

## HIGHLIGHTS

### Regional Productivity: Trends, Explanations, and Policies

#### Key Points

- *Even before the COVID-19 pandemic, labor productivity growth slowed in emerging market and developing economies (EMDEs). Among EMDE regions, the slowdown was sharpest in Europe and Central Asia (ECA), East Asia and Pacific (EAP), and Sub-Saharan Africa (SSA).*
- *In 2013-18, three regions—Latin America and the Caribbean (LAC), the Middle East and North Africa (MNA), and SSA—fell further behind the advanced-economy average labor productivity compared with a decade earlier.*
- *In most regions, weaker labor productivity growth in 2013-18 reflected both receding gains from the use of factor inputs (human and physical capital) and less support from reallocating labor from low-productivity to higher-productivity sectors.*

**A broad-based productivity growth slowdown.** Since well before the deep global recession triggered by the COVID-19 pandemic, labor productivity growth has been slowing in EMDEs. The slowdown affected all six EMDE regions but it was most pronounced in ECA, EAP, and SSA, amid investment weakness, financial market disruptions, and sharp commodity price declines (Figure 1A). Productivity growth in LAC and MNA, already sluggish prior to the global financial crisis, stagnated thereafter, in part reflecting political uncertainty, episodes of financial stress in major economies, and falling commodity prices.

**Slower convergence to advanced-economy productivity levels.** During 2013-18, three regions—LAC, MNA, and SSA—fell further behind average productivity in advanced economies compared with a decade earlier. Labor productivity in MNA was 40 percent of the advanced-economy average in 2013-18, down from 49 percent in 2003-08 (Figure 1B). In SSA, productivity dropped to 12 percent of the advanced-economy average, from 23 percent in 2003-08, and in LAC it stalled at 22 percent. The disruptions caused by the COVID-19 pandemic will likely further set back productivity growth.

**Fading support from the use of inputs.** While the contribution of human capital to labor productivity growth was broadly stable in 2013-18, physical capital deepening contributed less than in 2003-08 in all regions except SSA (Figures 1C, D). Total factor productivity also contributed less in all EMDE regions than a decade earlier and, in LAC and SSA, even contracted.

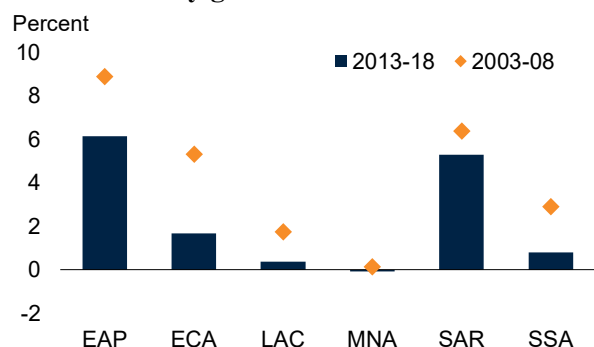
**Declining gains from sectoral reallocation.** Productivity gains from the reallocation of labor from low-productivity sectors such as agriculture to higher-productivity sectors faded in four regions—EAP, ECA, LAC, and SSA—in 2013-18, particularly in LAC and SSA (Figures 1E, F). Yet within-sector productivity enhancements also slowed. Only one region, EAP, achieved an acceleration of within-sector productivity gains after the global financial crisis.

**Need for well-targeted reforms to boost productivity.** A well-targeted reform agenda is imperative to reignite productivity growth, especially given that the disruptions caused by the COVID-19 pandemic may exacerbate the productivity growth slowdown among EMDEs. In particular, policies are needed to address key bottlenecks common across multiple regions, such as lack of economic diversification, weak governance and institutions, widespread informality, shortcomings in learning outcomes, and lack of integration through trade.

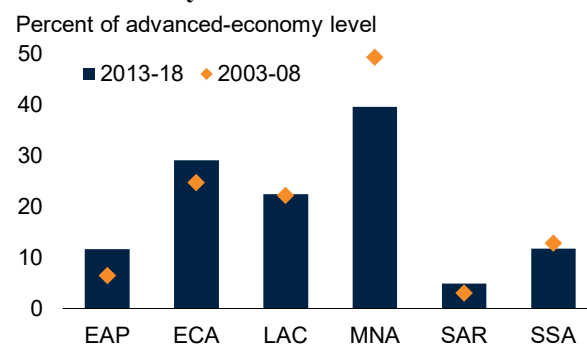
### Figure 1. Regional productivity developments

The slowdown in productivity growth following the global financial crisis affected all regions but was particularly severe in EAP, ECA, and SSA. Productivity levels fell further behind the advanced-economy average in some regions and total factor productivity contributed less to productivity growth in all regions. During 2013-18, productivity gains from sectoral reallocation faded in most regions compared with a decade earlier.

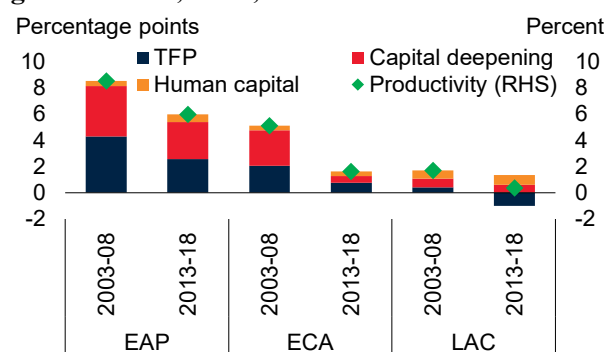
#### A. Productivity growth



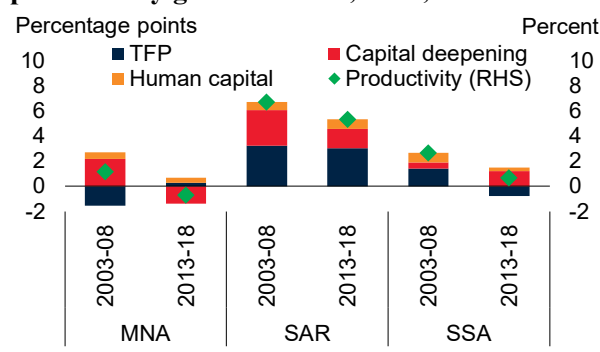
#### B. Productivity levels



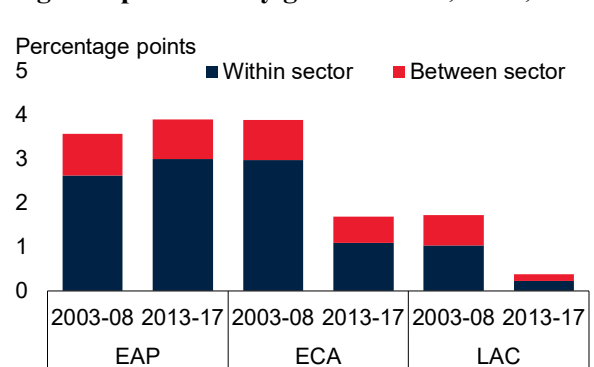
#### C. Factor contributions to regional productivity growth: EAP, ECA, LAC



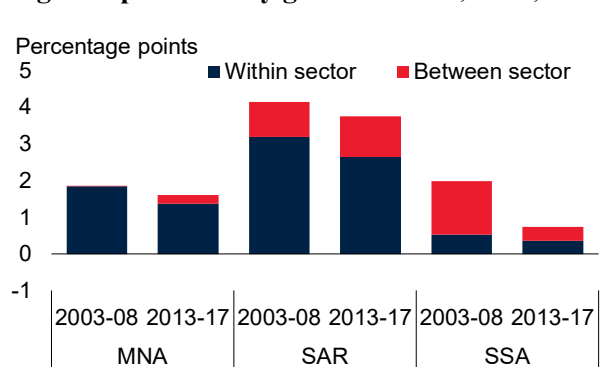
#### D. Factor contributions to regional productivity growth: MNA, SAR, SSA



#### E. Within- and between-sector contributions to regional productivity growth: EAP, ECA, LAC



#### F. Within- and between-sector contributions to regional productivity growth: MNA, SAR, SSA



Source: APO productivity database; Barro and Lee (2015); The Conference Board; Groningen Growth Development Center database; Haver Analytics; ILOSTAT; International Monetary Fund; OECD STAN; Penn World Table; United Nations; World KLEMS; World Bank (World Development Indicators).

Note: Productivity is defined as real GDP per worker (at 2010 market prices and exchange rates). Country group aggregates for a given year are calculated using constant 2010 U.S. dollar GDP weights. Data for multiyear spans shows simple averages of the annual data. EAP = East Asia and Pacific, ECA = Europe and Central Asia, LAC = Latin America and the Caribbean, MNA = Middle East and North Africa, SAR = South Asia, SSA = Sub-Saharan Africa.

A.B. Sample includes 129 EMDEs, including 16 in EAP, 21 in ECA, 26 in LAC, 14 in MNA, 7 in SAR, and 45 in SSA.

C.D. Productivity growth is computed as log changes. Sample includes 93 EMDEs, including 8 in EAP, 21 in ECA, 20 in LAC, 12 in MNA, 2 in SAR, and 30 in SSA.

E.F. Median contribution for each region. Growth within sector shows the contribution of initial real value added-weighted productivity growth rate of each sector and “between sector” effect shows the contribution arising from changes in sectoral employment shares. Sample includes 69 EMDEs, of which 9 are in EAP, 11 in ECA, 17 in LAC, 6 in the MNA, 4 in SAR, and 22 in SSA.