

What's ahead for wages in Asia Pacific?

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The International Labour Organization's first report on wages worldwide, the "Global Wage Report 2008/9: Minimum wages and collective bargaining – Towards policy coherence"* has found that while wages have grown in the Asia Pacific region they seem to have lagged behind economic and productivity growth. Inequality has also been on the rise and there hasn't been much progress in closing the gap in pay between women and men. Low coverage of collective bargaining remains a challenge, and the current minimum wage systems leave much room for improvement.

Asia and the Pacific, with the strong influence of China, witnessed relatively solid global economic growth until 2007. The share of people in waged employment (as opposed to working informally or self employed) increased considerably; in East Asia it reached 42.6 per cent in 2006, although this is still below the global average of 46.9 per cent.

This economic growth was accompanied by positive growth in real wages. Between 2001 and 2007 real wages grew at an estimated 1.7 per cent per year (the estimated global average was 1.9 per cent). But although wages grew they still tended to lag behind economic growth. Growth of one percent in GDP per capita in Asia Pacific produced an increase in average wages of only 0.68 per cent. This so-called wage elasticity indicates that increases in labour productivity were not fully reflected in wage rises. Interestingly, this recent decline in the wage share has also tended to be accompanied by a weakened link between economic growth and new job creation

The impact of collective bargaining on wages in Asia Pacific remains very limited. In the overwhelming majority of countries in the region, the proportion of the workforce covered by collective bargaining agreements is less than 15 per cent. In fact the Global Wage Report found that when more workers are covered by such agreements, wage elasticity is higher and economic growth and wage increases are more closely linked.

The relative weakness of collective bargaining has been reflected in the increasing importance attached to minimum wages. Some countries such as China and Viet Nam have witnessed minimum wages growing at more than 8 per cent per year (in real terms), whereas in other countries, such as Thailand, minimum wages actually fell. In some other cases such as India and Pakistan, the minimum wage systems have not functioned as intended.

Asia Pacific was once praised for the way its sustained growth was successfully reducing inequalities. However, this is no longer the case. Most countries in the region for which data is available have seen an increase in wage inequality – the gap between the highest and lowest paid - particularly in China, the Republic of Korea, and Thailand.

The region's gender pay gap has narrowed, but only very slowly. In a majority of countries women's wages average 70 to 90 per cent of men's wages, but it is not uncommon in parts of Asia to find much lower ratios, with women receiving as little as half the wages of their male counterparts.

The outlook for 2008-9 is not bright, particularly in the wake of the global economic downturn. Very difficult times lie ahead for many workers. The report predicts that average real wage growth in Asia Pacific is unlikely to exceed 1.0 per cent (lower than the global estimate of 1.1 per cent), and wages may actually fall in countries with low economic growth. In addition, higher prices threaten to erode the value of earnings, particularly for the low-paid. Consequently, tensions are likely to intensify over wages, and the workplace may become more vulnerable to wage-related disputes, compounded by the pressure of job cuts.

What can be done? The scale of challenge is huge and there is no easy solution. Much of the public debate (led by central banks and international financial institutions) has been tightly focused on keeping wage increases low to avoid a wage-price spiral or to overcome economic recession. While this is important, it should be embedded in the broader policy objective of maintaining people's purchasing power in the face of difficult economic circumstances.

Firstly, workers and employers organizations' should be encouraged to negotiate. The share of workers wages in GDP has been falling while the returns on capital have been rising. This pattern of rising inequality cannot continue.

Secondly, minimum wage levels should be increased wherever possible to protect the most vulnerable workers.

Thirdly, minimum wages and wage bargaining should be complemented by income support measures, such as food subsidies and cash transfers.

* ILO, Global Wage Report 2008/9: Minimum wages and collective bargaining – Towards policy coherence , Geneva. Available at: www.ilo.org/travail