

BALI DECLARATION POLICY BRIEF NO. 10 | 2018 UPDATE

TACKLING INEQUALITIES AND BOOSTING WAGE GROWTH

BALI DECLARATION PRIORITY:

Reversing widening inequalities and the incidence of low-paid work by:

- a) investing in collective bargaining as a wage-fixing mechanism;
- b) building on a minimum wage floor through social dialogue; and
- c) sharing of productivity increases.

The Bali Declaration was adopted at the 16th Asia and Pacific Regional Meeting of the ILO on 9 December 2016. The Declaration serves as a call to action for governments, workers' and employers' organizations in the region to do more to promote inclusive growth, social justice and decent work. This series of Policy Briefs aim to focus attention on the priorities for policies and actions at national level and by the ILO as defined in the Declaration.

Over the past decade, wage growth in Asia and the Pacific has outperformed most of the world yet rising inequality shows the benefits of growth are not equitably shared.

If countries want to promote shared prosperity with rising incomes for all, and to build inclusive societies, then there is a need to address distributional issues, aiming to ensure that a fair share of the gains of growth reaches all workers. Linking wages to productivity ensures that while enterprises can increase their operating surplus in line with productivity growth, workers benefit from economic growth in the form of increased purchasing power of wages. This in turn can boost domestic demand, and support stronger, more balanced, sustainable and more inclusive growth – key ingredients of the 2030 Sustainable Development Goals (SDGs).

Sound, evidence-based wage-setting institutions can make important contributions to both economic success and equitable society. To this end, concerted efforts are needed to strengthen labour market institutions such as minimum wage-setting and collective bargaining. Such measures are crucial in advancing the 2030 Agenda and making progress towards SDG 8 (“promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”) and SDG 10 (“reduce inequalities”).



If too many people in any society feel that they are being left behind, there is a strong chance that disruptive forces will undermine growth and destabilize social and political harmony. There's still time to make globalization work for all. Let's start by fixing wage inequality.

– Guy Ryder, ILO Director-General

DEFINING THE CHALLENGE

Between 2006 and 2017, workers in Asia and the Pacific have enjoyed the highest real wage growth among all regions, with countries such as China, India, Thailand and Viet Nam leading the way. However, even here wage growth in 2017 was lower than in 2016, falling by a considerable margin of 1.3 percentage points (ILO, 2018c).

Despite the continued, albeit recently slowed, growth in real wages, income inequality in the region is growing. ESCAP (2018) reports that the region's average level of the Gini coefficient has increased by over 5 percentage points in the last 20 years, contrary to inequality trends in other regions. Not all countries in the region are marked by rising income inequality, but certainly most of the high-income economies and some of the larger middle-income economies such as China, India and Indonesia have shown increases in the Gini coefficient as well as the Palma ratio, which examines the share of income held by the bottom 40 per cent over the top 10 per cent (ILO, 2018a).

Rising inequality despite economic, labour productivity and real wage growth means that the value of labour in total GDP has declined. In many countries in the region, data shows a decline in the labour income share. This means that profits, rents and other income from capital increase at a faster pace than compensations towards labour. ILO (2016a) explained the declining labour income share as a reflection of shifts

from labour-intensive to more capital-intensive sectors, including movements towards medium and high technology manufacturing within industries and increases in real estate and financial services. Other factors behind the declining labour share include the internationalization of financial markets, globalization of international trade and weak labour market institutions for collective bargaining.

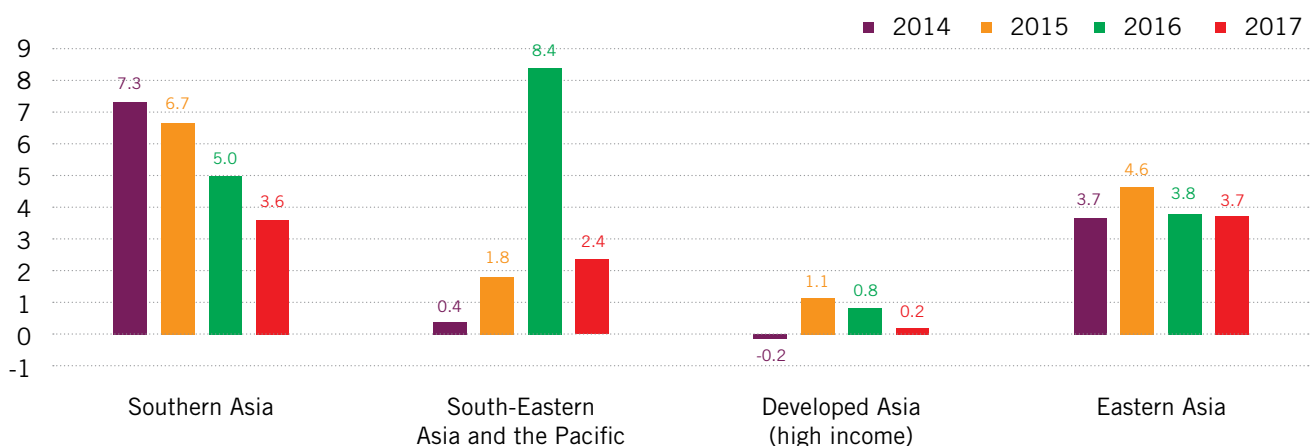
Inequality trends also reflect the continuing overabundance of workers engaged in low-paid, informal and vulnerable employment in the region. The share of workers in wage employment has increased steadily in the Asia-Pacific region, yet still a 930 million women and men were engaged as an own-account worker or contributing family worker in 2017 (ILO, 2018a). With still 48.6 per cent of workers in vulnerable employment in the region in 2017, it becomes clear that the gains of economic and productivity growth for the region have not been equitably distributed. In addition, there are marked disparities between urban and rural areas, between youth and adults and between men and women.

The two main wage policy tools are minimum wage setting and collective bargaining. Most economies in Asia and the Pacific have established minimum wage fixing systems (around 90 per cent of the region's ILO member States) and actively use them to combat low-pay and working poverty. Still, minimum wage coverage is not universal across countries, and where it does exist, segments of the working population are excluded (e.g. domestic workers, rural workers or the self-employed) and issues of non-compliance continue. Non-compliance has obvious negative consequences for the living standards of workers and their families. Moreover, it can also negatively affect compliant employers. In a study on compliance of minimum wages in the garment sector, Cowgill and Huynh (2016) found that non-compliance rates in the sector ranged from 6.6 per cent of garment workers in Viet Nam to 53.3 per cent in the Philippines.

Collective bargaining coverage – defined as the proportion of employees whose pay and conditions are determined by collective agreements – remains low in the region, which can also explain the declining wage share. In developing

AVERAGE REAL WAGE GROWTH IN ASIA AND THE PACIFIC IS SLOWING

Real wage change by Asia-Pacific subregion (%)



Asia, collective bargaining coverage ranges from just 1–2 per cent in Malaysia and the Philippines, through 5–6 per cent in Bangladesh and India, to 10 per cent in Indonesia (ILO, 2016b).

AREAS OF ACTION AND LESSONS LEARNED

If countries want to create shared prosperity, with rising incomes for all, and to build inclusive societies, they must address the twin challenges of laying the foundation for sustainable wage rises in the future and ensuring that all workers get a fair share of the fruits of growth. The objective is now well-reflected in target 10.4.1 of the SDGs to increase the labour share of GDP.

Recent evidence shows that the combination of dynamic collective bargaining and minimum wage setting schemas that take into account the needs of workers and their families as well as economic factors can raise the wages of low-paid workers—many of whom are women—without significant negative effects on jobs (ILO, 2016a). A number of countries in the region such as Australia, China, Japan, Indonesia, Republic of Korea, Cambodia, Lao People’s Democratic Republic, Malaysia, Myanmar, Viet Nam, and Philippines, among others, rely on tripartite consultations and decision-making to establish national minimum wages. In order to balance the concerns around minimum wage fixing potentially crowding out wage fixing through collective bargaining, it is important to maintain a healthy balance between statutory minimum wage fixing and collective bargaining. Some successful initiatives in the region include:

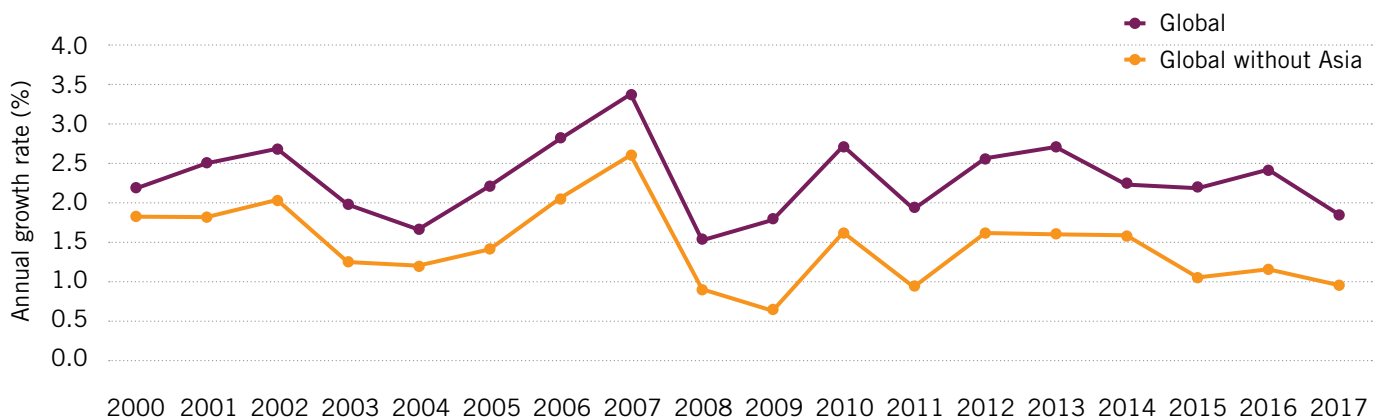
- In Malaysia, the role of wages has been central in the overall development strategy of the country in its goal to become a high-income economy. In the 11th Malaysia Plan the goals of increasing the labour income share and the income levels of the bottom 40 per cent are explicit. In addition, Malaysia is the first country in the Association of Southeast Asian Nations (ASEAN) that ratified the

Minimum Wage Fixing Convention, 1970 (No. 131). Furthermore, from January 2019, the minimum wage will be unified in one single national rate, abandoning the previous regional division.

- In Cambodia, the government enacted a new Minimum Wage Law, expanding its coverage beyond the garment sector. The new law will go into effect from 2019.
- In 2018, both Pakistan and Nepal raised their minimum wage rates relatively higher than other South Asian countries. The increase made at national and provincial levels respectively meant a positive rise in terms of international dollars (PPP). Both countries are working to strengthen their technical capacity with use of evidence-based information on their minimum wage fixation analysis.
- The ILO’s *India Wage Report* (ILO, 2018b) has provided substantial backing to enhance the discussion of minimum wage policy in India; the 2017 wage code bill still awaits approval from Parliament.
- In May 2018, the Myanmar government announced a new daily minimum wage of K4,800 for workers, following from the successful introduction of the landmark first national minimum wage in 2015.

Among the lessons learned when it comes to success in minimum wage policy is that the complexity of wage systems matters. The recent ILO India Wage Report (ILO, 2018b) noted that the country has as many as 1,709 different minimum rate rates applied across the country, with exclusions applying to numerous categories of workers. The result is that still an approximate 62 million workers in the country are paid less than the indicative national minimum wage. Another regional study on compliance of minimum wages in the garment sector, finds that countries with simpler minimum wage systems – Viet Nam and Cambodia, for example – have lower rates of non-compliance compared to countries with more complex systems (Cowgill and Huynh, 2016).

REAL WAGE GROWTH AT THE GLOBAL LEVEL IS STILL CLOSELY LINKED TO GAINS IN ASIA



Source: ILO Global Wage Report 2018/19 (ILO, 2018c).

WHERE DO WE GO FROM HERE?

To assist governments, employers' and workers' organizations to navigate the practical issues of minimum wage setting, the ILO recently launched its Minimum Wage Policy Guide, available on website: www.ilo.org/minimumwage. The ILO is currently involved with many countries in building the capacity of wage-setting institutions. Certain initiatives placed under the realm of global supply chains and social dialogue are discussed in respective thematic Bali Declaration Policy Briefs 8 and 11. Likewise, ILO initiatives that aim to raise productivity and wages among the working poor, thus influencing inequality trends, are listed in Policy Brief 2.

A section of the recent *Asia-Pacific Employment and Social Outlook 2018: Advancing decent work for sustainable development* (ILO, 2018a) was dedicated to showcasing how wage policy can serve as a cross-cutting "catalyzing" element for accelerating progress towards sustainable development.

Some recent events

The ILO released the *India Wage Report* in 2018 (ILO, 2018b). The report provides an overview of recent trends in wages, including information on wage gaps and inequality, and addresses the role of labour market institutions, particularly minimum wages and collective bargaining, play in driving wage trends. The report also discusses the key challenges with respects to implementation of effective wage policies in India, and also suggests some mechanisms for making improvements.

In August 2018, the ILO, in collaboration with the V.V. Giri National Labour Institute, Government of India, held a workshop on designing and implementing effective wage policies for tripartite constituents in South Asia. The aim of the workshop was to improve understanding of the impacts of effective minimum wage policies and strengthen the capacity of constituents and policymakers to design and implement effective wage policies.

In July 2018, a workshop titled "Tripartite Dialogue for Promoting Effective Implementation of Collective Bargaining in Oil Palm Sector in Medan" was held in Indonesia, with the aim to promote good-faith collective bargaining among social partners and key stakeholders in Medan's oil palm sector.



[D]eciding something as complex as the minimum wage through tripartite social dialogue is a positive step in building a new democratic culture in Myanmar.

– Rory Mungoven, Director,
ILO Liaison Office in Myanmar

LABOUR INCOME SHARES ARE DECLINING OR STAGNANT IN MANY ASIAN-PACIFIC ECONOMIES



Source: Penn World Tables, version 9.0; <https://www.rug.nl/ggdc/productivity/pwt/> [accessed August 2018].

Useful references:

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