

Influence of COVID-19 Pandemic on unemployment: A comparison of Developed and developing countries

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ABSTRACT

Aim: The current study aimed to examine the influence of Covid-19 on unemployment rates in developed and developing countries. For this, the study analysed the impact of government stimulus packages on unemployment rates.

Method: The study adopted a secondary quantitative methodology in which data on unemployment rates and government stimulus packages were taken from the World Bank repository and government news websites. Descriptive statistics, correlation, and regression tests were conducted through SPSS to find out the possible causal effect of the government stimulus package on unemployment rates in the selected countries.

Findings: The government stimulus package had a considerable impact on unemployment rates in developed countries. The stimulus plan of the government has no statistically significant impact on the unemployment rate in developing countries.

Future implications: The research provides a platform for further research into the confluence of government spending, unemployment rates, and inequality in developed countries.

Keywords: *Pandemic, Covid-19, Unemployment, Developed countries, undeveloped countries.*

INTRODUCTION

The engine of growth of the contemporary world is driven by human productivity coupled with the government's incentivisation policies for work. While rapidly growing technology-led industrialisation characterises the 21st century, rising unemployment poses a question mark on the government's ability to maintain a healthy level of national productivity (Barrero et al., 2020). Unemployment means that people beyond a specific age are not being a part of paid employment or are self-employed despite being available for work (Alrayes & Wadi, 2018). Although at first, unemployment may appear as an insignificant and transient phenomenon, it has multifarious impacts on the macroeconomic fabric. Long-term unemployment above a viable limit erodes society's productive capacity, reduces household income, and consequently also reduces the incentive to do more business in society because consumption levels remain low (Srivastava, 2018). If industrial productivity and consumption levels fall below the capacity limit of industries, businesses require government support to reinvigorate consumption levels so that industries can make enough revenues to restart the engine of growth. However, it is a highly debated subject in policy circles and academia whether government packages have a positive impact on the unemployment rate (Abouelfarag, 2018). The recent unanticipated emergence of the Covid-19 pandemic provides a tremendous opportunity to investigate this phenomenon. This is because while the pandemic severely reduced consumption levels and raised unemployment, it also pressured state governments to incentivise industries and the public through stimulus packages. The current research examines the influence of Covid-19 on unemployment through the effects of government packages. The study assesses this phenomenon through evidence from developed and developing countries.

While the interlinking of global value chains has substantially benefitted businesses in terms of reduction of scaling costs and access to cheaper raw materials and labour, it has also increased the dependence of people on other countries' economic health (Kano et al., 2020). Today, a majority of goods and services are built together using components from several nations due to the rise of

global value or production chains. Although classic economics still conceive of commerce as taking place between nations, in reality, the majority of trade today occurs between global multinational corporations and their suppliers. Twenty years ago, developed and developing nations accounted for 60% of global commerce (North-North), developed and developing countries for 30% (North-South), and South-South for 10% (Palmy, 2013). The relative weight of North-North commerce was projected to be roughly half in just 30 years, and it is predicted to be divided evenly among three directions by 2020 (Palmy, 2013). However, a vital consequence of such interdependence is that a significant extent of local industries has become vulnerable to global economic shocks (Juergensen, 2020). Moreover, during Covid-19, self-employed traders, farmers, and skilled workers have also become exposed to global economic instability and price shocks, which has slowed their ability to take on large financial risks.

The current research aimed to evaluate the intertwined variables of Covid-19-led economic instability, unemployment, and the government's role in ameliorating the economic meltdown. In order to realise this aim, the study is based on the following objectives:

- To examine the influence of Covid-19 on unemployment in developed and developing countries
- To assess the role of government stimulus packages in ameliorating unemployment during the pandemic era.
- To compare the role of Covid-19 and stimulus packages on changing unemployment between developed and developing countries.

LITERATURE REVIEW

Since the industrial revolution of the 18th century, employment has occupied a central position in individual lives. Work provides people with material security, motivates them for self-realisation, and is thought to help reduce material inequality in society (Su et al., 2021). However, Covid-19 triggered an unprecedented economic fallout throughout the world. Government-backed social lockdowns, the defenestration of material supply lines, and reduced consumption had a severe

impact on employment prospects (Brulhart et al., 2020). This occurred at the same time when the majority of the countries were dealing with continuously increasing socioeconomic inequality. Reports from United Nations (2020) evidenced that socioeconomic inequality is increasing in more than 70% population across the globe. The study also highlighted that the richest 1% of the global population had increased their share of income exponentially between 1990 and 2015, whereas the bottom 40% of strata earns less than a quarter of income (UN, 2020). Interestingly, this phenomenon of rising inequality has been observed in both developed and developing countries. In fact, in some developed economies such as the United States, income and wealth inequality is often debated to be the highest compared to any other developed country (Elson, 2019). Economic repercussions of Covid-19 pressure society into reverting to their basic consumption needs in order to preserve fiscal liquidity. Consequently, markets get deprived of floating money, which in turn, reduces investment and borrowing opportunities for individuals as well as business organisations.

The question of unemployment also holds importance in government policies because the rate of unemployment and its impact are disproportionate for different population groups within a society. Young people around the world are bearing the burden of the recent onset of significant job losses and increased precarity in the workplace, according to a recent analysis of the consequences of the Covid-19 crisis by the International Labor Organization (2020). Young workers may experience considerable difficulties entering the job market for some time as a result of the Covid-19 economic crisis, which has caused sharp rises in unemployment (and worker competitiveness) (International Labor Organization, 2020). Churchill's (2021) study focuses on the manner in which the Covid-19 pandemic has affected young people's unemployment rates, despite the fact that they are meant to be the demographic most at risk from the pandemic. The research found that the youth population below the age of 35 are more severely impacted by Covid-19 than the older population in Australia. Moreover, this impact was more pronounced amongst young women over the age of twenty (Lambovska, 2021). An uneven vulnerability of some population groups to Covid-19 could have long-term repercussions for society as it obstructs the growth trajectory for which governments often allocate considerable state resources.

Employment prospects are a function of the infrastructure provided for work since a conducive working environment and supportive culture encourage people to join the workforce early to become financially self-sustaining (Mathews, 2016). The ILO report (2021) showed that the pandemic had had an influence on the entire domain of professional work poorly in terms of fewer hours worked and job losses. These figures are much higher than the ones witnessed during the disastrous global financial crisis in 2008-09. As per the ILO (2021) report, about 9 per cent of all working hours worldwide were lost in the previous year, which is another way of saying that 255 million full-time jobs were lost. The greatest impact of the epidemic is the enormous loss in worldwide labour revenue, which is roughly 4.4 per cent of the global GDP (ILO, 2021). Compared to their male workers, young employees (15- to 24-year-old) and women employees are disproportionately afflicted by this epidemic. It is observed that gender and age discrepancy between employed and unemployed populations is higher in developing countries compared to developed ones (Msigwa et al., 2013; Salami et al., 2013; Albnesi et al., 2018). Although the ILO has predicted a K-shaped recovery within the labour market across countries, it has also raised concerns that the hardest-hit sectors might get left behind during the recovery (ILO, 2021). This also has a far-reaching influence on multidimensional poverty.

Fiscal and monetary tools such as interest rates and cash incentivisation are among the leading methods of governments to direct macroeconomic variables. Governments incentivise certain sectors and industries for growth depending on their wishes for the growth trajectory that an economy should follow (Aiginger, 2014). As such, they provide monetary policies formulated by central banks to attain macroeconomic objectives, including high employment and price stability. In contrast, the federal government use fiscal policy tools to regulate taxation and expenditures (Aiginger, 2014). However, the application of such policy tools is contingent upon the government's long-term planning. Unanticipated events such as the Covid-19 pandemic thwarted governments' growth plans in both developed and developing countries. Nonetheless, due to higher fiscal thresholds, developed countries were able to create a functioning bulwark against the debilitating impact of the pandemic on the socioeconomic fabric. Whereas Gerard et al. (2020) expounded that due to weak economic infrastructure, most governments in developing countries

were unable to implement their counter strategies despite having formulated some plans. Meanwhile, Narula et al. (2020) highlighted that a relatively unstable political and governance system in developing countries was the actual culprit of countries' inability to swiftly act to curtail the pandemic's impacts.

Governments are capable of supporting various population groups and industries in an economy through fiscal stimulus. The benefits of the stimulus packages' efficacy have a strong track record. Benefits are effective at boosting consumption and raising GDP, according to Faria-e-Castro (2020). According to Han et al. (2020), the checks for stimulus and the extension of stimulus benefits reduced poverty during the pandemic, which would have increased in the absence of these policies. Workers in the bottom third of the earnings distribution reportedly received 49% of benefits such as CARES and unemployment insurance (UI) prior to the pandemic (Cortes and Forsythe, 2020). Due to the concentration of employment losses in low-paying jobs during the pandemic, this reversed the growth in labour wage disparity that had been seen. According to Barrero et al. (2020), 42 per cent of pandemic-related layoffs will result in permanent employment loss in the near future. Carroll et al. (2020) make use of a consumer model to predict the effects of higher unemployment insurance payments on spendings of consumer spending on consumers in all three possible employment categories (employment, temporary layoff, and permanent job loss). They point out that spending would be lower even in the absence of sudden spikes in unemployment since pandemic containment measures like lockdowns restricted access to products and services, which reduced possibilities for consumers to spend.

Stimulus packages of governments have been found to influence the work-related psychological aspects of people as well. For example, The effectiveness of UI benefits in the US is also boosted by how generous they are (Ganong et al.,2020). The median replacement rate, calculated by dividing the total of all unemployment payments by the pre-unemployment earnings, is, therefore, 134%. The issue of whether such high benefits will discourage workers from going back to work has received a lot of attention. This is because they suddenly make more money than they did previously. According to research by Ganong et al. (2020), more than two-thirds of workers have replacement rates that are higher than 100%, meaning they receive benefits that are worth more

than their previous salaries. This is attributed to rising indifference to traditional jobs among minds of young people. Correl et al. (2020) investigated the influence of stimulus checks on consumer spending with respect to three distinct consumer groups: currently employed consumers, those on temporary layoffs, and those going through permanent layoffs. The research demonstrated that limitations on spending options improved savings in all three consumer groups, whereas all of them resumed spending habits once the financial situation became sound again through stimulus packages. However, it was also found that unemployment insurance benefits have a considerably stronger influence on the spending of people belonging to temporary and permanently unemployed groups. This could be because governments in developed countries generally allocated higher per capita amounts for this group compared to the employed group.

H₀₁: Government stimulus packages during Covid-19 did not have a significant impact on unemployment rates in developing countries

H₁: Government stimulus packages during Covid-19 had a significant impact on unemployment rates in developing countries

H₀₂: Government stimulus packages during Covid-19 did not have a significant impact on unemployment rates in developed countries

H₂: Government stimulus packages during Covid-19 had a significant impact on unemployment rates in developed countries

METHODOLOGY

The guiding principles of research, which also inform the methods used for data gathering and analysis, are referred to as the research methodology. Positivist and interpretivist approaches to research philosophy are the two main categories (Saunders et al., 2015). In the current case, the researcher gave positivism priority since the current investigation is situated inside the realm of factual knowledge. Since the research primarily depends upon the evaluation of the relationship between Covid-19 and unemployment, a positivist philosophy helped the researcher maintain an empirical perspective throughout the research process. Moreover, this empirical viewpoint also

supported the data collection procedure as it reduced the possibility of human errors associated with subjective interpretations.

The research approach pertains to the overall stance of the researcher towards the research methods, which originates from the research topic (Teherani et al., 2015). In this respect, the research approach is bifurcated into two main types: inductive and deductive research. In the current study, the researcher adopted a deductive research approach in which the researcher formed a core hypothesis through observations from the literature. A deductive approach was deemed suitable for this study because it facilitates forming valid theorisation pertaining to research questions which work towards increasing the existing knowledge of a particular field (Gilgun, 2019). Moreover, the deductive approach was more suitable as it allowed the researcher to quantify the variable of Covid-19, which itself has multifaceted aspects associated with it.

Data collection methods and their sources hold vital importance in scientific research as they determine the reliability of the research process, validity of the results obtained, and generalisability of the research outcomes (Leung, 2015). The researcher adopted a secondary quantitative data collection method in the current case because the precise evaluation of the factor of unemployment was only possible through an examination of the reported unemployment rate by the countries. For this, the researcher first selected six countries (three developed countries and three developing ones) and extracted their reported unemployment rates from the period of 2018 to 2021 from the World Bank repository. Australia, Germany, and the United States were selected as representatives of the developed countries from three separate continents around the world. On the other hand, India, South Africa, and Malaysia were selected as representatives of the developing countries. Subsequently, the researcher gathered data on various stimulus packages released by the governments of those six countries through government reports, credible news outlets, and budgeting plans.

Although there is a myriad of techniques available for numeric data analysis, the researcher utilised descriptive statistics, linear correlation, and regression analysis techniques to examine the conceptual model described in the above section. Descriptive statistics helped in gaining

perceptive of the overall trends in data as the arithmetic mean, and standard deviation depicted the possible dispersion of the data regarding unemployment. Correlation and regression techniques considerably helped in deciphering the statistical dependence of unemployment on Covid-19 and further also in examining the possible mediation effect of the government stimulus package in reducing or increasing unemployment rates.

FINDINGS AND ANALYSIS

Trends of unemployment pre-covid and post-covid era

In the first step, the researcher attempted to establish trends of unemployment rates reported by governments in order to obtain a holistic picture of whether unemployment rates have been markedly impacted by the emergence of covid-19 in 2020. For the case of developing countries, the following figure 1. Depicts the trends of unemployment in the last four years.

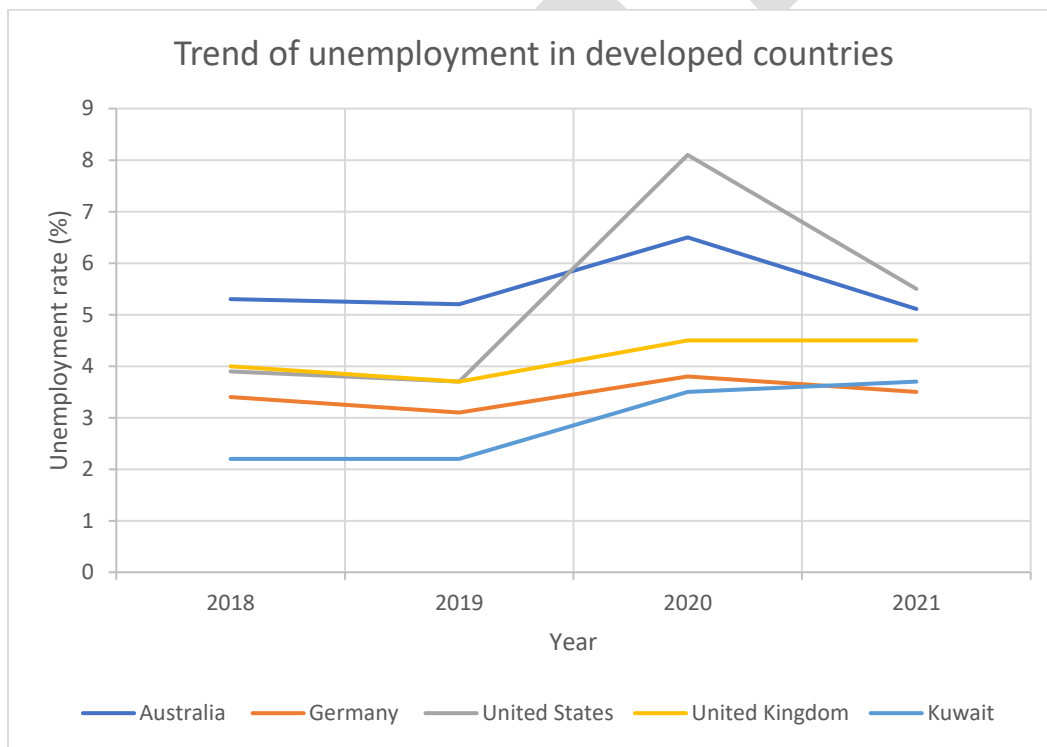


Figure 1. The trend of unemployment in developed countries

Meanwhile, the trends in unemployment for developing countries in the last four years are exhibited in the following figure 2.

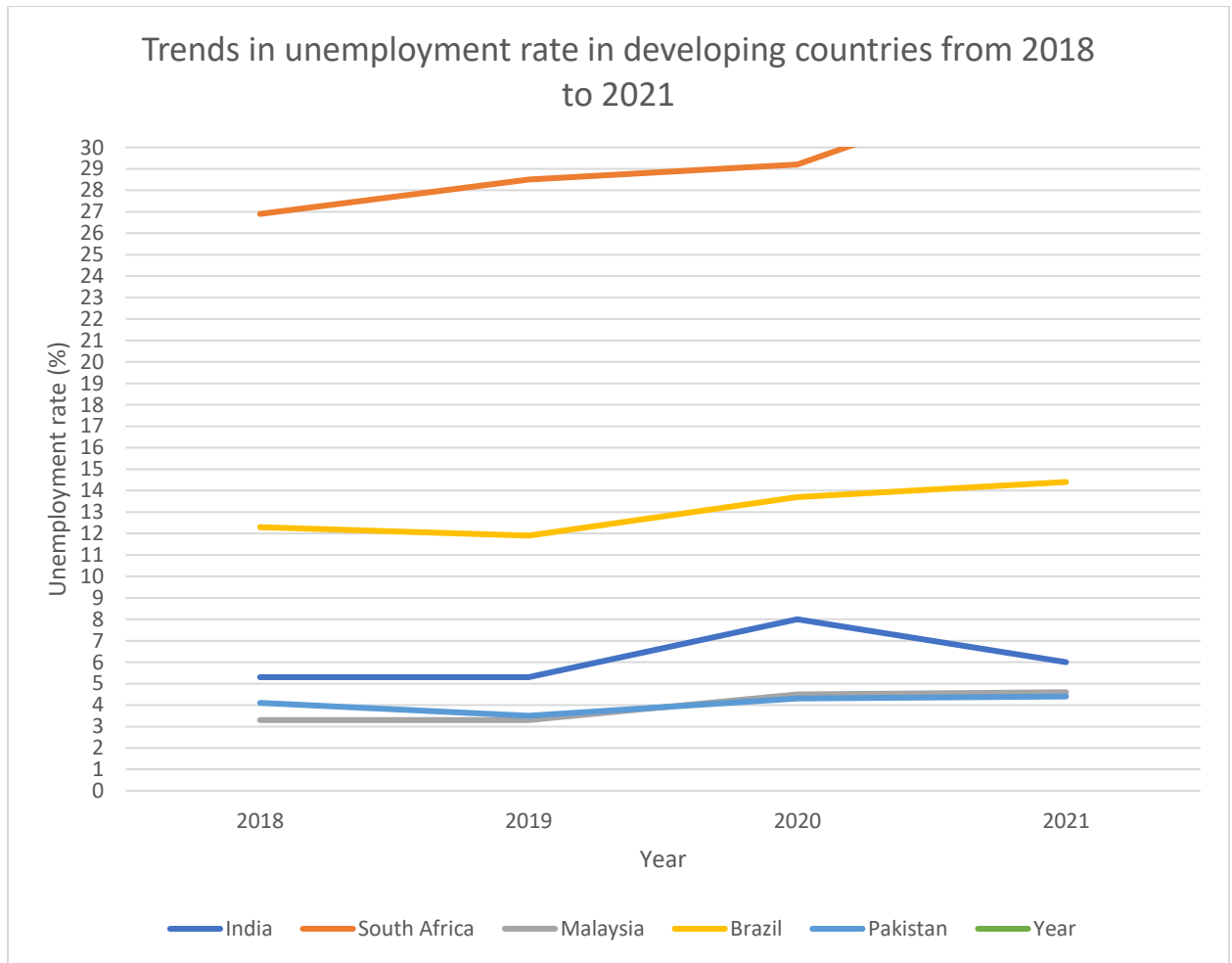


Figure 2. Trends in the unemployment rate in developing countries from 2018 to 2021

A comparative examination of the trends in figure 1 and figure 2 exhibits that among the developed countries, the United States, Australia, and Kuwait witnessed the sharpest increase in unemployment rates with the emergence of the Covid-19 pandemic. This is considerably different from other developed countries in the same group. This marked increase in unemployment could be attributed to the distorted government support infrastructure in place in these countries because these countries are also the ones that generally have higher socioeconomic inequality. Whereas, in

the group of developing countries, the highest increase in unemployment was experienced by South Africa, followed by Brazil and India. Meanwhile, Malaysia had to go through the lowest rates of unemployment. However, an interesting finding from a comparative analysis of both groups is that contrary to expectations, developed countries actually experienced much higher rates of unemployment with the emergence of the pandemic than developing countries. This could be because of two major reasons. Firstly, developing countries have a considerable portion of the informal economy, which provides an informal buffer against complete job losses during a macroeconomic crisis. Secondly, developed countries rely heavily on their big manufacturing sector, which was the hardest-hit sector during the initial phases of the pandemic. Therefore, in terms of job losses, developed countries suffered more than some leading developing countries.

Descriptive statistics analysis

The following descriptive analysis enables the researcher to view holistic trends in the data. Analysis of the standard deviation of both variables shows that while dispersion in the unemployment rate is within the expected margins, government stimulus packages have a considerable dispersion. This is due to big differences in the number of government expenditures allocated in the selected countries. Meanwhile, skewness coefficients of both variables show that the data is considerable right-skewed, indicative that governments released significant amounts in this regard. Whereas, Kurtosis statistics also indicate that data is heavily tailed from the normal curve.

Table 1. Descriptive Statistics

N	Mini mum	Maxi mum	Mea n	Std. Deviati on	Ske wnes s	Kurt osis
Statistic	Statis tic	Statis tic	Statis tic	Statistic	Statis tic	Statis tic
					Std. Error	Std. Error

Unemployment rate (% of unemployed)	40	2.2	33.6	7.81	7.9292	2.25	0.37	4.15	0.73
Government stimulus package (billion dollar)	40	0	2200	145.	460.59	3.90	0.37	14.9	0.73
Valid N (listwise)	40			95	97	7	4	45	3

Correlation analysis

For developed countries

Correlation analysis provided evidence towards the statistical association between unemployment and government stimulus. For the case of developed countries in the following table 1, it was found that with a Pearson coefficient of 0.680, the unemployment rate and government stimulus package are moderately but positively correlated. This means that the government stimulus package could have some statistical influence on the rise in the unemployment rate in developed countries.

Table 2. Correlations

		Unemployment rate (% of unemployed)	Government stimulus package (billion dollar)
Unemployment rate (% of unemployed)	Pearson Correlation	1	.680**
	Sig. (2-tailed)		0.001
	N	20	20
Government stimulus package (billion dollar)	Pearson Correlation	.680**	1
	Sig. (2-tailed)	0.001	
	N	20	20

** Correlation is significant at the 0.01 level (2-tailed).

For developing countries

Whereas, for the case of developing countries presented in table 2 below, a Pearson coefficient of -0.189 shows that the government stimulus package is very weakly and negatively correlated with unemployment rates. This indicates the stimulus packages provided by the government may not have effectively worked towards decreasing unemployment in those countries.

Table 3. Correlations

		Unemployment rate (% of unemployed)	Government stimulus package (billion dollar)
Unemployment rate (% of unemployed)	Pearson Correlation	1	-0.189
	n	20	20
	Sig. (2- tailed)		0.426
Government stimulus package (billion dollar)	Pearson Correlation	-0.189	1
	n	20	20
	Sig. (2- tailed)	0.426	
	N	20	20

Regression analysis

For developed countries

Regression analysis enabled the researcher to get a causal effect for the two variables. For the case of developed countries, the following model summary shows moderate R and R square values. However, since the two variables are highly complicated and depend on several other factors that are not part of the current study, these values of model predictability and accuracy are acceptable. Whereas, from the Anova table below, it can be asserted that the model has an acceptable range of errors.

Table 4. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.680a	0.7982	0.788	1.05384

a Predictors: (Constant), Government stimulus package (billion dollar)

Table 5. ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.188	1	17.188	15.477	.001b
	Residual	19.991	18	1.111		
	Total	37.179	19			

a Dependent Variable: Unemployment rate (% of unemployed)

b Predictors: (Constant), Government stimulus package (billion dollar)

The coefficients table shows that with a p-value < 0.05, the government stimulus package significantly impacted unemployment rates in developed countries.

Table 6. Coefficients

Model		Unstandardised Coefficients	Std. Error	Standardised Coefficients	t	Sig.
1	(Constant)	3.925	0.251		15.612	0
	Government stimulus package (billion dollar)	0.002	0	0.68	3.934	0.001

a Dependent Variable: Unemployment rate (% of unemployed)

For developing countries

For the case of developing countries, the model summary shows high model accuracy and predictability through R and R-square values. Similarly, the Anova statistics also exhibit an acceptable margin of error and model significance.

Table 7. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.891a	0.876	0.866	10.12406

a Predictors: (Constant), Government stimulus package (billion dollar)

Table 8. ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	68.03	1	68.03	0.664	.0426b
	Residual	1844.94	18	102.497		
	Total	1912.97	19			

a Dependent Variable: Unemployment rate (% of unemployed)

b Predictors: (Constant), Government stimulus package (billion dollar)

Although the model appropriately describes the relationship between the variables, no statistically significant impact of the government stimulus package on the unemployment rate was found. The p-value is higher than the statistical threshold of 0.05 showing low reliability of causal effect.

Table 9. Coefficients

Model	Unstandardised Coefficients	Standardised Coefficients	t	Sig.
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		B	Std. Error	Beta		
1	(Constant)	12.088	2.436		4.962	0
	Government stimulus package (billion dollar)	-0.011	0.014	-0.189	-	0.815 0.426

a Dependent Variable:
Unemployment rate (% of
unemployed)

DISCUSSION

The current study examined the highly debated effect of government stimulus packages to spur macroeconomic activities on unemployment rates within a country. The study adopted a comparative analysis stance to examine this confluence with respect to developed and developing countries. According to ILO research (2020), young people around the world are bearing the burden of the recent commencement of enormous job losses and increased precarity in the workplace. Prior to the Covid-19 crisis, youngsters were already at risk in labour, particularly in industrialised countries. Young employees' access to the labour market may be significantly restricted for a while due to the Covid-19 economic crisis, which has led to notable rises in unemployment. This finding has been proven in the current study as it showed that developed countries experienced a higher rise in unemployment during the initial phases of the pandemic than developing countries. However, the lack of reporting and the informal economy must be included in discussions regarding this comparison. Meanwhile, the research also found that higher unemployment in developed countries is parallel with higher inequality, such as in Australia. This is also in line with the findings of literature such as Jaumotte (2015). Younger people in Australia are more seriously affected by Covid-19 than older people. Moreover, young women above the age of twenty were more severely affected by this effect (Lambovska, 2021). Uneven population group exposure to Covid-19 might have long-term effects on society since it impedes the growth trajectory to which governments frequently devote significant public resources. The present research found a significant result novel from the available literature regarding the marked impact of the government stimulus package on rising unemployment in developed countries. This causal

trend is in significant contrast to the one observed for developing countries, where the study found that government stimulus packages had a very weak causal effect on the employment rate, and that effect was also negative, indicating that such packages somewhat reduced unemployment. The study attributes this finding to the phenomenon of an informal economy in developing countries, which creates a bulwark against uncontrolled unemployment, provides an informal source of revenue for the government, and manages inequality.

S.No.	Hypotheses tested	Status
1	Government stimulus packages during Covid-19 had a significant impact on unemployment rates in developing countries.	Rejected
2	Government stimulus packages during Covid-19 had a significant impact on unemployment rates in developed countries.	Accepted

CONCLUSION

In the case of industrialised nations, there is a modest but positive correlation between the unemployment rate and the government's stimulus programme. This suggests that the government's stimulus plan may have little statistical impact on the increase in the unemployment rate in wealthy nations. While in contrast, the government's stimulus package is only extremely weakly and adversely connected with unemployment rates in emerging nations, according to a correlation study. The government stimulus package had a considerable influence on unemployment rates in developed countries; the study showed using regression analysis. The government's stimulus package had no statistically meaningful effect on the unemployment rate in emerging nations.

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