SOCIAL INCLUSIVENESS IN ASIA'S MIDDLE-INCOME COUNTRIES

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1 Introduction

Over the past 20 years, Asia's rapid economic growth has contributed to a substantial increase in average per capita incomes. As a consequence, we have witnessed the emergence and expansion of Asia's 'middle class' – broadly defined as those earning between $2 and $20 per day – which will play an important role in the rebalancing of the world economy and will be a vital source of domestic growth.

Nonetheless, a host of important challenges remain. The benefits from economic growth have not been equitably distributed, therefore exacerbating existing inequalities and possibly jeopardising social cohesion and political stability. The rising challenges of population growth, rapid urbanisation and climate change are also likely to contribute to economic, social and environmental tensions. A more socially inclusive growth pattern is required in order to simultaneously achieve fundamental economic and social development goals.

An inclusive growth agenda will require a deliberate and direct focus on generating widespread productive employment, rather than assuming that economic growth will automatically deliver more and better jobs. 'Job-rich' growth is a fundamental precondition to reducing inequality and poverty. In general, we argue that macroeconomic and structural policies play an essential role in promoting an inclusive growth pattern, while social policies and social protection play a vital supportive role. Nonetheless, the classic structural transformation of developing-country economies appears to have mutated into new and less employment-intensive forms, partly due to increased globalisation and technological change. There is also diminished domestic 'policy space' for governments and, in particular, a lack of 'fiscal space' to pursue appropriate employment-friendly economic policies. Identifying key obstacles to inclusiveness and defining priority areas of intervention will therefore be critical.

In this paper, we investigate some of the challenges in moving the policy agenda from an exclusive poverty focus to an 'inclusive growth' strategy. Hence, our focus will be on the poor and the vulnerable strata of the middle class, while also paying attention to the specific needs of other disadvantaged groups of society (namely, the rural populations, women and young people). Bearing in mind this broadening focus, we consider three key areas to improve social inclusiveness in Asian middle-income countries (MICs): (i) social and municipal services; (ii) social protection (social insurance in particular); and (iii) labour market policies. We argue that governments will need to scale up funding in these areas in order to provide more equal access to economic opportunities and thus achieve a more sustainable and socially inclusive growth pattern.

For the purpose of this paper, we will focus on the following eight Asian middle-income countries: China PR, India, Indonesia, Malaysia, the Philippines, Sri Lanka, Thailand and Viet Nam.

The next section presents the background of this study. Section 3 provides a brief overview of economic growth, employment and poverty. In it we first investigate growth patterns since the 1990s, mainly through an analysis of sector-level GDP performance. We then look at key trends in employment, with a particular focus on the type of employment and sectoral dynamics. Finally, we scrutinise poverty and inequality indicators. In Section 4 we focus on the three key areas highlighted above. For each of these areas, we provide a snapshot of the current situation and, whenever possible, provide expenditure data. We also briefly discuss policy differences among countries. In Section 5, we evaluate the specific challenges of China, India and the Philippines, discussing how they can make the growth process more inclusive. The paper concludes with a brief summary of key policy recommendations.

2 From Pro-Poor Growth to Inclusive Growth

Asian MICs are entering a new stage of social, political, and economic development (Ali and Zhuang, 2007). While rising incomes in Asian MICs have contributed to an impressive reduction in extreme poverty rates, they have also been associated with rising (vertical and horizontal) inequalities. For instance, spatial income disparities have increased between rural and urban areas, as well as among regions. Moreover, progress has been uneven in child and maternal health (with large variations across income quintiles), and in terms of gender parity in secondary and tertiary education. A substantial number of people still lack reliable and affordable access to clean water and adequate sanitation. Urban slums continue to grow as internal migration brings the rural poor to urban areas that suffer from environmental degradation. Unequal access to economic opportunities often exacerbates income inequalities. If these disparities remain overlooked, they could threaten the fragile political consensus for economic reforms or even political stability (ADB, 2007).

Therefore, while it is essential to promote high and sustainable growth to create economic opportunities, it is also necessary to promote social inclusion to ensure equal access to economic opportunities *for all* – particularly for the poor and disadvantaged groups of society (Ali and Zhuang, 2007). This requires a policy realignment from poverty reduction (i.e., pro-poor growth) to inclusive growth.

Klassen (2010) argues that economic growth is inclusive when: (i) it allows participation and contribution by all members of society, with a particular focus on disadvantaged groups[1]; and (ii) it leads to declines in (non-income) inequality, such as in access to health, education, and social integration. These are labelled as the 'non-discriminatory' and 'disadvantage reducing' aspects of growth, respectively. In practice, this requires: (i) positive per capita income growth; (ii) income growth for the more disadvantaged groups that is at least as high as average per capita income growth rates (suggesting that these groups are able to participate in the growth process no less than proportionately); and (iii) improvements in non-income dimensions of well-being.[2] This concept has strong implications for policy-making, in the sense that it requires a departure from focusing on the poor as the beneficiaries of growth (e.g., through income support) towards ensuring that they (and the vulnerable middle strata) become active participants and contributors to the growth process (e.g., through their labour). Hence, employment policies move to centre stage in any inclusive growth strategy.

This expanded development agenda includes not only the eradication of extreme poverty, but also the improvement of living standards of a much larger segment of society – those who often feel disenfranchised by the disadvantages associated with rising inequalities in opportunities (Ali and Zhuang, 2007).[3] Hence, promoting social inclusion will require increased public spending in education, health and other social and municipal services to expand human capacities and living conditions, creating or expanding social protection to prevent extreme deprivation and protect the

[1] Such as the poor, women, the youth, disabled persons, ethnic minorities, rural populations, etc.
[2] This would include improvements in health outcomes (e.g. survival rates), education achievements, nutritional status, and access to social and municipal services (e.g. clean water and appropriate sanitation facilities).
[3] McKinley (2010) constructs a composite inclusive growth index with indicators covering the following areas: (i) growth, productive employment and economic infrastructure; (ii) income poverty and equity; (iii) human capabilities; and (iv) social protection.

vulnerable non-poor, and labour market policies to support the creation of decent employment and ensure that disadvantaged groups of society have equal access to economic opportunities.[4]

The Role of Macroeconomic and Structural Policies

At the centre of an inclusive growth strategy is the need to generate widespread productive employment, which enables economic growth to reduce both poverty and inequality. In this context, macroeconomic and structural policies play a key role in the creation of sustainable growth and productive employment, while social policies, social protection and labour market policies play a vital supporting role by enabling equal access to these new economic opportunities.

A pro-employment macroeconomic strategy will require active fiscal policies complemented by monetary and financial policies that support the medium-term objective of creating widespread productive employment (McKinley, 2009). For instance, public investment in economic and social infrastructure will stimulate private investment and thus economic growth. Monetary policies can accommodate expansionary fiscal policies by ensuring low real interest rates, which in turn can stimulate domestic credit creation for the private sector and alleviate the domestic public debt burden. Exchange rate management ensures currency stability and allows countries to manage their exposure to external risks, whilst maintaining a competitive exchange rate to promote exports. Finally, financial policies mobilise domestic savings and allocate credit for productive investment (e.g. productivity-enhancing innovation) and employment generation.

While these macroeconomic policies are essential to stimulate broad-based investment and economic growth, structural policies can be deployed to influence the intensity of growth with respect to productive employment (McKinley, 2008). In fact, structural policies are designed to promote 'structural change' through their impact on the allocation of economic resources. This usually entails a reallocation of labour from low-productivity to more dynamic sectors (or activities), and is often perceived as a pre-requisite for economic development. Structural change would thus require a movement of labour from subsistence agriculture to formal wage employment – typically in manufacturing, 'modern' services and innovative agricultural activities (UNCTAD, 2010).

Particular forms of macroeconomic policies can be tailored to allocate resources to specific sectors and activities. For instance, targeted fiscal decisions (on taxing and spending) can change economic incentives and thus promote structural change. Financial policies can influence job creation by favouring the allocation of credit to employment-intensive sectors of the economy. Finally, capital controls can also affect the types of foreign investment (e.g., productive FDI versus short-term 'hot' capital flows).

While increased labour productivity is often seen as the key factor enabling economic development, we argue that this should not be the central policy objective by itself. This is because real wages do not necessarily rise with labour productivity, partly due to the pressures of international competition on labour costs.[5] Hence, in addition to raising productivity, it is important to create mechanisms that encourage an appropriate distribution of productivity gains. This, in turn, will promote a sustainable and socially inclusive 'virtuous cycle' based on higher domestic demand (through higher real wages), which will lead to the creation of more and better jobs. This can be achieved through public incentives to induce financial institutions to direct credit

[4] While labour market policies do not play a leading role in generating economic growth, they do increase people's access to the benefits of growth.

[5] In fact, more developed countries such as the US have experienced an unprecedented widening gap between productivity growth and average worker compensation/wages, which has further entrenched income inequality.

to certain purposes (innovation) or certain sectors (those potentially competitive), as well as through other such means as better representation of the interests of workers.

It is sometimes argued that governments need to promote policies to unlock the employment generation potential of small and medium enterprises (SMEs). SMEs, particularly small and micro enterprises, often operate in the informal economy and employ a large share of a country's workforce, which makes them an important vehicle to reduce poverty and inequality. Nonetheless, recent evidence suggests that while SMEs employ the largest share of workers and create most jobs, they have lower productivity growth and value-added than large firms (Ayyagari et al., 2011). Hence, SME's potential as a sustainable source of decent jobs can be limited, unless structural policies targeting sectors and activities with strong productivity growth potential are implemented.

Nevertheless, it should be noted that while macroeconomic and structural policies are essential to generate employment in productive sectors of the economy, equity-based policies would enable the poor and vulnerable groups of society to access these better employment opportunities. This latter set of policies includes interventions related to social and municipal services, social protection, and labour markets. Such policies can enhance the 'social inclusiveness' of economic growth.

3 Growth, Employment and Poverty

Economic Growth

The recent economic performance of Asian economies has been quite impressive (Table 1). Despite the Asian financial crisis of 1997-98 and the global economic crisis of 2008-09, most countries have been able to achieve strong economic growth and significantly raise per capita incomes. In just 20 years, GDP per capita grew by a factor of six in China, trebled in Viet Nam, and more than doubled in India, Malaysia and Sri Lanka – with Thailand and Indonesia following closely behind. In fact, many of these countries were classified as low-income countries not so long ago: China graduated to (lower) middle-income status in 1999, Indonesia in 2003, India in 2007, and Viet Nam in 2009.[6] However, the Philippines has remained a lower middle-income country for the past 20 years, with per capita incomes barely growing in the 1990s. The impact of the Asian financial crisis is quite noticeable in Indonesia and Thailand, as illustrated by the negative average per capita growth in the late 1990s. India's per capita growth has gradually accelerated to a healthy 7 per cent, while China posted a remarkable 10 per cent average in the 2000s.

Table 1: GDP Per Capita and GDP Per Capita Growth

	GDP per capita (PPP, constant 2005 int. $)					GDP per capita growth (average annual %)			
	1990	1995	2000	2005	2010	1991-95	1996-00	2001-05	2006-10
China, PR	1,101	1,849	2,667	4,115	6,810	11.0	7.6	9.1	10.6
India	1,244	1,452	1,769	2,300	3,240	3.2	4.0	5.4	7.1
Indonesia	2,087	2,823	2,727	3,217	4,003	6.2	-0.4	3.4	4.5
Malaysia	6,646	9,185	10,271	11,755	13,416	6.7	2.5	2.8	2.7
Philippines	2,519	2,502	2,684	3,053	3,547	-0.1	1.4	2.6	3.1
Sri Lanka	2,018	2,484	3,068	3,546	4,646	4.2	4.3	3.0	5.6
Thailand	3,961	5,645	5,568	6,751	7,783	7.3	-0.1	3.9	2.9
Viet Nam	902	1,214	1,597	2,143	2,828	6.1	5.6	6.1	5.7

Source: Calculated from the WDI (2011)

Table 2 provides average growth rates by economic sector, which can give us an initial view of the quality of growth. The sectoral data suggest that growth has predominantly come from industry and services. In China, while average growth rates in these two sectors were predominantly above 10 per cent, agriculture experienced growth of only about 4 per cent per year. Similar patterns can be found in India, Sri Lanka and Viet Nam. In fact, growth in agriculture has consistently lagged behind that of industry and services, with the exception of a few episodes – e.g., in Thailand and Indonesia in the period 1996-2000, possibly due to the pronounced effects of the Asian financial crisis. Moreover, the growth of services has often outshined that of industry, especially in the 2000s. This suggests a relatively rapid shift in the economic structure of these countries towards the tertiary sector.

[6] In 2010, China and Thailand graduated to upper middle-income status. Malaysia has been in that category since 1992.

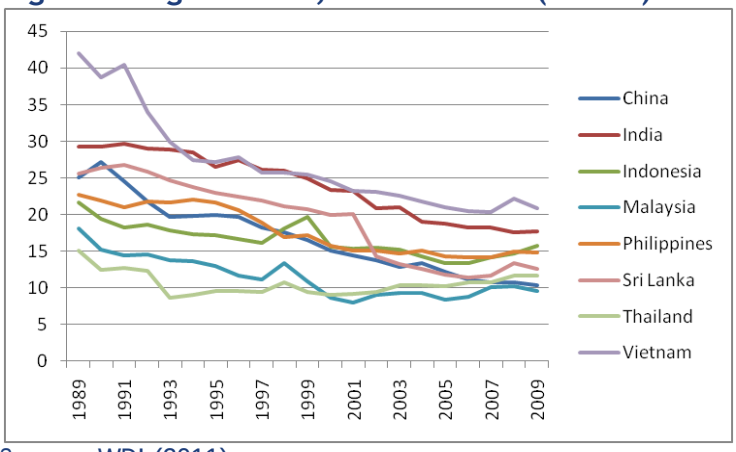
Table 2: Average Annual Growth by Economic Sector

	Agriculture (annual growth, %)				Industry (annual growth, %)				Services (annual growth, %)			
	1991-1995	1996-2000	2001-2005	2006-2009	1991-1995	1996-2000	2001-2005	2006-2009	1991-1995	1996-2000	2001-2005	2006-2009
China, PR	4.2	3.5	3.9	4.6	17.5	9.8	10.8	12.1	12.3	9.6	10.5	12.4
India	2.4	3.2	2.8	2.6	6.0	5.1	7.4	8.5	6.7	8.0	8.7	10.1
Indonesia	2.6	1.4	3.2	3.9	9.6	2.0	3.9	4.1	9.0	-0.1	5.3	7.2
Malaysia	0.1	1.8	3.2	2.8	11.1	6.7	4.0	0.4	10.9	8.2	5.5	6.5
Philippines	1.5	2.3	3.7	3.0	2.2	4.1	2.9	3.8	2.6	4.7	6.0	5.1
Sri Lanka	2.3	1.4	0.5	5.1	7.3	6.3	3.4	6.5	5.8	5.8	5.3	6.0
Thailand	1.3	2.4	2.5	2.3	11.5	1.4	6.3	2.6	8.1	-0.4	4.5	2.6
Viet Nam	4.1	4.4	3.8	3.5	12.0	10.6	10.3	8.0	8.6	5.7	7.0	7.8

Source: Calculated from the WDI (2011)

Figure 1 confirms the declining contribution of agriculture to overall GDP, which has been compensated by increased shares of GDP for industry and services. For instance, Viet Nam has seen the share of industry in GDP climb from 23 per cent in 1990 to 40 per cent in 2009, while Indonesia experienced an increase from 39 to 49 per cent in the same period. Nonetheless, services appear to have been the main driver of the changing structure of production, with substantial increases in India (from 44 to 55 per cent), China (from 32 to 43 per cent), Sri Lanka (from 48 to 58 per cent) and the Philippines (from 44 to 55 per cent).

Figure 1: Agriculture, Value Added (% GDP)



Source: WDI (2011)

Employment

Before we analyse the key trends in employment, it is important to briefly investigate demographic dynamics (Table 3). Data on the elderly dependency ratio demonstrate that the Asian population is ageing, with particularly high ratios in China, Sri Lanka and Thailand – although still far from Japan's 34 per cent. Conversely, the dependency ratios for the young (i.e., those under 15) are showing dramatic falls, suggesting that these countries are entering a more advanced stage of demographic transition.[7] The median age has increased quite significantly in

[7] The demographic transition is usually associated with four key stages: (i) high birth and death rates; (ii) high birth rates and declining death rates (leading to strong population growth); (iii) declining birth rates and fairly low death rates (leading to slower population growth); and (iv) low birth and death rates.

China and Thailand – by nearly 10 years in only two decades. Finally, we note that India, Indonesia, Malaysia, the Philippines and Vietnam still have high labour force growth rates, around or above 2 per cent per year. These trends have important social and economic implications, which require appropriate policies to enable the effective absorption of new entrants into the labour market while also protecting the ageing population.

Table 3: Demographic Trends

	Age Dependency Ratio (% Working-Age Pop.)						Median Age			Labour Force, growth (%)			
	Old (over 65)			Young (under 15)									
	1990	2000	2009	1990	2000	2009	1990	2000	2010	1991-1995	1996-2000	2001-2005	2006-2009
China, PR	8.3	10.1	11.3	42.9	38.1	28.1	25.1	29.7	34.5	1.3	1.1	0.9	0.7
India	6.6	7.0	7.6	64.9	57.7	48.9	21.1	22.7	25.1	2.1	1.8	1.9	2.0
Indonesia	6.3	7.5	8.9	59.3	46.8	40.3	21.3	24.4	27.8	2.4	2.9	2.0	1.9
Malaysia	6.2	6.2	7.2	63.5	53.4	44.8	21.6	23.8	26.0	3.1	3.6	2.5	2.3
Philippines	5.8	6.0	6.8	72.6	64.3	54.7	19.1	20.4	22.2	3.1	2.3	2.5	2.2
Sri Lanka	8.9	9.5	10.9	51.1	39.7	35.5	24.3	27.8	30.7	1.0	1.9	1.1	0.5
Thailand	7.1	9.3	10.7	45.9	36.7	30.7	24.4	30.2	34.2	0.3	1.0	1.7	0.9
Viet Nam	8.4	9.3	9.3	70.6	55.0	37.9	20.7	23.8	28.2	2.4	1.6	2.4	2.3

Source: WDI (2011) and UN (2011)

Table 4 provides a summary of key labour force statistics. Apart from Indonesia and Malaysia, the labour participation rate[8] has shown a downward trend in our sample of Asian MICs. This reveals implicitly an increase in the share of the 'economically inactive' population, which traditionally includes students, retired workers, homemakers, and those with incapacitating conditions. This declining trend might be explained, in fact, by an increasing number of young people entering and continuing education – due to greater access and longer average years of schooling – and possibly by some household members deciding not to work when household incomes rise (KILM, 2009). Nonetheless, this trend might also conceal an increase in the number of 'discouraged' workers – i.e., people who are available for work but have ceased to actively seek employment. Such workers could feel that suitable work is not available to them (e.g., due to a skills mismatch) or because they do not know where and how to find work.

The employment to population ratio[9] also appears to have declined in most countries, with the exception of Sri Lanka, Malaysia and the Philippines. This is probably due to the same reasons presented above. We also observe that while the level of female representation in the total labour force has not changed significantly over the years, the data reveals stark differences across countries. For instance, whilst there is nearly gender parity in Viet Nam, Thailand and China, less than one-third of the labour force in India and Sri Lanka is comprised of women.

[8] The labour force participation rate – measured by the ratio of the economically active population to the total population aged 15 and above – provides an indication of the relative size of the labour supply that is available to be actively engaged in the production of goods and services.

[9] The employment to population ratio gives us the percentage of the working-age population that is currently employed.

Table 4: Key Labour Force Statistics (Period Averages)

	Labour Participation Rate (% of population aged 15+)				Employment to Population Ratio (% of population aged 15+)				Labour Force, Female (% total labour force)			
	1991-1995	1996-2000	2001-2005	2006-2009	1991-1995	1996-2000	2001-2005	2006-2009	1991-1995	1996-2000	2001-2005	2006-2009
China, PR	79.0	78.1	75.9	74.0	75.4	74.5	72.6	71.3	44.7	44.7	44.7	44.7
India	60.0	59.0	58.0	57.8	58.1	57.1	56.2	55.6	27.7	27.5	27.1	27.6
Indonesia	65.3	66.7	67.8	68.5	62.6	62.8	60.6	60.9	37.8	37.8	37.3	38.1
Malaysia	62.0	62.1	62.6	62.1	59.8	60.0	60.3	60.3	34.1	34.0	34.9	35.2
Philippines	65.5	66.1	65.9	63.8	59.6	60.1	59.5	60.0	36.5	37.2	38.3	38.2
Sri Lanka	57.2	56.9	55.8	54.9	50.1	52.2	52.7	54.2	32.3	32.6	32.6	32.9
Thailand	76.4	74.2	73.5	73.0	75.2	72.6	72.3	71.8	45.6	46.2	46.1	46.1
Viet Nam	77.0	74.8	73.1	72.0	74.5	72.4	70.6	69.5	50.5	49.8	49.2	48.7

Source: Calculated from the WDI (2011) and KILM (2009)

In terms of the sectoral distribution of employment, we note that there has been a sharp decline in the share of employment in agriculture (Table 5). This changing pattern has been quite noticeable in all countries – especially in Thailand, which experienced a 15 percentage point reduction. However, it appears that the structure of employment shifted from agriculture to services, not towards industry – as one would have expected from standard development theory. In fact, the share of employment in industry declined in China, Malaysia and the Philippines, with only a modest increase in Indonesia (2.4 percentage points). Therefore, the services sector has been increasingly important in providing employment in Asian MICs. This trend might be problematic if most of these new jobs are in the 'traditional' services sector – where jobs tend to be informal (thus precarious), low paid, and have little scope to generate significant productivity growth – rather than in the more dynamic 'modern' services sector (UNCTAD, 2010). It also important to note that agricultural employment remains quite high in most countries.

Table 5: Employment by Economic Sector (Period Averages)

	Agriculture (% total)				Industry (% total)				Services (% total)			
	1991-1995	1996-2000	2001-2005	2006-2007	1991-1995	1996-2000	2001-2005	2006-2007	1991-1995	1996-2000	2001-2005	2006-2007
China, PR	51.2	47.1	44.7	..	20.1	18.8	17.5	..	11.0	12.8	14.4	..
India	..	..	..	..	..	..	..	..	..	..	..	..
Indonesia	49.9	43.7	44.4	41.6	16.3	17.7	18.4	18.7	33.7	38.5	37.2	39.6
Malaysia	22.1	18.5	14.7	14.7	30.6	32.3	31.4	29.4	46.2	49.2	53.9	55.9
Philippines	45.1	39.2	37.2	36.4	15.8	16.4	15.4	15.0	39.1	44.4	47.4	48.7
Sri Lanka	40.7	38.0	33.2	31.8	21.6	22.8	23.1	26.6	33.7	36.0	38.0	38.6
Thailand	56.6	49.5	44.4	41.9	16.6	18.1	19.8	20.7	26.6	32.3	35.7	37.2
Viet Nam	..	66.1	60.9	..	..	11.9	15.6	..	..	22.1	23.5	..

Obs.: The data for China and Sri Lanka does not add up to 100.
Source: Calculated from the WDI (2011) and KILM (2009)

Table 6 disaggregates data by type of employment, in order to further analyse the changing nature of jobs. It shows that a significant share of the employed are still classified as contributing family workers in Viet Nam and Thailand – although the latter category has registered a significant reduction in the last 20 years. Moreover, self-employment is relatively high in the majority of countries in the sample. This category includes employers, own-account workers (the vast majority), and members of producers' cooperatives. Finally, the share of wage and salaried workers – often used as a proxy for quality employment – has shown little variation through time, perhaps with the exception of Thailand. This suggests that the fast economic growth rates observed in many Asian MICs have failed to translate into better (and usually more productive) types of employment.

Table 6: Status in Employment

	Contributing Family Workers (% total employed)				Self-Employed (% total employed)				Wage and Salaried Workers (% total employed)			
	1991-1995	1996-2000	2001-2005	2006-2007	1991-1995	1996-2000	2001-2005	2006-2007	1991-1995	1996-2000	2001-2005	2006-2007
China, PR	..	..	..	..	..	..	..	..	..	..	..	..
India	..	..	..	..	..	..	..	..	..	..	..	..
Indonesia	..	19.1	18.8	17.1	..	47.3	48.3	49.0	..	33.6	31.6	34.0
Malaysia	5.4	6.1	4.8	5.0	24.2	20.1	19.5	20.8	69.4	73.8	75.7	74.3
Philippines	..	12.8	12.6	12.8	..	37.2	37.4	36.4	..	50.1	50.1	50.9
Sri Lanka	..	12.1	9.7	10.4	..	30.7	31.7	33.6	..	57.2	58.6	56.1
Thailand	35.1	28.6	23.7	21.5	31.5	33.4	34.6	35.0	33.3	38.0	41.7	43.7
Viet Nam	..	39.7	35.9	..	..	41.1	41.2	..	..	18.6	22.2	..

Obs.: The total may not add to 100 per cent due to accounting discrepancies.
Source: Calculated from the WDI (2011) and KILM (2009)

Table 7 examines unemployment and vulnerable work. In terms of the broad trends of unemployment rates, we note a substantial reduction in Sri Lanka and a considerable increase in Indonesia. Unemployment also appears to have increased in China and India. Nonetheless, we ought to interpret these trends with some caution. The standard (international) definition of unemployment is underpinned by the existence of safety nets, since most poor people cannot afford to be out of work in the absence of income support. This usually leads to low rates of unemployment and a large proportion of low-income self-employed workers in developing countries. In the context of the Asian MICs, an increase in unemployment rates may actually reflect the introduction or expansion of income support, which could be interpreted as a positive development.[10]

Perhaps more disturbing is the rising share of unemployed with tertiary education. High-skilled unemployment in MICs such as Malaysia and the Philippines (as well as, for instance, in high-income Asian countries) highlights the new challenges for employment creation in Asia. There is scarce data on vulnerable employment – usually measured as the sum of (low-paid) own-account workers and (unpaid) family workers – but the data that are available point to a very disappointing performance, especially when we bear in mind the strong economic growth of the last 20 years. This suggests that the recent growth pattern has not generally been inclusive, with increases in average per capita incomes masking rising (income and non-income) inequalities.

[10] Moreover, the unemployment rate definition in Indonesia and the Philippines was changed in 2001 and 2005, respectively. Therefore, the figures are not strictly comparable across the entire period.

Table 7: Unemployment and Vulnerable Employment

	Unemployment Rate (% total labour force)				Unemployed with Tertiary Educ. (% total unemployment)				Vulnerable Employment (% total employment)			
	1991-1995	1996-2000	2001-2005	2006-2009	1991-1995	1996-2000	2001-2005	2006-2007	1991-1995	1996-2000	2001-2005	2006-2007
China, PR	2.6	3.1	4.1	4.1	..	..	..	..	..	..	..	..
India	2.9	3.1	4.4	..	26.7	29.8	31.7	..	..	..	..	..
Indonesia	2.8	5.4	9.6	8.9	11.1	8.8	5.7	7.9	..	64.3	64.0	63.1
Malaysia	3.3	2.9	3.5	3.4	8.9	12.6	19.3	24.8	26.9	23.4	21.0	22.1
Philippines	8.7	9.1	10.7	7.5	..	31.4	35.4	40.1	..	45.1	44.7	44.8
Sri Lanka	13.6	9.5	8.2	6.3	..	..	..	29.8	..	40.7	38.6	41.0
Thailand	1.7	2.1	1.8	1.2	9.6	16.6	0.2	0.3	64.4	59.3	55.1	53.3
Viet Nam	..	2.3	2.3	2.4	..	..	..	..	..	80.5	76.7	..

Source: Calculated from the WDI (2011) and KILM (2009)

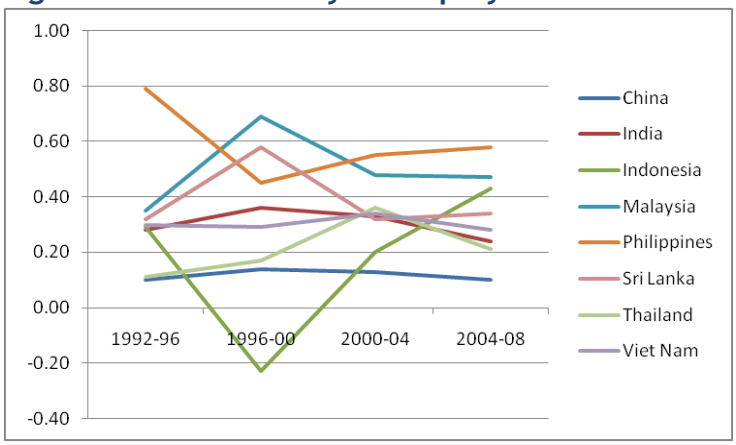
Another dimension of vulnerable employment is informality. Most informal-sector employees lack basic employment and social protection, and usually have unproductive jobs with low earnings. Current employment transitions (e.g., rural to urban or agriculture to services) are not contributing to a reduction in the share of the informal sector. ILO (2011) estimates the percentage of people in informal employment (as a percentage of non-agricultural employment) at 84 per cent in India (2005), 68 per cent in Viet Nam (2009), 62 per cent in Sri Lanka (2009), and 42 per cent in Thailand (2010).[11] However, Bacchetta et al. (2009) suggest that these values could be considerably higher, with an average of about 78 per cent for Asian countries.[12] These estimates reveal a very large informal sector, especially in the context of middle-income countries. If true, such conditions have important implications for economic policy – since most social insurance and labour market instruments predominantly cover formal wage employment.

Finally, Figure 2 shows trends in employment elasticities, which measure the percentage change in employment associated with the percentage change in GDP. Apart from the volatility observed in the second period – due to the Asian financial crisis – the most salient trend is that the majority of elasticities are concentrated in the interval between 0.2 and 0.4. Using the interpretation suggested in Kapsos (2005), we conclude that Asian MICs have experienced employment growth dominated by productivity growth.[13] In fact, these low employment elasticities combined with strong economic growth rates suggest that Asia – and in particular East Asia – has experienced robust productivity growth instead of broad-based employment generation.

Note that these elasticities are significantly closer to 0 than 1. Hence, this low employment-intensity of growth suggests that there is significant room for improvement. Khan (2001) argues that employment elasticities in developing countries should ideally be around 0.7, at least until these economies reach upper-MIC status, after the elasticities could fall.[14] Moreover, due to different patterns of working-age population growth, some countries may require an even higher employment elasticity (for a given rate of growth) in order to absorb new entrants into the labour maker. This appears to be particularly pertinent for South Asia (India and Sri Lanka) and Southeast Asia (e.g., Indonesia).

[11] It should be noted that statistics for 'persons in informal employment' and 'persons employed in the informal sector' can vary considerably, mostly due to the existence of informal types of employment in formally registered firms.
[12] This Asia grouping includes China, India, Indonesia, Pakistan, Sri Lanka and Thailand.
[13] Since GDP growth has been positive and employment elasticities have been positive but below unity.
[14] In the early stages of development the primary goal is to absorb the surplus of agricultural labour into urban industry or decently paid services.

Figure 2: Arc Elasticity of Employment



Source: Compiled from KILM (2009)

Kapsos (2005) calculates sectoral employment elasticities as well as youth, female and male employment elasticities covering the period from 1991 to 2003 for the Asia and Pacific region. Overall, youth employment elasticities have been very low, or even negative. This is perhaps the result of young people leaving the labour force for continued education and training, but it may also reveal underlying structural issues of youth employability.[15] In fact, the data suggest that the youth in South-East Asia were disproportionately affected by the financial crisis. The gender gap in terms of the employment intensity of growth is not particularly significant in East Asia, but it is in South Asia – possibly due to the larger initial gender gap in labour force participation and the subsequent catching-up by women in the labour market. Moreover, South Asia will require a higher relative employment elasticity to provide employment opportunities for a faster growing labour force while maintaining stable unemployment.

In evaluating employment elasticities, it is useful to understand the role of labour productivity – measured by the ratio of GDP to employment – which provides a proxy for the output produced per worker. Asian countries have experienced strong productivity growth in the last decade, with an annual average of around 14 per cent in China, 6 per cent in Vietnam, and 5 per cent in India (ADB, 2011). The remaining countries in our sample experienced increases between 2 and 4 per cent per year. However, it should be recalled that labour productivity growth has a dual character: while it is an important source of economic growth, it can also have a labour-saving effect, thus potentially reducing employment demand. If the income gains of productivity are equitably distributed between wages and profits, then the increasing demand for goods and services (resulting from higher wages) could overcome the direct negative effect on labour demand (UNCTAD, 2010). Nonetheless, real wages do not necessarily rise with labour productivity, partly because of the pressures of international competition on unit labour costs and uneven bargaining power between employers and employees. For instance, in India and the Philippines, wage growth has lagged significantly behind productivity growth over the last decade (ADB, 2011).

[15] Although the East Asian youth 'bulge' is starting to decline (and thus the scope for a demographic 'dividend'), it is vital to provide young people with the skill sets that are required by their rapidly modernising economies. Such skills will provide long-lasting benefits.

Poverty

Table 8 provides information on the distribution of population by income group, which is based on data on consumption expenditure means derived from household surveys. We note that while the poverty reduction effort has been remarkable in most countries, the vast majority of the Asian population still earns less that $4 per day, and is therefore susceptible to falling back into extreme poverty in the event of an economic shock. For instance, only Malaysia and Thailand have less than 70 per cent of their population earning below the $4-a-day threshold – 34 and 44 per cent, respectively. In India, 95 per cent of the population earns less than $4 per day, while in Indonesia and Sri Lanka the share of population is 88 and 83 per cent, respectively. In terms of the $2-a-day threshold, three-quarters of India's total population still earn below this threshold, and so does about half of the population in Indonesia and Vietnam. The respective values for China, the Philippines and Sri Lanka are around 40 per cent.

Table 8: Population Shares by Income Category

Country	Survey Year	Percentage of Population (2005 PPP $)						Absolute Change (%)[1]	
		<$1.25	$1.25-$2	$2-$4	$4-$10	$10-$20	>$20	<$1.25	$2-$20
China, PR	2005	15.5	21.2	34.0	25.2	3.5	0.7	-63.0	61.4
India	2005	41.6	33.2	20.5	4.2	0.5	0.1	-12.9	12.8
Indonesia	2005	21.8	31.4	35.0	10.5	1.2	0.3	-46.8	46.3
Malaysia	2004	0.0	7.3	27.1	48.1	14.1	3.4	-6.3	5.6
Philippines	2006	22.6	21.7	31.5	19.7	3.8	0.7	-12.6	12.0
Sri Lanka	2002	15.0	25.0	37.8	18.7	2.7	0.8	10.0	-10.1
Thailand	2004	0.0	10.7	33.5	41.7	10.6	3.5	-20.0	17.6
Viet Nam	2006	21.4	26.1	35.5	14.8	1.9	0.2	-57.8	57.4

[1] This refers to the percentage point change in the respective population group share over the period 1990-08.
Source: Compiled from Chun (2010)

The size of Asia's 'middle class' – i.e. those earning between $2 and $20 per day – has dramatically increased in the past two decades. This is true in absolute terms, due to the large population size of China, India and Indonesia, but it is also true in relative terms (see the large percentage point changes in China, Indonesia and Viet Nam). Within this group, our main focus will be on the lower-middle and middle-middle classes – that is, those earning between $2-$10 per day – which constitute, for example, three-quarters of the population in Malaysia and Thailand, and about half of the population in the remaining countries in our sample, with the exception of India. These strata represent large segments of the Asian population (and indeed labour force) that remain vulnerable or relatively disadvantaged.

ADB (2010) provides a distribution of the type of employment by income group for China, India and the Philippines. Such data show that the majority of the poor and lower-middle class are own-account workers, while those earning above $4 per day tend to be in regular wage employment. Further details of such disaggregations will be provided in Section 4.

Table 9 reports on the income share held by different quintiles of the population and the Gini index. It appears that income inequality is increasing in the majority of countries in the sample – the exceptions being Indonesia and Malaysia. The trends for Sri Lanka and Thailand are particularly worrying, with the income share held by the poorest 60 per cent falling from 37 and 27 per cent to 32 and 22 per cent, respectively. In fact, only the top 20 per cent of the population (i.e., the richest quintile) have seen their share in total income increase – with the bulk of income gains concentrated in the richest 10 per cent of the population. This suggests that while the poor have benefited from the income created in the past two decades, larger segments of the

population would have benefited more had the gains from economic growth been more equitably distributed across the entire population, particularly across the middle strata.

Table 9: Income Share by Population Quintile and Gini Index

Country	Survey Period	Earliest Survey						Latest Survey					
		Q1	Q2	Q3	Q4	Q5	Gini	Q1	Q2	Q3	Q4	Q5	Gini
China, PR	2005	..	..	..	..	..	..	5.7	9.8	14.7	22.0	47.8	41.5
India	2005	..	..	..	..	..	..	8.1	11.3	14.9	20.4	45.3	36.8
Indonesia	2005-09	7.1	10.7	14.4	20.5	47.3	39.4	7.6	11.3	15.1	21.1	44.9	36.8
Malaysia	1992-09	4.6	8.4	13.3	20.8	52.9	47.7	4.5	8.7	13.7	21.6	51.5	46.2
Philippines	1991-06	5.9	9.3	13.7	20.7	50.5	43.8	5.6	9.1	13.7	21.2	50.4	44.0
Sri Lanka	1991-07	8.7	12.5	16.1	21.2	41.5	32.5	6.9	10.4	14.4	20.5	47.8	40.3
Thailand	1992-09	5.6	8.7	13.0	20.0	52.7	46.2	3.9	7.0	11.4	19.2	58.6	53.6
Viet Nam	1993-08	7.8	11.4	15.4	21.4	44.0	35.7	7.3	10.9	15.1	21.3	45.4	37.6

Source: WDI (2011)

Summary

In summary, most countries have achieved impressive economic growth rates, especially due to a positive performance in services and industry. This trend has contributed, in turn, to a significant share of the population being lifted out of poverty and entering middle-class status. However, the majority of the population remains on relatively low incomes, only a 'shock away' from falling back into poverty. The structure of employment has shifted, by and large, from agriculture towards the services sector, although the type of jobs has remained broadly unchanged – e.g., with no discernible increase in wage and salaried employment. Meanwhile, income inequality has increased in most countries. These trends suggest that a more inclusive growth pattern would have generated better socio-economic outcomes than the ones achieved in Asia's recent 'exceptional period' of rapid economic growth.

4 Key Areas to Improve Access to Economic Opportunities

4.1. Social and Municipal Services

The MDG-related focus on social and municipal services has been mostly concerned with poverty reduction, with a particular focus on service coverage shortfalls in rural areas. However, accelerated urbanisation and rapid (but 'job-deficient') economic growth linked to globalisation point towards new additional priorities. A greater focus on urban areas is required, but not just on 'slums', since there is a growing general problem of inadequate or expensive urban housing. We also need to focus more on the vulnerable non-poor as well as the poor – the 'lower-middle' and 'middle-middle' strata facing increasing relative deprivation with regard to such services.

Most of the standard indicators for health and education tend to be poverty-focused – e.g., under-five mortality, malnutrition, literacy. We thus need to utilise or develop indicators, such as life expectancy, that track progress across a broader segment of the population. We will also need to focus more on access to economic infrastructure and services (e.g., electricity, roads, transportation and ICT), which are vital to economic growth and employment generation. For education, we need to shift our attention to secondary education and above, as these levels will provide the education and skills that support and promote higher-quality employment. For both healthcare and education, households appear to be shouldering an increasing share of the costs, either opting for private schools or paying more out-of-pocket for public services. Thus, over time the 'upper-middle' and 'upper-class' households will likely gain superior access to services. Such trends will exacerbate inequalities in access that will tend to reinforce widening inequalities in access to productive employment. Strengthening broad effective access to at least secondary education (and vocational education) appears to be a key social policy that can help promote an employment-intensive trajectory of economic development.

Health

Asian countries have made considerable progress in improving health outcomes. In about 20 years, under-five mortality rates have been roughly halved in all countries (Table 10). Progress has been particularly impressive in India and Indonesia, where mortality rates fell from 118 and 86 per 1,000 in 1990 to about 66 and 39 in 2009, respectively. Nonetheless, these rates are still quite high, especially when compared to an average of 26 in Northern Africa, 23 in the Latin America & Caribbean region, and 7 in developed countries (UN, 2011).The estimates of maternal mortality suggest large improvements in China and Viet Nam, with reductions of about two-thirds of the 1990 values. Thailand, however, has achieved little progress, while the maternal mortality ratios in India and Indonesia remain stubbornly high. These statistics compare negatively with an average of 80 maternal deaths per 100,000 live births in Latin America & Caribbean and 17 in developed regions. Improved nutrition and a higher proportion of deliveries attended by skilled health personnel are likely to explain the positive trends, although there is still considerable room for improvement. For example, the proportion of underweight children in Southern Asia is the highest in the world at 43 per cent – compared, for example, to 22 per cent in sub-Saharan Africa (UN, 2011). Moreover, progress in some of these indicators has been uneven, often bypassing the

poorest and rural populations. Further progress might be more difficult to achieve due to socio-political barriers and greater complexity in tackling these disparities (e.g., effective targeting and efficiency).

Table 10: Health Indicators I

	Mortality rate, under-5 (per 1,000)		Maternal mortality ratio (per 100,000 live births)		Incidence of tuberculosis (per 100,000 people)		Life expectancy at birth, total (years)	
	1990	2009	1990	2008	1990	2008	1990	2009
China, PR	45.5	19.1	110	38	130	96	68.1	73.3
India	118.2	65.6	570	230	168	168	58.2	64.1
Indonesia	85.6	38.9	620	240	189	189	61.5	71.2
Malaysia	17.8	6.1	56	31	127	83	70.2	74.6
Philippines	59.1	33.1	180	94	393	280	65.4	72.1
Sri Lanka	28.4	14.7	91	39	66	66	69.5	74.3
Thailand	31.6	13.5	50	48	137	137	69.2	69.1
Viet Nam	55.3	23.6	170	56	204	200	65.5	74.6

Source: WDI (2011)

In terms of the incidence of diseases such as tuberculosis, progress appears to have stagnated in India Indonesia, Sri Lanka and Thailand – although this might be due to the lack of data. However, there is some evidence of progress in the remaining countries. Mortality rates have also seen significant reductions. HIV is still an important concern in Thailand, but prevalence rates have been declining. Overall, these improvements have contributed to substantial increases in life expectancy, with the exception of Thailand. Nonetheless, aggregate data tend to hide income, spatial and gender disparities in the access to health services. Moreover, as countries achieve further social and economic progress, a new set of indicators might be needed to provide a better overview of the quality of life or human wellbeing (Table 11). For instance, data on the prevalence of obesity and diabetes, as well as other non-communicable diseases, will need to be regularly collected.

Table 11: Health Indicators II

	Cause of death, by non-communicable diseases (% of total)	Cause of death, by communicable diseases and maternal, prenatal and nutrition conditions (% of total)	Prevalence of overweight (% of male/female population ages 15+)		Diabetes Prevalence (% of population ages 20 to 79)	
			Male	Female		
	2002	2002	2005	2005	2007	2010
China, PR	77.2	11.9	33.1	24.7	4.1	4.2
India	49.2	40.6	16.8	15.2	6.7	7.8
Indonesia	60.6	29.3	9.7	22.7	2.3	4.8
Malaysia	71.0	20.4	22.7	37.2	10.7	11.6
Philippines	56.4	35.1	21.9	28.5	7.6	7.7
Sri Lanka	76.1	13.4	8.9	5.9	8.4	10.9
Thailand	58.4	30.6	27.9	35.2	6.9	7.1
Viet Nam	66.1	24.5	4.1	8.7	2.9	3.5

Source: HNPS (2011)

Table 12 presents key statistics on health expenditures. Total expenditure on health – from both public and private sources – has increased in most countries. However, the average increase from 1995 to 2009 was quite low (less than one percentage point of GDP), with India actually observing a reduction between those two periods. Moreover, the level of expenditure is extremely low when

compared to regional averages of 6.6 per cent in sub-Saharan Africa, 7.7 per cent in Latin America & Caribbean and 11.9 per cent in OECD members.[16] Indonesia' health expenditure remains at an appalling 2.4 per cent of GDP. In contrast, Viet Nam has been able to boost its spending to above 7 per cent of GDP. Also, the South Asia and East Asia & Pacific regions have low per capita levels of expenditure – $114 and $267 per person in PPP terms, respectively – when compared with sub-Saharan Africa ($143), and most certainly when compared with Latin America & Caribbean ($784) and OECD members ($3,952).

In terms of the public contribution towards these expenditures, we note that there is some variation across countries. In 2009, the values ranged from 1.2 per cent of GDP in Indonesia to 3.3 per cent in Thailand. Nonetheless, the public spending (regional) averages for South Asia and East Asia & Pacific (1.2 and 1.9 per cent of GDP, respectively) compare very poorly with sub-Saharan Africa (2.6 per cent), Latin America & Caribbean (3.4 per cent), and OECD members (6.6 per cent).

As to the relative fiscal effort, the share of public expenditure on health in the total budget has increased in several countries, such as Indonesia and Thailand, but it remains fairly low. In fact, India spends only about 4 per cent of its government budget on health. There is limited aggregate regional data for comparison, but the average for OECD member is 16.4 per cent.

Table 12: Expenditure on Health

	Total Health Expenditure (% GDP)				General Gov. Exp. on Health (% GDP)				General Gov. Exp. on Health (% General Gov. Expenditure)			
	1995	2000	2005	2009	1995	2000	2005	2009	1995	2000	2005	2009
China, PR	3.5	4.6	4.7	4.6	1.8	1.8	1.8	2.3	15.2	10.9	9.9	10.3
India	4.3	4.6	4.0	4.2	1.2	1.3	0.9	1.4	4.1	3.9	3.2	4.1
Indonesia	1.8	2.0	2.1	2.4	0.6	0.7	1.0	1.2	4.1	4.5	5.4	6.9
Malaysia	2.9	3.2	4.1	4.8	1.4	1.7	1.8	2.2	6.7	7.3	7.7	7.1
Philippines	3.4	3.4	3.6	3.8	1.4	1.6	1.4	1.3	7.4	8.4	8.1	7.2
Sri Lanka	3.5	3.7	4.0	4.0	1.6	1.8	1.9	1.8	5.5	6.9	7.9	7.3
Thailand	3.5	3.4	3.5	4.3	1.7	1.9	2.3	3.3	9.7	9.9	11.6	14.0
Viet Nam	5.0	5.4	6.0	7.2	1.8	1.6	1.5	2.8	7.4	6.6	5.0	8.9

Source: WHO (2011a)

Table 13 provides information on the financing of public and private spending on health. Perhaps unsurprisingly, health goods and services are predominantly paid by taxation and private out-of-pocket spending. In fact, these two sources account for over three-quarters of total health spending in all countries, excluding China. Despite significant shifts from private to public funding sources in Thailand and Indonesia, out-of-pocket spending still tends to outstrip tax-based health expenditure. As of 2009, at least half of total health spending came from out-of-pocket sources in India, the Philippines and Viet Nam – which are the poorest countries in our sample. Moreover, social security funds/contributions are an important source of funding in China and have increased considerably in Viet Nam – from 3 to 12 per cent of total health expenditure. In terms of private insurance, we observe an increasing trend in most countries, although its relative importance remains low. Finally, external resources have increased in relative importance in the Philippines, as well as in Sri Lanka and Indonesia.

[16] Regional data was obtained from WDI (2011).

Table 13: Public and Private Expenditure on Health (By Source)

	Public Expenditure (% THE)						Private Expenditure (% THE)					
	Social Security		Tax[1]		External		Out-of-Pocket		Priv. Insurance		Other	
	1995	2009	1995	2009	1995	2009	1995	2009	1995	2009	1995	2009
China, PR	32.4	33.3	17.9	16.9	0.2	0.1	46.4	41.1	0.0	3.1	3.1	5.6
India	3.5	5.2	23.9	26.4	1.3	1.1	65.3	50.0	0.8	1.6	5.3	15.7
Indonesia	3.6	7.1	32.1	42.9	0.0	1.8	46.6	35.2	3.8	1.8	13.9	11.1
Malaysia	0.4	0.4	48.1	44.4	0.7	0.0	38.9	40.4	5.1	8.0	6.8	6.8
Philippines	4.5	7.0	33.2	24.0	1.8	4.4	50.0	54.0	3.7	8.0	6.7	2.7
Sri Lanka	0.0	0.1	46.5	43.2	0.1	2.0	46.3	47.5	5.2	5.0	1.9	2.3
Thailand	3.3	6.9	43.6	68.4	0.1	0.5	42.6	16.5	4.5	5.9	5.9	1.8
Viet Nam	2.5	12.2	28.8	24.8	3.6	1.7	61.3	55.3	2.4	1.7	1.5	4.3

[1] This item was derived as a residual (from public expenditures), and thus may include statistical discrepancies.
Source: WHO (2011a)

The rapid demographic transitions occurring in many Asian countries pose an enormous challenge for the financing of healthcare. Ageing populations will increase the pressures on national health systems, while social development and economic development are also likely to lead to different health demands (e.g., with changing lifestyles leading to different types of health conditions). While the burden of increasing health expenditures will need to be shared by both private and public sources, the extent to which the poor and vulnerable will be able to afford healthcare costs remains unclear. Bearing in mind the regional comparisons presented above, a much stronger fiscal effort will be required in order to support a healthy workforce and the elderly.

Education

East Asian countries have traditionally performed well in terms of educational outcomes. Net enrolment rates in primary education are currently above 90 per cent and youth literacy rates are above 95 per cent. However, the situation in India is less encouraging, with youth literacy rates only increasing from 62 per cent in 1991 to 81 per cent in 2006. Moreover, despite high net enrolment rates, the percentage of children enrolled in the first grade that eventually reach the last grade of primary education (namely, the degree of 'persistence') is still disappointing in India, the Philippines, Indonesia and Viet Nam (Table 14). This suggests that children might be leaving the education system without an appropriate set of skills that would enable them to access good employment opportunities and become effective participants in economic activities. While most countries are likely to achieve universal primary education, the challenge for education in Asian MICs is to continue increasing investments in higher levels of education, including vocational training. This will require a substantial increase in funding for the sector, since costs per pupil are considerably higher in secondary and tertiary education.

In terms of gender parity in primary education, India has made significant progress by increasing the ratio of female to male enrolment from 0.74 in 1990 to 0.97 in 2007. The remaining countries already had ratios above 0.90 in 1990. India, China and Indonesia have made substantial progress in terms of gender parity in secondary education: from 0.63, 0.74 and 0.84 in the early 1990s to 0.88, 1.05 and 0.99 in 2008, respectively. Nonetheless, gender parity in tertiary education remains an issue in India, Sri Lanka and Viet Nam, with current ratios below 0.75.

Finally, we observe that a significant share of secondary enrolment is in private education institutions. While public schools are the overwhelming suppliers of primary education, the

importance of private schools tends to increase in secondary education.[17] For instance, private enrolment in primary education is about 17 per cent of the total in both India and Indonesia, but this percentage shoots up to above 40 per cent in secondary education. However, there are some concerns that the proliferation of private education (especially at the secondary level) might further entrench income inequalities. Private schools tend to recruit children from wealthier households. This trend makes them more likely, in turn, to have better resources than public schools and thus outperform them in test scores. This might then ensure that children from wealthier backgrounds retain or improve their advantage when entering the labour market.

Table 14: Education Indicators I

	Persistence to last grade of primary, total (% of cohort)		Ratio of Female to Male (Enrolment)				Secondary enrolment, private (% of total secondary)	
			Secondary		Tertiary			
	2001	2007	1990	2008	1990	2008	2002	2007
China, PR	..	..	0.74	1.05	..	1.04	..	8.3
India	61.4	*68.5*	*0.63*	0.88	0.52	*0.70*	42.0	..
Indonesia	85.9	80.0	0.84	0.99	*0.67*	0.92	42.7	48.8
Malaysia	*97.1*	95.9	1.06	1.07	*1.07*	1.30	3.5	*4.0*
Philippines	75.3	75.3	1.03	1.09	*1.48*	1.24	21.5	20.3
Sri Lanka	..	97.8	1.08	*1.02*	*0.48*	..	2.0	..
Thailand	..	..	1.06	1.09	*1.17*	1.22	11.3	18.0
Viet Nam	89.0	*85.4*	*0.90*	*0.92*	*0.66*	*0.73*	10.9	11.4

Obs.: Values in *italic* are for closest year.
Source: WDI (2011)

Table 15 provides further information on secondary schooling. The data suggest that secondary enrolment has increased significantly, especially in Thailand – where gross enrolment rates more than doubled in less than two decades – and in China and Vietnam. Progression to secondary school is quite high in most countries in the sample. We also note large increases in the number of both general and vocational pupils in only eight years. These trends have led to significant increases in the average years of total schooling (Table 31, Annex) and school life expectancy (Table 32, Annex), although in some countries pupils suffer from important gender disparities – even within the youth population (e.g., India).

Table 15: Education Indicators II

	School Enrolment, Secondary				Progression to Secondary School (%)		General Pupils (millions)		Vocational Pupils (millions)	
	Gross (%)		Net (%)							
	1990	2008	1990	2008	1990	2007	2000	2008	2000	2008
China, PR	38	76	..	..	64.9	83.1[g]	69.2	82.5	12.3	18.9
India	46[a]	60	..	..	86.7[e]	81.2	70.4	101.0	0.6	0.8
Indonesia	48	74	40[d]	68	49.2	89.6	12.2	15.6	2.1	2.7
Malaysia	56	69	66[e]	68	99.0[f]	99.5	2.1	2.4	0.1	0.2
Philippines	71	82	48[e]	61	89.5	98.8	5.4[c]	6.5	..	..
Sri Lanka	72	87[b]	..	..	86.1	97.8	2.4[c]	2.3	..	..
Thailand	29	74	..	71	..	86.7[h]	3.4[c]	4.0	0.6[c]	0.8
Viet Nam	35	67[c]	55[f]	..	92.9[f]	92.7[i]	7.7	8.9	0.2	0.6

Notes: [a] 1993, [b] 2004, [c] 2001, [d] 1991, [e] 1998, [f] 1999, [g] 1997, [h] 2006, [i] 2005
Source: WDI (2011)

[17] There are no statistics for tertiary education.

Table 16 presents data on the level of public spending on education. The data is averaged over 4-year periods due to several missing observations. The overall level of spending as a percentage of GDP appears to be rather low, especially when considering the averages for Latin America & Caribbean (4.0 per cent) and OECD members (5.1 per cent): the aggregate values for South Asia and East Asia & Pacific are 2.9 and 3.3 per cent, respectively. Moreover, most countries have observed a declining trend throughout the 2000s. For instance, India, the Philippines and Thailand have experienced an average reduction of about one percentage point of GDP. Malaysia registered a drastic fall in the last few years, from about 7 per cent to 4 per cent of GDP. Indonesia appears to be the only country with a discernible positive trend, although it started from a very low base.

Available data on the level of private expenditure on education suggest that households and communities contribute to a significant share of education costs.[18] For instance, private expenditure on all levels of education represented 8.0 per cent of Indonesia's GDP in 2008, 2.0 per cent of the Philippines' in 2003, 1.9 per cent of Thailand's in 2004, and 1.2 per cent of India's in 2005 (UNESCO, 2011). This may raise concerns about equity, and whether governments should rely on households to make these important investments in human capital. The lack of data on private spending on education conceals the real burden placed on households and communities to send their children to school (UNESCO, 2007).

In terms of the share of education spending in the public budget, these values are broadly in line with (if not higher than) available regional averages – e.g. 12 per cent in OECD members in 2008, 13.1 per cent in Latin America & Caribbean in 2004, and 18.9 per cent in sub-Saharan Africa in 2009. In Thailand, while education spending fell from 29 to 22 per cent of total government expenditure, it is still the highest in our sample of countries.

Finally, we can look at the distribution of spending across different educational levels. While Indonesia, the Philippines and Thailand allocate about half of their education budget to primary education, the remaining countries spend about a third of their total sector budget. With the exception of Thailand, all countries spend at least a quarter of total outlays on secondary education, with India spending as much as 43 per cent. Moreover, governments allocate more than 20 per cent to tertiary education, with the exception of Indonesia and the Philippines. However, it should be noted that higher levels of education (especially tertiary) entail higher costs per pupil, and thus increases in student numbers would require a disproportionately stronger expenditure effort (see Table 33, Annex).

Table 16: Public Expenditure on Education (period averages)

	Public Exp. on Education (% of GDP)			Public Exp. on Education (% Total Gov. Expenditure)			Educational Expenditure by Level (% total educ. exp.)[1]		
	1998-01	2002-05	2006-09	1998-01	2002-05	2006-09	Primary	Secondary	Tertiary
China, PR	1.9	..	..	13.0	..	..	32.6	37.4	24.0
India	4.2	3.4	3.1	12.7	10.7	..	35.4	42.5	20.3
Indonesia	2.5	2.9	3.3	11.5	14.8	17.9	50.7	35.6	11.2
Malaysia	6.4	7.1	4.4	23.9	24.5	17.7	39.1	28.2	28.1
Philippines	3.7	2.9	2.7	14.0	16.6	16.5	50.6	25.4	10.4
Sri Lanka	3.1	..	..	..	..	..	..	..	..
Thailand	5.0	4.2	4.0	29.1	25.9	21.7	45.1	14.3	21.2
Viet Nam	..	..	5.3	..	..	19.8	29.4	35.8	22.2

[1] Data corresponds to 2008, except for China (1999) and India (2006). The totals do not sum to 100, since there is a significant share of unallocated (not allocated by level) expenditures.
Source: UNESCO (2011)

[18] These often include expenses such as tuition fees, textbooks, uniforms and teachers' salaries.

As economic growth and structural transformation in Asian MICs create new employment prospects, their populations will require a different set of job skills if they are to take advantage of these emerging opportunities. Moreover, young people have ambitions and expectation that differ from those of previous generations. Nonetheless, the evidence suggests that public educational systems are not responding to the changing needs of modernising economies. Perhaps an indication of this failing is the strong role that the private sector is playing in secondary education in countries such as India and Indonesia – possibly to meet an increasing demand for higher skills from both employers and future employees. While there is certainly a role to be played by the private sector, issues of equal opportunity have to be addressed. There would have to be a stronger government role, such as for monitoring and regulating finances, in the provision of these crucial public goods. Moreover, the potential for public-private partnerships could be explored (e.g., joint-financing for on-the-job training schemes), with a view to promoting skills development in an effective and equitable fashion. These partnerships could be particularly useful with regard to vocational education and training, with the objective of providing a skill set that is adequate for the new type of jobs being generated in rapidly modernising Asian economies.

Water, Sanitation and Electricity

The economic dynamism of Asian urban centres plays a crucial role in the national development process, since most of the production and productivity growth takes place in cities. Moreover, it is often where better job opportunities are located, thus attracting a large number of migrants originating from rural areas and even from abroad. Current projections suggest that the Asian urban population will double from 2010 to 2050 (UN, 2009). However, rapid urbanisation will also have a significant impact on social, economic, political and environmental dimensions, such as the type of employment, forms of housing, consumption patterns and social interaction (Roberts and Kanaley, 2006).

For instance, Grant (2008) suggests that urbanisation is often associated with: (i) greater economic opportunities and thus greater potential for job creation; (ii) lower per capita costs for basic services, due to higher population density; (iii) better access to information, such as the mass media; (iv) greater mobilisation of citizens around shared problems, potentially leading to increased government accountability; (v) greater pooling of resources, ideas, creativity and innovation; and (vi) liberal attitudes, allowing greater participation of women in the labour market. However, there are also some important caveats to these envisaged benefits (Grant, 2008). New opportunities can be limited to skilled workers or to specific (privileged) segments of society, thus exacerbating inequalities. Also, migration often impacts on family cohesion and thus the ability to draw support in times of need, while basic services might overlook those who are unregistered or 'illegal'. Moreover, fast urbanisation might lead to overcrowding, the spread of diseases, and pollution. Additionally, cities are often a fertile ground for criminal activities. Finally, living costs are usually higher in cities, and economic shocks often have a disproportional impact on vulnerable groups living in urban areas. Hence, central and municipal governments need to ensure a sustainable growth of urban centres, especially through higher investments in infrastructure, better management of municipal services, and improved employment policies.

In relation to this topic, Table 17 offers some data on access to water and sanitation. China, India, Sri Lanka and Viet Nam have made significant progress in increasing access to improved water sources, especially in rural areas. Access varied between 51 and 66 per cent in 1990, but increased to between 82 and 92 per cent by 2008.[19] However, progress in Indonesia has been

[19] Despite the relatively high rates, only a minority actually relates to piped water on premises – especially in rural areas and for poor urban households. UN (2011) provides disaggregated data by source.

largely disappointing. The current share of the population using improved drinking-water sources in rural and urban areas is the lowest in the sample – 71 and 89 per cent, respectively. In terms of improved sanitation, India and Indonesia have made little progress in the last two decades. In these two countries, about two-thirds (or more) of the rural population do not have access to such facilities. Viet Nam was able to significantly improve access in both rural and urban contexts, as well as China and the Philippines (to a certain extent). But a large share of the population remains unable to access appropriate sanitation facilities. Moreover, current rates of population and urbanisation growth are placing strenuous pressures on municipal services, which will therefore require further investments in order to even maintain and then improve existing coverage and service quality.

Table 17: Statistics on Water and Sanitation

		Population Using Improved Drinking-Water Sources (%)					Population Using Improved Sanitation Facilities (%)				
		1990	1995	2000	2005	2008	1990	1995	2000	2005	2008
China, PR	**Total**	**67**	**74**	**80**	**86**	**89**	**41**	**45**	**49**	**53**	**55**
	Urban	97	97	98	98	98	48	52	55	58	58
	Rural	56	63	70	78	82	38	42	46	50	52
India	**Total**	**72**	**76**	**81**	**85**	**88**	**18**	**21**	**25**	**28**	**31**
	Urban	90	91	93	95	96	49	50	52	54	54
	Rural	66	71	76	81	84	7	10	14	18	21
Indonesia	**Total**	**71**	**74**	**77**	**80**	**80**	**33**	**38**	**44**	**49**	**52**
	Urban	92	91	90	90	89	58	60	63	66	67
	Rural	62	65	67	70	71	22	26	30	33	36
Malaysia	**Total**	**88**	**92**	**97**	**100**	**100**	**84**	**88**	**92**	**96**	**96**
	Urban	94	96	99	100	100	88	91	94	96	96
	Rural	82	88	93	99	99	81	85	90	95	95
Philippines	**Total**	**84**	**87**	**88**	**90**	**91**	**58**	**63**	**69**	**73**	**76**
	Urban	93	93	93	93	93	70	73	76	78	80
	Rural	76	79	82	85	87	46	52	59	65	69
Sri Lanka	**Total**	**67**	**73**	**80**	**86**	**90**	**70**	**76**	**82**	**88**	**91**
	Urban	91	93	95	97	98	85	86	87	87	88
	Rural	62	69	77	84	88	67	74	81	88	92
Thailand	**Total**	**91**	**94**	**96**	**98**	**98**	**80**	**86**	**93**	**96**	**96**
	Urban	97	98	98	99	99	93	94	94	95	95
	Rural	89	92	95	97	98	74	83	92	96	96
Viet Nam	**Total**	**58**	**68**	**79**	**88**	**94**	**35**	**47**	**57**	**68**	**75**
	Urban	88	91	94	97	99	61	70	79	88	94
	Rural	51	62	74	85	92	29	40	50	61	67

Source: WHO (2011b)

Table 18 demonstrates that there have been marked improvements in terms of access to electricity, especially in India, Thailand and Vietnam. Nonetheless, there are strong rural-urban disparities, with access limited to one-third of the rural population in Indonesia, and about half in India.

Table 18: Population with Access to Electricity

	Total			Urban	Rural
	2000	2005	2009	2008	2008
China, PR	98.6	99.4	99.4	100.0	99.0
India	43.0	55.5	66.3	93.1	52.5
Indonesia	53.4	54.0	64.5	94.0	32.0
Malaysia	96.9	97.8	99.4	100.0	98.0
Philippines	87.4	80.5	89.7	97.0	65.0
Sri Lanka	62.0	66.0	76.6	85.8	75.0
Thailand	82.1	99.0	99.3	100.0	99.0
Viet Nam	75.8	84.2	97.6	99.6	85.0

Source: ADB (2011)

Table 19 provides information on urbanisation and the quality of urban dwellings. Slums are traditionally defined as lacking: access to improved water, access to improved sanitation, a sufficient living area, durability of housing, or security of tenure. While the share of urban population living in slums has decreased in most countries – with the exception of Thailand – the total number of people living in (undignified) dwellings remains very high, and is actually increasing in China, the Philippines and Viet Nam. These trends suggest that much stronger efforts need to be placed on addressing issues of access to water and sanitation, quality of housing and security of tenure.

Table 19: Proportion of Urban Population Living in Slums

	Population in Urban Areas (% Total Population)				Population Living in Slums (% Urban Population)			Population Living in Slums (millions)		
	1990	2000	2005	2009	1990	2000	2005	1990	2000	2005
China, PR	27.4	35.8	40.4	44.0	43.6	37.3	32.9	135.6	168.6	173.3
India	25.5	27.7	28.7	29.8	54.9	41.5	34.8	118.9	116.8	109.3
Indonesia	30.6	42.0	48.1	52.6	50.8	34.4	26.3	27.6	29.7	27.7
Malaysia	49.8	62.0	67.6	71.3	..	..	..	..	..	..
Philippines	48.8	58.5	62.7	65.7	54.9	..	43.7	16.7	..	23.4
Sri Lanka	17.2	15.7	15.1	15.1	24.8	..	..	0.7	..	..
Thailand	29.4	31.1	32.3	33.7	19.5	..	26.0	3.2	..	5.5
Viet Nam	20.3	24.3	26.4	28.3	60.5	..	41.3	8.1	..	9.1

Source: World Bank (WDI and MDG databases), and calculated using urban population.

In terms of public spending on 'housing and community amenities', statistics for 2008 suggest that expenditures were equivalent to1.2 per cent of GDP in India, 0.7 per cent in Sri Lanka, 0.4 per cent in Malaysia, 0.3 per cent in Thailand, and 0.1 per cent in the Philippines. In Indonesia, this value was 0.2 per cent of GDP in 2004 (ADB, 2009).[20] These values roughly translate into 6.9 per cent of central government expenditure in India, 3.1 per cent in Sri Lanka, 1.8 per cent in Thailand, and 0.7 in the Philippines.[21] Thus, the size of spending appears to be inappropriately low in most cases, especially if we bear in mind the huge pressure that rapid urbanisation is placing on municipal services.

In conclusion, current urbanisation trends present a set of important challenges and opportunities with regard to the sustainability of Asian cities – as these trends encourage social, economic,

[20] This consists of government expenditure to provide social housing and community services, such as water supply and street lighting (ADB, 2008). However, it is not clear whether this category includes sanitation and waste management, as defined by the UN Classification of the Functions of Government (COFOG).

[21] Calculated from ADB (2011) as the share of central government expenditure on 'housing and community amenities' in total central government expenditure by function.

political and environmental transformations. For instance, while greater population density might create better economic prospects and improve the efficiency of service delivery, it might also exacerbate inequalities and vulnerabilities. An increasing *urban divide* is likely to contribute to social instability and can be associated with large social and economic costs for the whole society (UN-HABITAT, 2010). Therefore, greater attention needs to be placed on the challenges facing urban areas and populations, especially in terms of providing adequate and accessible social and municipal services. Of particular important are decent housing, water and sanitation, as well as basic economic infrastructure for small businesses (such as reliable electricity, transport and ICT).

4.2. Social Protection

The Role of Social Insurance

In this section we investigate the role of social insurance in promoting social inclusiveness in our set of Asian MICs. Along with social assistance, social insurance is usually regarded as one of the two major dimensions of social protection. Labour market policies are often regarded as a third dimension, though in Asian MICs this dimension is the smallest. These policies will be examined in section 4.3. Since the mid 1990s, social assistance has become the main area of concern for the international development community. This has been due to the adoption of the overriding global goal of reducing extreme income poverty. Invariably, social assistance is designed to respond to the needs of the poorer segments of the population. This objective dictates that the great majority of social assistance programmes have a non-contributory characteristic.

Defining Social Insurance

Social insurance is designed with different purposes in mind. It usually takes the form of 'risk-pooling' arrangements that will reduce the vulnerability of non-poor segments of the population to falling into poverty, due to such factors as the loss of income, ill health or old age. Such 'risk-pooling' schemes can be contributory or non-contributory. For example, both employees and employers might make contributions to a worker's future pension benefits or the workers might be entitled to such benefits, without making contributions, because of their particular status, such as being civil servants.

In contrast to commercial forms of insurance, social insurance is usually based on some form of social solidarity (ILO, 2010). In a public pension scheme, for example, lower-income civil servants might receive the same benefits as higher-income civil servants even though the former have contributed less to the insurance pool. This arrangement would represent a form of redistribution. Either this redistribution would be financed by other contributors or by the State through tax revenues derived from the general population.

It is important to keep this equity dimension in mind when evaluating social insurance, since most such programmes benefit primarily formal-sector workers earning wages or salaries, either in the public sector or in well-established private enterprises.

The Narrow Base of Social Insurance

The above characteristic would usually imply that social insurance is serving the interests of a minority of the labour force in most middle-income countries. This minority is likely to be relatively small in new lower middle-income countries – and smaller still in low-income countries. In other words, social insurance is likely, in most circumstances, to be contributing only modestly to enhancing the broad goals of social inclusiveness. It might even be the case that social insurance programmes are not even serving their narrow constituencies very well. For example, as life expectancy lengthens in middle-income countries in Asia, accrued pension benefits might prove to be inadequate for a lengthy period of retirement. If the State has obligated itself to pay a sizeable portion of such benefits, it could face an unsustainable future financial liability.

So, social insurance programmes might fail to address the vulnerabilities even of its relatively narrow base of formal-sector workers. It is important to emphasize that such a failing would compromise the state's ability to expand insurance coverage to a broader segment of the country's labour force. Since workers in the rest of the economy (including workers in micro-enterprises, the self-employed and those working in the 'informal sector') are likely to be earning lower incomes, they will have greater difficulties in contributing to social insurance schemes. In compensation, the State would have to marshal significantly more fiscal resources to provide benefits to these workers.

Table 20 helps to illustrate the problems that many middle-income countries in Asia still confront in implementing successful social insurance programmes, particularly pensions. Average life expectancy has been increasing significantly in many of these countries. This ageing trend implies that pensioners will be drawing on their benefits for a substantially longer period than originally envisaged. For example, if public-sector workers in Malaysia retire at 58 years of age, they could still expect to draw on their pensions, on average, for almost 17 years. However, the revenue base of many governments (which will be called upon to finance the pensions of public-sector workers) remains low even for many of the middle-income countries in Asia. For example, the revenue/GDP ratio for Sri Lanka is still only about 15 per cent and for the Philippines only about 16%. Moreover, over the last two decades, the revenue/GDP ratio has been stagnating or falling in many of these countries.

Table 20: GDP per capita, Life Expectancy and Government Revenue

	GDP per capita (PPP, constant 2005 int. $)		Life expectancy at birth, total (years)		Tax Revenue (% GDP)		Revenue, excluding Grants (% GDP)	
	1990	2010	1990	2009	1990	2008	1990	2008
China, PR	1,101	6,810	68.1	73.3	3.9	10.3	6.3	11.1
India	1,244	3,240	58.2	64.1	10.1	11.2	12.6	13.0
Indonesia	2,087	4,003	61.5	71.2	15.6[a]	13.0	16.6[a]	19.5
Malaysia	6,646	13,416	70.2	74.6	19.4[b]	15.2	23.3[b]	21.6
Philippines	2,519	3,547	65.4	72.1	14.1	14.2	16.2	15.8
Sri Lanka	2,018	4,646	69.5	74.3	19.0	13.3	21.0	14.9
Thailand	3,961	7,783	69.2	69.1	15.5[c]	16.5	19.5[c]	20.1
Viet Nam	902	2,828	65.5	74.6	..	..	..	..

Notes: [a] 1991, [b] 1996, [c] 2003
Source: WDI (2011)

The 'Missing Middle'

It is noteworthy that the Asian Development Bank and other development institutions are showing more concern for the middle strata in developing countries – and particularly in middle-income countries. If we apply an equity lens to these middle strata, we are likely to find that most of them have not been served well by either social insurance or social assistance.

Social insurance has been directed mostly towards a small minority of formal-sector workers, a significant number of whom (though not necessarily all) are likely to enjoy above-average wages and benefits. At the same time, social-assistance programmes have been directed overwhelmingly towards the poor. These efforts have often been channelled recently through national poverty-alleviation programmes.

Hence, there has been a sizeable 'missing middle' of the population that has been ignored by both social insurance and social assistance. A large proportion of this 'missing middle' remains vulnerable to a wide array of risks that imperil their livelihoods and well-being. The lower strata of this grouping (e.g., the segment living at consumption levels between $2 and $4 per day in PPP terms) remains highly vulnerable to succumbing to extreme poverty. Yet there is a critical shortage of programmes responding to their pressing needs. This is the group that the ADB defines as the 'lower-middle class' (ADB, 2010).

It would be useful to identify the strata of the 'middle class' within which recipients of social insurance (who are mostly formal-sector workers) tend to predominate. Though direct information is sparse, our working assumption is that most of them could likely be categorized as part of the 'middle-middle' class, as defined by the ADB. In other words, their consumption likely falls between $4 and $10 per day per person. Thus, depending on country conditions, the formal-sector workers who receive social insurance benefits could, indeed, be facing difficulties. Such difficulties could be exacerbated, for instance, in countries in which public-sector workers have borne the brunt of fiscal consolidation mandated by structural adjustment programmes.

Since our overriding concern is to promote social inclusiveness, we largely ignore the condition of the ADB-identified 'upper-middle class' (those consuming $10-$20 per day). They are likely to fall within the fourth-highest quintile of the population or higher. The fourth-highest quintile generally receives a higher share of national income than its population share. So, on general equity grounds, the households in this quintile are likely to be doing relatively well.

We now move beyond our introductory remarks to examine social insurance programmes in four of the middle-income countries in our sample. In doing so, we are seeking to illustrate some of the general conditions among middle-income countries in Asia and draw out a few key policy recommendations.

The Allocation of Resources

First, we try to identify the importance of social insurance relative to both social assistance and labour market policies. Drawing on research on ADB's Social Protection Index (SPI), Table 21 provides percentages for each of these three main types of programme.[22] It also supplies

[22] ADB defines five main areas of social protection: (i) labour market, (ii) social insurance, (iii) social assistance, (iv) micro-and area-based schemes, and (v) child protection – see www.adb.org/socialprotection. Some of these expenditures may actually overlap with other sectors – e.g., health and education. For instance, expenditure on some aspects of child protection such as immunisation and nutrition are traditionally included in health spending. Moreover, labour market

information, where possible, on pensions and health insurance, the two major components of social insurance.

Table 21: Social Protection Expenditure by Category (% Total SP Expenditure), 2005

Country	Social Insurance (I)			Social Assistance (II)	Labour Market (III)	Social Protection Expenditure (% GDP)
	of which Pensions	*of which* Health Insurance	Total			
China, PR	63	18	84	7	7	4.6
India	58	1	60	23	10	4.0
Indonesia	..	..	71	25	1	1.9
Malaysia	68	15	92	7	1	3.9
Philippines	64	13	79	4	0	2.2
Sri Lanka	47	0	56	13	1	5.7
Viet Nam	..	..	55	31	8	4.1

Obs.: The residual percentage corresponds to micro-credit and area-based schemes. Thailand was not included in the original data gathering for the ADB's Social Protection Index.
Source: ADB National Reports for the Social Protection Index and Baulch et al. (2008).

The table illustrates that among these countries social insurance accounts for between 55 per cent and 92 per cent of all expenditures on social protection. The richest country, Malaysia, devotes the highest percentage. But Indonesia, China and the Philippines also devote over 70 per cent. For five of the countries, we are also able to provide percentages for the two major components of social insurance: pensions and health insurance. Pensions account for the largest share of expenditures on social protection. Malaysia, China and the Philippines devote, for example, about two-thirds of their social protection expenditures to pensions. In some countries, health insurance is also important, outstripping even the allocation to social assistance. This is the case, for instance, in Malaysia, China and the Philippines.

Expenditures on social assistance are invariably smaller than those on social insurance. The smallest percentages, i.e., 4-7 per cent, characterise the allocations in Malaysia, China and the Philippines. The largest percentage is found in Vietnam, namely, 31 per cent. We also note the low percentages that are generally allocated to labour market policies. For example, the Philippines devotes virtually no resources to such programmes and Indonesia, Malaysia and Sri Lanka allocate a mere 1 per cent. India devotes the most, namely, over 10 per cent, followed by China and Vietnam, which allocate 7-8 per cent.

Finally, we note that social security spending in Asia is considerably lower than in other geographic regions. For instance, average expenditure on social security over the period 2000-2005 was equivalent to 5 per cent of GDP in both Latin America and the Middle East, and about 1 per cent in Africa. The figure for Asia was lower than 1 per cent of GDP (Prasad and Gerecke, 2010). As a percentage of total government expenditure, Asia's allocation was slightly above the 3 per cent allocated by African countries, but considerably below the 25 per cent allocated by Latin America, and the 17 per cent by the Middle East.

expenditure includes skills development and training, as long as these are targeted at particular groups, such as the unemployed or disadvantaged children.

Reviewing Country Programmes

We now review the social-insurance programmes of four of the middle-income countries in Asia in our sample.[23] Our main concerns are two: (i) 'Are existing programmes effective and sustainable for their current beneficiaries?' and (ii) 'What programmes have been expanded or could be expanded to the 'missing middle' of vulnerable households?'

In this review, we are not directly concerned about the 'pro-poorness' of social-insurance programmes. We are concerned about identifying existing social-insurance programmes that could be extended to cover vulnerable 'lower-middle class' households. Conceivably, these could be programmes that currently cater primarily to 'middle-middle class' households but could be extended to 'lower-middle class' households or they could be current poverty-focused programmes that could be scaled up to benefit the same grouping.

Most social-insurance programmes in our sample of countries follow a fairly common pattern. They provide pensions to public-sector workers and a limited group of private-sector workers. Some programmes provide additional savings accounts (i.e., Provident Funds) to enable participants to save for retirement.

There are usually also programmes that enable beneficiaries to deal with a common set of risks, such as sickness, disability and death. Maternity benefits are also usually offered. But provisions for unemployment are weak or nonexistent. Since unemployment is regarded as a passive labour market policy, we do not deal with it in this section. Refer to section 4.3 for more discussion of labour-market policies.

Most of the above forms of social insurance are generally much smaller than pension programmes. But in addition to pension provisions, social insurance can also include major health-insurance initiatives. The table above demonstrated that these two programmes are the largest across our sample of middle-income countries.

It is useful in this context to reflect on the historical development of forms of social protection in the countries that are now developed. During much of the 19th century, relief for the poor (or what is now called social assistance) was the main form of social protection. Until 1880 there was virtually no social insurance. But between 1880 and 1930, programmes such as accident insurance for work and old-age pensions arose in Europe. However, unemployment insurance emerged only much later, in the middle of the 20th century (Lindert, 2003).

Malaysia's Social Insurance

Social insurance in Malaysia is geared to offer pension coverage for both public-sector employees and private-sector employees. The former group receives pensions automatically upon retirement (based on a non-contributory, defined-benefit scheme) while the latter receive the pension benefits that have accrued from savings that they have deposited in an Employees Provident Fund.

As of 2007, the retirement age for public-sector workers had been pushed up to 58 years. Pensions are set at a 50 per cent replacement rate of the worker's final salary, payable for life and, in the event of death, to the spouse. All pension and other social-insurance benefits for

[23] Our information comes mainly from national reports produced for the ADB Social Protection Index. Finalized in 2008, these reports cover the period up to 2004-2005.

public sector workers are paid from General Government revenues, not from an insurance fund. As of 2004, there were over 500,000 beneficiaries of public-sector pensions. This number represented only about 11 per cent of the country's labour force.

However, these monthly retirement benefits have often been below poverty-line incomes so their adequacy has been called into question (Mohd, 2009). In 2004, it was reported that more than 400,000 pensioners (both former public and private-sector workers) were living in poverty.

In response to such problems, the Government boosted civil-service salaries in 2007, and thereby also increased pension benefits. Though the cost of public pensions has represented only about 1 per cent of GDP, pension payments come directly from operating expenditures. As the cost of living increases and Malaysians live longer (with life average expectancy already 75 years), the viability of the Government's defined-benefit scheme is likely to come under closer scrutiny.

The Employee Provident Fund (EPF) is a compulsory defined-contribution scheme for private-sector workers. It places the responsibility on the working individual to undertake measures to provide for his or her old-age security. The scheme makes a lump sum payment to these employees (and some self-employed) when they reach 55 years of age. The payment is based on their savings plus accrued dividends. Participants in this scheme can withdraw their savings before the retirement age in order to use it for such purposes as financing education, housing or medical treatment.

As of 2008, the EPF covered about 54 per cent of the employed population and the fund's total balance represented over 46 per cent of GDP. However, the EPF's financial viability is still open to debate. The *real* rates of return that its members receive on their savings tend to be low.

In addition to the above schemes, the Social Security Organization (SOCSO) provides employment injury insurance and invalidity pension coverage to workers who earn less than a low income threshold. In 2008, this programme covered about 11.7 million workers and had more than 278,000 beneficiaries.

Along with pensions, the other major form of social insurance in Malaysia is public health-care insurance. It provides health care in public facilities at low fees to the general population. The Government has also set up a Medical Assistance Fund, which can fully or partially finance treatment in private facilities when the relevant treatment is not available in public facilities.

Alongside public health care, private-sector health care has grown, catering mainly to richer Malaysians. In general, the general mix of public-sector and private-sector health care in Malaysia plus the tax financing of public services has apparently led to a moderately equitable system, in which public health care has remained accessible to the poor and vulnerable segments of the population (Yu et al. 2008).

Sri Lanka's Social Insurance

Sri Lanka is generally regarded as having the most extensive social insurance system in South Asia. Though formal-sector workers predominate as beneficiaries, the country has attempted to extend coverage to informal-sector workers—such as farmers, fishermen and the self-employed. Various forms of social insurance, mostly provident funds or retirement savings schemes, have been reported to cover about 3.1 million workers, or 22 per cent of the working population 15 years or older (ILO, 2008b).

In Sri Lanka, pension schemes are the dominant form of social insurance (see the table above). The country does not have a health insurance system though its public health system is accessible to the entire population.

Sri Lanka supports a compulsory Public Servants Pension Scheme (PSPS), which originally offered defined benefits payable upon retirement at age 55 years for men and 50 years for women. Benefits are tied to the civil servants' salary level. But since 2003, new members have joined this scheme on the basis of defined *contributions* from both employee and employer. Also affiliated to the PSPS is a mandatory contributory scheme that provides benefits for total disability, work injury and for family members of employees who die.

The PSPS covered about 800,000 civil servants and 120,000 retired pensioners in 2006 while its expenditures accounted for almost 2 per cent of GDP. This represents a relatively high level of expenditures in comparison to the levels of programmes in other developing countries. The financial liability incurred by the PSPS has been estimated to be about 60 per cent of GDP since there are no government funds explicitly backing pension benefits.

In addition, there are several Provident Funds, which covered an estimated 2.2 million workers in 2006, or about 30 per cent of the labour force. The largest has been the Employees Provident Fund (EPF), which provides benefits for old age, disability and surviving spouses to about two million private-sector workers. It is a compulsory defined contribution scheme dictated by the registration of firms with the scheme, not the registration of workers themselves. As is the case with other such funds, participants can withdraw funds early for other purposes, such as for marriage or guaranteeing a housing loan.

One of the most interesting aspects of Sri Lanka's social insurance system has been its attempt to incorporate workers in the informal economy. This is no small task since the informal economy is estimated to account for about 60 per cent of total employment, the great majority of it in agriculture.

Sri Lanka has launched three *voluntary* social-insurance programmes for farmers, fishermen and the self-employed, respectively. Members are obliged to make contributions to a fund that will mainly provide retirement benefits. In 2003, these three schemes, taken together, were estimated to cover about 850,000 workers.

Started in 1987, the Farmers' Pension and Social Security Benefit scheme is targeted at the two million persons estimated to be involved in agricultural activities in Sri Lanka. The programme offers a monthly old-age pension starting at age 60 years, a death gratuity and a disability benefit. Eligibility requirements for this scheme include the amount of land owned by the farmer and the type of crop that he grows. At the end of 2005 this scheme had almost 800,000 members.

Supposedly fully funded by members' contributions, this fund is based on the operating assumption that the government will provide it with partial funding in the future. Hence, if this scheme is significantly expanded, the government could face a potentially large future financial liability.

The Fishermen's Pension and Social Security Benefit Scheme is similar to that for farmers. At the end of 2005, it had 57,000 members. Similar in structure to the other two schemes, the Pension and Social Security Scheme for the Self-Employed offers both pension and disablement benefits. In 2005 it included about 33,000 members, who have to meet certain criteria, such as being in specified occupational categories and not being in a position to pay income taxes.

In addition to the above programmes, there is also a Samurdhi Social Security Trust Fund. Samurdhi is a national poverty alleviation programme that provides income transfers to the poor.

Its Trust Fund is designed to deduct a portion of these transfers as a contribution to an insurance fund that can provide benefits for death, sickness and the marriage of a child.

Though Sri Lanka has an impressive array of social-insurance programmes, questions have been raised about the adequacy of their benefits and their sustainability (World Bank, 2006). It is alleged, for example, that retirement benefits offered to public-sector workers are high relative to their pre-retirement incomes, and are offered too early, namely, at 55 years of age. Moreover, the private schemes, such as the Employee Provident Fund, are reported to offer benefits that are inadequate for longevity insurance. In addition, the schemes for workers in the informal economy offer future benefits that are not indexed to inflation.

Moreover, in total, all of the above programmes still cover only about one third of the labour force. Financing social insurance in Sri Lanka, even for the current potential beneficiaries, appears to be problematic. Before programmes for formal-sector workers, both public and private, could be significantly expanded to workers in the large informal economy, their own long-term financing would apparently have to be strengthened.

The current efforts of Sri Lanka to expand the existing schemes for informal-sector workers face significant constraints for two inter-related reasons. First, they have to rely on contributions from workers who have low, and often variable, incomes. Thus, these programmes have had to build in provisions for future government subsidies. But, second, if the Government is already straining to finance programmes for formal-sector workers, such as pension benefits for civil servants, it will have difficulties in taking on new responsibilities for a much larger grouping of workers.

The Philippines' Social Insurance

Government agencies in the Philippines provide social insurance programmes for both public-sector and private-sector workers. For the former, the programme is the Government Service Insurance System (GSIS) and for the latter, the Social Security System (SSS).

Membership is compulsory for both programmes for registered employers and their employees. Benefits are based on monthly contributions by both employees and employers. The SSS is the larger of the two programs. In 2005, for instance, it covered about 21 million private-sector employees. In the same year, the Government Service Insurance System covered only about 1.6 million public-sector workers.

Both SSS and GSIS offer a range of social-insurance benefits: retirement income as well as compensation for maternity, sickness, disability, employment injury and death.

Interestingly, the Social Security System has sought to expand its coverage to include the self-employed and workers in the informal sector. The self-employed include those who operate businesses, farmers, fishermen and overseas contract workers. In 2005, SSS covered over five million of such workers.

Informal-sector workers are defined as those who receive irregular income, the underemployed, small vendors and small-scale transportation operators. To qualify for the programme, informal-sector workers need to be members of an association or organization and pay a monthly premium through SSA-accredited banks. As of 2006, over 40,000 informal-sector workers were enrolled in the SSS.

The Philippines also has a large Health Insurance Corporation (labelled PhilHealth), which is a government agency that provides universal health coverage. Based on a 1995 law, all Filipinos are obliged to enrol in the Corporation's National Health Insurance Program. As of 2009, 82 per cent

of the total population was covered according to government publications. However, other estimates (based on 2007 data) suggest that only 68 per cent of government workers and 48 per cent of private-sector workers were covered (Orbeta, 2011).

The priority of this national program is to provide everyone with at least a basic minimum package of health insurance benefits. PhilHealth also targets health services to poor families through the direct provision of services or subsidies. By 2005, the programme claimed to have enrolled about 40 per cent of all poor households.

But richer households continue to benefit disproportionately from national health insurance. For example, estimates of the incidence of health insurance for 2004 indicate that while more than 60 per cent of the richest fifth of Filipinos had PhilHealth coverage, less than 30 per cent of the poorest fifth had coverage (Orbeta 2011). In addition, less than one-third of the next poorest fifth had coverage and less than 40 per cent of the third poorest fifth had coverage. These statistics suggest that the vulnerable lower-middle class did not have equitable access to national health insurance.

Indonesia's Social Insurance

In October 2004, Indonesia enacted a new National Social Security Law (the Sistem Jaminan Sosial Nasional or SJSN). The intent of this law was to build a system that would provide social insurance to the entire population (see ADB, 2007b). This law mandated a system that would provide for pensions, old-age savings, health insurance, employment accident insurance and life insurance.

Out of an Indonesian workforce of 95 million in 2005, 30 million were estimated to be in the formal sector and 65 million in the informal sector. These statistics highlight the daunting challenge that Indonesia will confront in implementing its 2004 law. How will informal-sector workers, who comprise over two-thirds of all workers, be covered?

Only about 12 per cent of the workforce was covered by pensions and old-age benefits in 2005. Civil servants accounted for over four percentage points of this total while workers in the private formal sector accounted for over seven percentage points. In contrast, Indonesia's health insurance system covered about 40 per cent of the population, due largely to the government's programme for the poor.

Civil servants are covered fairly well by several social-insurance programmes. These include health insurance, pensions and an old-age savings scheme. Whatever contributions have to be made to these schemes are shared by both the government and civil servants. The retirement age for civil servant can vary between 55 and 60 years depending on the worker's position. One disadvantage of the health insurance offered to civil servants is that they end up paying out-of-pocket for about 40 per cent of the total cost of health care.

Workers in firms above a certain size in the private formal sector can also receive a package of benefits (through the PT Jamsostek initiative) though their value is less generous than that of the package for civil servants. The package includes an old-age savings account (i.e., a provident fund based on defined contributions), which could be used to cover various items, such as retirement, disability, a death benefit or severance pay. Though offered coverage by public health insurance, many workers are deprived of such an option by being obliged by their firms to enrol in private health insurance or are offered no insurance at all. However, employers do apparently contribute the lion's share of funding for the various social insurance benefits that do exist for private-sector workers.

There are very few social insurance programmes available to informal sector workers. This problem is exacerbated for the many vulnerable non-poor workers in the large informal sector (Bender and Knoss, 2008). This is a notable failing of the system but this is a problem common among many middle-income countries. While formal-sector workers can be covered by contributory schemes and the poor by tax-financed social assistance, the vulnerable middle strata of the workforce are excluded from both sets of programmes.

In Indonesia, the major exception to this general rule is the Askeskin health insurance programme, which targets tax-financed benefits to 60 million poor Indonesians, many of whom are in the informal sector. This program offers subsidized 'managed care' in public health clinics and inpatient care in hospitals. A recent assessment of the programme indicates that it does indeed effectively target the poor and most vulnerable segments of the population (Sparrow et al., 2010).

Indonesia faces a number of major hurdles in extending social-insurance coverage to the entire population. For example, the Jamsostek programme for workers in the formal private sector has limited coverage. Out of an estimated 25 million workers in this sector in 2005, the programme covered only about seven million, or about 28 per cent. Moreover, the real rates of return on workers' savings accounts have not been high. Their benefits at retirement age are not likely to be adequate for several reasons, namely, an early retirement age (55 years old), early withdrawals of funds for other purposes and low contribution rates, in addition to inadequate investment returns on the fund.

The pension and savings programmes for civil servants are based on defined benefits, not contributions, and 85 per cent of the benefits are financed from the State budget. The benefits in these programmes are much better than those for private-sector workers. However, a major problem facing financing is that the number of civil-servant pensioners and their total years of retirement are likely to rise significantly in the future as their average life expectancy continues to increase. This will place an increasing strain on the government budget. Thus, there are unresolved questions about the long-term sustainability of these programmes.

A health-insurance programme that is able to cover the entire Indonesian population might be feasible in the future provided that its provisions are phased in over time. For example, a government priority could be to phase in coverage of the 'missing middle' of the vulnerable non-poor over a number or years. This would provide health care to 'middle class' segments of the population that are urgently in need of such coverage.

Summing Up

Our short review of the highlights of social-insurance programs in Malaysia, Sri Lanka, the Philippines and Indonesia raises a number of important issues for further reflection and research. These issues also point towards some policy implications.

Some of the pension programmes for civil servants have come under close scrutiny because of concerns that they are not financially sustainable. Defined-benefit pension programmes for public-sector workers appear problematic in face of demographic changes that are likely to increase the pool of beneficiaries and the period over which they will receive benefits. This appears to be the case in both Malaysia and Sri Lanka, where pension programmes for civil servants have appeared to be fairly generous though monthly benefits over an extended period of retirement might prove to be inadequate.

Pension benefits for workers in the private formal sector tend to be less generous than for workers in the public sector. In the private sector, pension programmes tend to be based on defined

contributions instead of defined benefits. But, more importantly, they generally reach a minority of eligible workers. In some cases, less generous old-age savings funds take the place of pension programmes.

In some countries, such as Sri Lanka and the Philippines, there have been laudable efforts to extend pension coverage to workers in the informal sector (i.e., the majority of the workforce). However, these efforts have enjoyed only modest success, either in terms of expanding coverage or offering adequate benefits. The central contradiction for such programmes is that the State has to step in to provide tax-financed benefits to workers who are less able to make contributions to their own retirement than formal-sector workers.

Correspondingly, if the State will ultimately have to use tax revenue to finance such schemes, then informal-sector workers will have to contribute significantly more taxes than they currently do. One option is to institute more comprehensive indirect taxation explicitly earmarked for such a purpose. Since such taxation (such as a sales tax or a VAT) tends to be more regressive than direct taxation (such as on incomes), workers in the informal sector would be implicitly financing their own retirement fund.

Health insurance programmes are another important vehicle of social insurance in Asia and the Pacific. Countries such as Malaysia, the Philippines and Indonesia have sought to provide widespread coverage for such insurance. Some of the countries, such as Indonesia, have focused on providing basic health care to the poor and vulnerable. For health insurance programmes in general, tax financing is likely to have to be combined with some form of private financing, such as out-of-pocket expenses incurred by households.

Nevertheless, basic health insurance appears to be a vehicle that has significant potential to reach and benefit the vulnerable non-poor as well as the poor. The need to deal effectively with health risks is a high priority for a large number of vulnerable lower-middle class households in Asia and the Pacific as well as for the poor. Thus, in the coming period instituting such a form of social insurance might take precedence in many middle-income countries over attempting to extend pension benefits to the vulnerable lower-middle class or the poor.

4.3. The Labour Market

Economic growth and structural transformation in Asian MICs have created new employment opportunities in various sectors of the economy – e.g., in manufacture and tradable services. Nonetheless, underemployment and informal employment remain stubbornly high in many of these countries. Moreover, the nature of labour relations and the quality of jobs are key policy concerns if growth and productivity gains are to be equitably shared among employers and workers. For instance, ADB (2009) argues that economic growth in Asia has not been inclusive since it has not created sufficient productive jobs. Khan (2007) also argues that the astonishing economic growth of many Asian countries has failed to create enough jobs, partly due to a declining employment intensity of growth.[24] At the same time, economic globalisation and deeper regional integration have contributed to an increased 'flexibility' and informality of jobs (e.g., temporary contracts).

[24] This in turn has weakened the impact of economic growth on the incomes of the poor. The author argues that the sharp fall in the employment intensity of growth was the key problem in China and India, while in Indonesia and Thailand it was compounded by a decline in economic growth. In the Philippines and Sri Lanka, poor employment performance was mostly due to inadequate growth or growth bypassing the economic sectors where poor workers were concentrated.

The ADB (2011) has recently highlighted the inadequate quality of jobs in Asia. In particular, there has not been a significant rise in the proportion of jobs that provide a stable income and job security – as previously noted in this paper and proxied by the share of 'wage and salaried workers' in total employment. Therefore, a strong focus needs to be placed on improving job quality, and ensuring that the poor and vulnerable segments of society are able to access these improved opportunities. The ADB's (2011) policy recommendations are broadly in line with those suggested in this paper, especially in terms of the need for active public intervention – e.g., promoting industries with higher value added, developing skills and human capital, and enhancing social protection.

Nonetheless, policies to increase productivity will not be sufficient to improve the quality of jobs, especially in terms of higher real wages and better working conditions. Real wage increases often lag behind productivity growth, partly due to pressures of international competition on labour costs and weak collective bargaining. Hence, the key challenge is to raise labour productivity along with broadening formal sector employment.

Governments will therefore need to place employment at the top of their economic policy objectives. In general, this will require active macroeconomic policies to stimulate investment and economic growth, structural policies to influence the intensity of growth across different sectors of the economy, and equity-focused policies to improve access to employment opportunities (McKinley, 2008).[25] Such an approach therefore warrants an active role for the allocation of public investment, particularly in economic and social infrastructure, in order to stimulate private investment. It also implies the use of public incentives to induce financial institutions to direct credit to certain purposes (such as innovation) or sectors (e.g., those potentially competitive). These policies combine demand-side stimulus with longer-term supply-side impacts on expanding the economy's productive potential.

In order to enhance employment growth and labour productivity, these policies will need to address specific labour market characteristics. These were highlighted in Section 2 and include: (i) a rapidly growing labour force, mostly due to current patterns of demographic transition; (ii) high levels of underemployment along with relatively low unemployment rates; (iii) large informal urban and rural labour markets (lacking quality employment and social protection) and a small formal economy; (iv) widespread low productivity and wage levels, thus leading to a large number of 'working poor'; (v) significant gender disparities, with female under-representation in the formal economy but over-representation in the informal sector; and (vi) a high proportion of youth in the labour force, although more likely to be unemployed or underemployed (Cazes and Verick, 2010). In addressing these issues, we will keep a broad focus on the poor and the vulnerable strata of the middle class.

Asian MICs face the considerable task of creating productive and decent jobs in their rapidly changing economies. Felipe and Hasan (2006) highlight four main areas of concern in Asian labour markets. First, employment growth rates have not kept pace with output and productivity growth. In fact, evidence suggests that the employment elasticity of growth has declined over time. This trend suggests that for any given level of GDP growth the number of jobs being created is declining. Second, despite considerable reductions in poverty rates, spatial and regional (including income and non-income) inequalities are increasing. This is intrinsically linked to the level and distribution of labour earnings. For instance, the income gap between urban and rural areas is increasing in many countries, as well as within increasingly segmented urban areas. Evidence suggests that the incomes of the relatively disadvantaged (say, the bottom 60 per cent of the income distribution) grew at a significantly slower pace than average incomes. Third, informal

[25] In this paper, we do not focus on policies aimed at accelerating economic growth, but rather propose equity-focused policies that, although playing a subordinate role, are crucial to ensure an equitable access to the opportunities created by economic growth.

employment remains high and in some cases is increasing. This is partly due to the slow decline of agricultural employment (which tends to be informal) and the fact that many of the new jobs created outside agriculture are in the informal sector – especially in low-productivity services. Fourth, formal employment is increasingly characterised by job insecurity, due to a marked increase in non-regular contracts.

With regard to the policy challenges, Cazes and Verick (2010) argue that the lack of fiscal space in many developing countries – partially due to inadequate tax bases – and limited administrative and institutional capacity are key constraints to the effective implementation of employment and social protection policies, as well as enforcing existing labour legislation. In addition, social dialogue and collective bargaining mechanisms are often weak, partly because workers' organisations are weak or simply non-existent. Passive labour market policies, such as unemployment insurance, are often inadequate or non-existent. Finally, active labour market policies, such as training schemes, are rare and sometimes inappropriate for relevant skill development. However, employment guarantee schemes and conditional cash transfer programmes have demonstrated some potential for improving labour-market outcomes.

The previous section noted that government spending on labour market policies is very modest (Table 21). Even in China, India and Viet Nam, where public expenditure on labour market programmes is relatively high, spending is equivalent to less than 0.5 per cent of GDP. This category includes direct employment generation (such as microenterprise development and public works programmes), employment services, and skills development and training.[26] However, much of this spending is geared to serving the needs of regular workers in established (formally registered) private-sector enterprises and civil servants in the public sector. Hence, not only are the spending amounts modest, but also the coverage of that spending tends to be limited. Hence, the key challenge is to boost spending on measures that extend beyond formal sector employment.

Vandenberg (2008) provides an evaluation of employment policies in six Asian countries (Table 22). Although this sample does not exactly correspond to our original selection of countries, it nonetheless covers the main features exhibited by our sample. Employment security is defined as the security of remaining with an employer, while labour market security refers to support for employment transitions (in addition to a moderate level of employment security). The author argues that South Asian countries (India and Sri Lanka) have not made the transition from systems of employment security to broader systems of labour market security.

The table also highlights the three key components of employment policies: (i) employment protection legislation; (ii) passive labour market policies; and (iii) active labour market policies. Employment protection legislation (EPL) usually includes legislation on retrenchment (e.g., the notice period and the need for government authorisation), protection against wrongful dismissal, and maternal/parental leave.[27] Passive labour market policies (PLMP) traditionally offer temporary income security. Examples are unemployment insurance, severance pay, and early retirement. Finally, active labour market policies (ALMP) are aimed at helping the unemployed in making transitions to new jobs. These include job search assistance, skills development (training and re-training), direct employment generation (e.g., public works programmes), promotion of self-employment and wage subsidies.

[26] Expenditure on skills development and training only qualify (as social protection) if targeted to particular vulnerable groups, such as the unemployed or disadvantaged children.
[27] EPL is sometimes classified as passive labour market policies.

Table 22: Classification of Employment Policies

	Overall Type of Security		Employment Protection Legislation (EPL)			Passive Labour Market Policies (PLMP)			Active Labour Market Policies (ALMP)		
	Employm.	Labour Market	High	Med.	Low	High	Med.	Low	High	Med.	Low
China, PR		X		X			X			X	
India	X		X					X			X
Korea, R		X		X		X			X		
Malaysia		X			X			X	X		
Singapore		X			X			X	X		
Sri Lanka	X		X					X			X

Source: Vandenberg (2008)

In terms of labour market regulation, India and Sri Lanka appear to have strong employment protection legislation (EPL). However, it should be noted that the level of compliance and law enforcement is usually low. Therefore, while EPL may be strong *de jure*, it is often weak *de facto*. This may explain why there is such limited evidence that labour legislation acts as a constraint to employment creation – as usually advocated by those supporting greater labour 'flexibility'.[28] Moreover, labour market institutions and policies have often been assessed from a pure 'costs' perspective, rather than on the basis of a balanced analysis of the net effects (Cazes and Verick, 2010). For instance, even if labour regulations do reduce formal employment, the net welfare effect can still be positive once the potential benefits to both individuals and firms are taken into consideration.[29] Finally, it should be noted that EPL typically covers formal employment and therefore has limited impact on the wider labour market. For example, the usually large informal sector is beyond the scope of EPL, while high levels of self-employment also render many of these measures ineffective (since there is no employer-employee relationship).[30]

The ILO (2008) suggests that minimum wages have gained some importance in Asia, although this might partly reflect the relative weakness of collective bargaining. Moreover, the impact of collective bargaining on wages tends to be limited – since the coverage rate is usually below 15 per cent. This could explain the weak relationship between wage increases and economic growth (i.e., low wage elasticity) and increasing wage inequality. In fact, minimum wages might have been used as a substitute for collective bargaining. Although the evidence suggests that the adverse effects of minimum wages on employment have been exaggerated, their effectiveness could be significantly improved in order to more effectively protect low-paid workers.

The importance of passive labour market policies (PLMPs) appears to be increasing, as there is a growing tendency of replacing employment protection legislation with new or stronger income security schemes (e.g., unemployment insurance). Hence, instead of making worker retrenchment difficult for employers, governments are focusing resources on ensuring that unemployed workers are given income support during the transition to a new job. Income protection is particularly crucial in urban settings, as traditional support mechanisms (such as family and communities) are usually lacking for most rural-to-urban migrants. Nonetheless, the coverage of unemployment insurance is usually limited by the existence of a large informal sector. For instance, India's unemployment 'allowance' only covers 2 per cent of the total labour force. Severance pay also

[28] In fact, 'flexibility' is often seen from the labour demand side, in particular, the ease with which employers can fire/hire employees and adjust working hours. However, it would be much more useful if, in addition to addressing credit constraints and poor infrastructure, the concept included labour supply concerns such as the ability of workers to take up better work opportunities. This should lead, for example, to appropriate skill development, better information flows and health outcomes.

[29] These benefits might include both social and economic aspects, such as increased loyalty and trust, as well as inducing firms to invest in specific skills and technologies, thus promoting dynamic efficiencies (rather than competing on poor working conditions).

[30] ADB (2005) provides scores on worker protection for individual Asian countries.

provides some level of (temporary) income security to retrenched workers. Sri Lanka has high severance pay, possibly to compensate for the lack of employment insurance, and so does China. India and Sri Lanka also have some level of gratuity pay (Vandenberg, 2008).

In terms of active labour market policies (ALMPs), several countries have created employment through public works programmes (PWPs). These have sometimes been targeted to rural areas (e.g. in China and India) or utilised as temporary measures to address the effects of natural and economic shocks (e.g. in Sri Lanka and Korea). India's experience with the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) is perhaps the best known example of an employment guarantee scheme in Asia. China has also used PWPs to generate rural employment. While India's MGNREGA entails wage payments, China's rural works are usually remunerated by payments in-kind from local governments (e.g. food or consumer goods). Sri Lanka provides income transfers (through food stamps) that can be linked to work in community maintenance projects.

Skills training programmes can also have an important impact on employability. These programmes can be targeted at various population groups: (i) the employed, with the objective of providing on-the-job skills; (ii) the unemployed, for consolidating skills or retraining in order to increase employability; (iii) the youth and women, in order to reduce labour market inequities; and (iv) informal and rural sector workers, in order to increase labour productivity and facilitate employment transitions (Vandenberg, 2008). For instance, India, China and Sri Lanka have programmes related to (iv), whereas higher-income countries tend to focus on (i) and (ii). All of the six countries covered here have an employment service to assist in matching jobseekers and employers. However, their geographical coverage is usually limited. These services are customarily funded by public sources, although Sri Lanka has opted for a public-private partnership. Finally, some countries, such as China, provide employment subsidies to promote hiring in firms.

Vandenberg (2008) argues that there is a strong sub-regional pattern in terms of labour market policies for the six countries in the sample. He therefore offers a geographical typology, rather than one based on income, population size or level of development. In South Asia, there is a strong emphasis on employment security (through strong *de jure* legislation), although the effective level of protection could be debated. Unemployment insurance is either non-existent (Sri Lanka) or has very limited coverage (India). However, other passive policies are stronger – e.g. statutory gratuity benefits or severance pay. Active labour market policies are judged to be weak, although MGNREGA is becoming an important programme. East Asian countries (China and Korea) have made the transition towards labour market security in the last decade, as unemployment insurance and legislation to protect non-regular workers have been introduced. In general, the decrease in the guarantee of employment has been compensated by new passive policies and strong active policies. However, it should be noted that these policies have limited coverage in China, where the rural and informal sectors are still quite large. Finally, Southeast Asian countries have pursued strong active labour market policies (e.g. skills training), although employment protection and passive policies are weak. In fact, unemployment insurance is non-existent.

Despite the observations above, it should be reiterated that the rural and informal sectors – which are large in many Asian MICs – are typically characterised by considerable labour flexibility and very weak employment security. Moreover, key policies such as unemployment insurance have limited coverage, while social dialogue is weak due to the lack of institutionalised forums (and workers' representation).

Therefore, targeting the working poor and vulnerable groups (e.g. women, youth and migrants) will require an ambitious public spending effort as well as better policy coordination and coherence. A strong focus should be placed on active labour market policies such as public works programmes and skills development (training and re-training). Moreover, these need to be complemented by targeted passive policies (e.g., income support) and adequate legislation to

ensure decent working conditions. In order to be effective, these policies should to be implemented simultaneously, rather than sequentially, so as to reinforce one another and promote synergies. Nonetheless, this agenda will only be successful if supported by adequate macroeconomic and structural policies, while fiscal constraints could affect the scale and prioritisation of programmes when designing a country strategy.

Cazes and Verick (2010) propose a structured policy approach to address the employment challenge in developing countries (Table 23). Since several emerging Asian MICs still display many of the characteristics of low-income countries (LICs) – such as a large rural and informal sectors and low productivity – many of the policies traditionally associated with LICs might still be relevant to them – in particular to the lower middle-income countries. Since public resources are often limited, it is important to prioritise policy interventions. This could be supported by an employment diagnostics tool to identify key binding constraints on the creation of productive employment and decent jobs. Moreover, it is also fundamental to look at the macroeconomic environment and consider policy packages in their entirety, since there are sizeable potential synergies among different interventions – e.g., labour market and social policies.

The first policy area suggested by Cazes and Verick is 'flexibility'. However, this concept goes beyond the traditional usage of the term. Rather than focusing on the ease with which employers can dismiss workers, it aims to tackle existing constraints to job creation in firms – such as lack of access to credit, poor infrastructure, and lack of qualified workers. Moreover, the concept can help promote measures to increase internal flexibility/mobility, which could enable firms to better respond to external shocks by retraining (and retaining) workers. Finally, the concept could strengthen the case for effective labour laws. Despite their unpopularity in some policy spheres, labour regulations are seldom identified as a major obstacle to business development.[31] In fact, there is little evidence that they constitute a barrier to job creation. The challenge is therefore to design a legislative framework that is appropriate and effective in protecting labour standards (e.g. safe working conditions).

[31] The major constraints identified by Asian firms often include: lack of access to finance, labour skill level, inadequate infrastructure (e.g. electricity and transport), tax rates and administration (although one would expect this since firms see this as a pure cost), and corruption – see www.enterprisesurveys.org.

Table 23: Labour Market Polices and Institutions

Country Category	Policy Areas: Flexibility	Social Security	ALMPs	Social Dialogue
Low-Income Countries (LICs)	• Promote flexibility of enterprises through better access to credit, infrastructure, etc. • Develop capacity to enforce laws against child and bonded labour, discrimination, etc • Improve health and safety in the workplace (informal and formal economy) • Develop capacity of labour inspectors	• Implement/broaden social protection schemes including micro-insurance and conditional cash transfers to reach those in the informal economy and poor households in general • Establish a universal social security system	• Develop ALMPs that target poor households including public works programmes, employment guarantees, entrepreneurship incentives • Improve capacity of the public employment service	• Strengthen capacity of social partners, including those operating in the informal economy • Develop tripartite mechanisms that are part of the development policymaking process, i.e. key components of formulating national development plans and poverty reduction strategies
Middle-Income Countries (MICs)	• Continue to promote the adaptability of firms and internal flexibility that help enterprises adjust to external shocks • Improve effectiveness of labour laws • Strengthen capacity of labour inspectors to enforce legislation	• Expand/establish a universal social security system together with activation strategies (i.e. ALMPs)	• Implement ALMPs for both under- and unemployed such as training and job search assistance • Strengthen capacity of PES in all regions of the country	• Further strengthen the tripartite system to develop better policies that promote flexibility and security in the labour market
	⇩	⇩	⇩	⇩
	Potential Development Outcomes			
	• Lower volatility in the labour market • Higher productivity, economic growth and poverty reduction • More decent work	• Accelerated poverty reduction and improved social inclusion	• Enhanced voluntary mobility, better skills match, lower levels of un/under-employment, and reduced levels of poverty	• Stronger social inclusion • More effective and equitable policies • Better governance

Source: Cazes and Verick (2010)

In terms of social security, Asian MICs ought to scale up their funding for social protection schemes. In particular, universal social security systems should be implemented (or expanded) as well as targeted schemes to reach those living in rural areas, the urban informal economy, and other disadvantaged segments of society – including the poor. This initiative should be complemented by active labour market policies. In fact, ALMPs play a key role in promoting decent and productive jobs. Public works programmes can be particularly effective in reaching the unemployed and underemployed, while possibly increasing labour standards (due to the self-selection aspect of PWPs). Furthermore, vocational training and retraining programmes will be crucial to increase employability and the incomes of the poor. These can be used to redress the potential disparity between the outcomes of education systems and the needs of the labour market. Finally, strengthening social dialogue and improving collective relations will be important to protect workers' rights. Appropriate wage-setting mechanisms will ensure that employees obtain fair share and decent wages.

In conclusion, we would argue that the focus of labour-market policies in Asian middle-income countries should be on active labour market policies that go beyond the formal sector of the economy, such as public employment programmes and technical and vocational education and training, since these are likely to be more effective at promoting widespread productive employment. Extending employment protection legislation does not seem particularly promising for most countries, as its coverage tends to be limited and enforcement is generally weak. Passive

labour market policies – such as unemployment insurance – have become a more popular vehicle, but they are mainly counter-cyclical tools deployed during crises and on a limited basis. Thus, active labour market policies appear to be the best option, providing long-term support to employment-boosting economic policies. In particular, we believe that skill development is crucial to access higher-quality jobs, while public works programmes can serve the dual purpose of generating employment and building social and economic infrastructure.

Public Employment Programmes

Public employment programmes are a key element of employment-related social protection, and can be effectively used to complement job creation in the private sector. In 2009, the signatories of the Global Jobs Pact recognised the role of direct employment creation by governments, namely through public works programmes (PWPs) and employment guarantee schemes (EGSs) (Lieuw-Kie-Song and Philip, 2010). While the majority of PWPs have been associated with providing relief from temporary shocks, EGSs tend to be longer-term programmes.[32]

The benefits of public employment schemes could include: (i) positive multiplier effects on the demand for goods and service; (ii) contributions to setting minimum labour standards (e.g., wages and working conditions); (iii) the efficiency of beneficiary self-selection; (iv) endogenous limits on fiscal spending, through (i); (v) moderation of the economic cycle, through stabilising effects during recessions; and (vi) erosion of the inclination of firms to compete based on demanding low wages and poor working conditions (UNCTAD, 2010). Examples of public employment schemes include South Africa's Expanded Public Works Programme (EPWP) for the unemployed; India's Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), which provides a (100 days per year) job guarantee for members of rural households; and Ethiopia's Productive Safety-Net Programme (PNSP), which provides cash and food for work.

McCord and Slater (2009) review the experience of 167 public works programmes across Africa and suggest that there has been a critical policy misalignment. They argue that PWPs designed to offer short-term employment – thus best suited to deal with temporary shocks – are being implemented with the objective of addressing longer-term problems such as chronic poverty and structural unemployment/underemployment. Therefore, the main lesson is that governments need to tailor the design of PWPs to the specific needs of the country. For instance, if the key objective is to provide income insurance for the working poor, then PWPs should offer repeated or ongoing employment opportunities, rather than a single (short-term) episode of employment (see Table 24). Governments may even consider the implementation of employment guarantee schemes that offer regular and predictable support – often in the form of cash or food – and are available for all who seek it.

[32] Nonetheless, public works programmes are increasingly being regarded as part of long-term employment strategies.

Table 24: Typology of Public Works Programmes

Typology	Design	Key Objective
Type A	Single short-term episode of employment	Short-term safety net
Type B	Repeated or ongoing employment opportunities (may entail a guarantee of employment for all who seek it – EGS)	Social protection (non-contributory income insurance)
Type C	Labour intensification of government infrastructure	Promote aggregate employment
Type D	Workplace experience and skills formation among the unemployed	Enhancing employability by improving labour quality

Source: Adapted from McCord and Slater (2009)

Lal et al. (2010) argue that employment guarantee schemes can be a useful complement to market-driven employment creation, and should therefore be part of long-term development strategies. Hagen-Zanker et al. (2011) undertake a systematic review of the evidence on employment guarantee schemes and cash transfer schemes and conclude that the majority of studies found a positive impact of EGSs and CTs on poverty reduction.[33] Nonetheless, the impacts of employment creation programmes tend to be highly context-specific (Devereux and Solomon, 2006). Moreover, the required scale of these programmes might imply significant costs, both in terms of financial and human resources. Thus, the appropriate design and targeting of such programmes will be crucial for their success.

Technical and Vocational Education and Training

Technical and Vocational Education and Training (TVET) programmes have a significant potential to improve employment prospects and job quality. They can be particularly effective when targeted at disadvantaged groups of society (e.g., women, youth and the disabled) and designed with a strong practical (on-the-job) component.

The central objective of TVET programmes is to improve worker employability (i.e., access to jobs) and labour productivity through the creation and upgrade of relevant skill sets. Under certain circumstances, they can also stimulate productive investments, contribute to innovation and modernisation, lead to better wages, and reduce social inequalities. A virtuous cycle of promoting higher skill, higher productivity and higher wages is essential to fostering a sustainable and inclusive growth path.

However, deciding on which types of skills to promote requires a thorough assessment of the economy in the context of the forces of globalisation and deeper regional integration. The rapid modernisation of Asian MICs through better technology and innovation is creating a serious gap between the skills and knowledge demanded from the dynamic sectors of the economy and the skills on offer by the workforce. Skill development is also required in the more traditional sectors (e.g., agriculture) and in the urban informal sector. The shortage and mismatch of skills need to be addressed through more and better TVET programmes and higher levels of formal education (e.g., secondary and tertiary schooling). While much progress has been made in terms of basic

[33] The systematic review found 39 studies that uncovered positive impacts from either CT or EGS participation and 9 studies that found negative impacts. Most of the (high quality) studies examined conditional cash transfer programming, and/or programmes from the Latin America region.

skills such as literacy and numeracy (through primary education), there are unresolved issues about how to build on these foundations. While TVET programmes are renowned for providing practical/technical skills (e.g., ICT, mechanics, and engineering), it is also important to consider other essential general skills such as problem-solving, communication, and leadership. The latter are crucial for stimulating entrepreneurship, as well as promoting innovation and economic dynamism.

Moreover, demographic trends are likely to shape educational policies in coming years. While many countries are pressed to create opportunities and improve the employability of their young population, others will be increasingly concerned about the productivity of their ageing population (e.g., China). Migration policies will also need to be calibrated in order to facilitate the adjustments required by diverging labour needs, while international recognition of skills can also improve labour mobility across borders.

TVET programmes can be targeted to improve the employability and reduce the social exclusion of specific groups of society. For example, a focus on women can improve their access to better jobs and thus reduce gender-based income inequality. This outcome could be achieved by increasing training opportunities for occupations where women tend to cluster (such as nursing and teaching), but would ultimately require breaking down gender stereotypes with regard to occupations. Nonetheless, it should be noted that formal training programmes often lack appropriate coverage and tend to be biased towards the non-poor and non-vulnerable. In this case, informal apprenticeships may be more effective in boosting employability of disadvantaged groups (e.g., rural residents and urban youth).

Finally, an improved dialogue between the public and private sectors is required in order to make education systems more relevant to the labour market and responsive to rapidly changing needs.

5 Challenges for Inclusive Growth in Selected Asian MICs

5.1. India and China

India and China, with over 1 billion inhabitants each, account for over one-third of the world's population. It is therefore noteworthy that, for the past 20 years, significant economic and social progress has been achieved in these two countries. Economic growth has been strong, especially in industry and services. Average per capita incomes have increased remarkably, lifting millions of people out of poverty. Significant progress has also been achieved in terms of health and education outcomes. Nonetheless, a number of important challenges remain. Vertical and horizontal inequalities need to be tackled, as the income gap between rural and urban areas widens and some groups of society lack access to opportunities. Hence, greater social inclusiveness will be required to sustain and consolidate these gains.

ADB (2010) suggests that there are two key factors that encourage the creation and sustenance of a middle class: stable, secure, well-paid jobs with good benefits, and higher education. Hence, a socially inclusive development strategy will need to weigh up the concerns and aspirations of the growing middle class. This is important to maintain Asia's positive growth momentum and avoid possible downward mobility – e.g., the vulnerable middle strata slipping back into extreme poverty.

For instance, Table 25 and Table 26 suggest that despite a strong structural shift in employment (away from agriculture) in India and China, a considerable share of the population is still self-employed, with the majority being own-account workers. This latter category is usually associated with vulnerable employment, and appears to be the norm for lower income groups. Casual wage employment is also high in India. Regular wage employment is traditionally associated with better jobs, since it usually provides income stability and better working conditions. Nonetheless, its share in total employment is still small in India, and tends to be associated with the more affluent middle strata and the rich – i.e., those earning above $4 per day. Unemployment rates are fairly low in these countries, but they seem to be increasing. Their low employment elasticity of growth is a matter of concern, especially bearing in mind the need to provide jobs for a growing labour force.

Table 25: Distribution of Labour Force by Economic Group and Type of Employment (India, 2005)

Per capita income (2005 $ PPP)	Self-Employed		Wage Employment		Unemployed	Total
	Own-Account Workers	Employers	Casual / Temporary	Regular / Permanent		
<$1.25	46.7	0.2	42.1	8.5	2.5	100.0
$1.25-$2	55.3	0.8	28.7	12.2	3.0	100.0
$2-$4	53.8	2.8	14.5	24.8	4.0	100.0
$4-$10	37.4	8.1	4.2	45.4	5.0	100.0
>$10	29.1	11.9	2.4	53.2	3.4	100.0
Total	**51.1**	**1.3**	**29.4**	**15.1**	**3.1**	**100.0**

Obs.: These statistics may vary from the ones presented in Section 2 due to different (survey) sources or methodologies.

Source: ADB (2010)

Table 26: Distribution of Labour Force by Economic Group and Type of Employment (China, 2002)

Per capita income (2005 $ PPP)	Self-Employed		Wage Employment		Unemployed	Total
	Own-Account Workers	Employers	Casual / Temporary	Regular / Permanent		
<$1.25	58.4	3.0	20.5	16.6	1.5	100.0
$1.25-$2	52.0	4.6	20.0	21.8	1.6	100.0
$2-$4	37.0	5.0	18.5	37.7	1.7	100.0
$4-$10	15.9	4.1	12.1	66.9	1.1	100.0
>$10	9.3	5.3	9.2	75.7	0.5	100.0
Total	**34.8**	**4.4**	**16.7**	**42.7**	**1.4**	**100.0**

Obs.: These statistics may vary from the ones presented in Section 2 due to different (survey) sources or methodologies.
Source: ADB (2010)

The last 20 years have registered considerable improvements in health, education and access to water and sanitation, although India still fairs badly in some of these areas. Public expenditure on social sectors and social protection is generally low, especially when compared to levels in Latin America. In particular, India's spending on health is very low at 4 per cent of total public outlays. Social protection schemes receive funding equivalent to about 4-5 per cent of GDP. Within total social protection, between 7 per cent (China) and 10 per cent (India) of expenditures are allocated to labour market programmes. Despite the relatively small amount devoted to these schemes, it is considerably more than that allocated by most Asia MICs.

Hence, while China and India still face important development challenges, their recent experiences can provide important lessons for other Asian MICs, and even low-income countries. Their transitions to relatively developed middle-income countries are not yet complete. Their achievements so far suggest that: (i) social and municipal services will need to be expanded in order to respond to emerging needs (e.g., different skill sets) and to the scale of current challenges such as rapid urbanisation and greater vertical and horizontal inequalities; (ii) spending in social protection is important to reduce the vulnerability to economic shocks, especially the vulnerability of the disadvantaged groups in society; (iii) active and passive labour market policies should be implemented to encourage a better functioning labour markets and support the creation of widespread productive jobs.

5.2. Philippines

The Philippines has had a disappointing economic and social performance over the past 20 years. Its modest increase in per capita incomes[34] can be largely explained by a combination of slow overall output growth and high (and rising) income inequality. For instance, the data in Section 2 suggested that income inequality is increasing, with the bottom 60 per cent of the Filipino population receiving an income share of only 28 per cent. The World Bank (2010) puts forward a number of reasons for the deterioration in the distribution of income: (i) the unequal sectoral

[34] The share of population with expenditures below $1.25 (2005 PPP) declined from 29 per cent in 1988 to 22 percent in 2006, while those with expenditure between $1.25 and $2 decreased from 27 per cent to 24 per cent in the same period. Note that over 75 per cent of the population still earn/spend less than $4 per day (ADB, 2010:12).

distribution of growth; (ii) the unequal pattern of regional development; (iii) intense demographic pressures; (iv) the unequal distribution of human capital and access to social services; and, in some cases, (v) a decline of public spending on social services that could have mainly benefited the poor.

A key factor linking economic performance to the generation of the incomes of the poorest 60 per cent is employment (Table 27). While many jobs shifted from agriculture to services in the Philippines, there has been very little change in the quality of employment. A third of the labour force remains in regular wage employment, although these jobs are clearly skewed towards the upper middle class. The unemployment rate is quite high when compared to the rates in other countries in the region and, curiously, it is highest among the vulnerable middle class. This might reflect the fact that, in the absence of social insurance and family support, the poorest cannot afford to be unemployed and will undertake any economic activity to earn a minimal level of income. Thus, it is not surprising that vulnerable employment remains high as does the level of underemployment.

Table 27: Distribution of Labour Force by Economic Group and Type of Employment (2006)

Per capita income (2005 $ PPP)	Self-Employed		Wage Employment		Unemployed	Total
	Own-Account Workers	Employers	Casual / Temporary	Regular / Permanent		
<$1.25	54.3	3.1	18.2	19.2	5.2	100.0
$1.25-$2	47.1	3.7	18.4	23.7	7.0	100.0
$2-$4	37.4	4.3	15.0	33.5	9.7	100.0
$4-$10	27.3	5.1	10.7	48.2	8.7	100.0
>$10	15.4	7.3	7.0	65.2	5.1	100.0
Total	**39.4**	**4.3**	**15.0**	**33.5**	**7.8**	**100.0**

Obs.: These statistics may vary from the ones presented in Section 2 due to different (survey) sources or methodologies.
Source: ADB (2010)

Hence, the Philippines faces key challenges in accelerating growth and improving the social inclusiveness of its growth pattern. Some of the systemic factors that might explain the lack of inclusive growth have been highlighted throughout this paper and can be summarised as: (i) low (public) expenditure on health (as a percentage of GDP); (ii) low and declining public expenditure on education, with a strong bias towards primary education; (iii) limited funding for social protection; and (iv) virtually no effort to promote job creation through direct labour market policies and programmes. Table 28 provides useful insights into the different dimensions of inclusive growth for the Philippines, India and Indonesia. Reflecting on the outcomes on an Inclusive Growth Index, McKinley (2010) suggests that the Philippines has made unsatisfactory progress in the areas of economic growth, employment creation, income inequality and social protection. These findings seem to confirm the analysis provided thus far.

Table 28: Inclusive Growth Index

Category	Weight	Score			Weighted Score		
		India	Indonesia	Philippines	India	Indonesia	Philippines
Growth	0.25	8	4	3	2.00	1.00	0.75
Employment	0.15	4	4	3	0.60	0.60	0.45
Economic Infrastructure	0.10	6	5	7	0.60	0.50	0.70
Poverty	0.10	5	2	2	0.50	0.20	0.20
Inequality	0.10	4	6	2	0.40	0.60	0.20
Gender Equity	0.05	4	6	6	0.20	0.30	0.30
Health / Nutrition	0.05	3	6	6	0.15	0.30	0.30
Education	0.05	5	5	6	0.25	0.25	0.30
Sanitation / Water	0.05	4	3	8	0.20	0.15	0.40
Social Protection	0.10	8	5	2	0.80	0.50	0.20
TOTAL	**1.00**				**5.70**	**4.40**	**3.80**

Note: A score of 1-3 can be regarded as unsatisfactory progress, 4-7 as satisfactory progress, and 8-10 superior progress.
Source: McKinley (2010)

ADB (2005) had already noted the difficulty of the Philippines in generating the number of productive jobs (especially in the formal sector) that would be sufficient to meet the needs of a growing labour force. In fact, despite a reasonably high employment elasticity of growth – 0.6 during 2004-2008 – the labour force is still growing at a fast pace. Over the last 20 years, the annual average growth of the labour force has been 2.6 per cent, a rate surpassed only by Malaysia in our sample. Moreover, the overall employment elasticity is mainly reflecting the performance of the services sector, since this has been the main source of employment in the last few years. It is not at all clear whether these new jobs are productive and represent decent work opportunities.

Moreover, the ADB (2005) analysis of the role of labour market policies in the Philippines concluded that 'the importance of a series of supposedly rigid policies as responsible for the lack of job creation is overstated'. The study pointed that the number of non-regular workers had increased while the violations of the labour code were high. We have also noted that contrary to the experience of India and China, the Philippines has spent a negligible amount of public resources on labour market programmes. These have often included direct employment generation measures – such as public works and support for SMEs development – employment services, and skills development and training for targeted groups. But their general impact has been modest.

Therefore, the Philippines will need to embrace active economic policies in order to stimulate economic growth and generate more and better employment opportunities for the poor and the vulnerable middle strata of the labour force. This will require a significant scaling-up in public spending in infrastructure, social sectors (namely health, higher education and vocational training, and municipal services), social protection schemes (to assist the vulnerable), and labour market programmes. Moreover, particular attention will need to be given to specific groups of the population, such as rural residents, women and young people, in order to improve their access to opportunities that, hopefully, a faster economic growth rate could bring about.

6 Summary Policy Recommendations

Inclusive growth is focused on creating economic opportunities for all segments of society, and ensuring equal access to them. In this paper, we pay particular attention to disadvantaged groups such as the poor and the vulnerable middle class – groups whose income share is significantly lower than their weight in the total population. In particular, we argue that greater social inclusiveness will not only require sustainable economic growth but also better access to employment opportunities. In addition, we suggest that governments need to improve strategies and financing in three key areas: (i) social and municipal services; (ii) social protection (social insurance in particular); and (iii) labour market policies.

Despite the strong economic performance of Asian middle-income countries, engendering and sustaining an inclusive growth pattern will also require the creation of decent and productive jobs for the majority of the population. We therefore encourage a policy focus shift from a unnecessarily concern for 'pro-poor' growth to a growth pattern that engages a larger segment of the disadvantaged population. Thus, while the (income) poverty focus is no longer dominant in this new proposed strategic approach, equity concerns certainly remain central.

In terms of labour market outcomes, we note that ensuring widespread regular wage employment offers the best overall protection against economic shocks. Adequate employment legislation can also contribute to better working conditions and help protect workers' rights. Social protection can play a vital role in reducing the vulnerability to shocks by offering some forms of income protection or insurance. The most promising programme, based on a review of initiatives in several countries, appears to be universal health insurance. Moreover, basic social and municipal services need to be provided for the rural poor, the growing urban population living in slums and vulnerable middle strata of the population in order to improve the general access to economic opportunities (as well as reverse environmental degradation). Interventions in these areas will be vital to achieve growth with greater equity for the majority of the population, not just the extremely poor.

Hence, this paper presents a number of general policy recommendations to enhance the social inclusiveness of growth in Asia's middle-income countries. For instance, we call for more and better-targeted public spending in: (i) social sectors, including health and relevant skills, in order to boost the human capabilities of the labour force necessary to support both economic growth and broad-based employment creation; (ii) municipal services, in order to improve living conditions and counteract the effects of rapid urbanisation and environmental degradation; (iii) social protection, in order to provide social insurance to the vulnerable segments of the middle class as well as the poor, especially through the modality of universal health insurance; and (iv) labour market policies which, while including appropriate employment protection legislation and passive labour market policies, will focus on active labour market policies, such as employment guarantee schemes and skills development and training, in order to promote broad-based and productive employment..

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Annex

Table 29: Employment Indicators

	GDP per person employed (constant 1990 PPP $)			Share of working poor at $1.25 a day in total employment (%)			Share of women in wage employment in the non-agricultural sector (%)		
	1990	2000	2008	1990	2000	2005	1991	2000	2008
China, PR	2,562	4,660	10,378	*73.1*	*41.0*	18.3	37.9	*39.1*	..
India	3,531	5,061	7,445	*59.4*	..	51.4	13.0	16.6	*18.1*
Indonesia	5,945	7,926	10,671	*65.4*	*58.5*	27.8	30.1	31.7	32.4
Malaysia	13,434	20,118	25,590	*1.9*	*0.6*	*0.6*	35.3	37.9	39.2
Philippines	6,439	7,034	8,260	*37.1*	27.6	*27.2*	40.4	40.9	41.7
Sri Lanka	8,339	11,120	14,916	*20.1*	*17.8*	..	..	30.2	*31.0*
Thailand	8,537	12,638	15,548	*5.7*	1.6	*0.0*	41.9	44.1	45.4
Viet Nam	2,346	3,803	5,676	*71.5*	*55.5*	*24.2*	..	40.7	*40.4*

Obs.: Values in *italic* are for closest year.
Source: World Bank's MDG Database and KILM (for working poor)

Table 30: Selected MDG Indicators

MDG Indicator	Year	China, PR	India	Indonesia	Malaysia	Philippines	Sri Lanka	Thailand	Viet Nam
Population below minimum level of dietary energy consumption, %	1991	15.0	24.0	19.0	5.0	21.0	27.0	29.0	28.0
	2005	10.0	22.0	16.0	5.0	15.0	21.0	17.0	13.0
Pupils Starting Grade 1 who reach last grade of primary (%)	1990	86.0	*62.0*	83.6	98.2	*79.3*	94.4	*94.1*	*82.8*
	2007	99.6	*65.8*	80.1	*89.3*	*70.4*	98.0	..	*92.1*
Gender Parity Index in secondary level enrolment	1990	0.75	0.60	0.83	1.07	1.04	1.09	0.94	*0.90*
	2008	1.05	*0.86*	0.99	*1.07*	1.09	*1.02*	1.09	*0.95*
Mortality, under-five, per thousand live births	1990	46.0	116.0	86.0	18.0	61.0	29.0	32.0	56.0
	2008	21.0	69.0	41.0	6.0	32.0	15.0	14.0	14.0
Mortality, maternal, per 100,000 live births	1990	95	570	650	80	280	140	200	160
	2005	45	450	420	62	230	58	110	150
Tuberculosis, incidence rate	1990	120	170	190	120	390	66	140	200
	2008	97	170	190	100	280	66	140	200
Proportion of the population using improved drinking water sources, total	1990	67.0	72.0	71.0	88.0	84.0	67.0	91.0	58.0
	2008	89.0	88.0	80.0	100	91.0	90.0	98.0	94.0
Proportion of the population using improved sanitation facilities, total	1990	41.0	18.0	33.0	84.0	58.0	70.0	80.0	35.0
	2008	55.0	31.0	52.0	96.0	76.0	91.0	96.0	75.0
Slum population as percentage of urban	1990	43.6	54.9	50.8	2.0	54.9	24.8	19.5	60.5
	2007	31.0	32.1	23.0	*2.0*	*43.7*	*13.6*	*26.0*	*41.3*

Obs.: Values in *italic* are for closest year.
Source: Compiled from ADB (2011)

Table 31: Average Years of Total Schooling

	Total				Female				Male			
	Youth		Adult		Youth		Adult		Youth		Adult	
	1990	2010	1990	2010	1990	2010	1990	2010	1990	2010	1990	2010
China, PR	7.6	10.9	4.9	7.5	7.6	10.9	4.4	6.9	7.5	11.0	5.3	8.2
India	4.6	7.1	3.0	4.4	3.5	6.4	1.7	3.2	5.5	7.7	4.1	5.5
Indonesia	6.5	7.7	3.3	5.8	5.8	7.4	2.5	5.1	7.2	7.9	4.1	6.6
Malaysia	10.2	12.0	6.5	9.5	10.3	12.2	5.7	9.2	10.2	11.7	7.3	9.9
Philippines	8.1	9.7	7.1	8.7	8.5	10.0	7.0	8.8	7.8	9.4	7.2	8.5
Sri Lanka	9.0	9.2	6.9	8.2	9.0	9.1	6.4	8.1	8.9	9.3	7.3	8.4
Thailand	7.2	10.6	4.6	6.6	7.5	11.4	4.1	6.2	7.0	9.8	5.0	6.9
Viet Nam	4.5	8.8	4.0	5.5	4.5	8.9	3.5	5.2	4.5	8.7	4.5	5.7

Obs.: Youth corresponds to 15-24 years, while Adult corresponds to 25 and over.

Source: ADB (2011)

Table 32: School Life Expectancy (Years)

	Total		Female		Male	
	1999	2009	1999	2009	1999	2009
China, PR	9.9	11.6	10.3	11.9	10.4	11.3
India	8.1	10.3	7.3	9.8	9.4	10.9
Indonesia	11.2	13.2	11.0	13.0	11.4	13.3
Malaysia	11.8	12.6	11.9	12.9	11.7	12.2
Philippines	11.4	11.9	11.7	12.1	11.2	11.6
Sri Lanka	12.5	12.7	12.7	12.8	12.4	12.4
Thailand	11.5	12.3	11.5	12.6	11.5	11.9
Viet Nam	10.2	10.4	9.7	10.0	10.7	10.8

Note: Closest year if data not available
Source: ADB (2011)

Table 33: Expenditure per Student (% GDP per capita)

	Primary		Secondary		Tertiary	
	2000	2008	2000	2008	2000	2008
China, PR	..	..	11.5[c]	..	90.0[c]	..
India	14.5	8.6[a]	24.8	15.7[a]	95.0	53.2[a]
Indonesia	..	11.0	..	12.5	..	16.2
Malaysia	12.5	14.3	21.7	12.4	81.1	34.0
Philippines	12.8	8.6[b]	11.0	9.1[b]	15.4	9.6[b]
Sri Lanka	..	..	..	..	..	..
Thailand	17.8	20.5	15.9[d]	7.6	36.0	22.0
Viet Nam	..	19.7	..	17.3	..	61.7

Notes: [a] 2006, [b] 2007, [c] 1999, [d] 2001
Source: WDI (2011)