative to countries with similar per capita incomes

Adult skills and per capita income, 2011-2017

Source: IMF, PIAAC, STEP and authors' calculations. PIAAC surveys were conducted between 2011 and 2014; STEP surveys were conducted between 2012 and 2017.

A combined measure of quantity and quality of schooling confirms the good performance

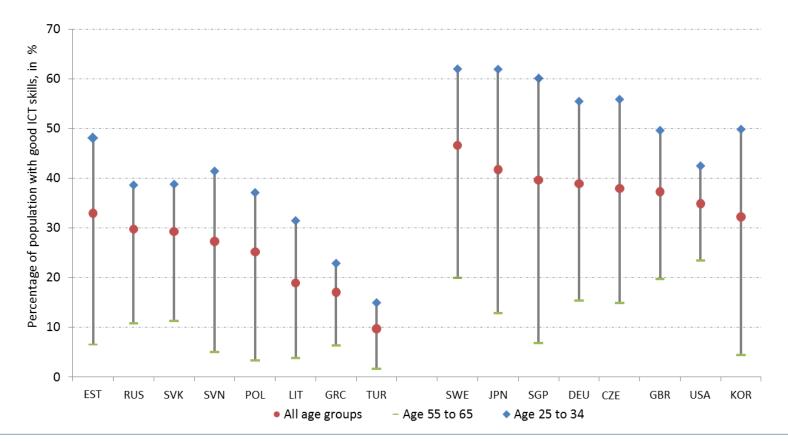Years of schooling (learning adjusted) and per capita income, 2017

Source: IMF, World Bank and authors' calculations.

But ICT skills in EBRD regions are weaker than in advanced economies, also among younger workers

Closing the gap in ICT-related skills will help leverage the benefits of future technological transformation while minimizing the disruptive impact of digitalization on the labour market

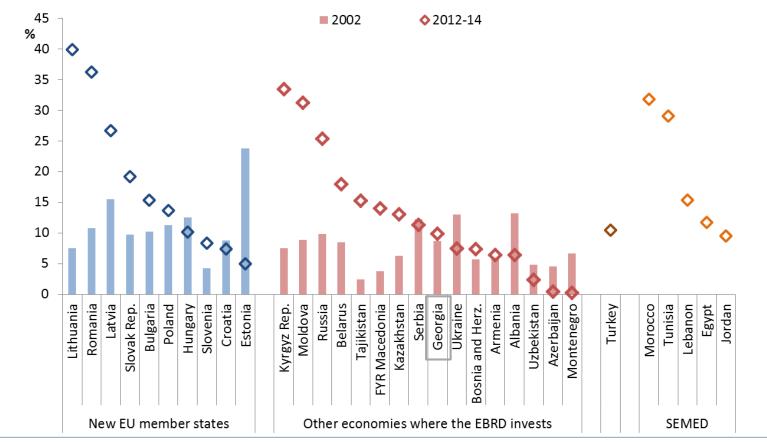## Share of population with good ICT skills, by age group

● All age groups   − Age 55 to 65   ◆ Age 25 to 34

Source: OECD and authors' calculations. Good ICT skills correspond to level 2 or 3 results in PIAAC. Surveys conducted in 2011-14.

Addressing demographic challenges: Migration

In many countries in the EBRD regions, skill shortages have been exacerbated by skilled emigration
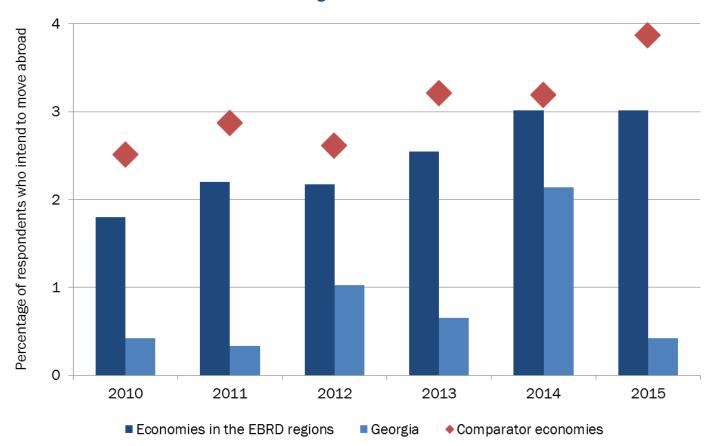
Percentage of firms reporting skills as a major or severe constraint to their operations

Legend: ■ 2002   ◇ 2012-14

Categories: New EU member states | Other economies where the EBRD invests | SEMED

Source: BEEPS and authors' calculations.

Declared intentions to migrate in the next 12 months have also been rising

- Based on World Gallup polls - representative surveys of 1,000+ individuals in each country in each year
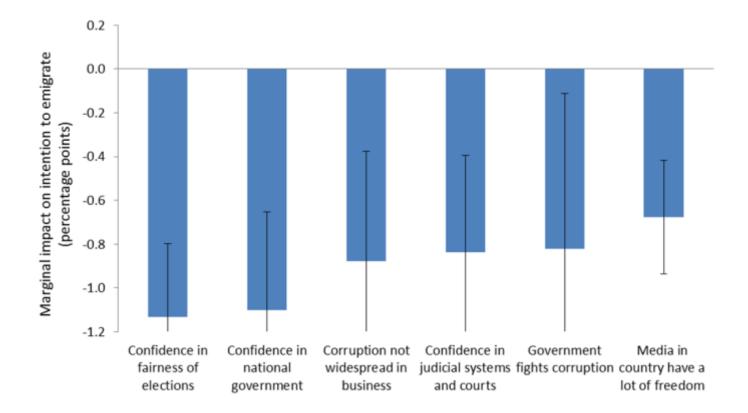- People who intend to migrate from the EBRD regions tend to be single, male, young, and urban

Intention to migrate has been on the rise

■ Economies in the EBRD regions   ■ Georgia   ◆ Comparator economies

Confidence in public institutions affects intentions to emigrate

In Albania, having confidence in government fighting corruption reduced intention to emigrate by as much as **extra US$ 400 per month**

Source: Gallup World Poll and authors' calculations. Calculated by regressing intentions to emigrate on each governance indicator in turn, using a linear probability model with survey-weighted observations. All regressions take account of demographic characteristics. 95% intervals
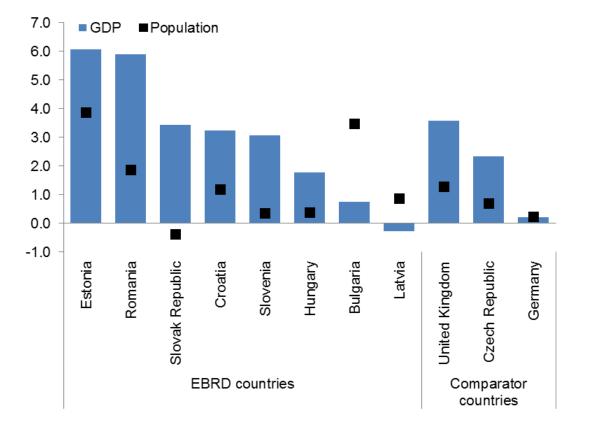
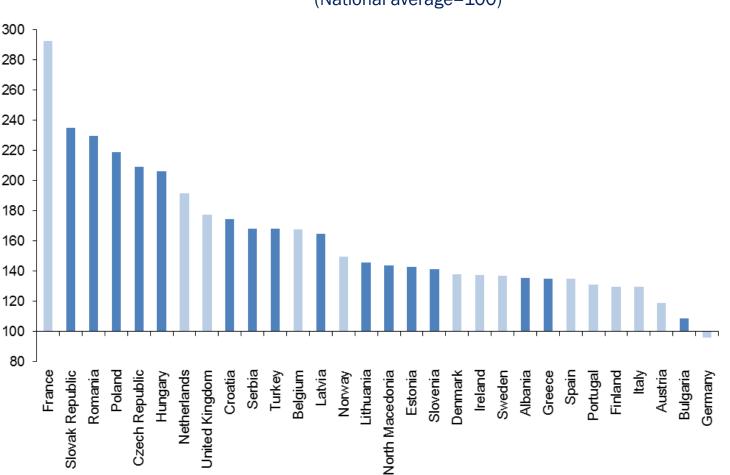# Growing divide between cities and rural areas

Technological shifts favour large urban agglomerations

Change in GDP share and population share of the largest city's metropolitan area, 2000-2017
(Percentage points)

GDP per capita is also significantly higher in large cities than elsewhere in the country
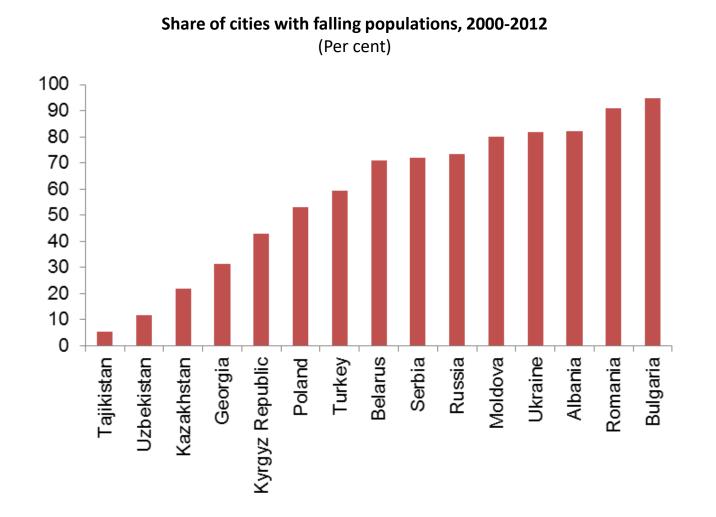
GDP per capita in the largest city's metropolitan region, 2017
(National average=100)

Declining cities face fiscal imbalances, higher cost of providing public services and decreasing property values

Share of cities with falling populations, 2000-2012
(Per cent)

Challenges:
Finding new sources of growth

European Bank
for Reconstruction and Development

Catch-up growth in 1998-2008

Decomposition of sources of growth, 1998-2008, % per annum

Legend: Human capital, Labour, Capital, TFP, Growth

Categories: EBRD region, Comparator region, Sub-Saharan Africa, Latin America, Emerging Asia
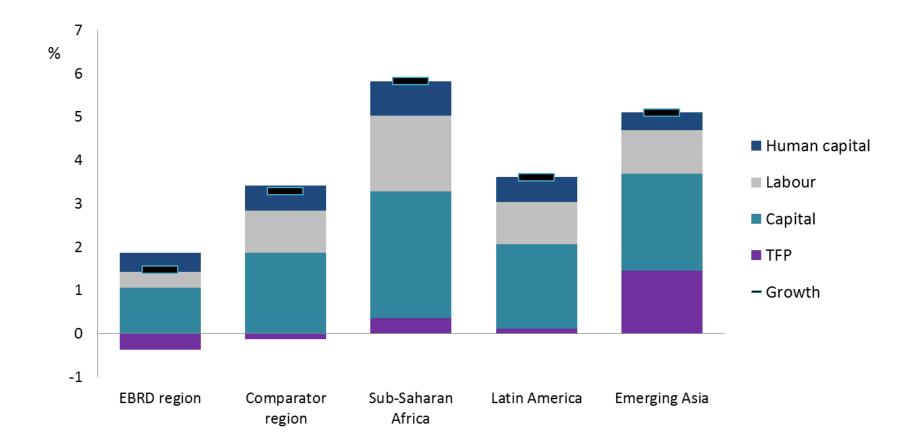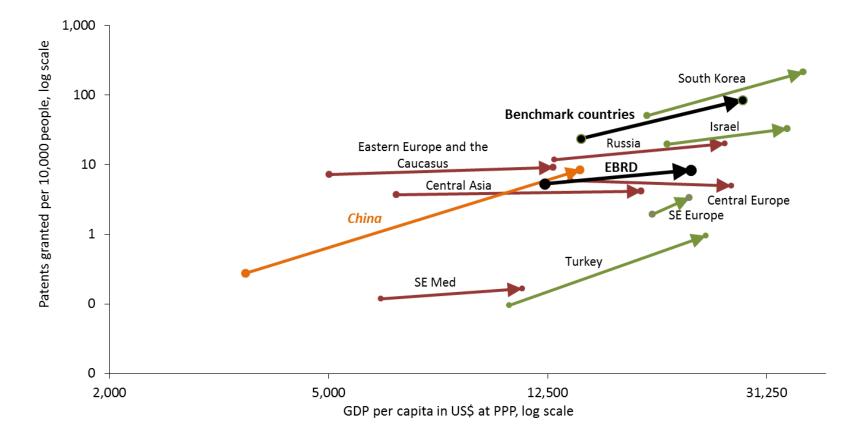
With inefficiencies eliminated, countries face typical middle-income challenges
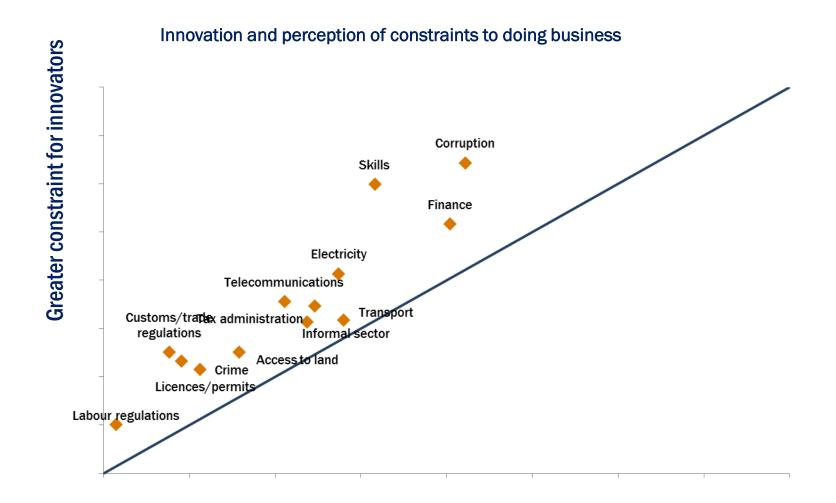
Decomposition of sources of growth, 2008-14, % per annum

Source: Penn World Tables, IMF, World Bank and authors' calculations.

Growth has been relatively 'innovation-light'

Changes in GDP per capita and patents granted, 2002-15

Innovative firms are more sensitive to the business environment

Innovation and perception of constraints to doing business

Greater constraint for innovators (y-axis)

Greater constraint for non-innovators (x-axis)

Data points: Corruption, Skills, Finance, Electricity, Telecommunications, Transport, Customs/trade regulations, Tax administration, Informal sector, Access to land, Crime, Licences/permits, Labour regulations

Persistent governance gap between transition countries and advanced economies

Improvements in the quality of economic institutions in Central and SE Europe have slowed down

What has COVID-19 changed?

European Bank
for Reconstruction and Development

Impact of the pandemic on FDI

Main impact on FDI

Slowdown of implementation of ongoing projects due to closures of sites (but also slowdowns in cross-border M&As and new project starts)

Automatic effect on **reinvested earnings,** a key component of FDI (50% average worldwide)

Reduction in **cross-border M&As**

Shelving of projects, **drop in new investment** decisions

Divestment, reshoring, diversion

2020 — immediate — short-term — 2021 — medium-term — 2022 — long-term — 2030

FDI stuck in the lockdown…

…with **tightening margins** for reinvestment…

…hindered by **new investment restrictions**…

…navigating severe **global economic recession**…

…heading towards increased **supply chain resilience** and higher degrees of **autonomy for critical supplies**
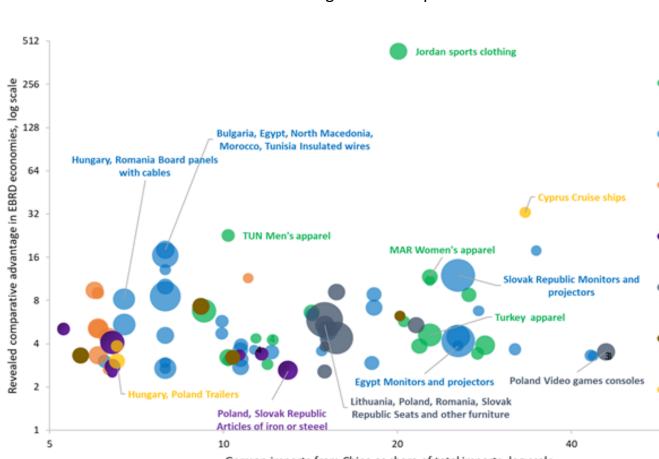
Source: UNCTAD.

Expected retrenchment of FDI flows

Source: UNCTAD.

Push to diversify sources of imported goods and services

- Increased focus on resilience

- Will it extend to back office services and IT?

- Remote work => greater scope for trade in services

- **Opportunity for the region**

Potential for near-shoring German imports from China