

## Global Wage Report 2016/17 Asia and Pacific supplement Wages in the Asia and Pacific: Steady, but heterogeneous real growth.

By Regional Economic and Social Analysis Unit (RESA)

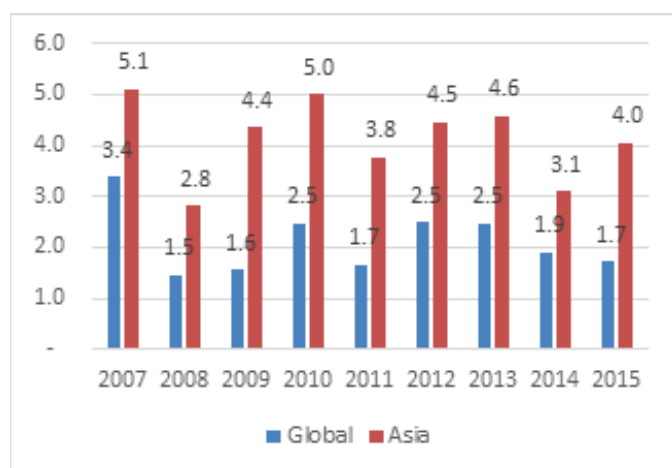
The Global Wage Report of 2016/17 published by the ILO shows a deceleration since 2012, falling from 2.5 per cent to 1.7 percent in 2015. If China, where wage growth was faster than anywhere else, is not included, growth in global wages would dropped from 1.6 per cent to 0.9 per cent.

In much of the period following the 2008-09 financial crisis wage growth was propelled by relatively strong dynamic in developing countries in the different regions. More recently, however, this trend has slowed or reversed.

Somehow surprisingly, in Asia and the Pacific, in spite of the slowdown of Chinese wages growth, average real wage increased in 2015 compared to 2014, as a result of explicit policies to preserve purchasing power of workers in the countries of the region.

This was in a context of a reduced GDP growth due to the slowdown of world trade. Growth in emerging Asia was in 2015 6.6 per cent, one third of the rate of 2010 according to the IMF.

**Figure 1: Growth of average real wages in Asia-Pacific and the world, 2007-15 (per cent)**



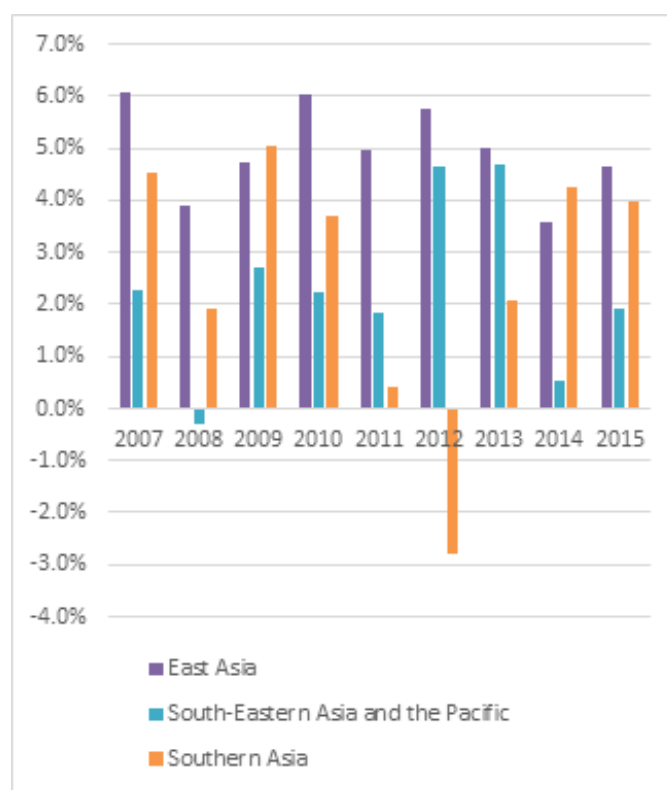
Source: ILO Global Wages Database<sup>1</sup>

Asia shows a growth in average wages that more than doubles the rest of the world, maintaining this pattern that consolidated with the emergence of the financial crisis. This process is connected to the development in social dialogue and minimum wage initiatives in various countries of the region.

## Heterogeneity across sub regions

The growth of average wages in the three sub-regions that cover the Asia and the Pacific office of the ILO shows important differences, sometimes even with opposite directions, such as 2012, when Southern Asia presented a reduction of wage employment, while the other two sub-regions had strong growth.

**Figure 2: Asia and the Pacific Percentage of change in average real wages according sub-region**



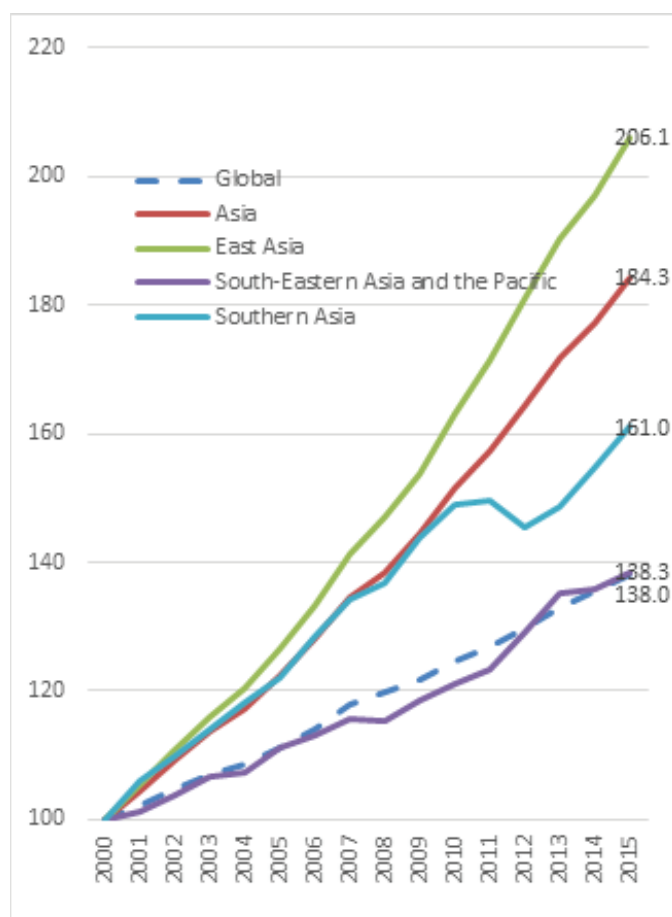
Source: ILO Global Wages Database<sup>2</sup>

During the whole period under consideration, East Asia had the highest increase, while South-Eastern Asia and the Pacific the most modest one, comparable to the global growth (Fig. 3). Southern Asia, that moved with the average of Asia until the emergence of the financial crisis shows the highest volatility moving from very low or negative zones to considerable positive ones.

Using the same base year to calculate the evolution it can be noted how in a longer trend these differential rates of growth accumulate along time reshaping the labour market of countries and the performance of their economies

<sup>1</sup> Differences with the previous Global Wage Report are due to the remapping of the countries of the region. Now Australia, Japan and New Zealand are added to the old Asia mapping.

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**Figure 3: Index of evolution of average wages. Base year 2000=100**

Source: ILO Global Wages Database

## Wage employment continues growing

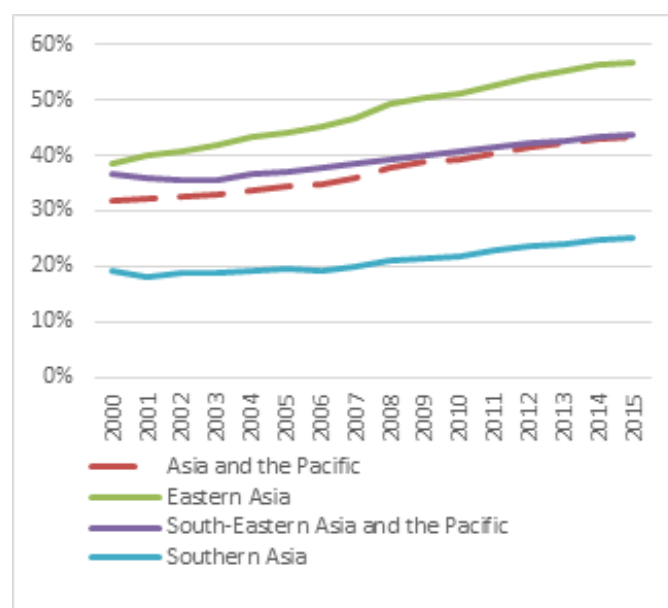
Although not in lineal, the increase in the share of wage earners in relation to total employment is an indicator of the evolution of economies that are transiting from traditional, peasant forms of production for self-consumption, to more market oriented ones. This trend has been steady in the region, although still far from the most industrialized or higher incomes countries. There is conclusive evidence that higher rates of wage employment are also related to higher levels of other social indicators.

From the institutional point of view, increasing wage earners as part of the labour force, induces the relevance of collective bargaining a tripartite level, and more sophisticated forms of social dialogue, something that in the region is achieving significance.

In Eastern Asia, with 57 per cent of the employed labour force as wage earners, the level is even above the average global one of 52 per cent, implying an increase of 18 percentage point since year 2000. Wage earners not only explain the absorption all new entrants in the employment, also an important share of those already working, but in other forms that moved to wage relationships.

South Eastern Asia and the Pacific increased its share of wage earners to 44 per cent, little over the value of the overall of Asia. The trend slightly accelerated after the financial crisis in 2008/09. In 2015 145 million workers of the sub-region, out of 333 million employed are engaged in wage relationships.

In Southern Asia the trend has been almost flat until 2007, when the benchmark of 20 per cent was achieved. Since then, growth has been slightly faster, but still at the very low level of 25 per cent of the total employed.

**Figure 4: Trends in wage employment as share of total**

Source: ILO Global Employment Trends (GET)

## Female participation in wage employment still low in some sub-regions

Another important indicator of the levels of inclusion of labour markets is the share of women in the wage and salaried workers. This shows one part of the gender biases observed in the world of labour:

In Asia as a whole 38 per cent of women are in wage or salaried work, while at world level this share is 40 percent. Participation of women increased since the year 2000 5 percentage points in the region.

In eastern Asia the share went from 37 per cent in the year 2000, to 43 per cent in 2015, again, led by the growth of China. Southeast Asia, that in 2000 was 1 percentage point over Eastern Asia, grew only two percentages point until 2015 when reached 40 per cent.

South Asia shows a very slow path of growth, from 17 per cent to 20 per cent, very well behind the rest of the region. In effect, Southern Asia, that accounts for little over 10 percent of the total wage earners in the global labour market, only contribute with 5 per cent of that, while South-eastern Asia and the Pacific have similar proportions between total and female wage workers. Eastern Asia has a higher share of the total women as wage earners 32.9 per cent in relation to the global total, than the share of aggregate wage earners, which is 30.5 per cent.

**Table 1: Share of women among wage and salaried workers, 2000-15 (Percent of all wage and salaried workers)**

Year	World	Asia and the Pacific	Eastern Europe	South-Eastern Asia and the Pacific	Southern Asia
2000	38	33	37	38	17
2001	38	34	38	38	18
2002	38	34	38	38	18
2003	38	34	38	38	18
2004	38	34	38	38	18
2005	38	34	38	38	18
2006	39	35	39	38	20
2007	39	35	39	39	19
2008	39	36	40	39	20
2009	39	36	41	39	19
2010	39	36	41	39	19
2011	39	37	41	39	19
2012	39	37	42	39	19
2013	40	37	42	40	19
2014	40	38	43	40	20
2015	40	38	43	40	20

Source: ILO Global Wages Database

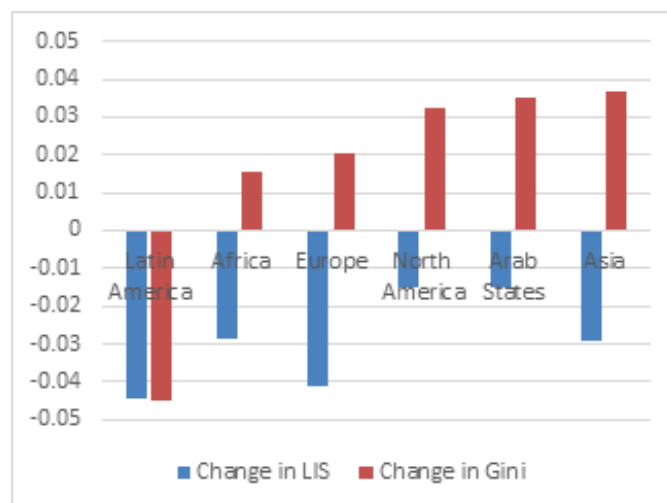
## Inequality in income distribution reflects the falling share of wages in overall GDP

The labour market is the main device that a market economy has in order to socially and personally distribute the social surplus generated in the economy. Obviously, many things depend on the institutional setup that the society has in relation to the bilateral negotiations between employees and employers, as well the more general one that is defined by the state and is related to the taxing system and the public expenditures.

The way in which the results of economic growth are distributed, primarily depend on the share of this income that is appropriated by the owners of factors of production. The so called Labour Income Share (LIS) is the indicator that most clearly shows which share of GDP goes to wages. This is also called "functional distribution of income".

A second order indicator has to do with the way in which this income is distributed among households and/or individuals. This is the personal income distribution. The commonly used indicator to see its evolution is the so called Gini coefficient.

**Figure 5: Change in Labour income share (LIS) and the Gini coefficient between 1995 and 2012 for different regions**



Source: ILO Global Wages Database

The comparison at regional level of the LIS and the Gini coefficient shows that in general, when there is a reduction of the participation of workers in GDP, the other face is an increase in inequality measured by the latter. This happened across the globe, with the exception of Latin America, and the explanation is because the massive programs of social protection and transfers that was implemented during the last decade in the region, almost across the board.

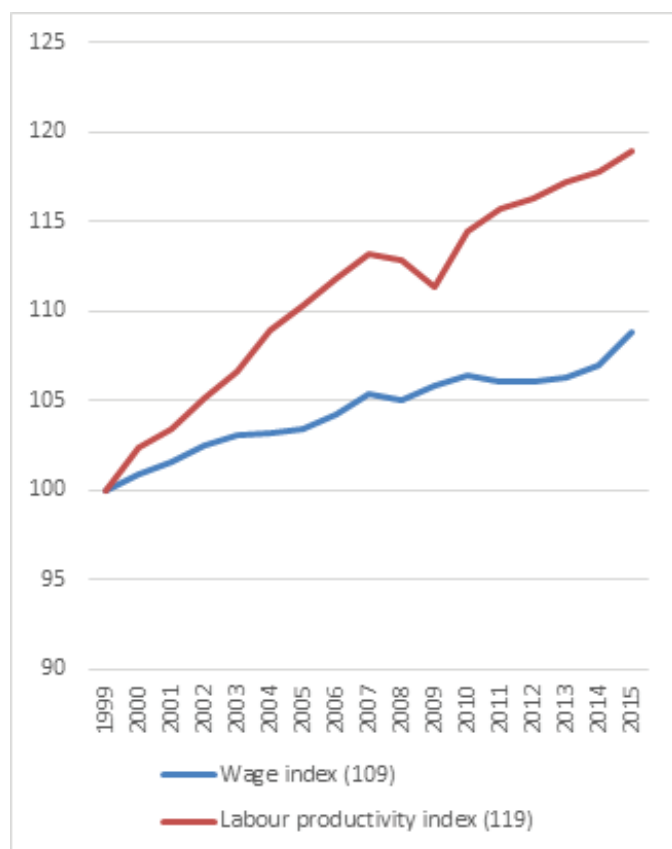
Some authors explain this by the fact that distribution of wages is significantly more equalitarian than the overall distribution of income, hence, a lower participation of wages on the GDP, will increase the Gini coefficient.

But what is clear is that the increase in labour productivity since 2000, as shown in Figure 6, is not correlated with a similar rise in wages.

Very rapidly, until 2009, labour productivity outperformed the increases in real wages, implying an appropriation of a larger share of the income by non-wage earners. If there is an increase in the Gini coefficient at the same time, is because the larger share of incomes goes to higher income groups.

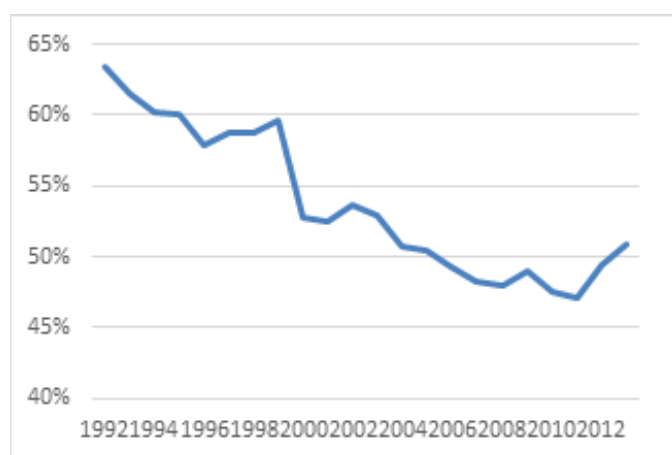
Figure 7 shows the evolution in the case of China, where the share of wages in GDP was similar to higher development countries, but had a sharp decline since. Episodes of recovery are present in 1999, 2002 and 2009, but they lasted just one year. Since 2011 until 2013 –the last point available– the recovery has been steep. This may be a sign of the expansion of the domestic market that China is implementing to counterbalance the reduction in global commerce after the crisis.

**Figure 6: Index of wages and labour productivity Base year 2000=100**



Source: ILO Global Wages Database

**Figure 7: Evolution of labour share in China, 1992-2013 (with revised SNA series)**

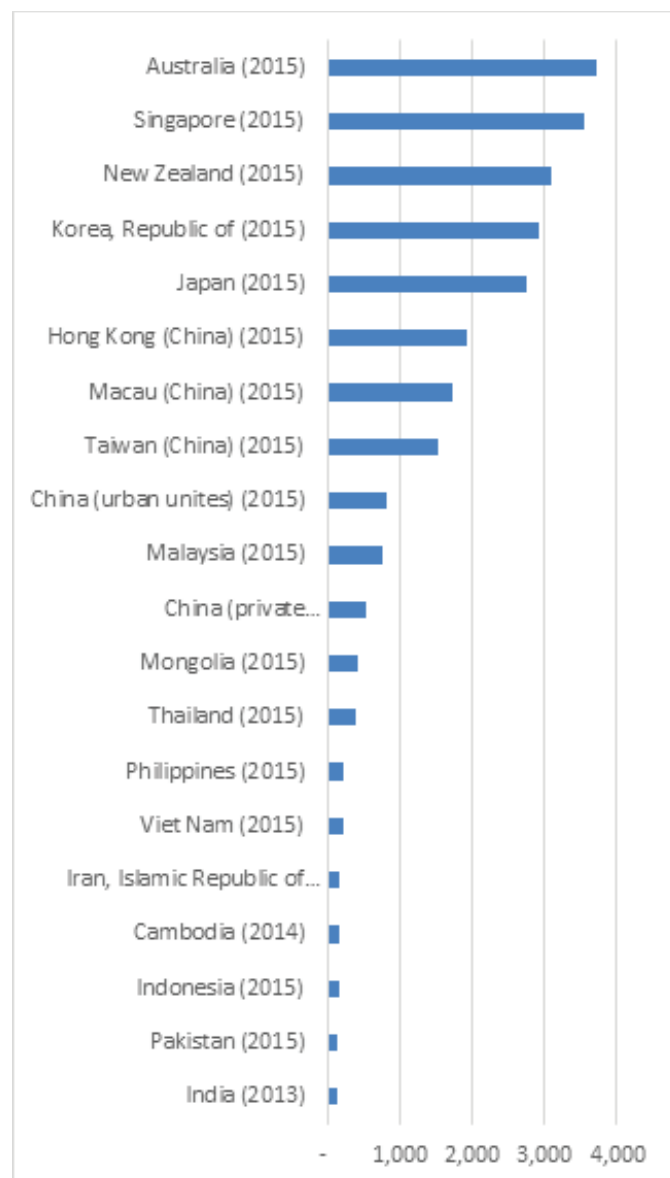


Source: ILO Global Wages Database

## Convergence in wages still far away. Approximation to International comparisons of wages

The comparison of average wages in dollar terms is not a very straight forward indicator, but is an indicator of the inequalities between countries. From the current US\$ 3,715 of Australia or the US\$ 3,558 of Singapore, to the US\$ 143 of India, there is a broad range of countries.

**Figure 5: Average monthly wages countries from Asia and the Pacific with broadly comparable data, 2013 or latest available year (US dollar)\***



Source: ILO Global Wages Database

\* Notes: Survey on wage only cover full-time employees. The exchange rate is using yearly averages for 2015

Most of the emerging economies of the region have average wages of less than US\$ 1,000 equivalent to the actual national exchange rate, with most of them below the US\$ 500. This imposes a high level of competition between countries in order to attract foreign investors, especially in the manufacturing sector.

### Contact:

#### ILO Regional Office Asia and the Pacific

United Nations Building  
Rajdamnern Nok Avenue, Bangkok 10200, Thailand  
Tel.: +66 2 288 1234 | Fax: +66 2 288 3062  
Internet: [www.ilo.org/asia](http://www.ilo.org/asia)  
Email: [BANGKOK@ilo.org](mailto:BANGKOK@ilo.org)  
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