Overview

The uncertain global economy and demographic transitions are challenging labour markets in Asia and the Pacific. The economic slowdown in China and India, coupled with continued sluggishness in the Eurozone, are weighing on the region’s labour market prospects. Employment growth in most economies has decelerated and, for the region’s young jobseekers, finding decent work remains a particular challenge. Progress towards improving working conditions has been mixed, and the persistence of poor quality jobs remains an obstacle to achieving the 2015 Millennium Development Goal on poverty reduction.

Income inequality, already high, has been rising in many parts of the region, an alarming trend that could undermine economic and social progress. Consequently, addressing key labour market deficits is critical. There is a need for policies that focus on boosting demand to create more jobs, improving access to better quality employment, strengthening labour market institutions, and building robust social protection systems.1

Modest employment gains overall, but contraction in some economies

Employment growth across the region was generally moderate in 2014, with differences shaped by variations in economic trends and demographic pressures (see figure 1). Among developing economies, the pace of employment expansion exceeded 2 per cent only in the Philippines, spurred by demand in construction, trade, and accommodation services. In Malaysia, employment expanded by 2 per cent, driving down unemployment and easing concerns about possible negative effects of the recently introduced minimum wage.

Figure 1. Change in employment, latest available period in 2014 (000s and %, year-on-year)

Note: Non-seasonally adjusted; ages 15+ except Macau, China (ages 16+); the Philippines excludes the province of Leyte; People’s Republic of China, India and the Pacific Island Countries are not included due to a lack of recent data.

Source: ILO estimates based on labour force survey data from national statistical offices.
In Indonesia employment increased by nearly 1.9 million (1.7 per cent), with the largest gains in construction and trade. In Viet Nam, industry and construction were primarily responsible for modest job growth of 0.8 per cent.

By contrast, in Thailand employment contracted by 691,000, reflecting a sluggish economy and a notable decline in the number of men working in agriculture and construction. In Sri Lanka, weak demand in agriculture coupled with a structural shift towards services resulted in a slight overall decrease in employment.

In the industrialized economies employment growth rates varied, but were mostly lower than in 2013. In New Zealand and Singapore, employment increased by 3.1 per cent and 3.8 per cent respectively, helped by strong demand in the construction sector.

In Australia, Hong Kong (China), the Republic of Korea and Taiwan (China) job gains ranged from 1.1 to 1.7 per cent. Meanwhile, employment growth in Japan was flat, a trend shaped by the country’s ageing and shrinking labour force.

**Overall unemployment remains low, but finding decent jobs is a challenge for young people**

Unemployment remained relatively low across the region overall. In nine of 13 economies with 2014 figures, the general unemployment rate was less than 5 per cent. The exceptions include Australia (5.9 per cent in November), Indonesia (5.9 per cent in August), New Zealand (5.4 per cent in September) and the Philippines (6 per cent in October).

For the region’s young jobseekers, however, finding decent jobs remains a major concern (see figure 2). Youth unemployment exceeded 10 per cent in nearly half of the 13 economies with recent official estimates, and was typically 2-3 times the general unemployment rate.

For example, in Sri Lanka 19.5 per cent of young people in the labour force were unemployed; and the situation for young women was even more alarming (26.3 per cent). Likewise in Indonesia and the Philippines, youth unemployment was around 14-19 per cent, although this is partly a result of considerable growth in the youth labour force.

Among the industrialized economies, some progress was made, with falling youth unemployment rates recorded. In New Zealand, for instance, youth unemployment of 13.4 per cent reflects a year-on-year decrease of 2.5 percentage points, and was driven in particular by robust employment gains among those aged 15-19. Similarly, youth unemployment in Hong Kong (China) and Taiwan (China) fell by nearly 1 percentage point.

For young women and men in the Pacific Island countries, the unemployment challenge is pervasive also. For example, in Samoa unemployment among young people aged 15 to 24 was 19.1 per cent, with the rate nearly 10 percentage points higher for young women (25.3 per cent) than for young men (15.6 per cent).

While unemployment remains a major concern, the low quality of employment is an even greater problem for youth. With a difficult school-to-work transition, too many young people are taking up insecure jobs. In some developing Asia-Pacific economies, few youth have written employment contracts or access to essential benefits like paid sick leave and social security coverage.

The youth employment challenge is shaped by a number of causes. Many young people lack the technical skills, business knowledge and financial resources to become entrepreneurs. Another key factor is the mismatch between education, the requirements of employers and youth aspirations. In China, for example, unemployment among recent graduates was 8.6 per cent in 2013, and fewer than half of employed graduates expressed satisfaction with their current job.
Uneven progress on improving job quality

Poor quality employment is widespread in the developing economies of Asia and the Pacific, and is reflected in the high numbers of workers in vulnerable employment (measured as own-account and contributing family workers). The persistence of vulnerable employment presents a key obstacle to the full achievement of the 2015 Millennium Development Goal on poverty reduction. Own-account and contributing family workers are less likely to have decent earnings, formal work arrangements and access to social protection, which are all critical components of boosting living standards.

Vulnerable employment in the Asia-Pacific region totalled more than 1 billion (or 3 in 5 workers) in 2014.6 Looked at by sub-region, the vulnerable employment rate was highest in South Asia (3 in 4 workers). In East Asia the ratio was less than 1 in 2 and in South-East Asia and the Pacific around 3 in 5.

Recent estimates from the region’s developing economies show that progress in reducing vulnerable employment varied (see figure 3). In Sri Lanka and Thailand the vulnerable employment rate declined by 2.4 percentage points and 4.6 percentage points respectively, helped by a contraction in agricultural employment. However, the share of vulnerable employment dipped only slightly in Indonesia and was stagnant in the Philippines and Viet Nam.

Women are more likely than men to be in these types of vulnerable jobs, predominantly as contributing family workers. At the regional level, the male-female difference means that the rate of women in vulnerable employment was around 7 percentage points higher than for men. In some economies, however, the gap is significantly greater. In Bhutan, Nepal and Pakistan, the difference was around 20 percentage points or more.7 Likewise, in Cambodia, Timor-Leste and Viet Nam the gender gap exceeded 10 percentage points.

Figure 2. Youth unemployment rate, latest available period in 2014 and same period in 2013 (%)

Note: Ages 15-24 except Macau, China (ages 16-24) and Singapore (Residents ages 15-29); the Philippines excludes the province of Leyte.

Source: ILO estimates based on labour force survey data from national statistical offices.
Figure 3. Share of own-account and contributing family workers in total employment, latest available period in 2014 and same period in 2013 (%)

**Note:** Ages 15+; the Philippines excludes the province of Leyte.

**Source:** ILO estimates based on labour force survey data from national statistical offices.
High and rising inequality calls for stronger labour market policies

Inequality is another key challenge in Asia and the Pacific. In recent decades income disparity trends in the region have been mixed. Of the countries for which data is available, half experienced an increase in inequality (see figure 4, panel A). Looking at those countries with a Gini coefficient of 40 or higher, income disparities remained relatively unchanged in Malaysia and the Philippines. In China income inequality increased substantially between 1990 and 2010, by 9.6 points.

In four of the six countries where the Gini coefficient ranges from 35 to 39, income disparities widened in the past 20 or so years. In Indonesia and Lao PDR the Gini coefficient rose 6.4 points and 5.8 points, respectively. In Sri Lanka and Mongolia, the increase ranged from 3 to 4 points. By contrast, in Viet Nam the income gap remained constant and in Thailand there has been a sizeable decrease in income inequality, from 45.3 points to 39.5 points.

Among countries with less pronounced inequalities (measured as Gini coefficients of less than 35), disparities have risen in Bangladesh and India. However, income gaps narrowed in Cambodia (-6.5 points), Pakistan (-3.6 points) and Nepal (-3.1 points).

What is more, the ratio of the income share held by the richest and poorest 10 per cent of the population – the decile dispersion ratio – further suggests that the income gap has worsened in a slight majority of countries with comparable data (see figure 4, panel B). Notably, China experienced the greatest increase (10.5 points), followed by Lao PDR (2.8 points) and Indonesia (2.5 points). However, some countries have made progress. The decile ratio decreased 3.8 points in Thailand and 2.3 points in Cambodia, while smaller decreases were seen in Malaysia, Nepal, Pakistan, and Philippines. To some extent, these shifts mirror trends in wages. In many countries the wages of those at the top have risen substantially while those of the lowest earners remained relatively unchanged.

Another telling indicator of inequality is the functional distribution of national income, or the distribution between wages (income from labour) and profits (income from capital). This metric provides insight on wage earners relative to those who accrue income from capital ownership, such as financial assets or productive equipment. In the Asia-Pacific region, available data suggests that in some countries there has been a decline in the share of national income that goes to wages.

In China, the labour share fell from 52.7 per cent in 2000 to 49.4 per cent in 2012. Likewise, the labour share in India decreased from 31.4 per cent in 2000 to 29.5 per cent in 2011. In Vanuatu, the labour share dropped significantly from 55.4 per cent in 2003 to 45.1 per cent in 2012. In comparison, after fluctuating in the early 2000s, the labour share in the Philippines declined nearly 2 percentage points to 22.2 per cent between 2009 and 2012. By contrast, the labour share in Sri Lanka increased considerably from 46.3 per cent in 2000 to 54.0 per cent in 2012.

High and increasing inequality has been driven by a number of factors. First, the region has undergone significant structural change, moving to higher productivity industries. Agricultural employment has been declining, offset by the rising significance of the industrial and services sectors. This creates high adjustment costs for those who lack the skills required and so are unable to find productive employment. In addition, sectoral shifts and the move towards technology-intensive activities can increase the premium paid for higher-level technical skills, through increased relative productivity, so exacerbating wage gaps.

This structural change has also been accelerated by increasing integration in the global economy. Trade and investment liberalization can cause shifts in employment demand and wages across sectors and skill levels. Consequently, deeper integration can reinforce existing labour market challenges and create further inequality between...
workers, unless appropriate policies are introduced to balance these trends. Closer financial integration can make economies more vulnerable to external shocks. These tend to disproportionately affect the poor, particularly in countries where social protection systems are not robust.

Figure 4. Change in income inequality, earliest year in 1990s and latest available year
Panel A. Gini coefficient

Panel B. Ratio of income share held by the top and bottom deciles

Note: * denotes an increase in the inequality indicator since the early 1990s.
Throughout Asia and the Pacific, countries are increasingly recognizing the importance of shared prosperity and inclusive growth and are reflecting this in their national development plans. China’s 12th Five-Year Plan (2011-2015) stresses improving lives and social harmony as the fundamental aim of economic growth. It also calls for strengthening of the social welfare system, prioritizing job creation and improving income distribution. The Sri Lanka Mahinda Chintana 2006-2016 Development Framework says the goal is to share the benefits of growth across all segments of the population. The Philippines Development Plan 2011-2016 Midterm Update seeks to ensure growth is inclusive, leads to productive job creation and contributes to multidimensional poverty reduction. Similarly, Papua New Guinea’s Development Strategic Plan 2010-2030 reflects the Vision 2050 of a fair and equitable distribution of development benefits to all citizens.

Labour market and social policies are crucial for the achievement of these inclusive growth goals. Countries have acknowledged the importance of sound wage-setting institutions in creating shared prosperity. Wage increases in line with productivity gains could boost household consumption and domestic demand which in turn would help to re-balance the drivers of growth. For instance, in 2013, Malaysia introduced a new national minimum wage in an effort to more closely align wages and productivity. Thailand increased its minimum wage in 2012/13, and this has led to strong wage growth of more than 5 per cent annually in the past two years.\(^1\)

Policies to enhance skills and improve access to better jobs are also key to achieving inclusive growth. In Indonesia, the School Operational Assistance programme (which covers about 70 per cent of all students in the country) provides grants to primary and lower secondary schools on a per-student basis, allowing investments tailored to specific school needs.\(^2\) Likewise, mobile teachers in the Lao People’s Democratic Republic have reached out-of-school children in remote villages in an effort to universalize access to primary education.\(^3\) In Mongolia, the National Council on Policy and Coordination of Vocational Training was established to support skills development in line with industry demands and facilitate the school-to-work transition of young people.\(^4\) Viet Nam is implementing a vocational training scheme that aims to tackle rural poverty and will target more than a million rural workers per year until 2020.\(^5\)

Strengthening social protection can also support equitable development. Since 2006 the Mahatma Ghandi National Rural Employment Guarantee Act (MGNREGA) in India has provided up to 100 work days a year to 45 million rural households.\(^6\) In Bangladesh public work programmes such as the Rural Infrastructure Reform Programme help mitigate seasonal unemployment in rural areas.\(^7\) In the Republic of Korea the unemployment benefit scheme allows unemployed workers to maintain a minimum standard of living for a limited period of time and advance their education while searching for employment.\(^8\) Fiji’s Poverty Benefit Scheme provides non-contributory cash transfers to the poorest 10 per cent of the population, on condition that members take part in skills training and income-generating activities or look for employment.\(^9\)

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\(^1\) ILO: Wages in Asia and the Pacific: Dynamic but uneven progress, op. cit.
\(^2\) Opening the door to education for a generation of young Indonesians, World Bank, 2012.
\(^6\) ILO: Wages in Asia and the Pacific: Dynamic but uneven progress, op. cit.
\(^8\) ADB: The Social Protection Index: Assessing results for Asia and the Pacific (Manila, 2013).
Productivity gains in Asia and the Pacific have often outstripped wage increases and this has contributed to rising inequality in the functional distribution of income in many countries. The gap is frequently attributed to increased capital intensity but this is not always the case. For instance, Thailand’s manufacturing data suggests that despite a falling labour share, the sector has become less capital-intensive. More often the gap between growth in productivity and growth in wages can be explained by weak labour market institutions and wage-setting systems.

Finally, many countries in the region are experiencing significant demographic transitions. In rapidly ageing societies such as China, Singapore and Thailand, rising dependency ratios can contribute to wider disparities in the absence of well-functioning pension systems. For example, Thailand is projected to have approximately 36 elderly persons (ages 65+) for every 100 working-age people (ages 15 to 64) in 2035; that is more than three times the ratio in 2010, although pension coverage is not yet universal. This may also lead to increasing pressure on women to take on care activities in the home and withdraw from the labour market, so exacerbating gender-based disparities.

Addressing these challenges requires concerted policy action on a number of fronts. To promote inclusive growth and shared prosperity integrated policies, based on tripartite dialogue, are necessary. These include macroeconomic and employment policies that foster the creation of productive jobs for women and men, relevant education and skills strategies (especially for disadvantaged groups), enhanced social protection systems, and more equitable sharing of the benefits of growth through improved wage-setting institutions (see box 1).

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2 Unemployment figures are based on labour force survey data from national statistical offices.

3 ILO: Samoa Labour Market Update (Suva, Aug. 2014).


6 Regional and sub-regional estimates of vulnerable employment are based on ILO: Trends Econometric Models (Apr. 2014).

7 Estimates of the gender gap in vulnerable employment rates are based on labour force survey data from national statistical offices.

8 ADB and ILO: ASEAN Community 2015: Managing integration for better jobs and shared prosperity (Bangkok, 2014).

9 This definition does not account for the mixed-income character of the self-employed, who earn income from both wages and capital. ILO: Decent Work Indicators: Concepts and definitions (Geneva, 2012).

10 Labour share data from ILO: Wages in Asia and the Pacific: Dynamic but uneven progress (Bangkok, 2014); ILO: Global Wage Database.


12 See ADB and ILO, op. cit.

13 For further discussion on productivity and wages, see: ADB and ILO, op. cit.
