



## Report on the Asia-Pacific Economies

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### Labor costs and the future of value chains in Southeast Asia

- Wages (and labor costs) in Southeast Asia are expected to continue to grow in 2025. They have already experienced strong increases over the last decade.
- The falling unemployment rate and slowing labor force growth will present strong challenges in the medium term for several countries in the region, who will find it difficult to continue to compete based on low-cost labor supply.
- India has more capacity to supply labor in the medium term, and 100 of the 130 million people who joined the labor force in the region since 2015 live there.

### Labor costs in Southeast Asia and their impact on supply chains

Labor costs in Southeast Asian countries have been rising in recent years and are expected to continue to do so in 2025, according to the consulting firm AON. This process affects one of the bases of global value chains: the region's supply of cheap labor, used for the assembly of low-, medium- and high-tech manufactures. The average wage in China grew by 50% in the last five years, and similar processes have been experienced in several ASEAN countries, while nations with the highest GDP per capita in the region have seen a stagnation or even a fall in average wages measured in dollars, as in Japan. Only Singapore stands out in this last group, with a 22% increase in average wages over the past five years.

AON estimates that next year wages in the largest ASEAN countries will increase considerably: in Vietnam they will rise by 6.7%, in Indonesia by 6.3%, in the Philippines by 5.8%, in Malaysia by 5%, in Thailand by 4.7% and in Singapore by 4.4%. Variations in the value of local currencies may have an impact on the average wage measured in US dollars, but the stability shown by these currencies in recent times and the “good health” enjoyed by the economies of the region suggest that there will be a significant increase in labor costs measured in US dollars, which will continue to erode the “competitiveness” of several of these economies through low labor costs.

Wage increases are intended to attract and retain human resources, which, although still abundant, are beginning to experience a decline that will make labor supply difficult in the medium term. Today, half of the world's workforce is concentrated in Southeast Asia and India, a slight decrease compared to the beginning of the century, when it represented 53%. Between 2015 and 2023, the region's labor force increased by 131 million people, with India accounting for almost 70% of that increase. The other countries saw increases in their labor force, which were accompanied by significant job creation, which ended up resulting in a lower unemployment rate. This rate was 3.8% in 2023, the lowest in this century. Thus, a certain “bottleneck” is generated by the low availability of labor for the expansion of the manufacturing industry, with some exceptions such as India, which still has this advantage (and is exploiting it).

**Table 1: Labor force and unemployment in Southeast Asia and India**

	Labor force			Unemployment rate		
	2015	2020	2023	2015	2020	2023
Brunei	206,417	223,168	233,198	7.7	7.4	5.3
Cambodia	7,606,436	8,682,216	9,229,170	0.4	0.2	0.2
Philippines	42,980,082	42,536,456	49,413,504	3.1	2.5	2.2
Indonesia	127,303,188	137,373,352	142,687,605	4.5	4.3	3.4
Laos	2,731,350	2,961,195	3,173,370	2.5	2.3	1.2
Malaysia	14,995,081	16,821,665	17,749,830	3.1	4.5	3.9
Myanmar	24,298,022	23,870,600	22,662,345	0.8	1.5	2.8
Singapore	3,438,743	3,510,891	3,615,185	3.8	4.1	3.5
Thailand	39,998,200	40,251,615	40,822,505	0.6	1.1	0.9
Vietnam	54,466,444	54,343,504	55,965,764	1.8	2.1	1.6
<b>ASEAN</b>	<b>318,023,963</b>	<b>330,574,662</b>	<b>345,552,476</b>	<b>3.1</b>	<b>3.3</b>	<b>2.7</b>
China	781,077,009	764,339,479	781,102,586	4.7	5	4.7
Korea	27,790,589	28,614,009	29,699,046	3.5	3.9	2.6
India	497,789,579	521,195,326	596,405,891	7.9	7.9	4.2
Japan	65,932,267	68,659,777	69,208,137	3.4	2.8	2.6
<b>CKJI</b>	<b>1,372,589,444</b>	<b>1,382,808,591</b>	<b>1,476,415,660</b>	<b>4.7</b>	<b>4.8</b>	<b>4</b>
<b>TOTAL AP&amp;I</b>	<b>1,690,613,407</b>	<b>1,713,383,253</b>	<b>1,821,968,136</b>	<b>4.5</b>	<b>4.6</b>	<b>3.8</b>
<b>World</b>	<b>3,323,170,683</b>	<b>3,434,949,589</b>	<b>3,641,623,098</b>	<b>6</b>	<b>6.6</b>	<b>5</b>
<b>Share</b>	<b>50.9</b>	<b>49.9</b>	<b>50</b>			

Source: Based on data from the World Bank

The slower growth in the labor force in the region (between 2015 and 2020 it increased 1.3%, while in the 1995-2000 period it grew close to 8.5%) will present new challenges in the medium term for companies that have traditionally depended on abundant and cheap labor to insert themselves into the global production system. According to the International Labor Organization (ILO), the manufacturing sector accounts for the largest proportion of jobs in global supply chains in Southeast

Asia, and in 2021 more than 60% of manufacturing employment is in jobs related to global supply chains (ILO, 2021).

Each country and sector present its own logic in its demand for labor. China, which has provided unskilled and cheap labor to foreign and local companies for decades, has seen how in recent years the very success of its development has led to a notorious increase in the average industrial wage (it increased by just over 100% between 2014 and 2023), which added to the trade restrictions imposed by Western powers, reduced in part the attractiveness of using Chinese labor for manufacturing assembly. As a result, the countries of the region have benefited, receiving strong investment flows, and expanding their productive capacities. China's population has contracted in 2022 and 2023 due to the low birth rate, and it is estimated that the same will have happened this year. Thus, the long-term outlook indicates that China's labor force will begin a slow process of decline, with an increasing share of its population retiring from the labor force, a phenomenon currently occurring in developed economies.

In the case of India, the increase in the labor force due to its high birth rate is coupled with a process of displacement from rural to urban areas. The government has encouraged this labor force to be absorbed by the manufacturing industry: in 2014, Prime Minister Modi launched the "Make in India" plan, which has generated a strong increase in the country's manufacturing capacity through the establishment of strong incentives. While companies prefer to reduce their exposure to China, they have found India to be a good destination for their investments in sectors such as semiconductors (where 1 million jobs are expected to be created by 2026), although it still faces serious challenges in terms of infrastructure, logistics and transportation, crucial elements in global value chains. India's Minister of Commerce and Industry, Piyush Goyal, recently announced that industrial employment grew by 200% in the last two years, so although the target of making the industrial sector 25% of GDP is still far from being met (it is 17%), the impact that Modi's plan is having on the economy is strong.

On the other hand, several ASEAN nations have benefited from the arrival of FDI from US, Japanese, Taiwanese, and even Chinese high-tech companies because of the policy of diversification of value chains to mitigate risks due to geopolitical tensions that have significantly affected global supply chains. Likewise, the economic policy of the next US administration, if it goes ahead with the measures to impose 60% tariffs on Chinese imports, may lead to greater Chinese influence and expansion in Southeast Asian markets, especially in the technology sector and renewable energies.

Although wages in ASEAN countries such as Vietnam, Cambodia, Laos, Indonesia, and the Philippines have increased, they remain competitive with other Asia Pacific countries, which has benefited them in attracting FDI in export-oriented manufacturing sectors. However, foreign companies are subject to the requirements of government initiatives in ASEAN countries on social protection: mandatory pension contributions, health coverage and social assistance. These factors impact labor costs; and these even vary widely in the various economic scenarios of each of these countries.

ASEAN has been registering an increase in participation in supply chains, and this has been accompanied by government measures aimed at improving labor conditions, expanding the supply of jobs, and increasing wages in sectors that require high qualifications. The ILO highlights the case of Vietnam's increased participation in supply chains and how FDI in sectors such as textiles, electronics

and semiconductors has led to increased employment. Meanwhile, in cases such as the Philippines and Indonesia, their participation is still lower in the supply chains of commodities since the supply of employment is more concentrated in their domestic markets than in the export sector. Singapore is the main country in the region with the largest labor supply and the best monthly salary in the technology sector; it is also the state with the highest GDP per capita and cost of living in Southeast Asia. In Vietnam, the technology industry has grown rapidly due to government incentives for training and human capacity building and for providing an attractive environment to attract companies such as Intel, Oracle, IBM, Nokia, Microsoft, among others, dedicated to Vietnamese outsourcing due to the low salaries.

**Table N° 2: Average monthly salary in the main Southeast Asian capitals**

Capital	Average monthly salary (USD)
Singapore	4,187
Tokyo, Japan	3,700
Seoul, Korea	2,972
Shanghai, China	1,879
Kuala Lumpur, Malaysia	1,409
Bangkok, Thailand	724
Jakarta, Indonesia	552
Manila, Philippines	521
Hanoi, Vietnam	461
Mumbai, India	432
Phnom Penh, Cambodia	370

Note: Salaries are originally measured in local currency, and fluctuations in the Exchange rates affect the measurement in USD.  
Source: Based on NUMBEO, Forbes, and nations' official data.

While the increase in wages responds to the rising cost of living, to retain skilled personnel for strategic economic sectors and to boost domestic consumption in some of the ASEAN countries, it also faces several challenges for industrial development. First, there is a significant difference between minimum wages in Indonesia, the Philippines, Vietnam and those in Singapore, Malaysia, and Thailand. Even within the same country the minimum wage can vary by region or by economic sector, for example, in Jakarta, the capital of Indonesia, it is USD 325, while in East Kalimantan (where the new capital will be located) it is USD 215 per month.

For decades, global value chains have depended on the provision of low-skill, low-cost labor from Southeast Asian countries. The very success of the system, which has added millions of workers to the global production system, the slowdown in the growth rate of the labor force and expectations of lower population growth in the short term raise doubts about the possibility of continuing to count on abundant and cheap labor, in a context of falling unemployment and rising average wages. Value chains have repeatedly demonstrated their resilience to changes in regional and global scenarios. It remains to be seen how they will adapt to these phenomena.

### **Note on high-level summits.**

During the month of November, the high-level summits of two of today's most relevant economic forums were held in Peru and Brazil.

From November 10 to 16, the Asia Pacific Economic Cooperation (APEC) High-Level Summit was held for the third time in Peru under the theme “Empower. Inclusion. Grow. The importance of APEC lies in the participation of important economies (representing more than 60% of the world's GDP) with a prominent role in international trade (half of the world's trade) and which make up almost 40% of the world's population. It is made up of Asian and Pacific economies and among the Asian participants were Chinese President Xi Jinping, Singapore Prime Minister Lawrence Wong, Vietnam President Luong Cuong, Indonesian President Prabowo Subianto, Malaysia's Prime Minister Anwar Ibrahim, Thailand's Prime Minister Paethongtarn Shinawatra, Brunei's Sultan Hassanal Bolkiah, Japan's Prime Minister Ishiba and South Korea's President Yoon Suk-yeol and a junior representative from Taiwan.

Days later, from November 18 to 19, Brazil hosted the G20 High Level Summit under the slogan “Building a fair world and a sustainable planet”, which was attended by heads of state and/or government to discuss economic agenda items and whose Rio de Janeiro Declaration highlighted the taxation of billionaires, the energy transition, support for the Conference of the Parties (COP) 30 in Brazil and solutions to global challenges, with a focus on sustainable growth and the fight against poverty (G20,2024).

The G20 includes developed and developing economies, of which China, India, Indonesia, Japan, and South Korea are members, and this year other countries from the region, such as Malaysia, Singapore, and Vietnam, were invited to the summit.

Both summits took place in a tense and uncertain geopolitical environment. Since the Russia-Ukraine war, President Putin did not attend either summit, due to his international arrest warrant. The situation on the Korean Peninsula has also been a sensitive issue, as have the disagreements between the United States and China.

The importance of the Asia-Pacific economies in international trade has given them a greater role in multilateral forums and the possibility of including issues on the political and economic agenda in these types of forums. Among the areas in which emerging countries in the region are lobbying the most are the energy sector, climate change and food security. Asia Pacific countries will chair APEC in the next three years, the Republic of Korea (2025), the People's Republic of China (2026) and the Socialist Republic of Vietnam (2027) and Singapore in 2030.