

Executive summary

The COVID-19 crisis exposes the wobbly foundations of decent work and inclusive growth in many Asian-Pacific economies.

With economic growth in the Asia and Pacific region already weak in 2019, the COVID-19 pandemic and ensuing economic crisis has hit economies, enterprises and workers in the region with a force that is pushing backwards some of the limited gains made in pursuit of decent work and inclusive growth in the previous decade.

Even in the best of times, when developing and emerging economies in the region saw economic growth rates in excess of 5 per cent annually in the previous decade, employment growth did not keep pace, and labour income shares stagnated or decreased. Among the subregions, only East Asia, the subregion that houses most of the region's advanced economies, saw an uptick in the average annual labour income share in the period 2011–17. In the other subregions, labour income shares fell – an indication that production has become increasingly capital-intensive, which has consequences in rising inequality.

The primary pre-crisis labour market challenges in the Asia-Pacific region related to issues of inequality that link to the quality of employment and the insufficiency of work to bring income security and dignity to all. The developing and emerging economies of the region saw relatively high growth numbers that were associated with flourishing private sectors and increasing numbers of higher-skill paid jobs that were boosted by foreign investment in industry and services and by the rapid expansion of urban centres. At the same time, these countries maintained large informal sectors made up of millions of low-skilled, low-waged labourers.

The Asia-Pacific region is home to 1.3 billion of the world's 2 billion informal workers. Despite its record as the region of fastest-economic growth in the world for at least the past decade, still two in three (68 per cent) of its workers are engaged in informal employment, and for some countries the ratio is as much as nine in ten. Gender inequalities remain another firmly rooted labour market issue in the region, with women still facing restricted access to employment, education and training opportunities, especially in South Asia, receiving lower pay than men and spending more time than men in unpaid care work.

Decent work deficits persist in all countries in the region. The result is that workers in the developing and emerging economies continue to be vulnerable to crises like the one currently experienced with the COVID-19 pandemic. As with previous shocks, too many workers have been pushed backwards into poverty, an outcome that relates in part to lacking or weak social protection systems and limited capacities of labour market institutions to deliver employment protection and employment services to both formal and informal workers and enterprises. In the absence of strong labour market institutions, including collective bargaining systems, that help to stabilize household income levels and ease labour income losses and without well-designed and implemented pro-employment macroeconomic policies that target the most vulnerable, the region's economies, workers and enterprises are struggling to bounce back from the crisis and to make progress towards inclusive growth.

Even before the COVID-19 pandemic, most countries were not on track to meet the criterion set by Sustainable Development Goal (SDG) 8 for “sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”. Without the strong labour market institutions needed to promote decent work and inclusive growth, it should come as no surprise that the COVID-19 crisis is creating turmoil in labour markets throughout Asia and the Pacific. The negative impacts on the sustainability of enterprises and on the livelihoods of the region's 1.9 billion workers and households will be assessed throughout this report.

Working-hour losses have occurred on a massive scale.

The COVID-19 impact on the labour market was felt first and foremost through the reduction in working hours induced by national lockdown and containment measures. The Asia-Pacific region was the first to feel the sting of the virus in early 2020, and some countries reacted quickly with strict lockdown protocols to prevent further contagion. In the first quarter of 2020, total working hours across the region were already 7.3 per cent below the hours spent on work in the last quarter of 2019 (ILO 2020a). The loss of working hours in the first quarter was equivalent to a loss of 125 million full-time equivalent jobs (based on a 48-hour work week).

Results for the second quarter were significantly worse, with **working hours in Asia and the Pacific estimated to have decreased by 15.2 per cent from fourth quarter 2019**, which translates to a loss of 265 million full-time equivalent jobs. The largest loss in working hours across the world is estimated to have occurred in South Asia (with a decline of 27.3 per cent in the second quarter, equivalent to 170 million full-time jobs).

In Asia and the Pacific, the COVID-19 crisis has led to a gap of 81 million jobs, compared with pre-crisis numbers.

While the preliminary impact of the COVID-19 crisis has been on working-hour reduction, the longer the crisis continues, the harder it is for enterprises to survive while maintaining their full workforces, regardless of the level of government support. Inevitably, job losses will rise. By the second quarter of 2020, compared with the same period in 2019, working-hour losses were associated with falling employment in the majority of countries with available data, with the scale of contraction from 0.1 per cent to 19 per cent. Employment loss ramped up significantly in most of the economies between the first two quarters of the year.

Before 2020, employment in the region followed a steady upward trend, with annual employment growth rates of 0.7–0.9 per cent, which was disrupted sharply by the crisis. Using available Labour Force Survey data and additional input data in a nowcasting model, **the report estimates a resulting jobs gap in 2020 at the regional level of 81 million as a result of the crisis**, distributed as 32 million jobs for women and 49 million jobs for men.¹ This corresponds to a 4.2 per cent decline, compared with the pre-crisis trend for both sexes, a 4.6 per cent decline for female employment and a 4 per cent decline for male employment.

The regional jobs gap in 2020 is largely driven by South Asia, where the 2020 employment estimate is nearly 50 million jobs below the pre-crisis baseline, corresponding to a 7.4 per cent drop. East Asia is estimated to see a gap of 16 million jobs (1.8 per cent below the pre-crisis projection). South-East Asia and the Pacific Islands follow, with estimated 2020 jobs gaps of 14 million (4.3 per cent) and nearly 0.5 million (2.7 per cent), respectively.

Lost working hours brought devastating drops in labour income and increases in the incidence of working poverty.

Wages in many countries have stagnated or declined during the COVID-19 crisis. Overall, labour income is estimated to have declined by as much as 9.9 per cent in the Asia-Pacific region in the first three quarters of 2020, which is equivalent to a 3.4 per cent loss in gross domestic product (ILO 2020a). The estimated loss in labour income (before taking into account income support measures provided through fiscal stimulus packages) is highest in South Asia, at 17.6 per cent, followed by South-East Asia and the Pacific, with a 9.5 per cent decline and East Asia, at 7.2 per cent.

¹ See Annex II for details on the methodology for the preliminary estimates of 2020 employment.

With so many workers on reduced hours or not working at all, there is another human cost to the crisis: increasing poverty. Based on World Bank estimates of increased poverty, the report estimates that **an additional 22 million to 25.4 million persons could be added to the number of working poor (living on less than \$1.90 a day), increasing the working poverty rate by 1 percentage point to an estimated 5 per cent and bringing the working poor total in 2020 to an estimated 94–98 million.** The breakdown by subregion is an additional 4 million to 5.6 million working poor in East Asia and South-East Asia and the Pacific combined and 17.9 million to 19.8 million in South Asia.

Country-level analysis – although limited by data availability – offers important details of the COVID-19 labour market impact, including on population groups most affected.

Accurately assessing the impact that the COVID-19 pandemic is having on labour markets in the region is hampered by the difficulty in accessing data on a timely basis. The most relevant source of comparable labour market information come from Labour Force Surveys run by national statistics offices. Not all countries in the region conduct a Labour Force Survey on a regular basis, let alone monthly or quarterly, as would be best suited to allow for a quick assessment of the crisis' impact on jobs, workers and incomes. This report makes use of the few available quarterly and monthly data files amassed by the International Labour Organization's (ILO) Department of Statistics and uses this to delve deeper into the labour market impact of the crisis. There is an important shortcoming to flag which is the absence of quarterly data leading to the exclusion of Pacific Island countries, South Asian countries beyond Sri Lanka and the regional powerhouses of China and India from the labour market analysis of crisis impact. Nonetheless, much can be gained from the analysis of available economies, as the following highlights.

- ▶ **In all countries with data, the decline in working hours as a result of the crisis exceeded the decline in employment.** Most of the working hours lost has manifested through workers who were asked to work fewer hours per week or to not work at all for a period of time rather than persons moving into unemployment or outside the labour force. For those who have left or lost jobs, there were fivefold more who moved outside of the labour force (inactivity) than to unemployment (among 11 economies).
- ▶ **By second quarter 2020, working hour losses were associated with falling employment in all but three of the 15 economies with available data.** The scale of employment loss from second quarter 2020 and the same period in 2019 ranged from a contraction of 19 per cent in the Philippines to 0.1 per cent in Taiwan (China).
- ▶ The country-level results confirmed that **the sectors that experienced the largest impact in terms of lost production were also the sectors that experienced the largest shares of job loss.** The most impacted sectors include accommodation and food services, manufacturing, wholesale and retail trade, and real estate and business activities. In the Republic of Korea and Thailand, at least half of the employment loss between first and second quarters 2020 accrued to the high-risk sectors. The sectors also experienced high incidences of workers on reduced or zero hours.
- ▶ **The decline in working hours and employment were higher for women than men in most economies in second quarter 2020 over the previous year.** The crisis-induced increase in inactivity was also more female than male, while the increase in unemployment had a stronger male share.
- ▶ **Young people (aged 15–24) have also been disproportionately affected by both working-hour and employment losses:** The youth share in overall employment loss was 3 to 18 times higher than their share in total employment.
- ▶ On average across the available economies, the unemployment rate in the second quarter of 2020 was about 0.8 percentage points over the previous year. In the third quarter, the average unemployment rates increased about 1.3 percentage points over the previous year. Estimating at the regional level, **the 2020 unemployment rate is expected to reach 5.2–5.7 per cent from the 2019 rate of 4.4 per cent.**
- ▶ **Time-related underemployment – defined as working fewer than 35 hours per week but wanting and being available to work more hours – increased significantly during the second and third quarters of 2020.** To illustrate, time-related underemployment in the second quarter surged by 327 per cent in Viet Nam, 254 per cent in Hong Kong (China) and 149 per cent in Thailand.

- ▶ **Informal workers have experienced higher employment loss but fewer hour losses, compared to formal workers, which is a consequence of their limited protection by employment policies.** In Viet Nam, informal workers accounted for 61 per cent of job losses in the second quarter. The reduction in working hours, in contrast, was larger for formal than informal workers over the same period. By the third quarter, formal workers saw the larger decline in employment and working hours alike.
- ▶ **Micro and small enterprises have tended to be the first impacted by the economic consequences of the pandemic but the last to recover as business conditions improve.** In Viet Nam, in the second quarter of 2020, employment decreased year-on-year by 5.6 per cent in micro enterprises and 3.5 per cent in small enterprises compared to 1.5 per cent in medium-sized and large firms.
- ▶ **In the majority of the sample countries, average nominal wages, measured for paid employees, have stagnated or declined, although to varying degrees.** Wage decreases have been especially pronounced in some of the economic sectors most hard hit by the impacts of the pandemic.

Regional fiscal expenditure is not enough to offset the extent of labour market disruption.

Governments in Asia and the Pacific are responding to the needs of workers, enterprises and households arising from the COVID-19 health and economic crises to the best of their abilities. The expansionary fiscal policy response in Asia and the Pacific have been critical for countering the slowdown in economic activity and stemming losses in jobs and working hours. There is some evidence from the analysis of available economies that policies to support enterprises to retain workers, albeit on reduced hours, have worked to prevent what would otherwise be larger job losses.

The composition of fiscal policy packages varies greatly across countries. Especially in the realm of social protection and support to enterprises, countries are doing a great deal. Yet, with advanced economies able to dedicate substantially more funding to their COVID-19 policy response than lower-income economies, inequalities between countries in the region are exacerbated. The fiscal policy package gap by income levels is considerable: The median fiscal expenditure as a share of GDP for the available high-income economies in the Asia-Pacific region is 24 per cent, compared with 7 per cent for the low- and lower-middle-income economies.

Given the scope of the damage to labour markets measured in the employment-loss equivalent of working-hour losses, the overall size of the fiscal response in the region is shown to be insufficient. The fiscal stimulus response (taking the employment equivalent in terms of their output) for the region as a whole equates to an estimated 4 per cent of total working hours in 2019, the baseline from before the onset of the COVID-19 pandemic.² By comparison, an estimated 11 per cent of working hours were lost during the first three quarters of 2020 (average of three quarters) due to the impact of the crisis. The result is a sizable fiscal expenditure gap, with 60 per cent of the employment equivalent of working-hour losses during the first three quarters of 2020 left beyond the reach of the fiscal stimulus package.

Countries can navigate towards recovery with the elements of a human-centred agenda for the future of work.

Labour markets in the Asia-Pacific region are in turmoil. A key challenge faced in many countries in the region is continuing their response to the immediate needs of workers, enterprises and the population at large while at the same time laying the foundation for a sustainable and inclusive recovery. As countries consider what they want a post-COVID-19 future of work to look like and make policy choices accordingly, the hope is that they will take up the opportunity to address the long-term socio-economic weaknesses that have been laid bare in the current crisis. Focusing on a recovery that aims for a **human-centred future of work** can help to shape a fair, inclusive and secure future of work that aligns to the vision of the 2030 Agenda for Sustainable Development.

² The methodology is explained in section 5.1.

The combined effects of the crisis on working-hour and job losses, the increased poverty and the difficulties that countries in the region now confront in creating adequate decent job opportunities are almost certain to push the 2030 Agenda for Sustainable Development out of reach without a redoubling of policy action. But countries have the potential to “think big” in their efforts to revitalize their economies and shape a recovery that reaffirms their commitments to sustainable development and inclusive growth. Governments, workers and employers can collaborate towards a better future of work after the pandemic, in part by promoting action towards the human-centred future of work outlined in the ILO Centenary Declaration and its three areas: (i) increasing investment in people’s capabilities, (ii) increasing investment in the institutions of work and (iii) increasing investment in decent and sustainable work.³

In the decades before the COVID-19 pandemic, many countries in the region lagged in their capacity to bring all workers closer to conditions of decent work despite strong economic growth rates. The lingering decent work deficits, including gender gaps, stubbornly high rates of informal employment and weak labour relations, have dragged on the development trajectories of developing and emerging economies. Additionally, the low levels of investment in labour market institutions, including social protection systems, have left many countries unprepared to stabilize household income levels and ease the impact of the current crisis.

There are lessons to be learned as countries navigate towards recovery. Given the devastation brought to workers and enterprises over the course of the COVID-19 crisis, countries can choose to embrace a path to recovery that bolsters the foundations for a human-centred future of work. Doing so will increase the resilience of economies and put the region on the pathway towards inclusive economic growth, breaking from past weaknesses and emerging from the COVID-19 crisis with a “better normal”.

3 ILO Centenary Declaration for the Future of Work, adopted at the International Labour Conference, 108th Session, Geneva, 21 June 2019.