



East Asia Pacific **At Work**

Employment, Enterprise, and Well-being

WORLD BANK EAST ASIA AND PACIFIC
REGIONAL REPORT



THE WORLD BANK

Overview

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East Asia Pacific At Work

Employment, Enterprise,
and Well-being

OVERVIEW



THE WORLD BANK
Washington, D.C.

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Country abbreviations

Several figures in this overview identify the following countries by the 3-letter codes designated by the International Organization for Standardization (ISO).

| | |
|------|---------------------------------------|
| AUS | Australia |
| CHN | China |
| FJI | Fiji |
| FSM | Federated States of Micronesia |
| HKG | Hong Kong SAR, China |
| IDN | Indonesia |
| JPN | Japan |
| KHM | Cambodia |
| KIR | Kiribati |
| KOR | Republic of Korea |
| LAO | Lao People's Democratic Republic |
| MHL | Marshall Islands |
| MYS | Malaysia |
| NZL | New Zealand |
| PHL | Philippines |
| PICs | Pacific Island Countries |
| PLW | Palau |
| PNG | Papua New Guinea |
| PRK | Democratic People's Republic of Korea |
| PYF | French Polynesia |
| SGP | Singapore |
| SLB | Solomon Islands |
| THA | Thailand |
| TLS | Timor-Leste |

Overview

Talent, skills, and the ability to work are people's most important assets. For the majority of people, the value of these assets is realized in the labor market, whether they sell their time to others or pursue their own enterprise. For the vast majority, work is the channel through which the benefits of economic growth spread and living standards improve. This has been demonstrated dramatically since 1990, as the share of the world's population living in poverty has declined by half. The prospects of working people in East Asia Pacific countries are better than those of many living elsewhere. The flow of goods and services within the region, integration with the global economy, price stability, rule of law, and relatively unfettered markets all foster opportunities for advancement through work that people in other regions regard with envy. In the countries of East Asia Pacific, work has brought more people out of poverty and closer to middle-class prosperity faster during the past three decades than in any other place and at any other time.

Nevertheless, working people in many parts of East Asia Pacific feel some of the same pressures and face some of the same challenges

as their peers elsewhere. The region has the second highest share of workers outside of wage and salaried employment and consequently beyond the reach of most forms of regulation and formal protection. In this regard, the countries of East Asia Pacific are surpassed only by countries in Sub-Saharan Africa. In some East Asia Pacific countries, youth inactivity and unemployment are growing problems, most starkly apparent in Indonesia, the Philippines, and the Pacific island countries. As rising indices of inequality in several East Asia Pacific countries indicate, these challenges are starting to threaten the viability of work as a means of advancement and a channel through which economic growth can be shared broadly. In addition, after more than two decades of rapid development, the region is beginning to experience moderating economic growth, often coupled with lagging productivity and slower gains in living standards than people have grown accustomed to. Not surprisingly, governments across the region are beginning to hear louder and more frequent calls for action to sustain the well-being*—that is, the individual and social gains—that people can expect from their work.

*Economists are more familiar and comfortable with the term “welfare.” Although “welfare” and “well-being” are synonyms, the latter is more typically associated with safety or psychological comfort than

East Asia Pacific At Work examines the changing world of work in a diverse, dynamic region and proposes how policy can support inclusive growth by creating a more enabling environment for working people. The report is motivated by and benefits from the spotlight shone on work and development by the *World Development Report 2013: Jobs* (henceforth WDR 2013; World Bank 2012b). Like the WDR 2013, this report is about a much broader variety of working forms than is typically understood by the word “jobs,” including farm employment, unpaid family work in household market enterprises, self-employment, and casual labor. We use the more inclusive term “work” instead of “jobs” throughout this report to reflect a broader range of market activities than just full-time, salaried employment. We apply the conceptual and analytical tools presented in the WDR 2013 to East Asia Pacific countries in order to draw additional inferences and guidance for policy makers in the region.

This report adds value to the discussion initiated by the WDR 2013 in three specific ways. First, it grapples with issues that are of greatest urgency in the countries of East Asia Pacific. The economic and demographic changes in this region, as well as its nascent engagement in labor and social protection policies, affect the demand for and supply of work in ways that are distinct from those in countries elsewhere. Second, the report contributes to what is still a relatively small body of empirical evidence showing the impact of policies on employment in East Asia Pacific and proposing options for reform. With some notable exceptions (Betcherman and Islam 2001), there are still fewer policy reports on labor markets, work, and development with a regional scope in East Asia Pacific than in Europe, Latin America and the Caribbean, the Middle East

and North Africa, or South Asia. Third, in covering geography that extends from China to Tuvalu, the report takes closer account of the region’s diversity. East Asia Pacific countries differ considerably in their size, natural endowments, demography, political institutions, and stage of economic development. In several countries, most people still live in rural areas and work in subsistence or small-scale agriculture; in others, rapid rural-urban migration has been taking place. In several East Asian countries, urbanization is already well advanced, and an ever-growing concentration of working people in cities is creating pressure on governments to broaden social protection and bring more economic activity into the regulated “formal” economy. In many parts of the region, the labor force is aging, particularly in the most populous countries—China, Indonesia, Thailand, and Vietnam. In contrast, the labor force in most of the Pacific island countries is still very young, but the small size and remoteness of these countries present a host of unique challenges to work as an effective channel of development.

Appreciating the exceptional diversity of East Asia Pacific is essential to understanding the challenges to sustaining the gains from work and to crafting policies to address these challenges. Using the diagnostic tools presented in the WDR 2013 to examine country-, firm-, and household-level data from East Asia Pacific countries, we show how policy makers in each country can prioritize the challenges that working people face today, as well as those they will face in the future.

The triumph of work for well-being

Since 1960, only 13 countries and territories have grown to high-income or

with the outcomes discussed in this report, namely, economic development, material living standards, and social cohesion. However, in discussions of work, welfare is often used too narrowly in reference to social protection programs. Further, there is considerable evidence that individuals and communities draw benefits from their work that are neither strictly pecuniary nor a function of economic growth, many of which contribute to social cohesion and, in turn, to development.

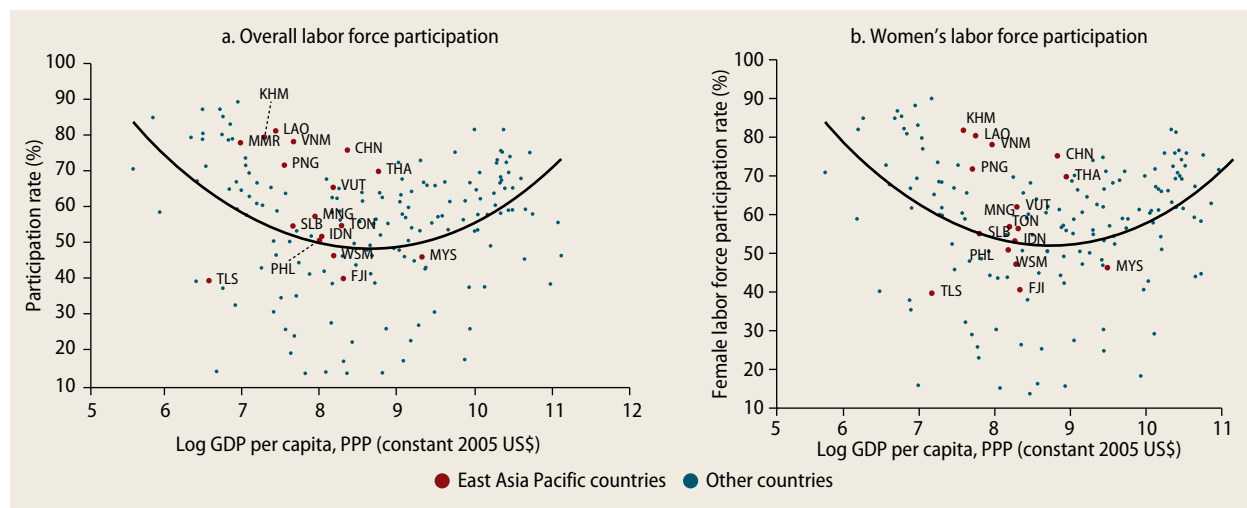
“advanced-economy” status (World Bank and Development Research Center 2012). That five of these are in East Asia Pacific led many observers to regard the pace of post-war advancement in the region as nothing less than a miracle (World Bank 1993). As a sixth country, China—long the region’s population giant and today the world’s second largest economy—fast approaches the same threshold, East Asia Pacific has again been drawing the attention of many eager to sift through the region’s experiences in order to learn from and apply its lessons elsewhere (Dinh et al. 2013).

Economic development in East Asia Pacific is a triumph of working people. The countries of East Asia Pacific experienced industrialization, urbanization, and economic diversification at historically unprecedented rates. In the last two decades, rapid structural transformation occurred through augmented agricultural output, rising manufacturing and services, and large movements of people to towns and cities and into work in factories and firms, propelling total factor productivity. The concentration of people and firms boosted economic output in fast-growing cities.

Countries in East Asia Pacific that were poor a generation ago successfully integrated into the global value chain, exploiting their labor cost advantage. In 1990, the region had about a third of the world’s labor force and, in the years since, has effectively leveraged this comparative advantage. In fact, the share of the population working or seeking work, including women, is higher in most East Asia Pacific countries than in other countries of similar income levels (figure O.1). High labor force participation is further augmented by high rates of labor mobility within countries and across the region’s borders. By effectively engaging working people with other productive factors, emerging East Asia Pacific raised its share of global gross domestic product (GDP) from 6.7 percent in 1990–92 to 17.4 percent in 2009–11.

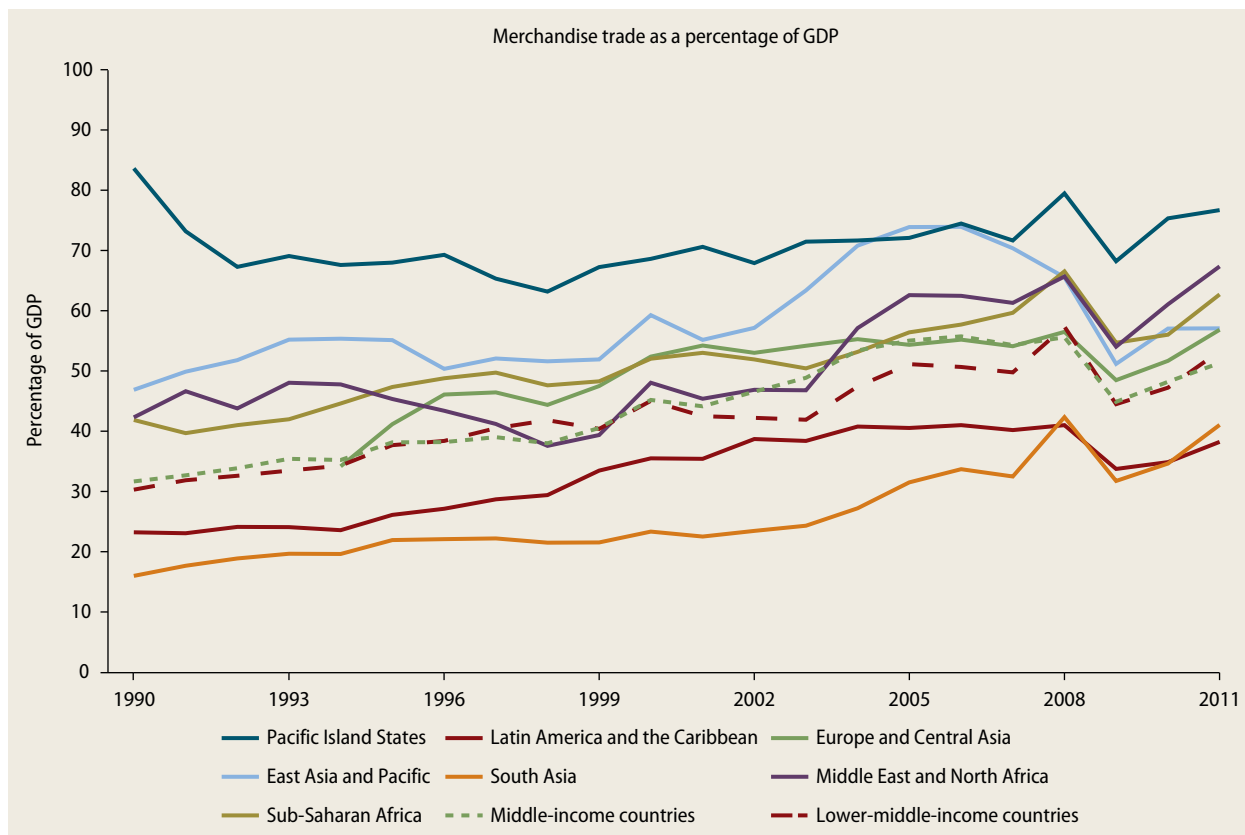
On the whole, years of sound policies, fiscal prudence, and strengthening economic institutions encouraged private sector-led growth that fueled demand for work. The confidence sustained by price stability, low levels of public debt, and relatively light taxation in many parts of the region has for years encouraged investment and doing business.

FIGURE O.1 East Asia Pacific engages more of its working-age population, particularly women, than other regions



Source: World Bank 2013c.
 Note: PPP = purchasing power parity.

FIGURE 0.2 Countries in East Asia Pacific have sustained higher levels of global integration longer than other developing regions



Source: World Bank 2013c.

Fiscal stability has been supported by generally modest government outlays and low levels of public debt. Although the average marginal tax rate on income from work is higher than in many Latin American countries, reaching as high as 45 percent in China and 35 percent in Vietnam, the maximum corporate tax rate is relatively modest. The share of firms in East Asian countries that identify tax rates or dealing with tax administration as a “major constraint” is the lowest among all of the countries for which the World Bank collects enterprise survey data. Also contributing to stability and confidence is a more recent shift toward greater central bank independence and flexible exchange rate policies. Countries hit hardest by the East Asian crisis in the late 1990s—experienced by most

people as plunging wages, sudden work losses, and protracted periods of unemployment—introduced flexible exchange rates that have helped to cushion the blow of external shocks since.

In addition, investments in human capital, the region’s most valuable asset, ensured adequate levels of good health and education in the labor force, a foundation for economic growth. Primary school completion rates are at least 80 percent for both girls and boys in most countries. The average number of years of schooling in the adult population has risen steadily across the region. The proportion of children five years or younger who are underweight in the region was 5.5 percent in 2005–11, the third lowest among developing-country regions after Europe and Central

Asia and Latin America and the Caribbean. That said, the prevalence of malnutrition varies substantially across countries, and stunting, for example, remains a significant problem in Cambodia, Papua New Guinea, and Timor-Leste.

With such strong fundamentals and increasing integration with the global economy, East Asia Pacific was able to sustain high rates of economic growth and maintain its resilience even during the global financial crisis and contraction of 2008–10. Growth in the region, especially among East Asian countries, is characterized by a greater degree of export orientation and openness to world trade than in other low-income and emerging-market regions (figure O.2). High rates of growth have been sustained for longer periods than growth spurts elsewhere (figure O.3). Several East Asian countries continued to generate employment in 2009 and 2010, despite the economic downturn in much of the rest of the world. The region’s experience contrasted sharply with the hardship caused by job losses in most of Central and Eastern Europe and the muted employment growth in other regions.

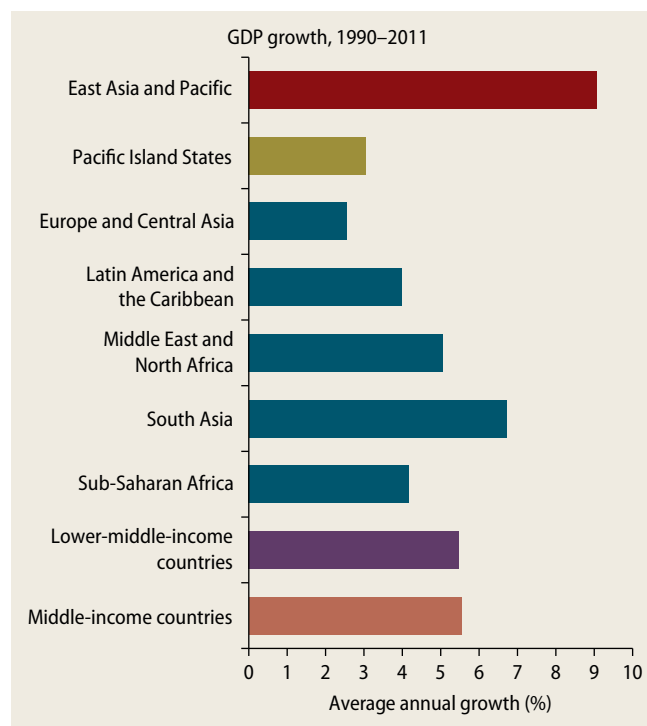
High rates of economic growth have been necessary, although not sufficient, to sustain employment and well-being from work. The empirical relationship between growth and employment is not straightforward nor can it be taken for granted. Many variables can confound the relationship. But

Table O.1 Growth has created employment since 2001

| Country or economy | Elasticity of employment to output, 2001–11 |
|----------------------|---|
| China | 0.30 |
| Hong Kong SAR, China | 0.36 |
| Korea, Rep. | 0.24 |
| Malaysia | 0.39 |
| Philippines | 0.22 |
| Singapore | 0.42 |
| Thailand | 0.33 |
| Taiwan, China | 0.31 |

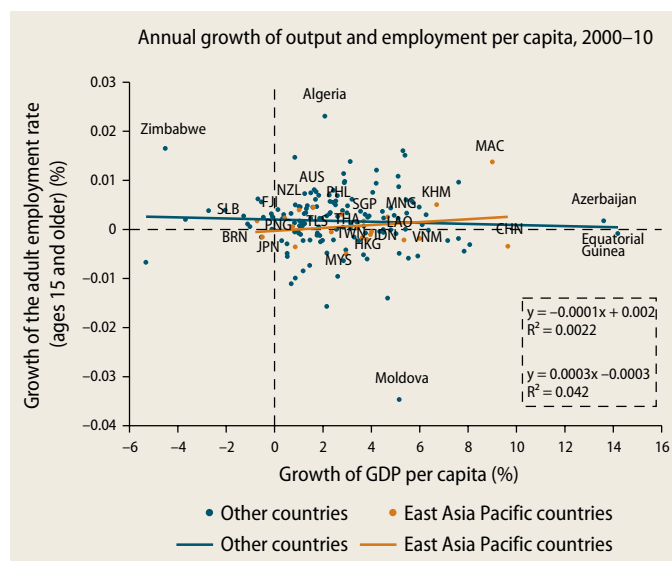
Source: Based on data analysis conducted by Hanusch (2013) for this report.

FIGURE O.3 East Asia has achieved high economic growth



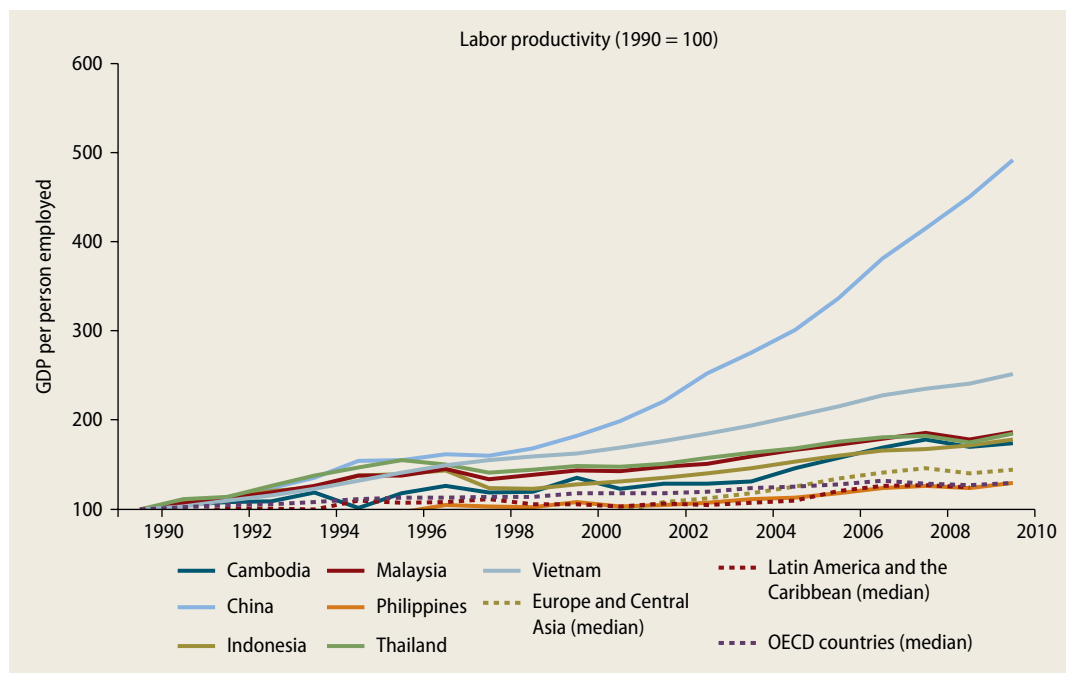
Source: World Bank 2013c.

FIGURE O.4 The simple correlation between growth and employment is weak



Source: Based on data derived from World Bank 2013c.

Note: Growth of employment per capita reflects the growth of the employment-to-population ratio (the proportion of a country’s population that is employed).

FIGURE O.5 Labor productivity grew faster in most East Asia Pacific countries than elsewhere

Source: World Bank 2012a.

claims of so-called “jobless growth” in East Asia Pacific countries are just as overblown and simplistic as is complacency about what markets can achieve when left to their own devices.

This report examines the links between annual growth of GDP per capita and changes in employment per capita over the period 2000–10. While there is a positive relationship between growth and employment creation in the region, it is statistically very weak (figure O.4). However, the elasticity of employment to changes in the size of the economy in East Asia Pacific countries shows a stronger positive relationship, ranging from 0.22 in the Philippines to 0.42 in Singapore (table O.1). While economic growth may not be sufficient, it is certainly necessary to sustain improvement in employment outcomes, fuel gains in living standards, and mitigate social tensions.

The rise in labor productivity in East Asia Pacific during the late 1990s and 2000s far surpassed that in Latin America,

Eastern Europe, and high-income countries. China’s threefold growth and Vietnam’s nearly twofold growth in labor productivity since 1990 were the most impressive in the region (figure O.5). In East Asia Pacific countries, labor reallocation across sectors was a larger contributor to increases in productivity than in other regions. Figure O.6 presents a decomposition of overall labor productivity growth into movements within and across sectors. It demonstrates powerfully how the movement of working people from farms into factories and firms has been the engine of growth, employment, and welfare gains. Households have reaped the benefits of greater productivity in higher earnings: real wages have been on the rise in several countries (figure O.7). Labor income accounted for more than 40 percent of poverty reduction in the late 2000s in several East Asian countries (figure O.8). The share of the region’s population living on less than US\$1.25 a day declined from 56.2 percent in 1990 to 12.5 percent in 2010,

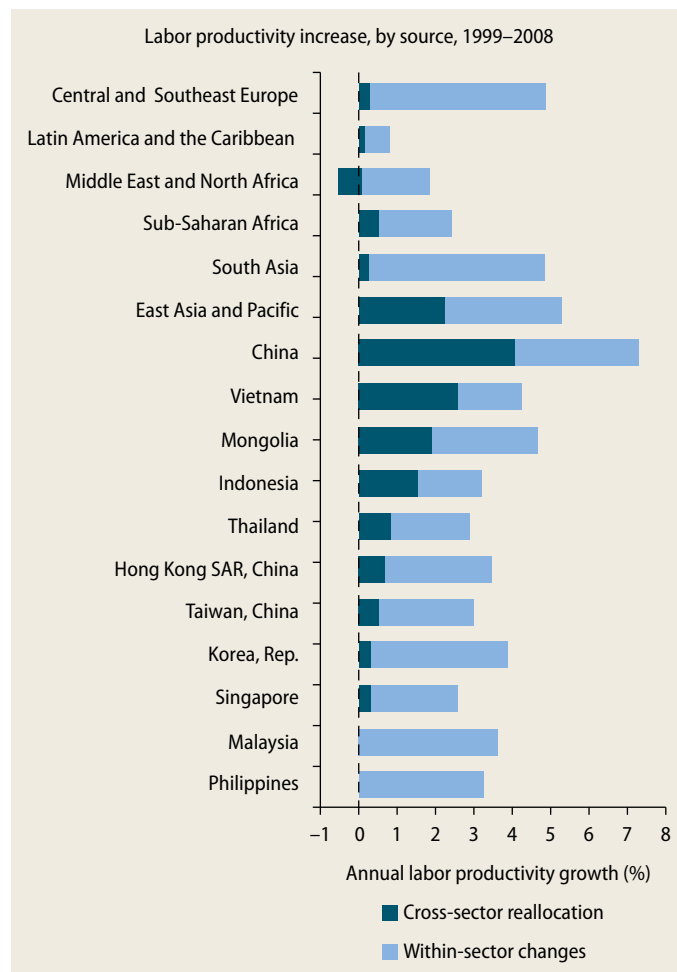
from one of the highest levels to among the lowest across developing countries.

Thus, for most of the region's recent history, productivity gains have gone hand in hand with improvements in living standards. However, in a short span of time, many people moved from rural farms to urban factories, abandoned village institutions and community property rights, and experienced the weakening of extended family structures. Because working people were moving out of poverty and into the urban middle class at unprecedented rates, these changes have not provoked much political debate or social tension. In that sense, as argued in the WDR 2013, work in East Asia Pacific has been the conduit connecting and enabling three critical and interrelated development transformations: *rising productivity, improvements in living standards, and greater social cohesion*. In the past three decades, households in much of East Asia Pacific have experienced these three development transformations in tandem. Evidence gathered in this report suggests that this phenomenon could soon change, with several of the most populous countries reaching a critical development threshold at which economic growth and gains in well-being from work cannot be taken for granted.

Rising challenges to well-being from work

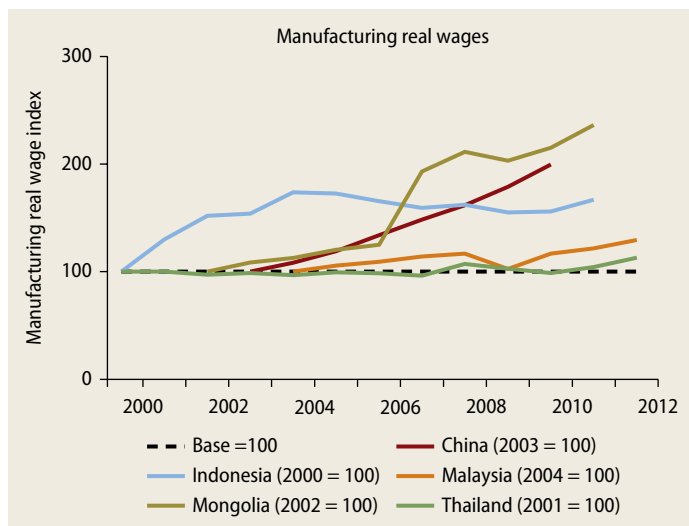
Questions about the well-being people can expect from work have started to surface in many East Asia Pacific countries with greater frequency and are posed with more urgency than in the past. Widespread economic *informality*—work and other transactions in unregulated and untaxed markets—is a leading reason why, despite the region's successes, work and its contribution to people's well-being are a growing concern. High levels of informal work may start to constrain further gains in productivity, living standards, and social cohesion for working people. In addition, some

FIGURE O.6 Movement of labor across sectors was a more important driver of productivity growth in East Asia

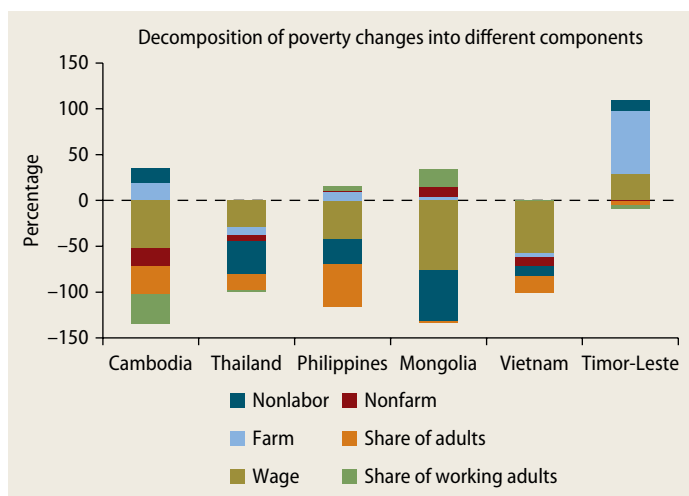


Sources: Kucera and Roncolato 2012, in World Bank 2012b, fig. 3.3.

countries experience other threats to social cohesion, in the form of high youth inactivity and unemployment and rising income and consumption inequality. Across the region, lower growth rates are associated with slower gains in living standards than many people have come to expect over the past two decades. Most of the countries in East Asia Pacific (certainly the most populous countries) are now at a stage of development where the three transformations propelled by work—gains in productivity, living standards, and social cohesion—are no longer happening at similar rates.

FIGURE O.7 Real wages have been rising in several East Asian countries

Sources: CEIC data for 2012; National Bureau of Statistics of China 2011.

FIGURE O.8 Income from work explains a large share of the reduction in poverty

Source: Badiani et al. 2013, based on Cambodia socioeconomic survey (2007, 2010), Thailand household socioeconomic survey (2006, 2009), Philippines family income and expenditure survey (2006, 2009), Vietnam living standards measurement survey (2004, 2010), Mongolia household socioeconomic survey (2007/8, 2011), and Timor-Leste survey of living standards (2001, 2007).

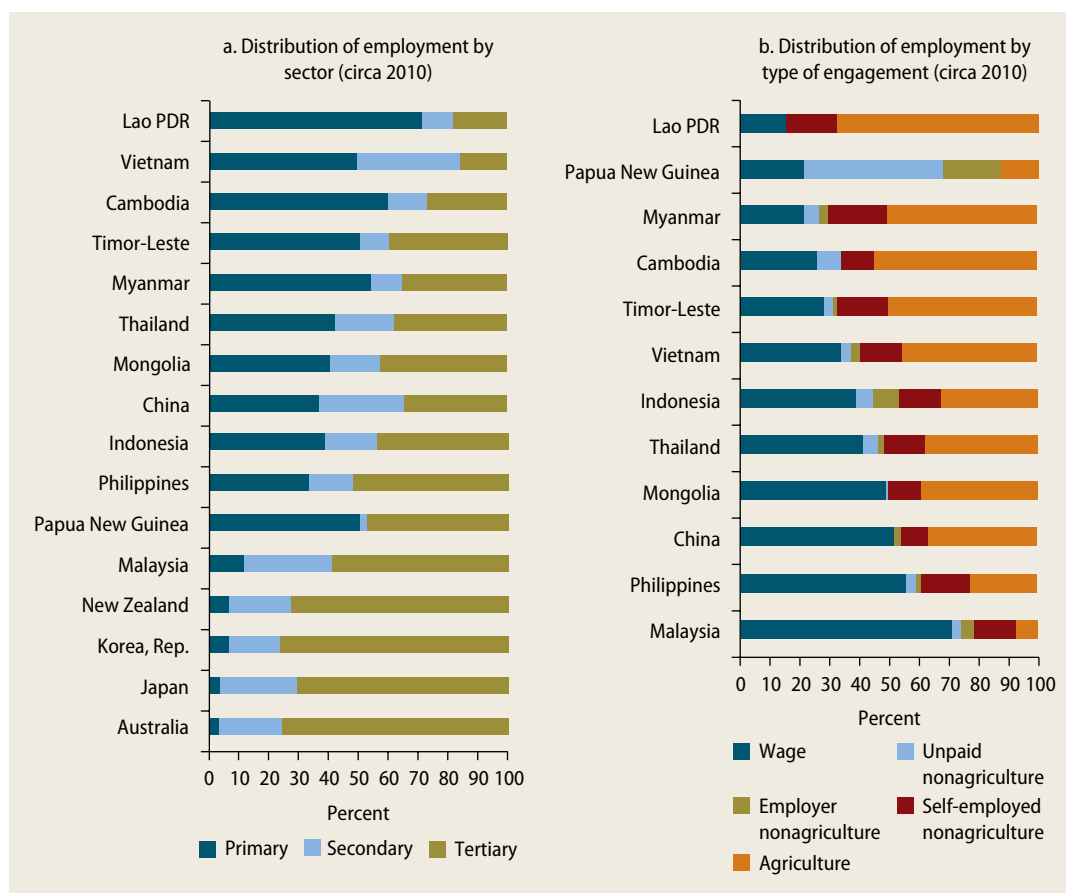
Therefore, it comes as little surprise that calls for governments to become more active to ensure sustained well-being from work are now being made louder and more frequently.

Informal work

Economic *informality* is high in East Asia Pacific countries relative to countries of similar income in other developing regions. The exact dimensions of this challenge are difficult to measure, as only proxies are available. As a region, East Asia Pacific has the second highest share of the labor force working outside of wage and salaried employment, surpassed only by countries in Sub-Saharan Africa. The fraction of the labor force in wage employment in low- and lower-middle-income countries of East Asia Pacific is below 40 percent (figure O.9). A large portion of informal economic activity in countries like Cambodia, the Lao People's Democratic Republic, and Papua New Guinea is "structural informality," as many in the labor force are still working in subsistence or small-shareholder farming. Across East Asia Pacific, poor people are more likely to be engaged in agriculture and less likely to have wage employment than wealthier people. People from ethnic minorities in Vietnam and Lao PDR are more likely to be in the bottom consumption quintile, and their livelihoods are more likely to depend almost exclusively on farming. In most countries, the segment of informal work in subsistence and small-scale agriculture decreases with the structural change out of a mainly agrarian economy.

However, in almost all middle-income countries, even those with large and prosperous manufacturing and service sectors, a persistent remainder of the labor force continues to work beyond the reach of taxation, regulation, and social protection. This remaining share of informal work—whether measured variously as persons working in nonfarm self-employment, those working without a labor contract, those working in a microenterprise with five or fewer workers, or those working but not contributing to social insurance—is higher in many East Asia Pacific countries than in other countries at similar levels of economic development (figure O.10).

FIGURE 0.9 Many people continue to work in the primary sector and are not in wage and salaried employment



Sources: Data from the World Bank, International Income Distribution Database (I2D2); National Bureau of Statistics of China.

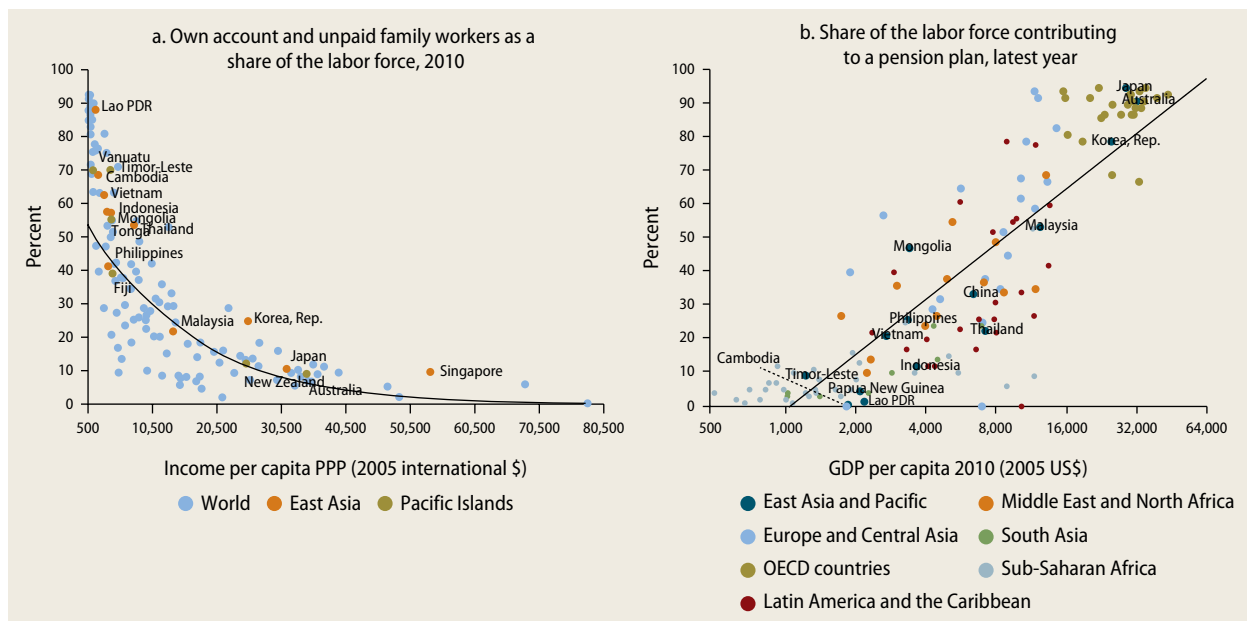
The higher level of informal work in East Asia Pacific is not in itself bad, but it can create constraints on development. Without any work, people would be unambiguously worse off. The informal economy provides a living to many hard-working people who would otherwise be destitute. In fact, across the region, many informal workers and enterprises are well integrated into vibrant domestic, regional, and international production chains. What the informal economy produces is often consumed as intermediate inputs either by formal factories and firms or by people who work in or provide services to the formal economy. The problem arises, however, when the prevalence of informal

economic activity starts to constrain innovation and productivity, when the tax base is so small that governments find it difficult to provide or sustain public goods, and when working informally limits the options that households have to manage shocks to their welfare or makes it more difficult for them to seize opportunities.

The impact of prevailing labor policies

Relatively stringent labor regulation and social protection policies on paper and low capacity to enforce compliance are key drivers of the prevalence of informal work across the region and even in the upper-middle-income

FIGURE O.10 “Informal” forms of work are more common in many parts of East Asia Pacific than in other countries at similar levels of development



Sources: World Bank Pensions Database; World Bank 2013c.

countries of East Asia Pacific. Overall, East Asia Pacific’s experience with labor and social protection policy is modest relative to that of other low- and middle-income countries. Governments in East Asia Pacific started actively regulating their labor markets much later and provide fewer social programs than governments in Latin America and Central and Eastern Europe. But several governments in East Asia Pacific have recently stepped into this arena of policy making with an enthusiasm and orientation similar to those of governments in many Southern European countries.

For example, simply taking what is written in the labor code, employment protection legislation is highly restrictive in Indonesia, where workers whose employment is regulated enjoy more *de jure* protection than workers in France, Greece, or Portugal and only a little less protection than workers in Spain (figure O.11). In China, workers in regulated employment are *de jure* more difficult to dismiss than workers in Belgium and Italy. Similarly, reflecting only what is

codified in labor regulation, the Philippines has the highest average statutory minimum wage in the region, followed by Cambodia and Indonesia. When ranked by the ratio of the minimum wage to value added per worker, the average statutory minimum wage in the Philippines is among the highest in the world. Indeed, by this measure, it is much higher than in Belgium and France and more generous than in high-income countries in East Asia Pacific with statutory minimum wages, such as Australia and New Zealand.

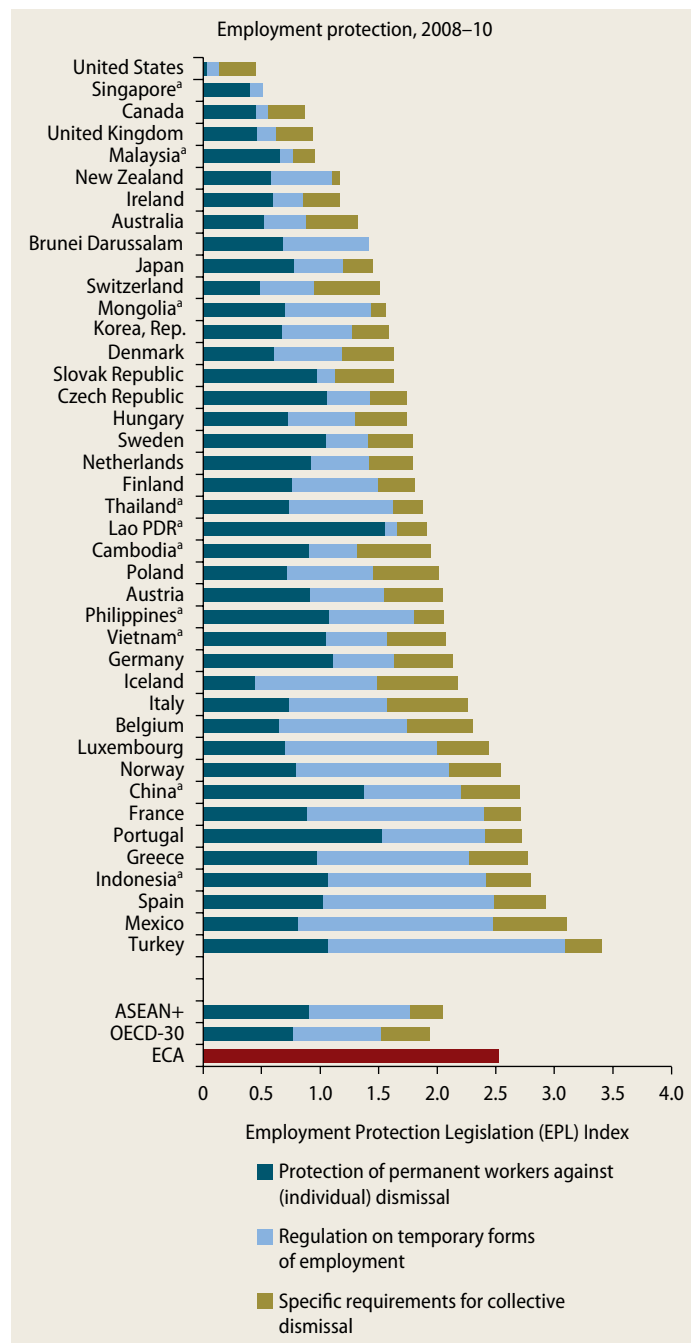
However, setting aside these relatively extreme examples, evidence from countries around the world suggests that labor regulations that are set at reasonable levels but are poorly implemented can aggravate the market failures they were designed to overcome (Betcherman 2012). Although these measures can protect the level of income and provide security to some, they can fail to protect the majority of working people. In countries where people’s confidence in the strength of institutions, governance, and

rule of law is low, these problems are augmented, contributing further to evasion and the size of the informal economy.

Evidence from a wide array of countries suggests that the prevailing models of labor regulation have distributional consequences that favor prime-age men at the expense of women, young people, and those who work in part-time employment or are self-employed. This global finding is supported by empirical evidence from the countries of East Asia Pacific. Rising minimum wages in Indonesia disproportionately lower the employment opportunities of women with fewer skills, young workers, and recent entrants to the labor market (Del Carpio, Nguyen, and Wang 2012). In Thailand, increases in the minimum wage have had an adverse impact on the employment prospects of women, low-skilled workers, and elderly working people (Del Carpio, Messina, and Sanz-de-Galdeano 2013). In Vietnam, women are more likely than men to be earning at levels close to the minimum wage. This makes working women in Vietnam more vulnerable than men to changes in the minimum wage (Nguyen, Nguyen, and Wang 2013; Del Carpio, Nguyen, and Wang 2013). The gender impacts of minimum wages can also differ by type of worker, as illustrated by research from Indonesia showing that among people in “nonproduction” employment—that is, supporting services to firms’ core business, such as janitors or caterers—a rise in the minimum wage disproportionately hurts women.

The biased impact of prevailing labor regulations on forms of work that are prevalent in most East Asia Pacific countries—and more likely to be taken up by women, young people, and those with fewer skills—is a growing problem that creates both labor market segmentation and exclusion from the labor force altogether. Evidence gathered for this and companion World Bank reports shows a positive association between the levels of de jure employment protection, social insurance contributions, and other taxes on labor and the extent of informal economic activity. When governance indicators are

FIGURE 0.11 Some countries in East Asia Pacific have similar restrictions on dismissal as countries in Southern Europe

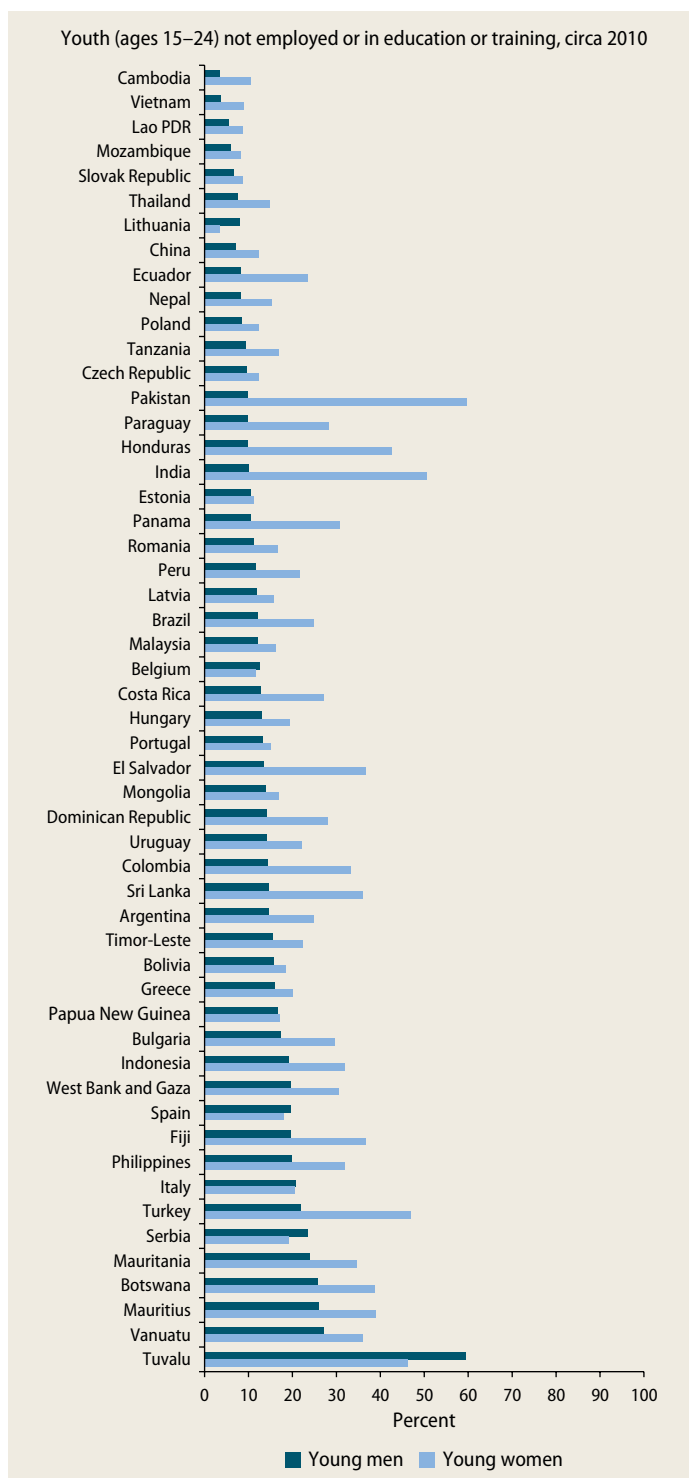


Source: Estimates based on countries’ labor legislation.

Note: Score ranges from 0 (least stringent) to 6 (most restrictive). The average for the Organisation for Economic Co-operation and Development (OECD) is for 2010 and includes a sample of 30 countries. Figures for Europe and Central Asia (ECA) are for 2007 and only reflect a total (with no breakdown by category).

a. ASEAN+ (Association for Southeast Asian Nations plus) countries.

FIGURE O.12 Youth inactivity is high in some of the Pacific island countries, Indonesia, and the Philippines



Sources: Statistical tables in World Bank 2012b; World Bank, I2D2 data.

included to capture the ability of the authorities to enforce regulations, the association grows stronger. In China, the attempt with the 2008 Labor Contract Law to expand coverage of social insurance financed from payroll taxes was associated with a lower probability that certain workers were protected (Giles, Wang, and Park 2013).

Challenges to social cohesion

Aside from high levels of informal economic activity, several East Asia Pacific countries are now facing challenges to building more inclusive societies through people's access and ability to work, particularly for youth. For the region as a whole, more than 30 percent of people ages 15–24 are not in employment, education, or training. Fiji, Indonesia, the Philippines, Tuvalu, and Vanuatu have among the highest rates of youth inactivity in the world (figure O.12). High levels of youth inactivity have been linked to violence and the erosion of social cohesion, providing a strong motivation for governments to pay closer attention to creating the opportunities for youth to work or build their human capital. Even where violence is not yet a concern, high rates of disengagement among youth can have a lasting, “scarring” impact on their future economic prospects and ultimately limit the productive potential of a country as a whole. Evidence of scarring, limited mobility, and aggravated segmentation from early spells of unemployment in Indonesia illustrates the longer-term consequences for a country when young people cannot find work.

In addition, the region's economic success has been accompanied by rising real wages, especially for skilled workers. But with that growing skill premium has come rising inequality. Despite gains in living standards on average, in the population “giants” China and Indonesia, as well as in Lao PDR, welfare is distributed more unevenly than in the past. Figure O.13 shows the Gini coefficients at three points in time: country points lying above the 45-degree line show an increase in inequality from the late 1990s

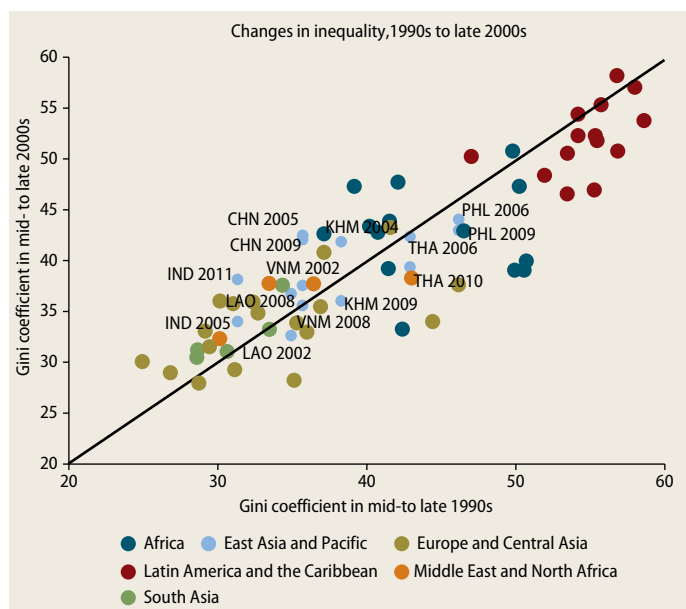
to the labeled year in the late 2000s. The Gini coefficient of consumption inequality in China rose from around 35 percent in the mid-1990s to around 42 percent in the middle to late 2000s. Among salaried workers in Indonesia, annual wage increases between 1999 and 2003 were 9.3 percent for nonpoor workers but only 6 percent for poor and near-poor workers. The pattern of a rising skill premium is evident elsewhere in the region and raises concerns among policy makers about widening income disparities and the risk of increasing social polarization.

Challenges to well-being from work

The threats to well-being from work are wide ranging. What appear at first as growing challenges to social cohesion are also linked to a general slowing of economic growth in the region, which is more pronounced in countries where productivity and living standards have been lagging for a long time. For example, in the past decade, the Philippines experienced much slower poverty reduction than its neighbors, despite respectable economic growth. This stagnant progress in living standards is linked to slow employment creation and the low productivity of most forms of work created by the economy. Many economies, including Cambodia, Indonesia, Lao PDR, and the Philippines, need to find ways to create and sustain productive work, amid more difficult global economic prospects and more intense international competition. As shown in figure O.5, productivity growth only started to take off in Cambodia in the mid-2000s. Labor productivity growth in the Philippines has been the lowest among East Asian countries. In addition, with rising wages, the labor cost advantage that has for years enabled many East Asia Pacific countries to benefit tremendously from global markets is starting to erode.

Countries can ill afford to ignore what appear to be increasingly restrictive business environments: Indonesia (ranked 120 on the World Bank's ease of doing business indicator), the Philippines (108), and Cambodia

FIGURE O.13 Inequality is rising in several countries, including China and Indonesia, where most people in the region live



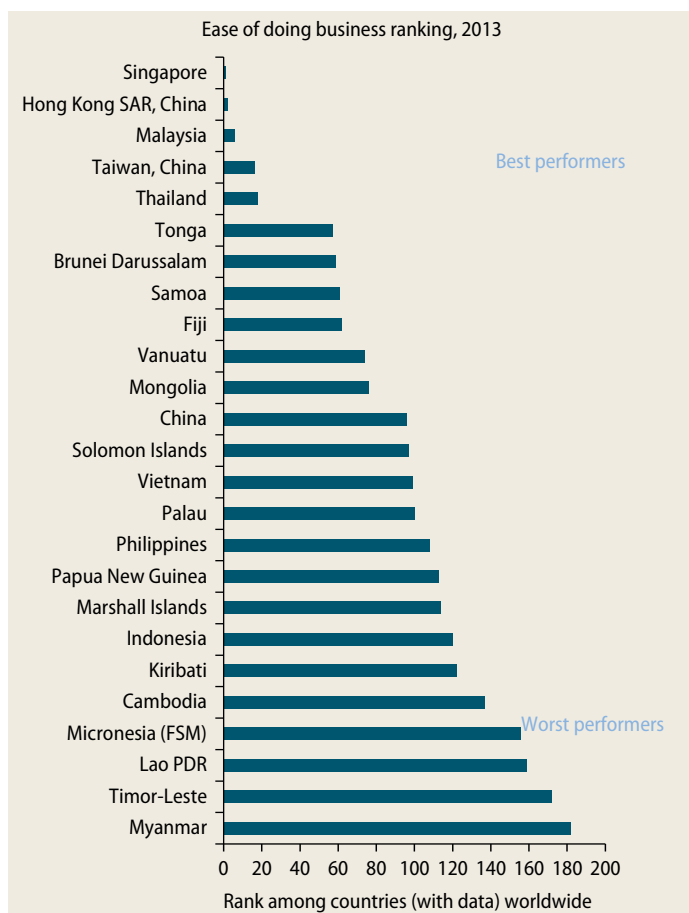
Sources: World Bank 2011, 2013c.

Note: The figure shows consumption and income-based Gini coefficients (percent) at three points in time: country points lying above the 45-degree line imply an increase in inequality from the late 1990s to the labeled year in the late 2000s.

(137) rank poorly with regard to friendly investment climate; China (96) and Vietnam (99) rank moderately (figure O.14). Access to finance and financial services is the most frequently reported obstacle facing businesses in the region. Although small and medium enterprises are an important source of employment and employment creation (figure O.15), they are particularly constrained in their ability to raise financial resources for expansion. These issues present challenges for dynamic employment creation and improvements in well-being for working people.

In addition, skill shortages and mismatches in the labor market in many East Asia Pacific countries are becoming a binding constraint on their ability to sustain productivity gains and improvements in living standards. Data from Yunnan, China, and Lao PDR, for example, show that a lack of skills is a leading reason for difficulties in filling vacancies (figure O.16). Skill gaps threaten growth when health and education systems and the existing labor force adjust very slowly to fast-evolving demand.

FIGURE 0.14 East Asia Pacific has both the leaders and the laggards in the “ease of doing business” tables



Source: Data derived from World Bank's Doing Business (<http://www.doingbusiness.org/data>).
 Note: Economies are ranked by their ease of doing business, from 1–189. A high ranking on the ease of doing business index means the regulatory environment is more conducive to the starting and operating of a local firm. This index averages the country's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic. The rankings for all economies are benchmarked to June 2013, <http://www.doingbusiness.org/rankings>.

This is especially the case when incentives for people to invest in skills are distorted by policies, such as when training programs are driven mainly by centralized planning and government supply rather than by market demand. Shortages in basic skills in Cambodia, Lao PDR, and several Pacific island countries, as well as gaps in advanced skills across the region's labor force, are motivating governments to pay more attention to health, education, and training systems.

The debate about how to sustain well-being from work has been brought to the

political forefront in many East Asia Pacific countries and, if ignored, could threaten the social contract. In contrast to the history of today's high-income countries, the rapid economic changes in the emerging countries of East Asia Pacific have not been accompanied by a parallel development of social and civic institutions to accommodate the interests of different groups and classes. Labor unions have historically been much weaker in East Asia Pacific countries than they were in Latin American and European countries, even when these were at similar stages of development. Where organized labor is strong in the region, unions tend to represent only a small segment of working people and have not yet grown to represent the interests of self-employed or many service workers, as is happening in South Asian countries and even in the United States.

Without strong formal civic, labor, and social welfare institutions, many East Asia Pacific countries are now facing the difficult challenges of moderating economic growth, eroding labor cost advantages, and increasing inequality in the swelling cities of countries where the structural transformation happened far faster than anywhere previously. The development trajectories of East Asia's high-income success stories—Japan, the Republic of Korea, Singapore, and others—also included periods when similar calls for “inclusive growth” and more precisely for “jobs strategies” were heard. But the answers that made sense for those countries at the time may not be viable today in a far more integrated, rules-based global economy.

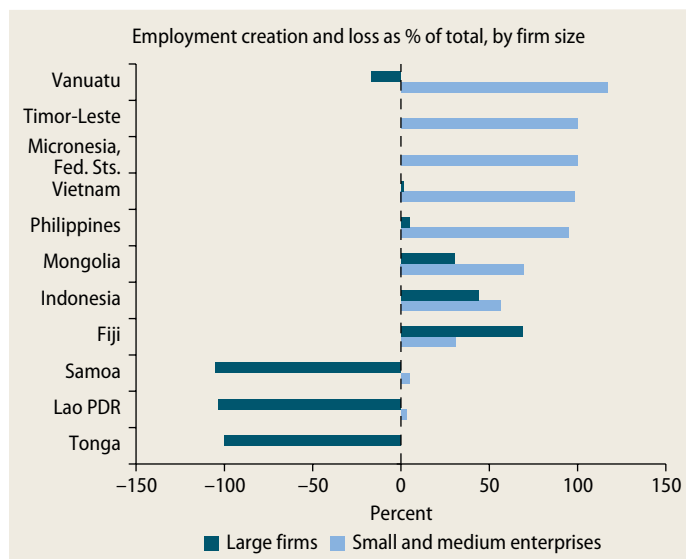
Sustaining well-being from work in East Asia Pacific

How can policies ensure that work continues to improve people's well-being through higher productivity, rising living standards, and greater social cohesion? The most powerful policies to do so are those that ensure price stability, maintain a fiscal stance that encourages investment and innovation, and maintain a regulatory framework for factor and product markets

that encourages enterprise, particularly for small and medium firms—the segment where most people in East Asia Pacific are working (Development Committee 2012). In setting the right “fundamentals” of macroeconomic policy, the business environment, and human capital development, policy makers should take into account all forms of economic units (farms to microenterprises; small and medium enterprises to corporations) as well as all forms of work (wage and nonwage work; full-time and part-time work) that exist in the region. Similarly, policy makers should be alert to laws and regulations that intentionally or unintentionally influence firms’ decisions at the margin to engage capital or labor. The dangers of a policy stance that biases firms’ decisions one way or the other are structural imbalances: too much capital and not enough labor in one part of the economy, or vice versa. These imbalances can become embedded economically and even politically. When they do, they can hinder countries’ ability to adjust, evolve, and grow as deeper integration with the global economy accelerates the pace of change.

With sound fundamentals in place, activist governments will stand on far more solid ground as they turn their attention to the market for labor and human capital as well as to social protection. As governments in East Asia Pacific step further into this relatively new arena of policy making, they should pay closer attention to the many ways people in East Asia Pacific earn a living. There is no good reason why policy makers in East Asia Pacific should respond to increasing calls for intervention with policies that were designed and evolved in very different economic contexts. The prevailing models of labor regulation and social protection were designed and evolved in countries where salaried employment was the most common way to work and during periods in their history when men were by far the largest group in the workforce. And indeed evidence from across countries, including many in East Asia Pacific, shows that these models benefit prime-age men in full-time wage employment.

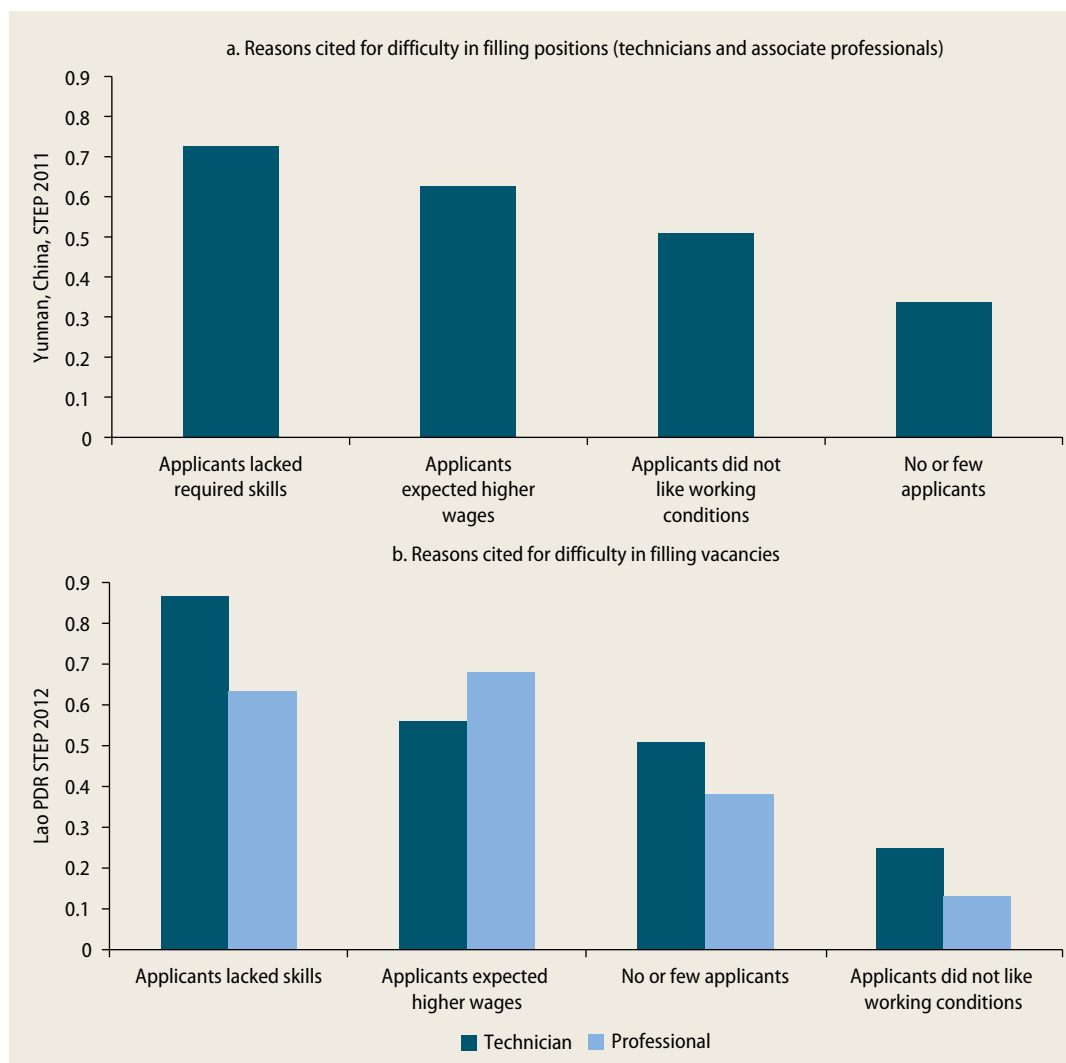
FIGURE 0.15 Small and medium enterprises account for the majority of employment creation in East Asia Pacific countries



Source: Ayyagari, Demirgüç-Kunt, and Maksimovic 2011, based on World Bank enterprise surveys, 2006–10.

Instead, policy makers in East Asia Pacific should consider measures that favor all working people, even if they work for themselves or hire others to work for them. In principle, labor regulation and social protection should benefit all working people and their dependents and not favor any sector, location, or manner of economic engagement over others. For example, the new emphasis in several Scandinavian countries on protecting people rather than protecting jobs is a way of providing protection against labor market risks without tying protection to where or how a person works. A national system of modest unemployment benefits, financed from general revenue, could relieve employers of costly severance schemes, lower the distorting impact of labor taxes, and provide some incentive for workers currently without any protection to register their work and business. Keeping benefit levels modest and strengthening governance and administrative capacity can mitigate the risks to financial sustainability. In several countries, governments are already experimenting with de-linking financial protection and risk pooling for health from where

FIGURE 0.16 Employers report that shortages of skills among applicants is the leading reason for persistent vacancies



Sources: Liang and Chen 2013; World Bank 2013a; data from the Yunnan and Lao PDR Skills toward Employability and Productivity (STEP) employer surveys.

and how people work. Thailand’s universal health coverage model is the most successful example of this approach and is credited not only with extending coverage but also with increasing the use of health services.

In addition, governments have a role in making and sustaining investments in public goods, as well as in capturing opportunities to increase well-being from work that would remain unexploited if left purely to market incentives. The WDR 2013 offers a typology

that policy makers can apply to identify their particular, additional “challenges” to maximizing well-being from work and with which they can prioritize public investments to overcome these challenges. The typology takes account of countries’ level of development, demography, natural endowments, and political circumstances and helps policy makers to determine which of these factors is dominant in shaping the opportunities and constraints on households that are offering

and firms that are seeking labor and human capital. The WDR 2013 details eight types of countries: agrarian, urbanizing, formalizing, aging, high youth unemployment, conflict-affected, resource-rich, and small island states (figure O.17).

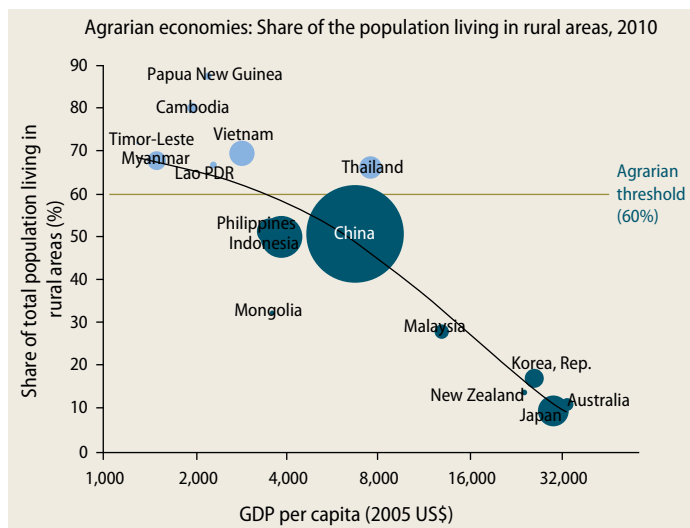
In figures O.18, O.19, and O.20, East Asia Pacific countries are categorized using empirical measures to sort countries into one type or another. Figures O.18 and O.19 show the countries that are still agrarian and those that are urbanizing rapidly. The size of the

FIGURE O.17 Countries can be classified into eight types to help to prioritize policy challenges

| a. Types and defining characteristics | |
|---|---|
| Agrarian | Majority of the population lives in rural areas |
| Conflict-affected | Livelihoods altered by war and violence |
| Urbanizing | Agricultural modernization and rural-urban migration rapidly taking place |
| Resource-rich | Extractive industries make a substantial contribution to exports |
| Small islands | Size of population doesn't support economies of scale or specialization |
| High youth unemployment | Youth unemployment rates and idleness rates at unusually high levels |
| Formalizing | An urban middle class and a large share of informal employment coexist |
| Aging | Rapidly increasing old-age dependency ratios |
| b. Plausible mapping of East Asia Pacific countries | |
| Agrarian | Cambodia, Lao PDR, Myanmar, Papua New Guinea, Thailand, Timor-Leste, Vietnam |
| Conflict-affected | Timor-Leste, Solomon Islands |
| Urbanizing | China, Indonesia, Lao, PDR, Malaysia, Mongolia, Philippines, Vietnam |
| Resource-rich | Myanmar, Mongolia, Papua New Guinea, Lao PDR, Timor-Leste, Indonesia |
| Small islands | Fiji, Kiribati, Marshall Islands, Micronesia (Fed. Sts.), Palau, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu |
| High youth unemployment | Indonesia, Mongolia, Philippines |
| Formalizing | China, Malaysia, Mongolia, Philippines |
| Aging | China, Indonesia, Thailand, Vietnam |

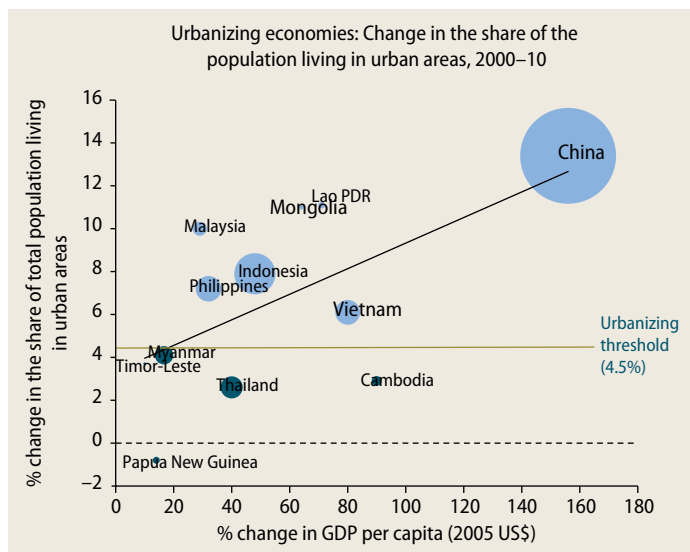
Source: Based on World Bank 2012b.

FIGURE O.18 Seven countries in East Asia Pacific are still largely agrarian



Source: World Bank 2013c.
 Note: Bubble size = income per capita in 2010.

FIGURE O.19 Most people in East Asia Pacific live in countries that are rapidly urbanizing



Source: World Bank 2013c.
 Note: Bubble size = income per capita in 2010.

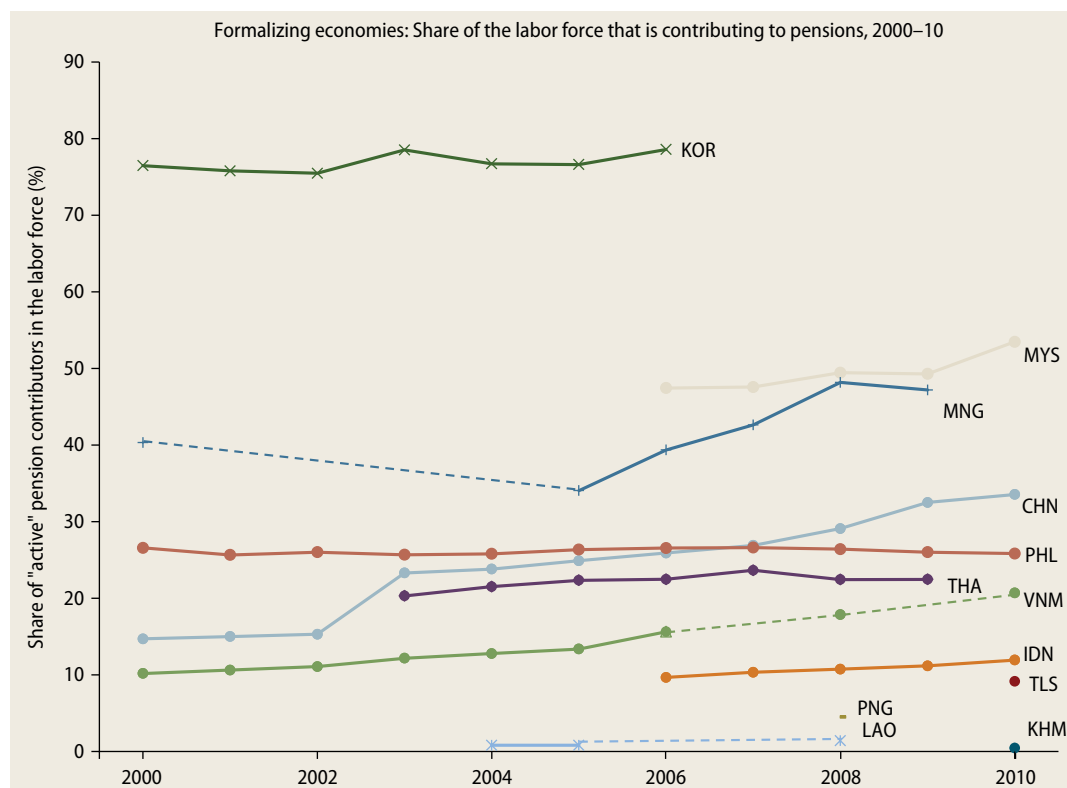
spheres indicates populations. With population giants like China and Indonesia mapped alongside smaller countries like Cambodia and Timor-Leste, this dimension is critical to capture. Taking account of population

sizes allows us to distinguish the likely priority challenges facing most East Asia Pacific governments from those facing most East Asia Pacific people. Figure O.20 depicts several countries that are well urbanized and starting to “formalize,” measured by a proxy, the share of the labor force that contributes to social insurance.

This typology of challenges to well-being from work offers new and useful insights. First, the typology demonstrates how diverse the region is, in that the countries of East Asia Pacific can be mapped to at least one of all eight types. There is no single dominant set of challenges as in other emerging-market regions (for example, mostly “aging” in Europe and Central Asia, mostly “formalizing” in Latin America and the Caribbean, or mostly “high youth unemployment” in the Middle East and North Africa). Second, most countries can reasonably be mapped to more than one type, reflecting the dynamism of the region and the importance of transitions from one category in the typology to another. Third, setting aside the types determined by natural endowments (such as the small Pacific island states and “resource-rich” economies), most countries in the East Asia Pacific region are “agrarian” or “urbanizing.” In fact, taking account of China, Indonesia, and Vietnam, most of the people in East Asia are living and working in “agrarian” or “urbanizing” contexts. This is an important insight because, according to the WDR 2013, when countries are (or are close to) *urbanizing*, all three development transformations tend to happen at a similar pace: productivity and wages are increasing, living standards are rising, and as more people move out of poverty and into the middle class, there is greater social cohesion. But when countries have substantially urbanized, one or more of the transformations can start to lag. This story is unfolding now in the region, prompting demand for policy attention.

Applying the typology to East Asia Pacific countries suggests the following policy guidance for sustaining well-being from work that is most salient in the region.

FIGURE 0.20 When urbanization is well advanced, a significant share of working people should be formalizing, proxied here by participation in social insurance systems



Sources: World Bank Pensions Database for 2013; World Bank 2013c.

Small island countries

In small island countries, employment creation led by private enterprise is significantly constrained by small and dispersed populations. Outside of niche sectors, small size makes it almost impossible to achieve scale economies. Moreover, the Pacific island countries are particularly constrained by great distances, which makes them very different from the small island countries of the Caribbean or Sub-Saharan Africa and conspires against their competitiveness, even in activities where endowments should otherwise have given them a comparative advantage. While the Pacific island countries are too constrained by economic geography to compete in manufacturing and find it difficult to process their natural resources for export, managing the exploitation of

these resources and tourism offer opportunities for work. As information and communication technology improves and brings the islands economically “closer” to distant markets, the opportunities for work in call centers and business processing services may become more readily available. Policy makers have to focus on preparing young people with the human capital they will need to take advantage of these opportunities or to succeed abroad as migrant workers. In doing so, service provision itself can become a force for employment creation when populations are dispersed on difficult-to-reach islands. Governments in neighboring large market countries can help to increase opportunities for working people from the islands by expanding guest worker programs, already found to be successful.

Agrarian economies

For countries that are still mainly agrarian (particularly Cambodia, Lao PDR, Myanmar, Papua New Guinea, and Timor-Leste), the policy priority to increase well-being from work is to raise the productivity of agriculture in order to free labor and human capital to work in rural off-farm enterprises and eventually to migrate to towns and cities. The most powerful instruments for increasing agricultural productivity and facilitating the structural transition are land reform, agricultural extension programs, deregulation of prices, rural infrastructure, and good-quality education and health services to build human capital. The *Philippine Development Report 2013: Creating More and Better Jobs* (World Bank 2013b) describes the consequences of low productivity and stagnant high rates of poverty when these measures are ignored. To sustain well-being from work, governments should identify and remove policies and programs that create implicit or explicit restrictions on working people moving off the farm and into rural nonfarm industry and to manufacturing and services in cities. China's *hukou* is a notorious example. Vietnam's experience in the 1990s and the first decade of the twenty-first century is an often-cited example of success. The danger to be avoided is urbanization in spite of rather than enabled by policy, characterized by efforts to discourage people from moving, dysfunctional land markets (particularly in rural areas), unproductive use of land, people migrating in search of better health and education services, cities unprepared for fast population growth, and rapid divergence in living standards between town and country.

Urbanizing economies

For countries that are already rapidly urbanizing (particularly China, Indonesia, Mongolia, the Philippines, and Vietnam), the policy priority is to make cities work better. Somewhat counterintuitively in a discussion of well-being from work, the factor market that policy makers should pay the greatest

attention to is the market for land. Since land is the least mobile factor of production, good urban planning becomes the key to increasing the flexibility, efficiency, and thus the productivity of land use. Urban planning becomes the area of policy with the greatest impact on the incentives of firms in towns and cities to form, to grow, to move up the value chain, and thus to create and sustain demand for labor and human capital. Also important are urban infrastructure and service provision, to ensure that growing cities with plenty of skilled people foster economies from agglomeration rather than incur burdensome costs from congestion. The examples of both Japan and Korea are instructive in this regard and provide valuable guidance for East Asia Pacific's policy makers.

Formalizing economies

In several East Asia Pacific countries where urbanization is already well advanced (particularly in China, Malaysia, Mongolia, and Vietnam), governments are also facing the challenges of "formalizing" more work, in part to increase the coverage of essential social protection. The key for these countries is to avoid the formation or entrenchment of a policy and regulatory framework that causes segmentation, usually from political and economic constraints on competition, the contestability of markets, and limits on the forces of creative destruction. Segmentation can be caused by differences in how income from different sources is taxed; by rules for providing credit that explicitly or implicitly exclude self-employed people, small businesses, and businesses owned by women; by differences in the types of work that are recognized in the labor code and the types of work that have no legal recognition or accommodation; and especially by how nonwage social protection benefits are designed and financed.

Models of labor regulation and social protection that tie eligibility to certain places, industries, and forms of work and that are financed from mandatory contributions from employees and employers create

segmentation by design. In most low- and middle-income countries, this segmentation by design is further aggravated by institutional and administrative weaknesses. The typical result is that many working people are disenfranchised and excluded from social protection and labor institutions. To avoid segmentation, policy makers should consider macroeconomic policy, business regulation, human capital development programs, and labor and social protection policies that take into account *all* forms of economic production and *all* forms of work in the region. Doing so will encourage factor mobility and efficient factor allocation to help countries to make the difficult transition out of middle income.

“Business as usual” is not an option

Why might the guidance in this report appeal to policy makers in East Asia Pacific countries in particular? First, “doing nothing” and continuing with business as usual is not an option as countries face a future of moderating economic growth, as well as pressure to respond to rising threats to well-being from work. The consequences of not taking more action to ensure welfare gains from work will increasingly threaten social cohesion and, as growth moderates, will constrain productivity and limit gains in living standards.

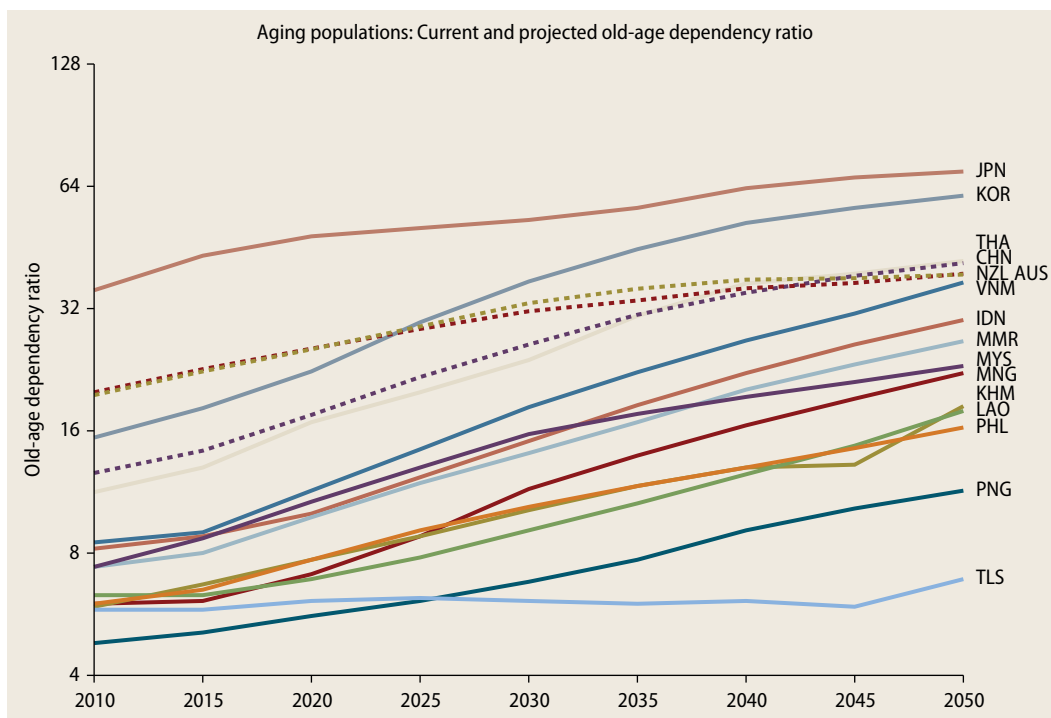
Second, as pointed out earlier, the history of labor market intervention and social protection in East Asia Pacific countries is short relative to that of countries in Latin America and Central Europe. This is an enviable opportunity, since the costs of transitioning from a policy stance that favors certain factors of production, sectors of activity, or ways of working over others to a policy stance that favors all working people are likely to be much lower. For example, while Latin American and Central European governments might find the idea of providing “noncontributory” forms of social protection appealing, instead of those financed from employer and worker contributions,

these governments may be unable to afford the costs of transition out of their current social protection systems. Low legacy costs put governments in East Asia Pacific in a more favorable position to intervene, both fiscally and politically: there are relatively fewer vested interests and social protection “sacred cows” in the region.

Third, the risks of ignoring or aggravating biases in the current policy framework that are starting to constrain well-being from work are higher for countries in East Asia Pacific due to their rapidly shifting demography. The pace of population aging will pick up in a couple of years, and the demographic shift is likely to roll over this region faster than it has over any other region previously (figure O.21). In China, the statistics authorities reported the first-ever contraction of the working-age population in 2012. Korea already has the lowest population replacement rates in the world. And if life expectancy in Japan is a suitable benchmark, many people in East Asia can expect to live very long lives. Even in the relatively youthful countries of the Pacific, an epidemic of noncommunicable “lifestyle” diseases will soon foist the health care costs of old age on the islands.

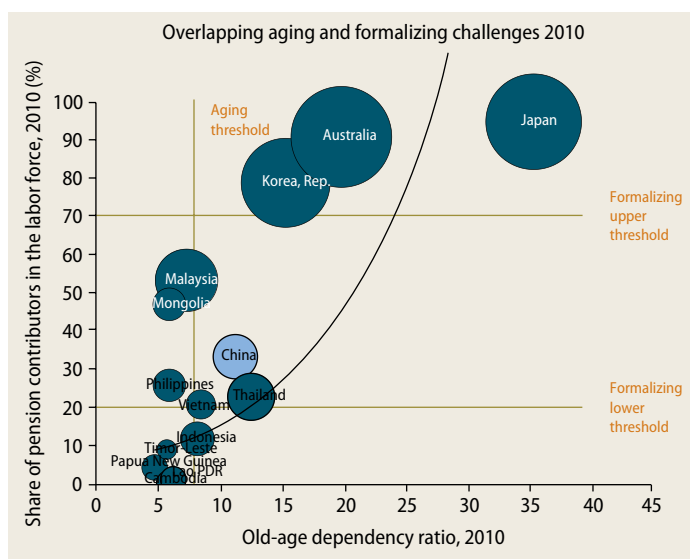
Yet most policy models currently in place in East Asia Pacific countries discourage longer working lives, constrain the productivity of older working people, deprive working people of the skills they need to easily reskill throughout their lives, or discourage formal forms of work that appeal to the elderly (part-time work, irregular hours). Structural discouragements of longer working lives in East Asia Pacific are nowhere near as bad as they are in Latin America or Central Europe, where it often pays to withdraw from the labor force earlier. Today, many people in East Asian countries work longer into old age because they do not have any other choice. But this is a poor, residual outcome rather than the intended consequence of policy. Across the region—particularly in the Pacific island countries—greater emphasis on better nutrition and prevention could lengthen productive working lives and ease the burden of health care costs.

FIGURE O.21 East Asia in on the verge of rapid aging



Source: United Nations Population Division.
 Note: The old-age dependency ratio is the population above 64 years of age divided by the population 15–64 years of age, based on United Nations projections (medium variant).

FIGURE O.22 The constraints on growth from a large informal economy are a danger as countries age



Sources: World Bank Pensions Database (2013); United Nations Population Division.
 Note: Bubble size = income per capita in 2010.

The policy options presented in this report can help East Asia Pacific countries to boost productivity in order to sustain a level of growth that will help them to increase their wealth before they get old. This is the current quandary of “trapped” middle-income countries in Central Europe and the Southern Cone of Latin America that *got old* before they *got rich* (Gill and Kharas 2007). Their example should strike a note of caution for policy makers in East Asia Pacific.

As shown in figure O.22, several East Asian countries are facing an aging labor force and an aging population. But with a still large informal economy, these countries do not yet enjoy the same level of income (indicated by the size of the bubble) as their developed neighbors. Policies that encourage factor mobility and support the dynamism and diversity of all forms of work in the region could help East Asia Pacific countries

to make the transition out of middle income and grow in wealth before they enter the more difficult challenges of an *aging* economy.

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