

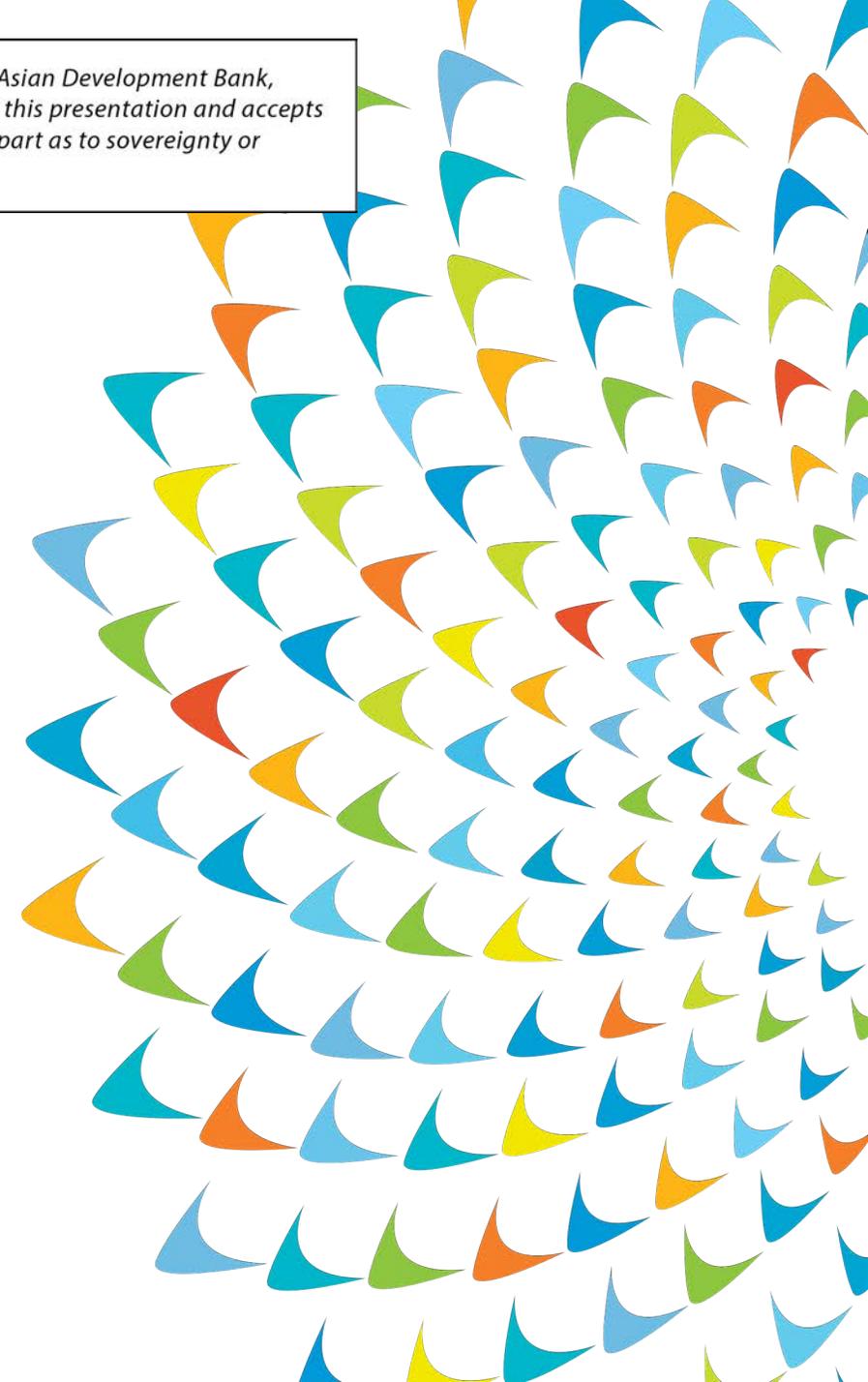
COVID-19, Technology and Jobs

Impact on labor markets in Cambodia and the Philippines

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Impact of COVID-19 in Southeast Asia

Key messages

- COVID-19 pandemic had unprecedented impacts on Southeast Asian labor markets, including massive job losses and rise in unemployment and decline in labor force participation, major decline in hours worked
- Stringent policy measures to contain the spread of the virus, although necessary, also affected the informal sector's potential to absorb displaced labor from the formal sector
- Crisis had a disproportionate impact on low productivity sectors including construction, transportation, tourism and wholesale and retail trade, but also had an important impact on manufacturing, finance, real estate and business services, education and even public administration
- Pandemic threatens important gains in terms of poverty reduction over the past decade

Impact of COVID-19 in Southeast Asia

- Labor market impact depends on:
 - Spread of COVID-19 at the national level
 - Policy responses and lockdown measures
 - Economic and labor market structure: openness of the economy, vulnerable sectors and workers, etc.
- Employment and poverty impact assessment:
 - For two southeast Asian countries: Cambodia and Philippines
 - Differences in income level, data availability
 - Draw out differences and similarities for insights on impact at the regional level (or more general implications)

I. Background: Pre-COVID labor market diagnostics

High GDP growth since 2000 led to welfare improvements and reduction in poverty, but large shares of population remain vulnerable in both countries

CAMBODIA

- Rapid growth in garments sector, rise in crop prices and agricultural wages
- Significant decline in poverty rate (from 60% in 2000 to 13.5% in 2015), but large share of the population still live just above the national poverty line (estimated 55% of population remain either poor or at risk of falling into poverty).

PHILIPPINES

- High growth in construction and manufacturing, also in high productivity services (including BPO industry)
- Important decline in poverty rate (from 27% in 2006 to 17% in 2018), but limited growth in employment and labor force participation rates (which are well below regional average)

Labor markets remain characterized by widespread informality, vulnerable and precarious (irregular) employment

CAMBODIA

- Informality rate estimated at 93% of employment overall (91% for men and 96% for women), and 90% for non-agricultural employment.
- Very limited social protection coverage

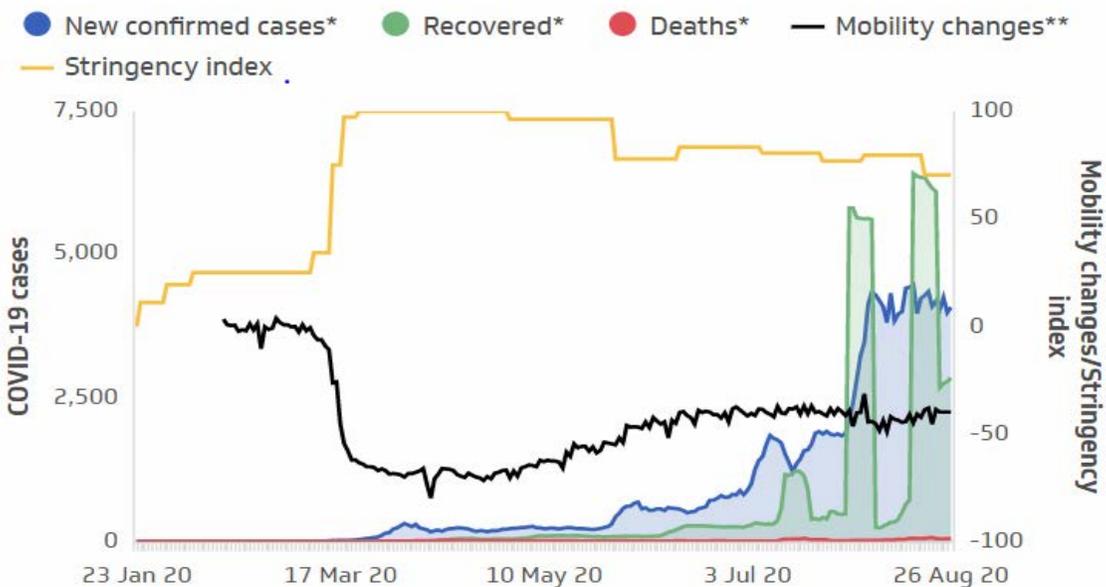
PHILIPPINES

- Informal employment estimated at 56% (ILO).
- Rise in wage and salaried employment accompanied by increase in irregular/ non-standard forms of employment with more limited access to social protection

II. COVID-19 situation, data availability and assessment methodologies

Vastly different COVID-19 situation in terms of number cases, mobility changes, and stringency of government response

Philippines

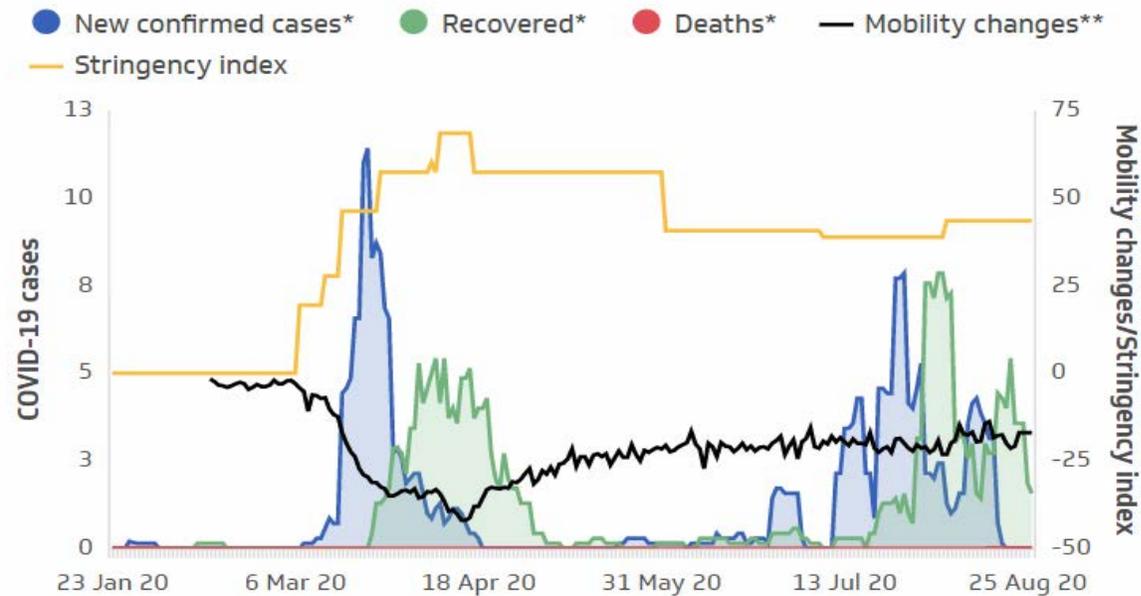


*Daily cases, 7-day rolling average, **Mobility outside residence, percent change from the baseline.

Data as of 26 August 2020

202,361	3,137	133,460	-39.8	70.4
Total confirmed cases	Total deaths	Total recoveries	Mobility changes	Stringency Index

Cambodia



*Daily cases, 7-day rolling average, **Mobility outside residence, percent change from the baseline.

Data as of 26 August 2020

273	0	264	-17.0	43.5
Total confirmed cases	Total deaths	Total recoveries	Mobility changes	Stringency Index

Data availability differs significantly across the two countries

CAMBODIA

- Annual LFS, other household surveys
- No access to microdata
- Largely relying on imputed time series (ILO database)
- Elasticities based-approach for projecting impact

PHILIPPINES

- Quarterly LFS for many years, including 2020, Q1-Q3
- Access to microdata allowing useful cross-tabulations
- Elasticities based-approach for projecting impact
- Actual impact for Q1-Q3

Methodology

- Projections using employment elasticities of growth
 - Point elasticities at the sector level to obtain employment impact
 - Modeling change in LFPR due to crisis and projecting labor force
 - Obtaining projected unemployment as a residual from the labor force and employment projections
 - Analysing labor reallocation through sectoral shifts in employment, and shifts across labor force statuses
- Assessing actual impact
 - Key labor market indicators and sectoral impact
 - Disaggregating sectoral impact by nature of employment, employment status, etc.

Hypotheses

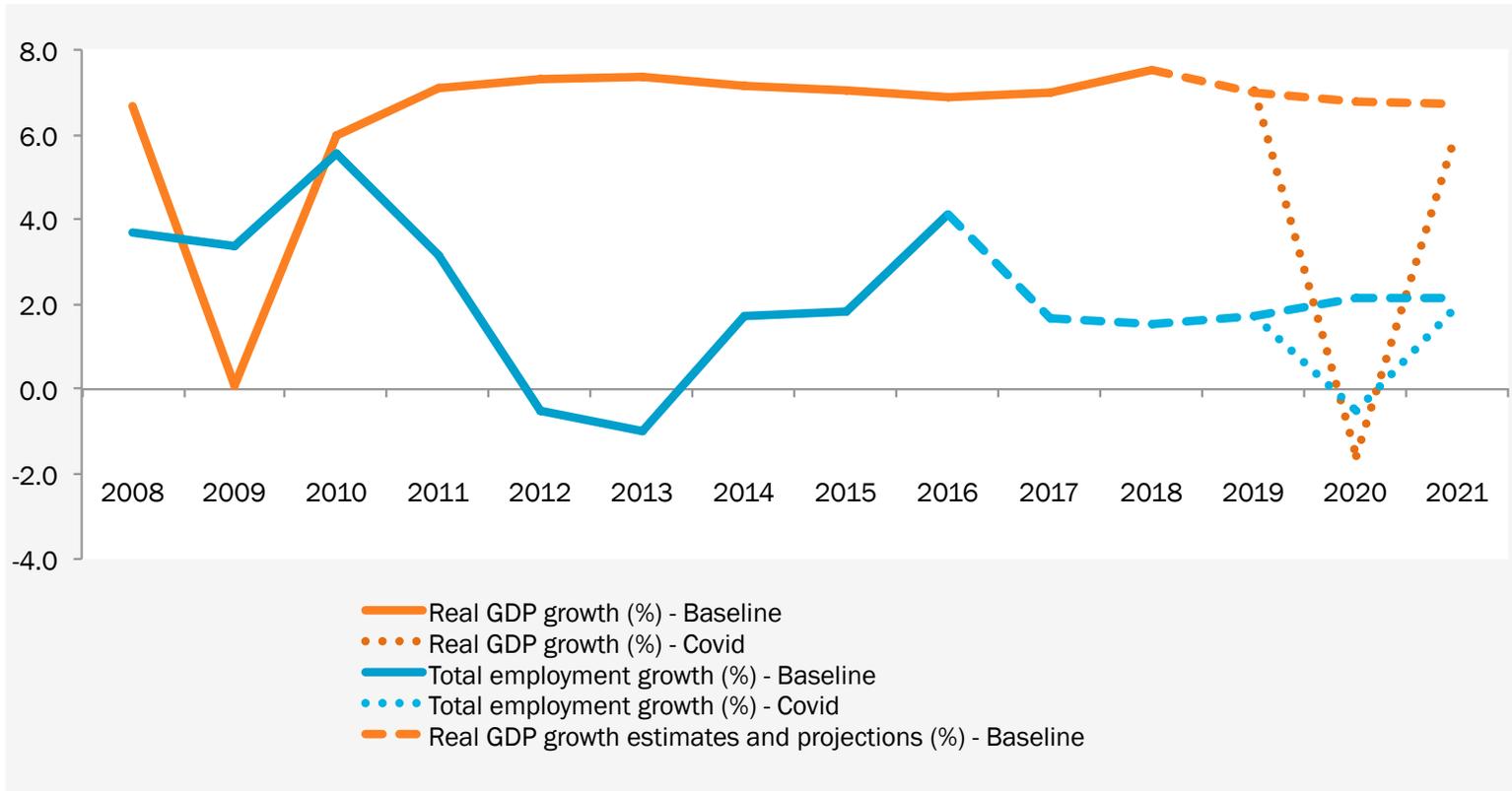
- **H1.** Like previous crises, the COVID-19 pandemic would result in a decline in employment, particularly across tradable sectors (e.g. manufacturing, due to decline in global demand), but also more than previous crises for non-tradable industries (e.g. retail trade, education, due to lockdown measures)
- **H2.** Like other crises, it would also result in a decline in LFPRs, as well as labor reallocation from higher productivity (generally formal) employment towards lower productivity (largely informal)
- **H3.** It would have a significant impact on poverty, reversing some of the gains of the past decade
- **H4.** Low skilled workers and other vulnerable groups would be disproportionately affected
- **H5.** Due to unprecedented nature and scale of the COVID-19 crisis and corresponding policies, historical elasticities approach likely to underestimate actual impacts

Having LFS data for 2020 Q1-Q3 for the Philippines allows to confirm or disprove above hypotheses

III. Employment Impact Assessment

COVID-19 impact on employment far worse than during Great Recession for Cambodia...

Real GDP growth rate and employment growth rate, 2008-2021

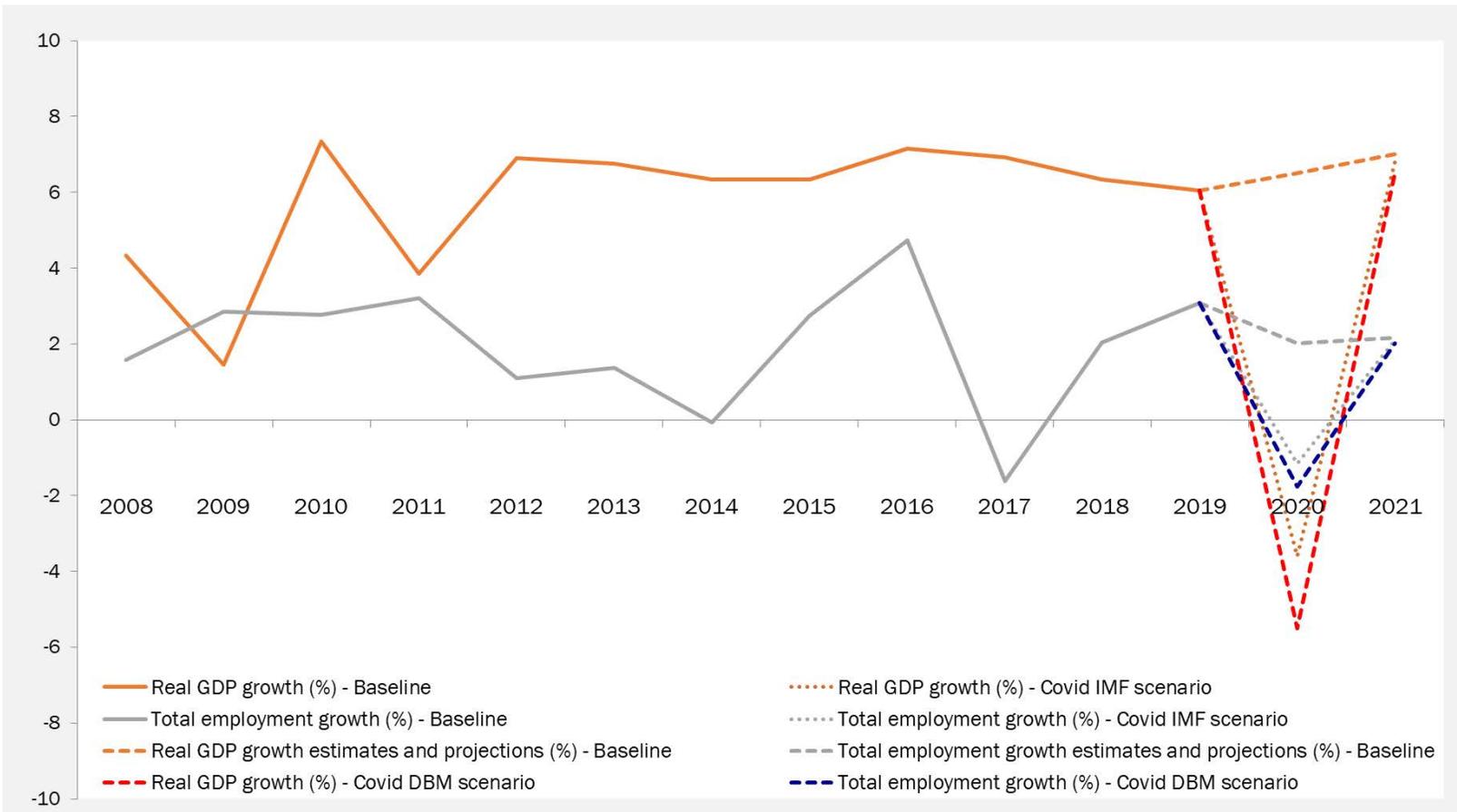


- IMF estimates show negative real GDP growth (-1.6%) in 2020
- ADB estimates show a 0.5% decline in employment in 2020 compared to 2019

Source: ADB staff estimates for employment using IMF's WEO Data (April 2020) for GDP growth.

... and even more so for the Philippines...

Real GDP growth rate and employment growth rate, 2008-2021



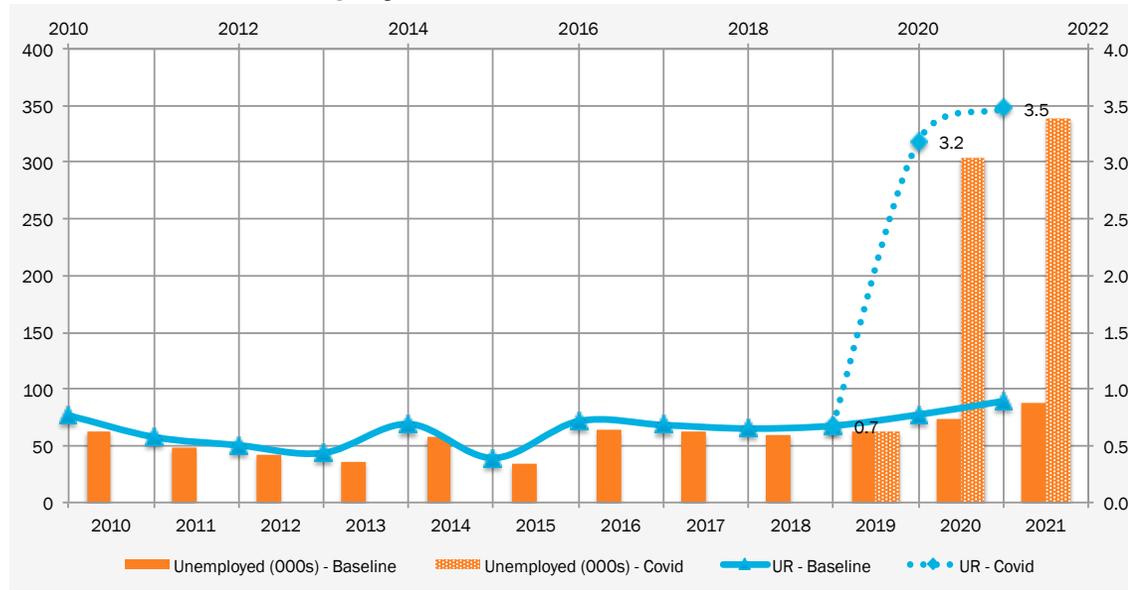
- Negative real GDP growth projections for 2020 ranging from -3.6% (IMF) to -5.5% (Government)
- ADB estimates show a 1.2% - 1.8% decline in employment in 2020

Source: ADB estimates.

COVID-19 hit Southeast Asian labor markets hard, resulting in an unprecedented rise in unemployment...

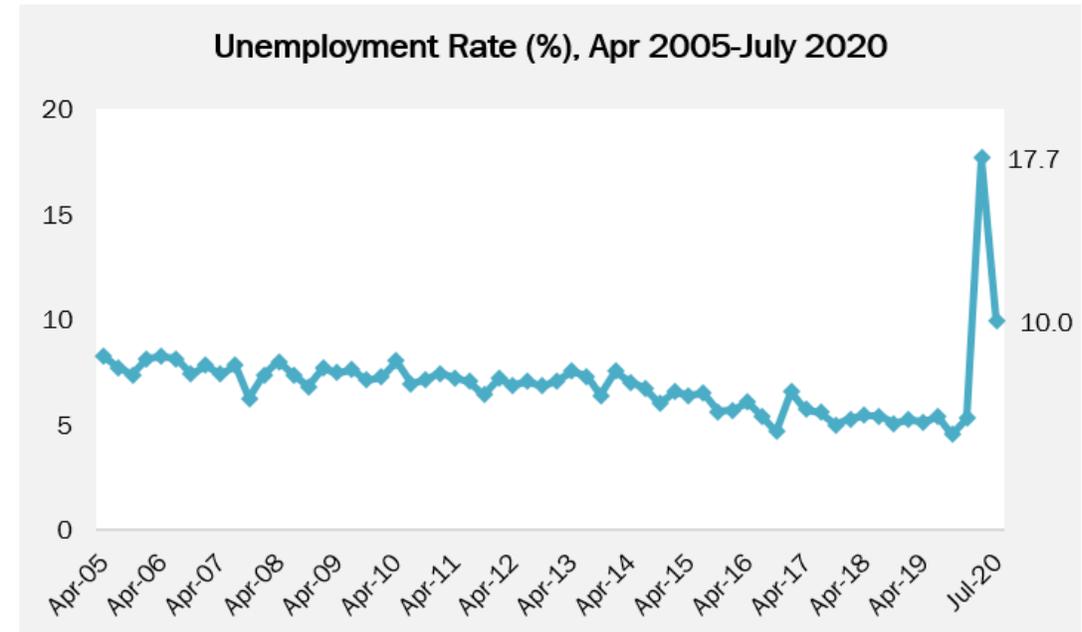
Cambodia

Unemployment levels and rate, 2010-2021



Philippines

Unemployment Rate (%), Apr 2005-July 2020



- Estimated increase in unemployment rate for Cambodia: 2.4 p.p. (from 0.7% in 2019 to 3.2% in 2020)
- In Philippines, unemployment rate soared to 17.7% in April 2020, which translates to around 5 million additional unemployed workers

Impact of COVID-19 varies by sector in Cambodia...

Employment Impact of COVID-19 in Cambodia in 2020 compared to baseline scenario, by Sector

	Best case	Worst case
Construction	-194	-287
Manufacturing	-63	-90
Real estate, renting and business activities	-54	-78
Hotels and restaurants	-26	-37
Transport, storage and communications	-24	-35
Financial intermediation	-19	-27
Public administration and defence; compulsory social security	-10	-14
Mining and quarrying	-1	-2
Electricity, gas and water supply	3	5
Education; health and social work; other community, social and personal services	4	7
Wholesale, retail trade, repair of motor vehicles, motorcycles and personal and household goods	9	15
Agriculture, hunting, forestry; fishing	126	174

- Most affected sectors in Cambodia in terms of projected employment losses are construction, manufacturing, hotels and restaurants, transport, storage and communications, as well as real estate and business services and financial intermediation
- These sectors accounted for approximately 60% of value added and nearly 45% of employment in Cambodia in 2019

And also in the Philippines... But actual impact even greater than projected

Employment Impact of COVID-19 in the Philippines in 2020 compared to baseline scenario, by Sector

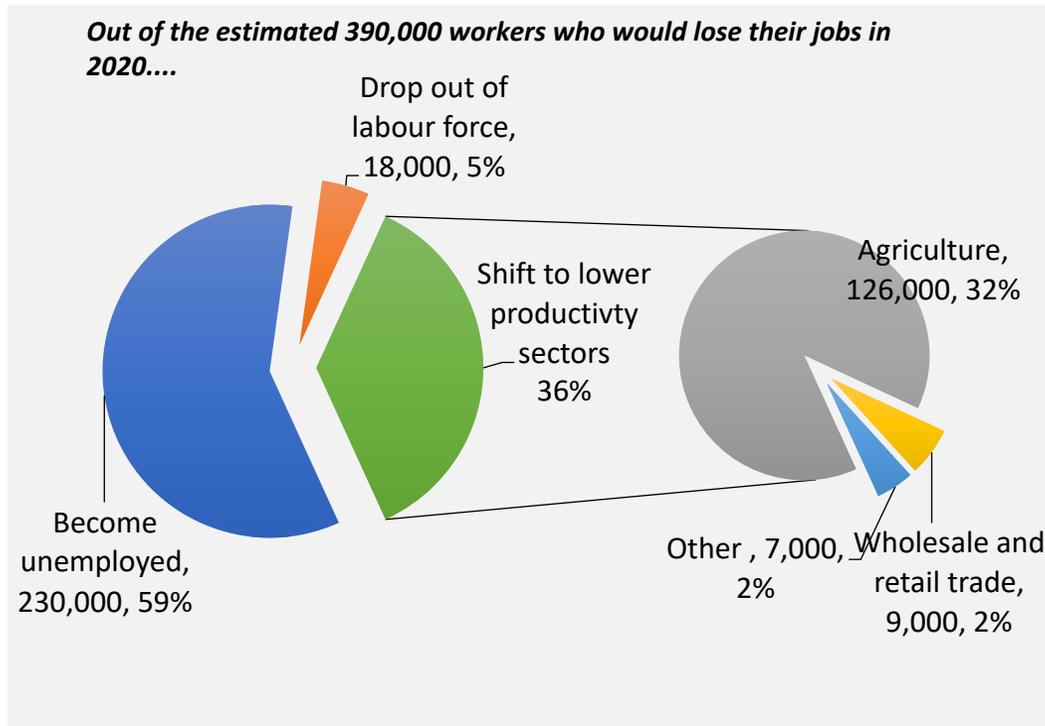
Employment Impact of COVID-19 in Cambodia, by Sector

	Best case	Worst case	Actual (av Q1-Q3)
Public administration and defence; compulsory social security	-395	-473	-423
Construction	-368	-439	-783
Wholesale, retail trade, repair of motor vehicles, motorcycles and personal and household goods	-324	-389	-678
Hotels and restaurants	-159	-190	-514
Transport, storage and communications	-136	-163	-665
Education; health and social work; other community, social and personal services	-82	-99	-531
Real estate, renting and business activities	-64	-76	-220
Manufacturing	-61	-73	-421
Financial intermediation	-44	-53	-69
Mining and quarrying	-3	-4	7
Electricity, gas and water supply	3	4	-15
Agriculture, hunting, forestry; fishing	294	352	235

- In the Philippines, most affected sectors are also construction; hotels & restaurants; transportation, storage & communication; manufacturing; real estate and business services; but also in wholesale & retail trade; education, health and other services; public administration.
- Actual figures (initial Q1-Q3 results) show that impact is underestimated using our approach: truly unprecedented impact of the pandemic

Although some workers who lose their jobs become unemployed, others shift to lower productivity sectors, and others drop out of the labor force altogether...

Job losses and labor reallocation in Cambodia, 2020



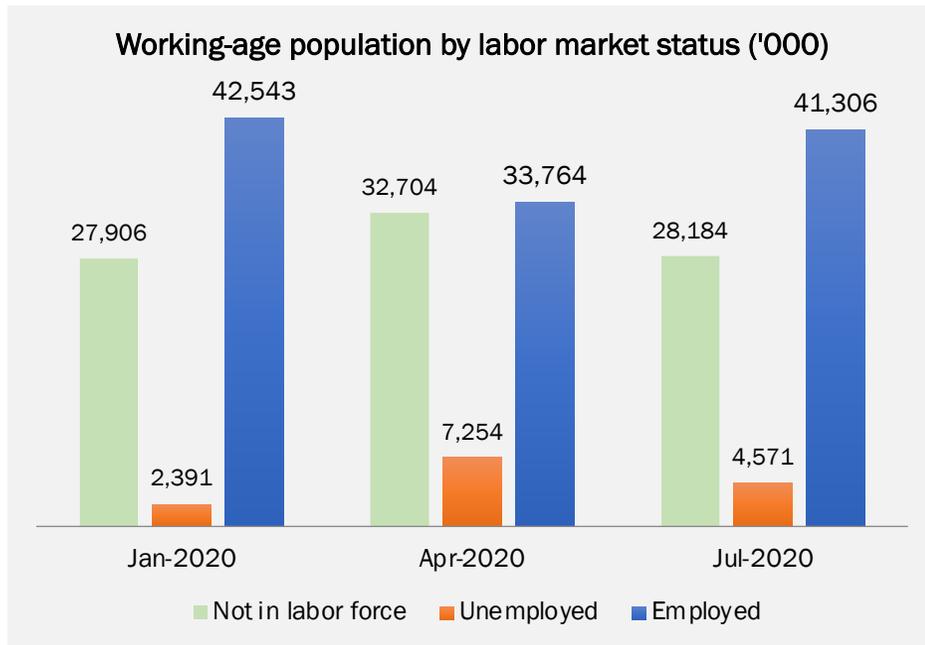
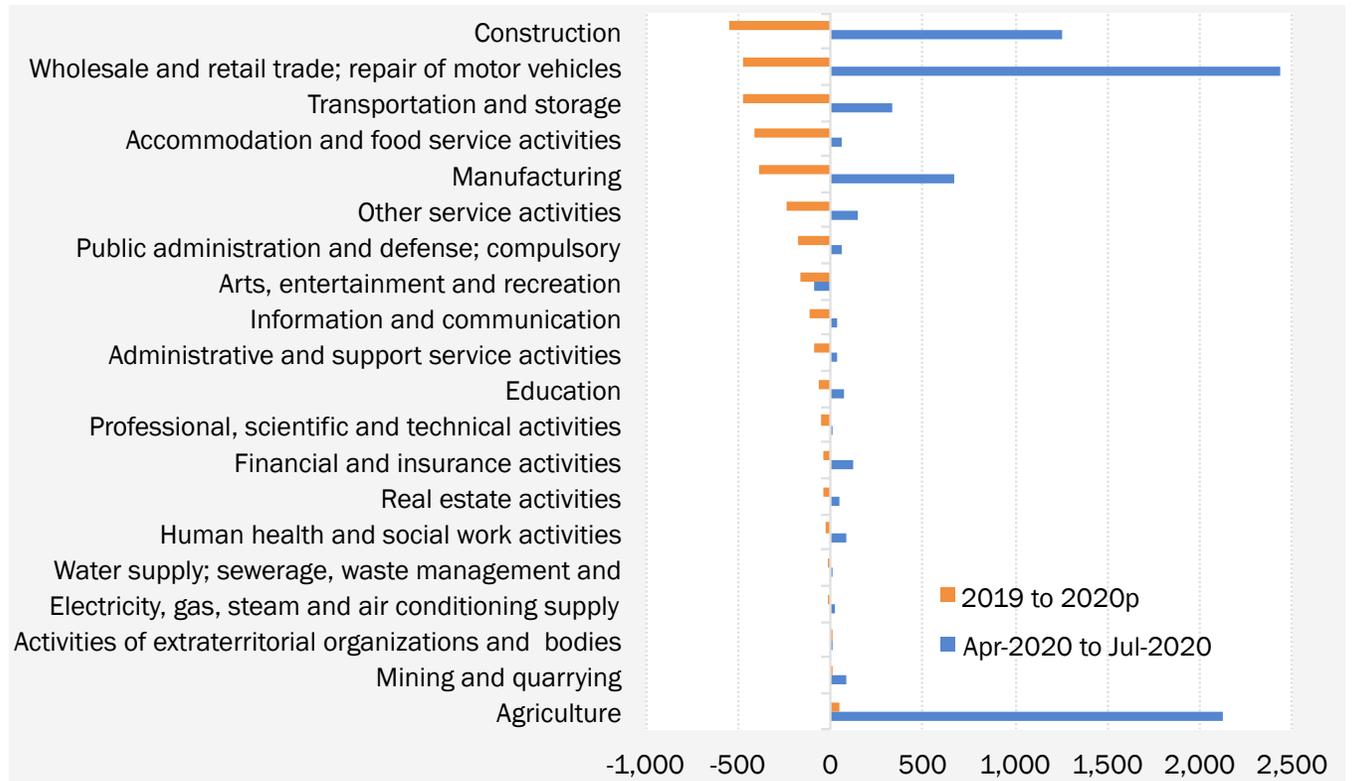
Sources: ADB estimates using National Accounts (UNSD) and ILO modelled estimates of labor market aggregates and indicators

	Cambodia		Philippines			
	Projections		Projections*		Actual (Q1-Q3)	
	(000s)	(%)	(000s)	(%)	(000s)	(%)
Workers who would lose their job in 2020...	390		1,959		3,282	
And become unemployed	230	59	1,266	65	2,475	75
Drop out of the labor force	18	5	355	18	749	23
Shift to low productivity sectors	142	36	337	17	58	2

*Worst case scenario presented here, because of insights from actual figures

Indeed, actual figures for Philippines over 2020 Q1-Q3 confirm a significant drop in labor force participation, and labor reallocation towards agriculture

Change in employment by sector ('000)

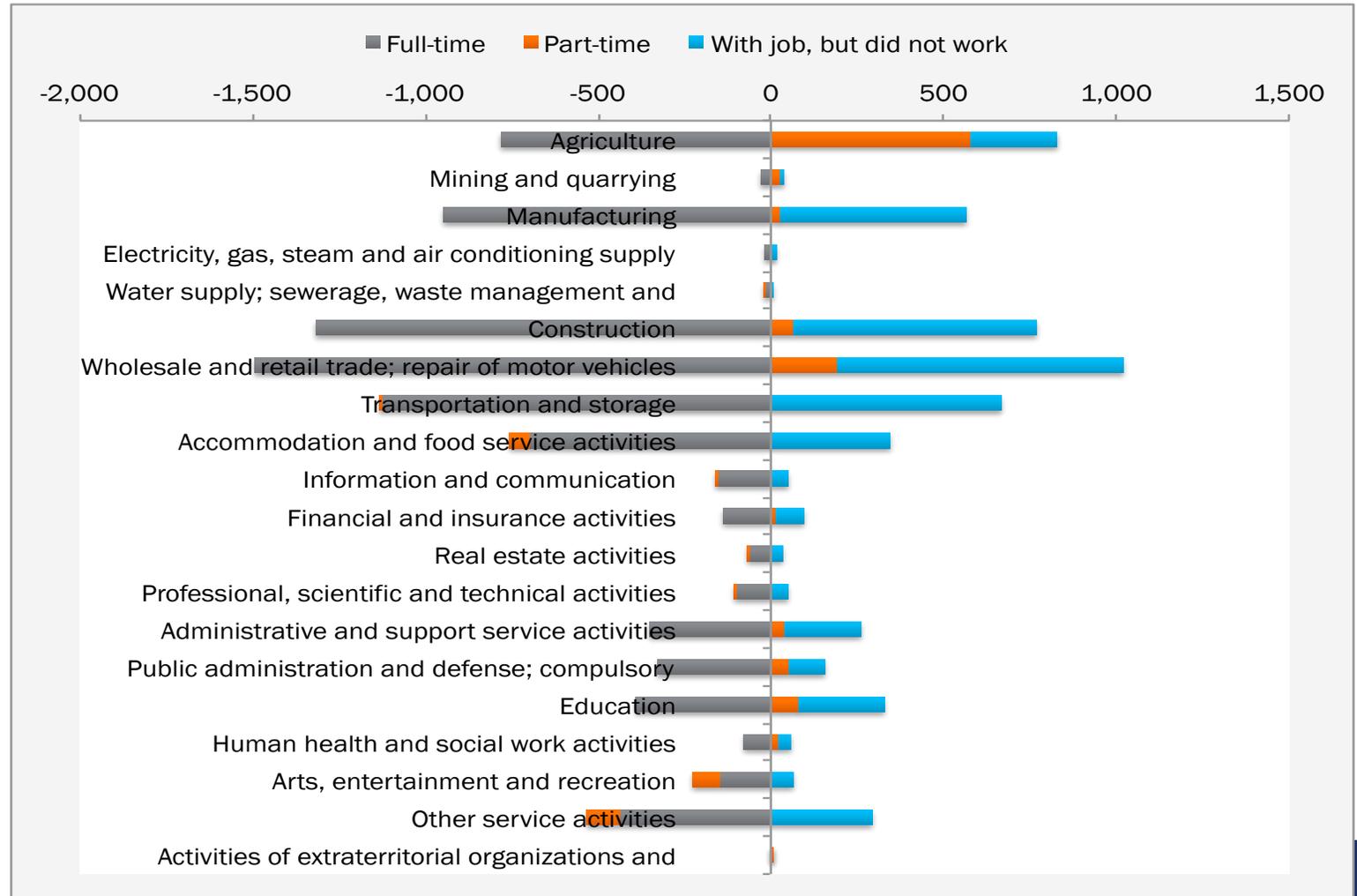


Labor market has started to improve as indicated by the July 2020 numbers: 2.7 million jobs returning as quarantine restrictions eased; 4.9 million workers rejoining the labor force. Overall, around 7.5 million jobs were restored

The pandemic had a significant impact on hours worked, significant increase in part-time work and in the numbers of those employed, but who did not work...

- While many workers lost their jobs, others shifted to part-time work, and a larger number were still employed but did not work, particularly in the most affected sectors

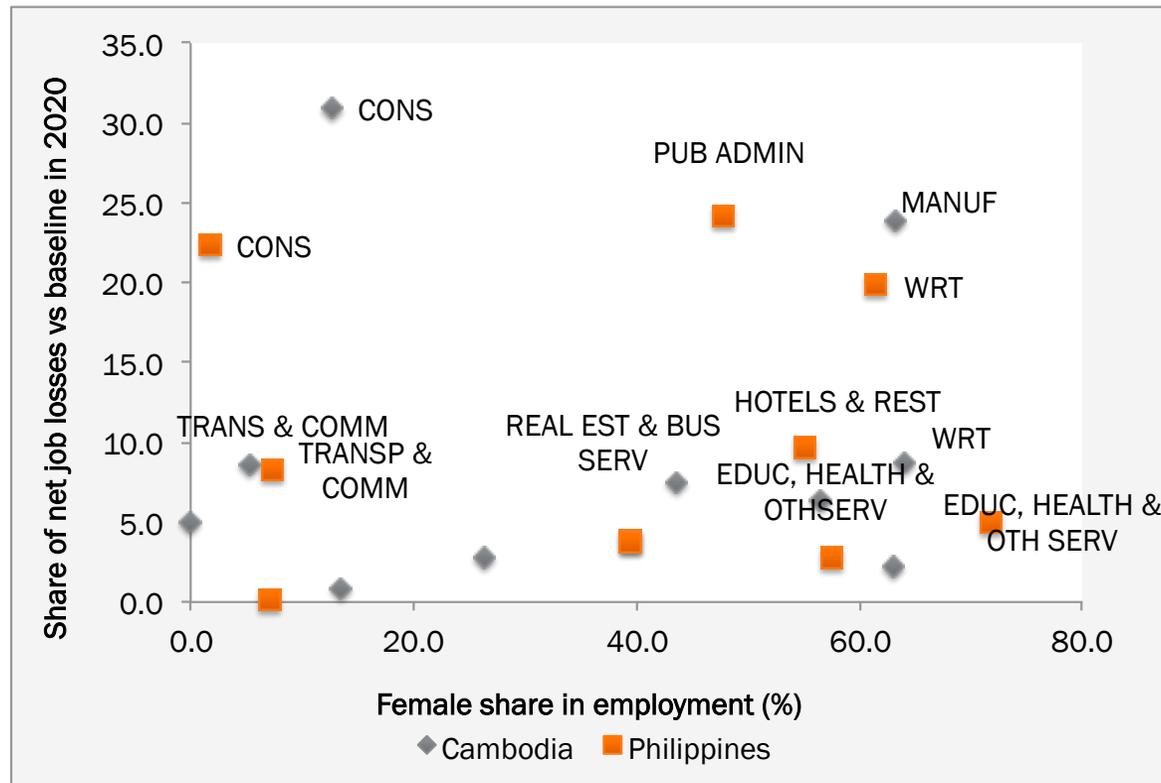
Change in employment (000s) by working time and sector



Sources: PSA. Preliminary. Based on the average of the January, April, and July LFS rounds.

Sectors most at risk include those where women account for the largest share of employment, particularly among low-skilled vulnerable workers

Female share in employment and projected share of net job losses by sector



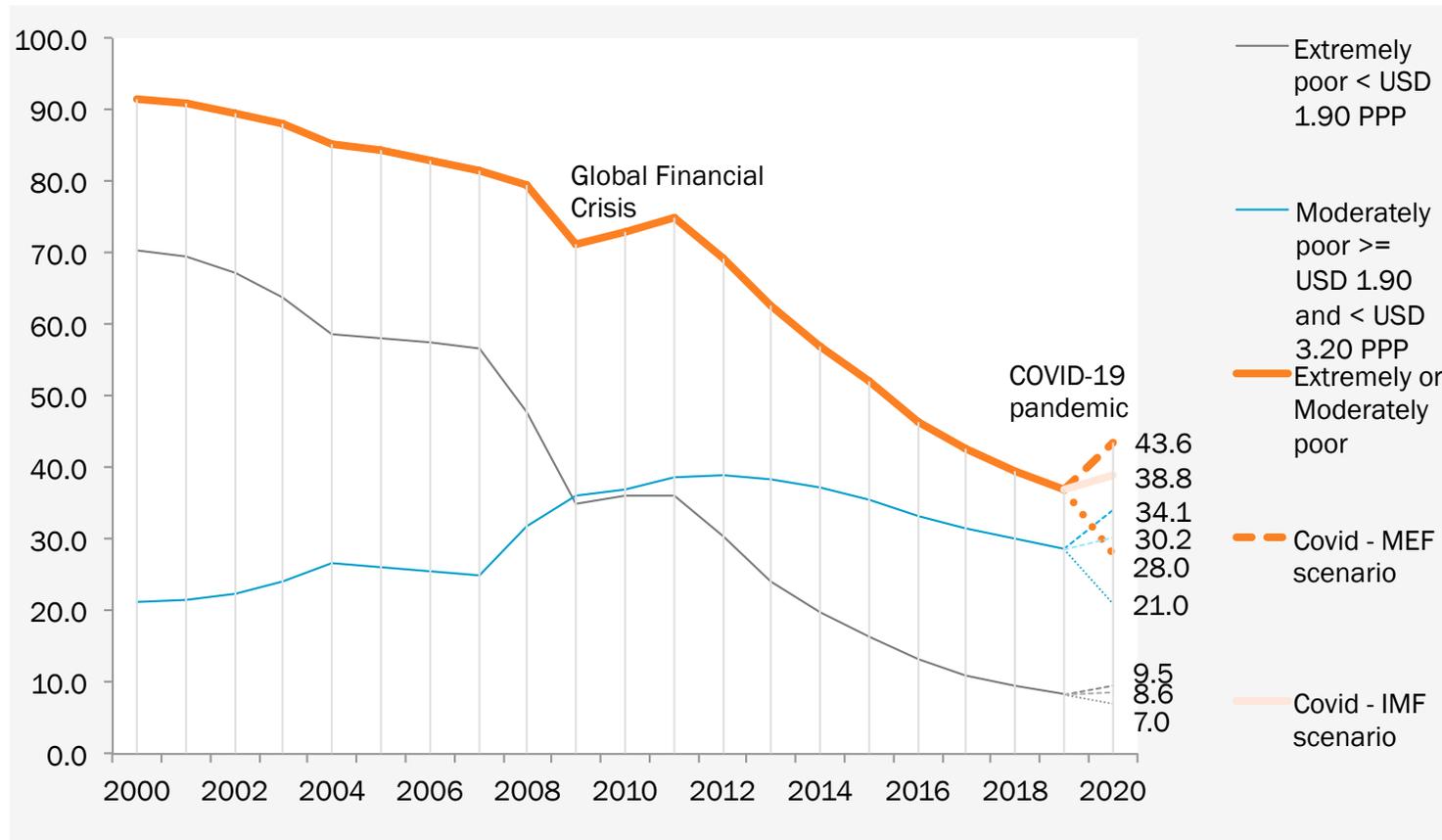
Sources: ADB Estimates

- Significant impact on women in: hotels and restaurants and wholesale and retail trade
 - High vulnerable employment rates and informality, lower pay, and a disproportionate representation of women among low skilled workers, who face a greater risk of losing their jobs.
 - Other affected sectors with high female representation are education and other services, and in Cambodia, manufacturing.
- Men more affected in: construction, transport, storage and communications, finance, and real estate and business activities.

IV. Poverty impact assessment

Increase in extreme and moderate poverty due to COVID-19 could be worse than the Great Recession. COVID-19 is reversing important achievements in terms of poverty reduction over the past decade in Cambodia...

Working poverty levels and rates in Cambodia, 2000-2020

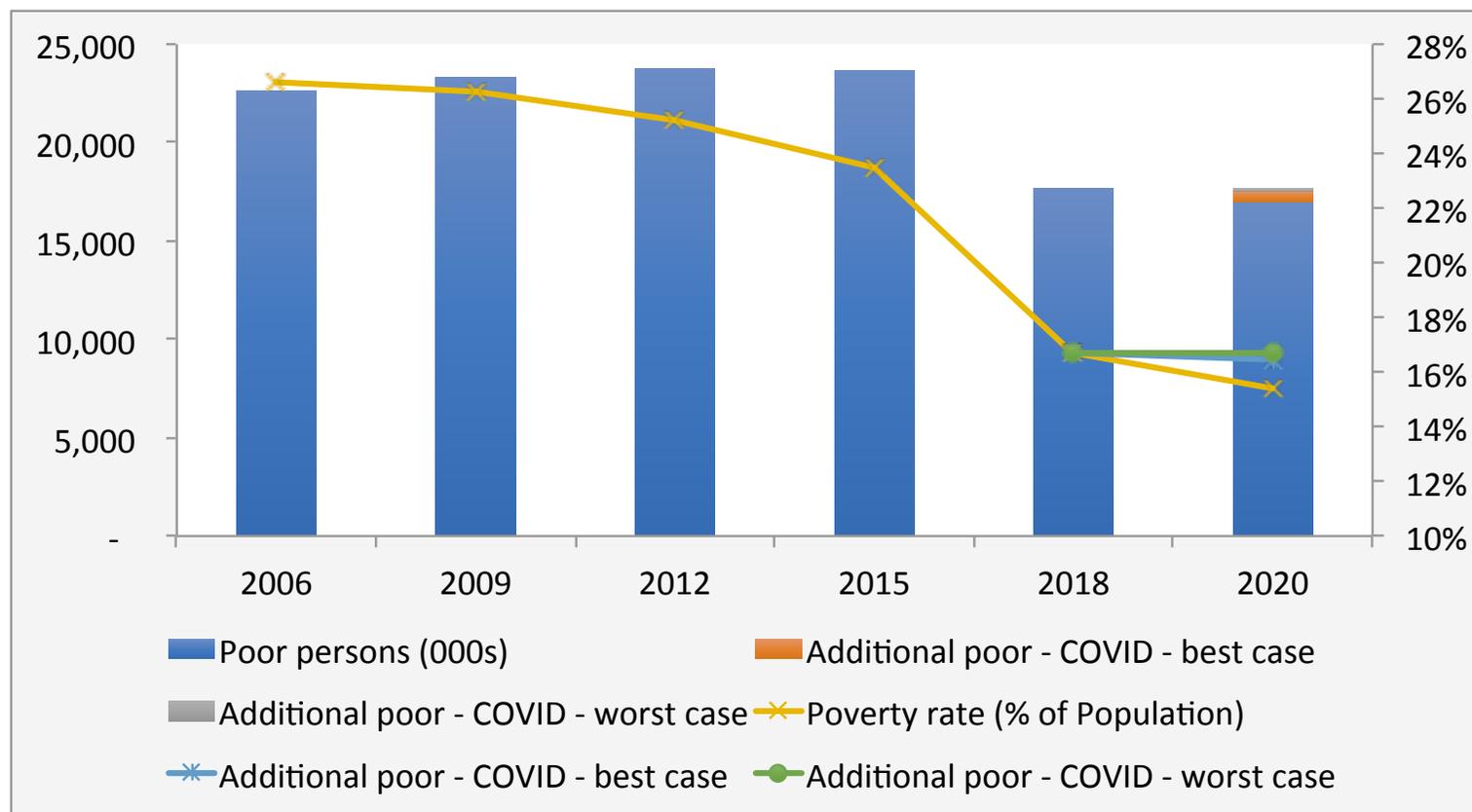


Source: ADB estimates using ILO modeled estimates of working poverty rates

- Additional 130,000 workers falling below the extreme poverty line in 2020, and over 800,000 additional workers falling into moderate poverty.
- This would result in an increase in the working poverty rate at the extreme poverty line from an estimated 7.0% in the baseline scenario to 8.6% in 2020, and at the moderate poverty line from 21.0% to 30.2%.
- Overall the impact of the pandemic would be an increase in the estimated share of workers in extreme and moderate poverty in 2020 from an estimated 28% under the baseline scenario, to nearly 40%.

.. And also in the Philippines..

Poor population (000s) poverty rate in the Philippines, 2006-2020



- Pandemic would increase the number of poor people by approximately 700,000, and the number of poor families by 115,000 (under worst case scenario compared to baseline)
- Poverty rate would increase from 15% under the baseline scenario to 17%, reversing some of the progress achieved in recent years

V. Concluding remarks

Insights from the Cambodia and Philippines analyses:

- COVID-19 pandemic has had an unprecedented impact on Southeast Asian labor markets, including:
 - Major hikes in unemployment rates
 - Major declines in labor force participation,
 - Significant drops in hours worked across a wide range of sectors
 - Most affected sectors include those employing large shares of low-skilled workers (construction, transportation and tourism in both countries, wholesale and retail trade for the Philippines, manufacturing for Cambodia)
 - Important poverty impact, reversing important gains in terms of poverty reduction achieved over the past decade

Insights from the Cambodia and Philippines analyses:

- COVID-19 vs previous economic shocks:

Although some displaced workers shifted to agriculture, across the board lockdown measures prevented large scale labor reallocation, particularly in the Philippines, where more stringent measures severely constrained mobility. The informal sector could therefore not absorb lost jobs in formal sector to the same extent

- This is reflected in greater unemployment and discouragement effect and less reallocation in the Philippines (compared to Cambodia, but also based on actual data in comparison to projections)
- Note that the Philippines already had, prior to pandemic, lower EPR and LFPR, and higher UR than Cambodia (where informality and agriculture share in employment is also higher)

Future analysis will consider impact on different groups of workers make use of data availability for the Philippines:

- Availability of 2018 merged LFS-FIES data will allow estimating
 - poverty impacts by sector, disentangling poverty impact due to: (i) sectoral reallocation effect and (ii) within-industry poverty effect (due to diminished working hours)
- Availability of 2020 Q1-Q3 LFS microdatasets will allow, assessing impact on:
 - Workers with different status-in-employment (e.g. own-account workers versus wage and salaried workers)
 - Workers with different forms of employment or working arrangements (e.g. temporary workers, day laborers, other irregular forms of employment likely to be disproportionately affected)

**Actual (Preliminary) data will be used in impact assessment for 2020, and elasticities approach will be used to model recovery (note: unemployment rate as 'lagging indicator')*

Thank you!