

**Comparative Study on Minimum Wage Provisions in Selected ASEAN
and Asian Countries**

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List of Acronyms

ASEAN	Association of Southeast Asian Nations
AW	Average Wage
CAMFEBA	Cambodian Federation of Employers and Business Association
CIDS	Cambodia Institute of Development Study
CPI	Consumer Price Index
EPZ	Export Processing Zones
FDI	Foreign Direct Investment
FKTU	Federation of Korean Trade Unions
FMM	Federation of Malaysian Manufacturers
ILO	International Labor Organization
KEF	Korean Employers Federation
LAC	Labor Advisory Council
MOL	Ministry of Labor
MPDF	Mekong Private Sector Development Facility
MTUC	Malaysian Trade Union Congress
MW	Minimum Wage
MWC	Minimum Wage Council
NLAC	National Labor Advisory Council
NTUC	National Trades Union Congress
NWC	National Wage Council
NWPC	National Wages and Productivity Commission
RTPB	Regional Tripartite and Productivity Boards

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Executive Summary

Introduction

This study discusses the general concept of a minimum wage (or wage floor) and its implications on national competitiveness with reference to the experiences of ten Asian countries: Bangladesh, Indonesia, Lao, Malaysia, Philippines, Singapore, South Korea, Sri Lanka, Thailand and Vietnam. The research methodology includes extensive desk research as well as interviews with experts.

PART I: Models for Determining the Minimum Wage

A minimum wage places a legal floor on the rate¹ that employers must pay to workers. The most common reasons for introducing a minimum wage are to 1) ensure basic living standards, 2) protect the wages of workers, 3) create an incentive to work and 4) to provide a fair share of economic growth and prosperity to workers.

Regardless of its underlying policy objectives, however, a minimum wage should be determined from a set of transparent and basic criteria that reflects the prevailing social and economic context. The ILO suggests three categories of determinants – cost, comparability, and social and economic context. *Cost determinants* include workers' cost of living, employers' cost of production, and the value of the service rendered. *Comparability determinants* include the general level of wages in the country, the general level of wages paid for work of comparable character, the wages fixed by collective agreements for identical or similar work, and the relative standard of living of various social groups. *Social and economic determinants* cover the size of the peasant population as well as existing relationships among peasant incomes and wages (both rural and urban), the social security system and its benefits, the requirements for economic development², and the role wages play in creating markets for the mass production of consumer goods³.

There are two ways to set a minimum wage: through a wage authority or through collective bargaining. Wage authorities tend to consist of representatives from the government, employers' organizations and employees' organizations. They are established to recommend minimum wages to the government or respective ministry. These authorities can be national, regional or sectoral.

Collective bargaining is a negotiation process between employee and employer representatives through which wages are determined. Its aim is usually to set a minimum wage that not only covers a bare standard of existence, but also fairly reflects the worker's contribution to productivity and economic growth. The bargaining process is usually bipartite, though in some developing countries the State can also play a facilitating role, especially that of a mediator in case of disputes. Collective bargaining may occur at the national, industry or enterprise level.

PART II: Impacts of a Minimum Wage

A minimum wage can affect the economy through its impact on unemployment, international competitiveness and poverty. There are a number of models that attempt to explain these impacts. Table 1 summarizes some of these models.

¹ The rate is usually set monthly.

² The requirement for sustainable economic development is broad-based development, which needs market development at the grass-root level (i.e. village, district... level).

³ Minimum wage, if covering the large peasant population, can create mass demand for mass production of consumer goods.

Table 1: Summary of Potential Minimum Wage Impacts

Effects	Model	Predicted Impacts
Unemployment	Informal Economy Model	Increase unemployment in the formal sector and depress wages in the informal sector due to the migration of laid-off workers between the two sectors.
	Efficiency Wage Model	No reduction in employment because employers will not substitute skilled workers with unskilled workers because the costs associated with labor turnover (e.g. training) may be high.
	Firms' Reaction to the Minimum Wage	No reduction in employment because firms may chose to offset higher labor costs by increasing investment in physical and human capital, rather than laying off workers.
International Competitiveness	Enterprise-level	MW reduces firms' competitive leverage by making the cost structure more rigid. Collective bargaining, compared to MW set by authorities, gives firms more flexibility to adjust to changes in competition.
	National economy-level	MW has the potential to spill over to other sectors, increasing the general wage level. Unless this rise is offset by higher productivity, it will reduce international competitiveness.
Poverty	No conclusive models	There are no models that provide a clear conclusion on the correlation between MW and poverty. MW could widen inequality by encouraging firms to substitute unskilled workers with skilled workers. It may be more efficient to help poor people by raising wages through rural development (such as public and private investments in rural areas and promotion of rural micro, small and medium-sized enterprises), which could help absorb some of the labor supply and foster balanced growth.

PART III: Wage Fixing Systems in Practice: Examples from Selected ASEAN and Asian Countries

This part of the report looks at the practice of setting wages in Bangladesh, Indonesia, Lao PDR, Malaysia, Philippines, Singapore, South Korea, Sri Lanka, Thailand and Vietnam.

The majority of Asian countries in this study set minimum wages by sector and region. The two exceptions are South Korea, which has a national minimum wage, and Singapore, which has none.

Across countries, the cost of living serves as the common foundation for determining the minimum wage. Determinants such as general economic conditions, productivity and wage levels vary by country.

In countries where a minimum wage exists, tripartite authorities⁴ who fix wages through a consultative process are generally established in the form of wage boards or committees. Collective bargaining is also legally permitted in most of the countries, except Lao PDF.

The study finds that the impact of minimum wage on unemployment, competitiveness and poverty is inconclusive. Among the countries with a minimum wage, the most widely noted negative impact has been deterioration in competitiveness, particularly in Bangladesh, Malaysia and Thailand. For

⁴ Tripartite authorities consist of employers, employees and government as mediator.

some countries, the minimum wage has adversely created unemployment and reduced investment. In the case of the Philippines, the minimum wage led to a flight in foreign direct investment. Wage rigidities resulting from a minimum wage have also negatively impacted productivity levels in South Korea and Sri Lanka.

Relevant economic indicators against which the minimum wage may be benchmarked include: GNP per capita, consumption per capita, and average wage levels. Based on available data, figures show that most of the ASEAN and Asian countries selected for this study have a minimum wage-GNP per capita ratio below 1, of which Malaysia has the lowest ratio of 0.29. Most of the countries in this study appear to have a minimum wage that reflects the cost of living. The minimum wage-to-average wage ratio is comparable in a majority of the countries, ranging from 0.50 to 0.79.

PART IV: Cambodia and Minimum Wage: Where Does Cambodia Stand?

In Cambodia, although the Cambodian *Labor Code 1997* permits minimum wage setting by a Labor Advisory Council (LAC), the actual implementation is still under consideration.

If a minimum wage is introduced, questions related to determinants, coverage, the responsible authority and potential impacts should be clarified before implementation. The theories and practical experiences of other countries discussed in this study can help in answering these questions.

Among the various determinants, household consumption (or cost of living) serves as a fundamental criterion, which is applicable for all types of industries and occupations. In addition, using the Consumer Price Index (CPI) to automatically adjust the minimum wage can help ensure that wages remain in line with the cost of living.

As laid out in the Labor Code, the Ministry of Labor (MOL) has the authority to set the minimum wage based on proposals from the Labor Advisory Council (LAC), which consists of employer, employee and government representatives. In regions lacking trade unions, it may be impractical to introduce a minimum wage, as the rate may be one-sided and less responsive to the demands of workers.

Collective bargaining is also permitted by the law. At present, contractual minimum wages have been set for the garments, textiles and footwear industries (\$45 per month) and throughout some hotel chains.

Based on existing models and the countries examined in this study, the **lesson to learn is that the effects of minimum wage is not clear**. In principle, a minimum wage can reduce competitiveness if it is higher than the rate naturally determined by the market. A minimum wage that is higher than the market rate could result in three consequences. First, enterprises may seek laborers in the informal sector, which is quite large in Cambodia. Second, a minimum wage exceeding the market rate may discourage private investment in rural areas by increasing the already relatively higher production costs. Third, employers may choose to substitute unskilled workers with skilled workers (which includes workers from both formal and informal), since skilled workers may offset the higher production costs by increasing the firm's productivity. From a non-economic perspective, a minimum wage may ensure that laborers receive a decent and secured living wage, collect a fair share of economic growth and prosperity, and has enough incentive to work.

As noted above, the aim of this study is only to provide a story of what is happening in neighboring Asian countries and is not sufficient for making conclusions on whether Cambodia should or should not introduce a minimum wage. More in-depth research should be conducted to understand better

the potential effects of a minimum wage on the Cambodian economy. In the end, the decision will come down to a choice between economics and social.

1. Introduction

1.1. The Study

According to the Cambodian Statistical Year Book for 2003, total employment increased to 6.4 million by 2002 (total population in Cambodia is approximately 13 million).. Of this figure, the agricultural sector accounted for approximately 70 percent, industry for 10.5 percent and services for 19.5 percent. The wages that workers earn in these sectors vary considerably. Currently, the Cambodian Labor Law specifies that wages must be set to provide an adequate living standard, but the law provides no other guidance regarding wage levels. Only a small number of employers have entered into collective bargaining agreements that specify wage levels.

A study conducted by the Cambodian Labor Organization in July 2004 on the minimum wage in Cambodia provides several methods for determining a minimum wage, using, among others, information on household consumption data. However, the study does not provide comparative data on how other countries determine minimum wages.

A number of developing countries in the ASEAN region have established minimum wage levels based on household consumption and other factors. If a country does not have a minimum wage set by law, stakeholders in specific sectors may establish minimum wages themselves. In Cambodia, this has happened in the garment sector.

Knowing whether and how other countries have established minimum wages, the reasoning behind introducing a minimum wage, and the economic impacts of minimum wage are important issues for employers, government policymakers, unions and other interested stakeholders.

For this reason, the Mekong Private Sector Development Facility (MPDF) commissioned the Cambodia Institute of Development Study (CIDS) to conduct a comparative study on wage provisions in ASEAN (Association of South East Asian Nations) and Asian nations.

1.2. Objectives

This study aims to inform employers, policymakers, the public and other interested stakeholders in Cambodia about the general concept of a minimum wage, the components used to determine a minimum wage and the theoretical implications that a minimum wage may have on the economy's competitiveness. In addition, this study seeks to: (a) provide information on how other ASEAN and Asian countries set, implement and adjust minimum wages, and (b) assess the appropriateness of these minimum wages against economic indicators such as GNP per capita, household consumption, and the average wage level.

1.3. Approach

The research methodology included extensive desk research. The team compiled data on minimum wage provisions in various ASEAN and developing Asian countries (Bangladesh, Indonesia, Lao PDR, Malaysia, Philippines, Singapore, South Korea, Sri Lanka, Thailand, and Vietnam) as well as on the key economic indicators relevant for benchmarking minimum wage levels. In the case of Bangladesh and Lao PDF, labor experts were interviewed by email to fill in information gaps (their contact information is provided in the References section).

1.4. Organization

This report comprises of three parts. Part I outlines the theoretical foundation for our study on minimum wage by exploring the general concepts, key determinants and reasons for setting a minimum wage. It also provides an overview of the common processes for establishing wage floors.

Part II considers some of the potential economic impacts of wage floors, specifically on: unemployment, international competitiveness and poverty. In Part III, we turn our attention to the practice of setting a minimum wage and study the wage fixing systems in a number of selected ASEAN and Asian countries. This part of the report also assesses the validity of the various minimum wage levels by benchmarking them to key economic indicators such as GNP per capita, the cost of living and the average wage. Part IV briefly summarizes Cambodia's current stance on minimum wages.

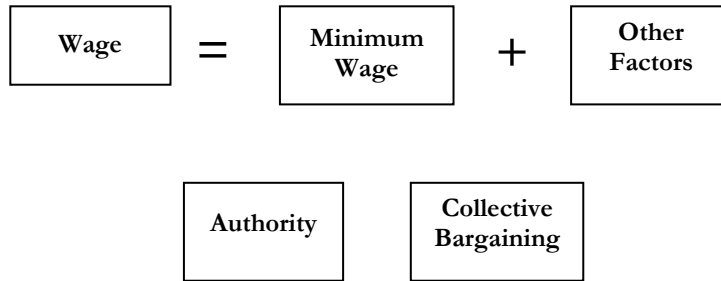
PART I: Models of Minimum Wage Setting

1. What is a Minimum Wage?

Wages, as defined by the International Labor Organization (ILO), are the earnings payable by an employer to an employed person for work done or to be done, or for services rendered or to be rendered. They are usually expressed in monetary terms and are generally fixed either by mutual agreement or by national laws or regulations.⁵

Figure 1: Wage Structure

The minimum wage, which places a legal floor on the rate that employers must pay to workers, is usually the central component of several that comprise the wage structure (see Figure 1). Other factors that contribute to the wage level include: premiums for skills and experiences, or legislative payments such as social security, severance pay or overtime pay.



The minimum wage rate, and the way it is determined, varies across countries and largely depends on their respective policy objectives. Commonly, a minimum wage is introduced to "secure workers a reasonable standard of life as this is understood in their time and country"⁶. This form of minimum wage is usually referred to as a "safety net". Another policy reason for setting a minimum wage can be to ensure that income and profit are fairly distributed to workers (see Box 1 for a brief explanation on the two common forms of minimum wages).

⁵ ILO, 1992

⁶ ILO, 1992

Box 1: Forms of Minimum Wages

'Safety net' umbrella

These general minimum wages are typically universal in coverage, applying to all workers in the labor pool. The argument behind this type of wage is that it provides all workers protection against wages that may fall below a minimum acceptance level, as determined by the state. It is important to point out that different countries employ different methods for calculating a 'minimum acceptance level', and to date no clear consensus on how to establish an international norm for this calculation has been reached.

Income and profit distribution

This kind of minimum wage aims to provide workers with a fair income and profit distribution, and is often referred to as an instrument of macroeconomic policy that can "alter the general level and structure of wages in line with broad national economic stabilization, growth and income distribution". The reasoning behind this kind of minimum wage stem from the opinion that wages should reflect economic rents, i.e. increases in productivity and profit taking. Minimum wage with this aim is not calculated from a pre-determined social protection formula. Instead, wage committees and collective bargaining are generally used to establish the wage level, often with the public sector playing an important role in the process.

Source: Brooker Group Consortium (1999). *Final Report Thailand Labor Policy Review*, Thailand.

1.1. Key Determinants

Different theories on minimum wages (see Appendix 1) demonstrate that a minimum wage is necessary to protect workers from destitution. In this chapter, we look at how to determine a suitable wage level. Minimum wages, despite their underlying core policy objectives, should be determined from a set of transparent and basic criteria and should reflect the prevailing social and economic context of their locality. The ILO has suggested a list of fundamental criteria for setting the minimum wage. These criteria can be classified into three groups: (1) cost, (2) comparability and (3) social and economic context. Box 2 lists these criteria.

Cost Determinants

To fairly determine the minimum wage, it is necessary to take into account both employees' cost of living (*standard of living principle*) and employers' production costs (*ability of businesses to pay principle*). As an underlying principle, the minimum wage should not be fixed at a scale below the subsistence level. The rate should at least sufficiently enable workers to satisfy the basic needs, such as food, clothing, shelter, health and education. The wage floor should also take into account the production costs, profits and competitiveness of businesses; a wage level that lies beyond the ability of enterprises may adversely drive firms out of business, ultimately benefiting no one.

Comparability Determinants

The minimum wage should be reasonable and suitable for the prevailing context. Thus, determination of a minimum wage floor should include factors for making comparisons, such as the *general wage level* in the country as well as wages paid for work of comparable character. Similarly, the *wage rates fixed by collective bargaining agreements* for identical or similar businesses should be taken into account during the wage determination process.

Economic and Social Determinants

In addition to costs and comparisons, authorities or parties fixing the wage level should be aware of the relevant social and economic context. Social and economic factors are crucial when determining of wage floors to avoid friction between stakeholders (namely laborers and employers, but also the government) and the possibility of a social uprising.

Sensitive social issues that should be accounted for include the present size of the peasant population and the existing relationship between peasant incomes and wages in both rural and urban areas. The existence and function of a social security system should also be considered when setting the minimum wage rate.

Important economic factors include: the current levels of employment, unemployment and underemployment, the potential impact on unemployment, the balance of payments, productivity levels, and the rate of increase in productivity. Wage levels should also embody a long term perspective, taking into consideration the requirements of economic development⁷, and the role wages play in creating markets for the mass production of consumer goods⁸.

Box 2: Fundamental Criteria for Minimum Wage Setting

Cost Determinants

- workers' cost of living
- employers' cost of production
- value of the service rendered

Comparability Determinants

- general level of wages in the country
- general level of wages paid for work of comparable character
- the wages fixed by collective agreements for identical or similar work
- relative standard of living of various social groups

Social & Economic Determinants

- size of the peasant population and the existing relationship between peasant incomes and wages, both rural and urban
- social security system and benefits
- requirements of economic development
- role of wages in creating markets for mass production of consumer goods
- levels of employment, unemployment and underemployment
- likely impact of wage changes on the volume of employment
- balance of payments, rates of productivity and the rate of increase in productivity
- role wages play in creating markets for the mass production of consumer goods

Source: ILO 1992 Minimum Wage Survey

2. Why Set a Minimum Wage?

This section considers the question: why is a minimum wage necessary? Wages can have an influential weight in the efforts to reduce poverty, raise living standards and increase labor productivity. The common reasons for introducing wage floors are discussed below (summarized in Box 3).

⁷ The requirement for sustainable economic development is broad-based development, which needs market development at the grass-root level (i.e. village, district... level).

⁸ Minimum wage, if covering the large peasant population, can create mass demand for mass production of consumer goods.

Ensure Basic Living Standards

Box 3: Main Reasons for a Minimum Wage

Historically, minimum wages were created to ensure that workers get at least enough pay for subsistence, an objective that is still rightfully the driving reason.⁹ The underlying purpose of a minimum wage is to guarantee that workers receive

- Ensure Basic Living Standards
- Provide Wage Protection
- Create Incentive to Work
- Fair Share of Economic Growth and Prosperity

adequate wages to cover their (and, in some cases, their dependents') basic needs: food, clothing, housing, health and education. In some cases, the notion of a basic living wage encompasses not only the basic necessities of life, but also the "preservation of the efficiency of the worker", and includes some amounts of income for recreation.¹⁰

Provide Wage Protection

Another reason for instituting a minimum wage is to provide income security for vulnerable workers. A minimum wage is set in order to insulate low income workers from deteriorating real wages relative to the average wage. In this sense, the minimum wage is used as a mechanism to narrow (or avoid widening) the income gap.

Create Incentive to Work

In some countries, like New Zealand¹¹, a minimum wage is established to induce people to work. The minimum wage aims to attract people into the labor force by raising the opportunity costs for not working. This rationale is less relevant for developing countries, especially for countries that lack a safety net for the unemployed. Most people in developing countries simply cannot afford to not work.

Obtain Fair Share of Economic Growth and Prosperity

A fourth reason for setting a wage floor is to ensure that workers receive a fair share of their contributions to economic growth and prosperity. The principal objective is to make sure that workers are not exploited, but rather rewarded for their labor. A minimum wage that incorporates a premium for economic growth may also motivate workers to increase productivity. Thailand, for instance, established a minimum wage with this motive in mind, among other reasons (see Part III).

3. What is the Process of Setting a Minimum Wage?

3.1. By Authority

A minimum wage may be instituted by legislation. A statutory minimum wage, which defines the legal under limit that employers must pay to their employees and which may not be undercut, is generally used as a social protection tool to safeguard vulnerable workers from exploitation. Legislated minimum wage focuses on a wage level that can sufficiently cover the basic and essential needs of the worker - commonly referred to as the "basic wage"¹². The basic wage is usually calculated based on a pre-determined formula linked to the cost of living and consumption levels of an unskilled worker, and in some cases, his or her dependents.

⁹ ILO, 1992

¹⁰ CLO, 2004

¹¹ New Zealand Employers' Federation, 1999

¹² See for instance, Brooker Group Consortium (1999) and ILO (1992)

In many countries, authorities in the form of wage boards, committees or councils are established to recommend suitable minimum wages to the government or respective ministry. These authorities can be national, regional or sectoral.¹³ For instance, the responsible body for generating wage proposals to the Ministry of Labour in South Korea is the National Wage Council, while in Indonesia, provincial wage councils advise governors on regional minimum wage levels.

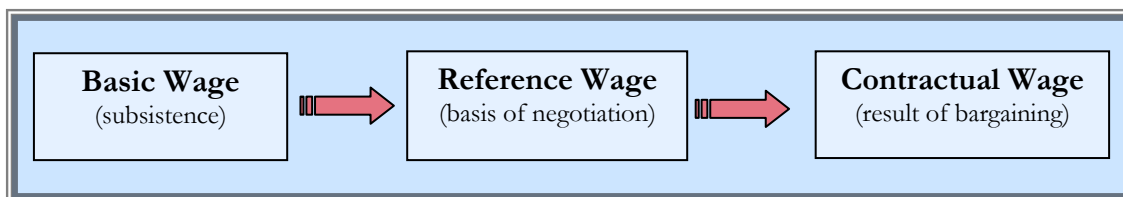
Wage authorities tend to be tripartite (almost all of the selected ASEAN and Asian countries selected in this research have a tripartite mechanism for determining minimum wages), consisting of representatives from the government as well as employer and employee organizations. Generally the function of wage authorities is to advise high ranking public officials (e.g. Ministers and Governors) on appropriate minimum wage levels. Wage authorities apply a process of consultation between the relevant stakeholders (namely employers and employees) rather than negotiation.

3.2. By Collective Bargaining

Minimum wages may also be set through collective bargaining. Collective bargaining is a process of negotiation between employee and employer representatives aimed at determining wages, hours and other employment conditions. If a common ground is reached, collective bargaining agreements or labor contracts are the results..

The aim of collective bargaining is usually to set a minimum wage that not only covers the bare cost of living, but also fairly reflects the worker’s contribution to productivity and economic growth. A “reference wage,” which is derived from the basic wage, is generally used as a basis for negotiation. The minimum wage that results from collective bargaining is referred to as a “contractual minimum wage”¹⁴. Figure 2 illustrates the process of setting a minimum wage.

Figure 2: Process for Setting a Minimum Wage



Collective bargaining can lead to improved and more democratic relations between employers and employees by allowing workers to voice their preferences and concerns about work conditions, specifically on a suitable minimum wage. Yet, if poorly carried out, collective bargaining may worsen the industrial relationship between workers and management.¹⁵

Usually, the process of bargaining is bipartite, though in some developing countries the government can facilitate, especially as a mediator in case of disputes. Collective bargaining may occur at different levels: national, industrial or within enterprises. Usually negotiations take place at more than one level.¹⁶

¹³ This will be illustrated in greater details in Part 3 on the wage systems in selected countries.

¹⁴ ILO, 1992

¹⁵ Appendix 2 offers some guidelines on the process of collective bargaining.

¹⁶ De Silva, 1996

3.2.1. How Does Collective Bargaining Work?¹⁷

From the outset, each party involved in collective bargaining has to prepare a step-by-step strategy for stages before, during and after the negotiations. It is always a good idea to leave alternative options, since negotiations may not always progress in the way a party may plan or expect.

Prior to the negotiation, each party should have a clear vision of what it wants to achieve and how feasible its demands are. To ensure that negotiations are productive and successful, parties should understand the general rules of the game. First, demands should not be made at the expense of the enterprises' competitiveness. Second, wage increases should be kept below the level of productivity increases and/or within the inflation rate. Third, the actions should aim to guarantee or strengthen industrial peace.

The negotiating team should conduct its research before sitting down at the bargaining table. For instance, to assess the likelihood of achieving their demands, labor unions should carefully study the current economic context and its particular impact on the relevant industry or company.

Equally as important is the company's offer to the union. Employers may choose to use the negotiation process to restructure the firm and achieve higher productivity. This can be a strategic way to absorb higher labor costs.

Either party can initiate negotiations. Typically when unions initiate negotiations, employers respond by demanding that the unions explicitly state their reasons for doing so. In order to avoid misunderstandings and erosion in the industrial relationship, employers should respond to workers by explaining the prevailing context (i.e. the business environment) that frames the negotiations.

An essential principle of negotiation is that a negotiator should look at the process as one in which both sides are walking towards, rather than away from, each other. This may require the negotiator to adjust to the style of the other party. It is important to always keep in mind that the final objective of collective bargaining is to reach an agreement acceptable to both sides.

When the negotiating parties reach a verbal agreement, there should also be consensus on the proper interpretation of written articles; otherwise, problems may result during implementation of the agreement. While the signing of an agreement is an achievement, it does not guarantee successful implementation and enforcement. It is often useful to have both a written and oral communication.

3.2.2. Essential Features of Successful Collective Bargaining¹⁸

In practice, not all collective bargaining talks are successful in reaching agreements. Some key principles should be taken into account before negotiations begin. As far as employers are concerned, wage increases must be based on certain criteria such as enterprise profits, job evaluations, seniority, cost of living, and the labor supply. Employers also expect that the labor unions with which it is negotiating represents a minimum percentage of employees, that there exists a legal framework to handle these issues, overcome uncertainty and avoid disputes are essential.

While reaching collective bargaining agreements is an important step, the actual implementation of such agreements also helps determine the extent of employee benefits. This is especially true in developing countries, where unions may find it difficult to guarantee proper implementation. For this reason, contract enforcement by the state is crucial to ensuring the effectiveness of collective

¹⁷ De Silva, 1996

¹⁸ De Silva, 1996

bargaining. Labor administrators in the government can support and secure the observance of agreements by providing:

- conciliation services in case of disputes between parties¹⁹
- a conducive legal framework, e.g., a provision for the registration of agreements
- dispute settlement methods²⁰

¹⁹ Conciliation services refer to services aimed at getting two sides to agree or compromise. Compare this with dispute settlement below.

²⁰ Dispute settlement or resolution refers to solving conflicts based on right-wrong principles and is less focus on reaching a compromise. Compare with conciliation services above.

PART II: Impacts of a Minimum Wage

The previous part of this report looked at the positive justifications for having a minimum wage. The reasons for instituting a minimum wage are clear: to ensure basic living standards, to protect the wages of unskilled workers, to create an incentive to work, and to provide a fair share of economic growth and prosperity to laborers. In this section, we consider some of the negative aspects of the minimum wage, such as its impact on unemployment, its effect on international competitiveness and its relationship with poverty (Table 2 summarizes the potential effects of minimum wage).²¹

1. Unemployment Effects

Traditional economic thought asserts that the demand for labor is sensitive to changes in the wage rate. If the actual wage paid to workers is higher than the equilibrium wage – the wage rate that employers are willing to pay and workers are willing to accept – then the demand for labor will be lower than the supply of labor, resulting in unemployment. This market reaction is based on certain underlying assumptions. Changes in the assumptions, however, can result in different effects. The section briefly summarizes some models that examine the potential impact of a minimum wage on employment.

Informal Economy Model

In the presence of a large informal sector, the effect of a minimum wage is uncertain. First, a minimum wage may create unemployment in the sector to which it is applied. Second, workers who are laid off in the sector covered by the minimum wage may look for work in uncovered sectors, increasing the labor supply in the other sectors and depressing wages there.²²

Efficiency Wage Model

Efficiency wage theory argues that firms may choose to provide wages above the equilibrium rate to provide incentives for increasing productivity and minimizing turnover costs. Instead of reducing the number of workers, employers may use the minimum wage as a tool to increase their efficiency and motivation.

Firms' Reaction to the Minimum Wage

The first response of firms to a minimum wage may not always be to dismiss workers. Instead, employers may enforce harder working conditions to compensate for higher wages.²³ Firms may also choose to offset the increase in labor costs by increasing their investments in fixed and human capital, so as to increase productivity and efficiency of workers.²⁴

2. International Competitiveness²⁵

A minimum wage may impact the international competitiveness of both enterprises as well as the national economy. .

²¹ Scholars in the field (as well as the sources of our information) assess the impacts of minimum wage, as presented in this part of the report, based on three indicators: (i) unemployment, (ii) international competitiveness, and (iii) poverty. The first two indicators are for economic development and the third indicator is for social development.

²² The overall effect of the minimum wage on unemployment depends on three factors: the elasticity of demand for labor in the covered sector, the elasticity of wage in the non-covered sector and the size of the minimum wage. See Saget (2001).

²³ Fraja, 1999

²⁴ Fraja, 1996

²⁵ Brooker Group Consortium, 1999

Enterprise-Level

A minimum wage increases the production costs of affected enterprises. Consequently, this makes it more difficult for firms to adjust costs and remain competitive.

In the past, enterprises considered collective bargaining at the centralized level (national or industrial level) as a way of reducing competition among themselves by standardizing wage rates. But due to increasing globalization and international competition, employers are beginning to prefer collective bargaining at the firm level, which gives them more room to adjust to changes in competition.²⁶

National Economy-Level

A minimum wage for one sector may spill over to uncovered sectors and increase the general wage level. On a macroeconomic level, this can reduce national competitiveness in international markets because the higher production costs may not be offset by higher labor productivity.

3. Minimum Wage and Poverty²⁷

The main justification for setting up a minimum wage is to provide income support to the poor. However, while a minimum wage may help some low-wage workers, it may also simultaneously hurt other workers, depending on its effect on employment and on average earnings.

In developing countries, a minimum wage may widen the wage inequality between workers in the covered sectors (formal sector) and the others (informal sector), as well as between skilled and unskilled workers. Overall, a minimum wage encourages firms to substitute unskilled workers with skilled workers; a situation that can result in higher poverty. The most efficient way of lifting workers out of poverty is to raise the price of labor through rural development, not to increase the minimum wage in urban areas.²⁸ For instance, public and private investment that focuses on developing rural areas, and initiatives to promote the growth of rural micro, small and medium-sized enterprises, could help absorb the rural labor force, foster a more balanced growth, and thus reduce migration into urban areas.

On the other hand, unskilled wages constitute a higher proportion of income of poor urban people in some developing countries, as compared to developed countries. For this reason, a minimum wage in developing countries may be able to lift relatively more low-paid workers out of poverty.

Thus, there appear to be no models that can conclusively predict the effect of a minimum wage on poverty. The overall effect depends on the reactions of employers and employees. Employers may react to a minimum wage by cutting the workforce, using the minimum wage as a tool to increase labor productivity, or moving operations into the informal sector to avoid the minimum wage altogether. For workers there are two potential consequences. First, if workers laid off due to the minimum wage enter the informal sector and accept low wages, this can depress the wages and incomes in the informal sector, particularly for unskilled workers. Second, the minimum wage, which usually covers only formal sectors in urban areas, could encourage a rural to urban migration that increases the labor supply surplus in urban areas. However, the above-mentioned models suggest that increases in the minimum wage can reduce poverty if the employment effect of minimum wage is small.

²⁶ De Silva, 1996

²⁷ Saget, 2001

²⁸ Saget, 2001

There exists no substantial theory or research that specifically provides guidelines on when or at what development stage to introduce the minimum wage. However, if a minimum wage is introduced when there is 1) a low rate of rural to urban migration and 2) a small informal sector, the effects of a wage floor may be more positive than negative. If these conditions do not hold, a minimum wage may adversely accelerate migration, flood urban labor markets, and encourage employers to move into informal sectors, all of which can result in imbalanced growth. In reality though, the minimum wage is usually institutionalized during times of high labor unrest due to a rising cost of living (i.e. Indonesia, Thailand...) and tends to occur due to social rather than economic reasons. .

Table 2: Summary of Potential Minimum Wage Impacts

Effects	Model	Predicted Impacts
Unemployment	Informal Economy Model	Increase unemployment in the formal sector and depress wages in the informal sector due to the migration of laid-off workers between the two sectors.
	Efficiency Wage Model	No reduction in employment because employers will not substitute skilled workers with unskilled workers because the costs associated with labor turnover (e.g. training) may be high.
	Firms' Reaction to the Minimum Wage	No reduction in employment because firms may chose to offset higher labor costs by increasing investment in physical and human capital, rather than laying off workers.
International Competitiveness	Enterprise-level	MW reduces firms' competitive leverage by making the cost structure more rigid. Collective bargaining, compared to MW set by authorities, gives firms more flexibility to adjust to changes in competition.
	National economy-level	MW has the potential to spill over to other sectors, increasing the general wage level. Unless this rise is offset by higher productivity, it will reduce international competitiveness.
Poverty	No conclusive models	There are no models that provide a clear conclusion on the correlation between MW and poverty. MW could widen inequality by encouraging firms to substitute unskilled workers with skilled workers. It may be more efficient to help poor people by raising wages through rural development (such as public and private investments in rural areas and promotion of rural micro, small and medium-sized enterprises), which could help absorb some of the labor supply and foster balanced growth.

PART III: Wage Fixing Systems in Practice: Examples from Selected ASEAN and Other Asian Countries

Part I of this report introduced the theoretical concepts, reasons and determinants for the minimum wage. Part II illustrated the potential impacts of a minimum wage on an economy. In this part of the report, we turn our attention to the practice of setting wages in a number of ASEAN and Asian countries. These case studies give us insights on how different countries fix and implement minimum wage and also allow us to explore some of the impacts that minimum wages have had on their economies. Table 5 summaries the minimum wage provisions and impacts for the countries studied. Appendix 2 is a fact sheet of minimum wages in these countries and provides the most readily available information on minimum wage rates, average wage GNP, consumption, and unemployment.

1. Bangladesh

What and Why a Minimum Wage

In Bangladesh, minimum wages are set by sector, zone and occupation. The decisive criteria for setting minimum wage are the cost of living and economic development (general economic conditions).²⁹ The government can alter minimum wage rates from time to time as it considers appropriate. Minimum Wages Boards should review any recommendations at least once during any three year period. In EPZs, the Authority may determine minimum wage rates from time to time. The legislation does not provide a specific time-frame.

The Bangladeshi government sets minimum wage to protect workers' interest so that they earn a minimum amount that enables them to live and work in a certain area. However, the minimum wage in Bangladesh usually does not respond to the contemporary needs of workers as they remain unadjusted for 5-10 years. Some have suggested including an inflation-adjusted component in minimum wage determination to prevent workers' real income from declining over time.³⁰

How Minimum Wage is Set

The Ministry of Labour and Employment is in charge of setting minimum wage in Bangladesh. The process of determining minimum wage rates involves consultation among the key stakeholders (the government, workers' representatives and employers' representatives)³¹. A committee offers recommendations on minimum wage.³²

There is no national minimum wage rate in Bangladesh; instead minimum wage rates are distinguished by sectors and zones. For workers in industries, the Minimum Wages Board recommends the minimum wage rates. At present, a minimum wage rate has only been established for the garment industry. In the agricultural sector, the Council of Minimum Wages and Prices for Agricultural Labour recommends the minimum wage rate the government should set for agricultural laborers. However, this Council has never been established. In the export processing zones (EPZ), the Export Processing Zones Authority is responsible for setting minimum wage rates. These rates are not set by the government, but by the EPZ Authority directly.³³

²⁹ Saget, 2001

³⁰ Based on qualitative interview with expert at the South Asia Enterprise Development Facility (SEDF) in Sri Lanka

³¹ Derived from the ILO Minimum Wage Database: <http://www.ilo.org/travaildatabase>

³² Based on qualitative interview with expert at the South Asia Enterprise Development Facility (SEDF) in Sri Lanka

³³ Derived from the ILO Minimum Wage Database: <http://www.ilo.org/travaildatabase>

Currently, minimum wage rates have been established for workers in the garment industry, for workers in EPZs; and agriculture workers. The minimum wages set for the garment industry specify rates by occupation such as for machine operators, quality controllers, electricians, pattern cutters, pattern masters, mechanics and ironers and various other occupations.³⁴ On average, the minimum wage rate for garment workers is Tk930 (\$20) per month. The minimum wage rate for garment workers is set forth in the Minimum Wage Ordinance of January 13, 1994. In EPZs, minimum wage rates are determined for the garment industry, electronics industry, terry towel industry, textiles industry, leather/shoe industry, heavy industries such as the steel industry, light industries, and misc. industries. Agricultural workers have separate minimum wage rates as determined by the Agricultural Labour (M.W.) Ordinance, 1984.³⁵

Impacts of Minimum Wage

The impact of minimum wage on the economy is a two-edged sword. On the one hand, lower wage attracts only low skilled workers and the overall productivity remains low. This also translates into higher on-the-job training cost. On the other hand, a high minimum wage may influence the owners to hire fewer workers and make them work harder and longer hours. As for the impact of the minimum wage on Bangladesh's economy, it depends on many other factors, the unemployment rate being one.³⁶

For Bangladesh's well-developed garment industry, the impact of a minimum wage is likely to be minimal given the existing advantages and high productivity levels of the sector compared to other major garments exporting South Asian countries. Bangladesh's T-shirt industry presently constitutes a large share of international markets. 1997 data shows that the country is the 6th largest t-shirt provider to the United States (US), 5th largest to the European Union (EU) and 9th largest to Canada.³⁷ And with the recent quotas imposed on China by the US and EU, buyers like Wal-Mart are increasing their purchases from Bangladesh.³⁸ Moreover, unit labor costs and wages in Bangladesh are also relatively lower than neighboring countries such as India, Pakistan and Sri Lanka, while the productivity level is competitive, allowing the industry to have a price advantage (see Table 3).

Table 3: Comparison of Unit Costs, Wages and Productivity Level in the T-Shirt Industry (1994)

Countries	Unit Labor Costs (\$/shirt)	Wages (\$/year)	Productivity (Shirts/worker)
Bangladesh	0.11	290	2,536
India	0.26	668	2,592
Pakistan	0.43	1,343	3,100
Sri Lanka	0.79	570	719

Source: Paul-Majumder, P. and Begum, A. (2000). *The Gender Impacts of Growth of Export-Oriented Manufacturing in Bangladesh: Case Study: Ready Made Garment Industry Bangladesh*, Background paper prepared by the Bangladesh Institute of Development Studies (BIDS) for the World Bank, Dhaka.

³⁴ For a detailed breakdown of wages per occupation for garment works, see: Absar, S. (2001). *Problems Surrounding Wages: The Ready Made Garments Sector in Bangladesh*. Asia Pacific Press.

³⁵ Derived from the ILO Minimum Wage Database: <http://www.ilo.org/travail/database>

³⁶ Based on qualitative interview with expert from the South Asia Enterprise Development Facility (SEDF) in Sri Lanka

³⁷ Quddus & Rashid, 2000

³⁸ Cambodia Daily, 2005, November 10

2. Indonesia

What and Why a Minimum Wage

There is no national minimum wage in Indonesia; instead, separate regional minimum wages are set up for the 26 provinces that take into account the regional specific conditions such as the different labor market situations and cost of living.³⁹ In some cases, the minimum wage also differs between sectors in the provinces. Table 4 below lists the regional earnings per worker and the regional minimum living requirements, which represents the basic wage.

Table 4: Indonesian Provincial Wages and Minimum Living Requirements (1999)

Provinces	Rp		US \$	
	Nominal Wage per Worker	MLR	Nominal Wage per Worker	MLR
Indonesia	346,950 Rp	263,787 Rp	\$44	\$34
Sumatra	389,096 Rp	256,307 Rp	\$50	\$33
Java	320,628 Rp	265,959 Rp	\$41	\$34
Bali, Nusa Tenggara	340,895 Rp	251,592 Rp	\$44	\$32
Kalimantan	465,439 Rp	281,384 Rp	\$60	\$36
Sulawesi	405,679 Rp	252,295 Rp	\$52	\$32
Maluku, Irian Jaya	544,230 Rp	273,500 Rp	\$70	\$35

Source: Dhanani, S. & I. Islam (2004). *Indonesia Wage Structure and Trend, 1976-2000*. International Labour Office, Geneva.

Table 3 shows that in all provinces the nominal wage per worker is higher than the minimum living requirements. The excess between the two rates (as well as the differences between each provinces) is due to additional factors related to provincial-specific economic conditions, labor market flexibility, and the level of human capital in each province, among other things (refer to Box 2: Fundamental Criteria for Minimum Wage Setting for a general list of minimum wage determinants).

Specifically, determinants for setting the minimum wage in Indonesia are as following:

1. minimum subsistence needs (or KHM)
2. the cost of living based on CPI
3. the capacity and sustainability of companies
4. employment opportunities
5. existing market wage rates
6. labor market conditions
7. economic and income per capita growth

³⁹ ILO (2004) and derived from the ILO Minimum Wage Database, www.ilo.org/travdatabase

8. development plans of country

Among the determinants, the minimum subsistence needs criteria (or KHM) serves as the baseline. The KHM is based on a basket of consumption items considered necessary for the livelihood of a single worker. The basket consists of 43 items, including food, clothing, housing, transport, health, and basic recreation.⁴⁰

Minimum wage policy was ignited in Indonesia from both internal and external pressures dating back to the 1980s.⁴¹ Internally, the formation of a number of labor unions requesting better working conditions and wages, despite the government's attempt to disband them, raised social unrest among workers. With the country's growing export sector, the government faced high pressures from external spheres, as developed countries, who were their main trading partners, demanded for changes in worker's conditions. During the same time, the Indonesian government initiated its regional minimum wage regulations.

How Minimum Wage is Set

The regional minimum wage is a legislated rate based on a decree issued by the Ministry of Manpower. Prior to 2001, final approval on the minimum wage levels rested at the ministerial level. Wage levels are set through a process of consultation between relevant stakeholders, from bottom to top. Provincial tripartite councils, consisting of representatives from the side of employers, employees and government, all of which are usually appointed by the government, play the role of assessing the local labor market conditions. The council provides recommendations to the provincial governors on suitable minimum wage levels. The governors are responsible for making recommendations to the Minister in Jakarta. Parallel to the country's regional autonomy policy, the power to fix minimum wage levels have recently been decentralized to governors, mayors and regents.⁴² Regional minimum wages are reviewed by the tripartite councils on an annual basis.

Collective bargaining have also been used to set sectoral minimum wages in Kalimantan, North and South Sumatra, Bengkulu, Java, Maluku, Irian Jaya and Bengkulu for the agriculture, mining, manufacturing, utilities, forestry and rubber ware industries among others.⁴³ Adjustments in the minimum wage are made in reference to changes in labor productivity, the employment rate and changes in GDP per capita.⁴⁴

Impacts of Minimum Wage

Minimum wage has had a moderate impact on the Indonesian economy, according to research carried out by Rama. The results of Rama's study implies that doubling the minimum wage led to a 10 percent increase in average wages, a 2 percent decrease in wage employment, and a 5 percent decrease in investment. The disemployment effect shows to be most considerable in small firms. In large firms, employment may actually increase.⁴⁵ On the other hand, the increase in average wage, which raises the income levels and standard of living of the general mass, is a positive effect of the minimum wage.

⁴⁰ The minimum subsistence needs (or KHM) replaced the minimum physical needs (or KFM) in 1996, of which the former includes a broader range of consumption items and indicates a higher living standards. (Suryahadi, et al., 2001)

⁴¹ Suryahadi, et al., 2001

⁴² See Suryahadi, et al., (2001) and ILO (2004)

⁴³ Derived from the ILO Minimum Wage Database, www.ilo.org/travdatabase

⁴⁴ Saget, 2001

⁴⁵ Rama, 1996

In examining the labor utilization in Indonesia, Rama suggests that the wage employment ratio is a better measurement than the unemployment rate because the latter is highly correlated with socioeconomic status. Rama points out that in a society which lacks a comprehensive unemployment benefits system, many people cannot afford unemployment. Therefore, the reallocation of wage-employment to self-employment is the best indicator to understand if there are any adverse impacts of minimum wage.⁴⁶ A study by UNIDO shows that despite the increase in minimum wages over the years, there is no evidence that this has reduced the profitability of manufacturers in Indonesia. The report notes that profitability has been preserved at 25 per cent of gross output.⁴⁷ However, the export performance of some key labor-intensive products has been deteriorating, largely because of external competitive pressures. In addition, the unit price of a number of Indonesian labor-intensive exports has been sluggish in world markets.⁴⁸

The flow of foreign direct investment (FDI) into the economy is also an indicator of the potential effects of minimum wage. In Indonesia, as in many developing countries, FDI is an important financial source for the manufacturing sector as well as an important source of domestic employment. Despite the sharp increases in minimum wage during the 1990s, Indonesia experienced an FDI boom prior to the 1997 financial crisis, mostly flowing into textiles, metals and machinery sub-sectors. Studies suggest that FDI inflows into the country have not been influenced by minimum wage legislations.⁴⁹

3. Lao PDR

What and Why a Minimum Wage

In Lao PDR, the authority sets minimum wages by sector and by geographic region. The government sets wages for government employees, while management sets wages for private business employees. There is no right to bargain collectively.⁵⁰ Information on why a minimum wage was introduced is not readily available.

How Minimum Wage is Set

The Labour Act 1994 states that the government or relevant body will establish minimum wage rates for each region. Minimum wage setting is subject to the government's supervision and control. The Ministry of Labour and Social Welfare is responsible for ensuring that the applicable minimum wage rate is in unison throughout the country. The Labour Act, however, does not offer any provision allowing for a consultation process among key stakeholders. Moreover, the Labour Act does not lay down the criteria for setting and adjusting minimum wage rates. The frequency of minimum wage adjustments is not specified in the Labour Act, though the Act provides that wages should be set periodically.⁵¹

The public sector wage structure remained constant for a long period after the end of the centrally planned economy in the late 1980s, and was only revised in 1993. According to the most available data on the average public sector wage level, monthly salary is about \$42 per month.⁵² Some piecework employees, especially on construction sites, earn less than the minimum wage. Although workplace inspections reportedly have increased over the past several years, the Ministry of Labor

⁴⁶ ILO, 2004

⁴⁷ ILO, 2004

⁴⁸ ILO, 2004

⁴⁹ Rama, 1996

⁵⁰ Derived from the Country Analysis Lao, last updated on 30 November 2004

⁵¹ Derived from the ILO Minimum Wage Database: <http://www.ilo.org/travaildatabase>

⁵² These rates were set since 1994. (Development Analysis Network, 2001).

and Social Welfare lacks the personnel and budgetary resources to enforce the Labor Code effectively.⁵³

A survey conducted by the World Bank (1994) shows a large gap in salaries by occupation. Garment workers earned between 29,000 kip (\$40) and 90,000 kip (\$125). Wages tend to be higher in the export-oriented firms. Workers with higher education and skills, such as supervisors and technicians, in the private sector can earn starting salaries that are about one-third more than that of unskilled workers.

Impacts of Minimum Wage

There appears to be no major research that examines the impact of the minimum wage on Lao's economy and on the productivity of the sectors covered. There is also a limited amount of data on wages available.

4. Malaysia

What and Why a Minimum Wage

At present, minimum wages in Malaysia are sectoral. For setting the minimum wage, the following key determinants are used:⁵⁴

- *Fixed Components:* This includes the basic wage, annual increment, and contractual bonus (where applicable). Fixed wage components should reflect the value of the job and annual increment paid in recognition of the employee's length of service and experience.
- *Variable Components:* This includes wage increase for the year based on productivity and profit sharing formula. The variable components of wages could be determined in relation to the productivity and performance of the individual, work group or organization.

The National Labor Advisory Council (NLAC) has defined a set of guidelines on reforming the wage system. The purposes of these minimum wage guidelines are to:⁵⁵

- Establish a closer link between wages and productivity so as to enhance competitiveness and promote employment stability;
- Enable employers to develop a wider and systematic approach towards improving productivity and wages through the active involvement and cooperation of their employees; and
- Enable employees to obtain a fair share of the gains that arise from productivity growth and performance improvements thereby promoting equity, social cohesion and enhancing the quality of life as well as developing improved skill-related career paths and increasing job satisfaction.

How Minimum Wage is Set

The Wages Council Act 1947 states that the government may establish Wages Councils for certain non-unionized sectors of the workforce. These Councils play a role in recommending minimum wage rates to the government for enacting a Wage Regulation Order. Presently, minimum wage rates are set for workers in the catering and hotel sector, and for stevedores, cinema workers, and shop

⁵³ Development Analysis Network, 2001

⁵⁴ Development Analysis Network, 2001

⁵⁵ Ministry of Human Resources of Malaysia, 2001

assistants. For sectors not covered by the minimum wage, collective bargaining between the employer and trade union can be used for setting a minimum rate.⁵⁶

Impacts of Minimum Wage

- Despite anti-union policies instituted by successive Malaysian governments, overall wages have surpassed productivity growth in recent years. In response, the Malaysian Employers Federation has lobbied for a ceiling on wage increases. Negotiations have begun at the corporate and government levels about the introduction of a more flexible wage system, Singapore-style.

Trade unions are calling for a national minimum wage; however, Malaysia's premier has strongly refused this request, arguing that such a move would hurt national competitiveness⁵⁷. Some have argued that a national minimum wage would deter foreign investment and trigger mass unemployment. The Malaysian Trade Union Congress (MTUC), an umbrella for private sector labor unions, has threatened to conduct a nationwide strike if their demands are not met. Malaysia's export-oriented industrialization strategy has made the country dependent on low-cost, labor-intensive foreign-dominated manufacturing for generating exports.

A concern repeated by the Federation of Malaysian Manufacturers (FMM), an employers association, is that a national minimum wage policy could work against unskilled workers. "A minimum wage will not reduce poverty but on the contrary can increase poverty rates when low-skilled workers lose their jobs," said the FMM in a statement. The FMM stated that such a policy could accelerate the process of substituting lowly skilled workers with those who are more highly skilled since they (lower skilled workers) would become more expensive with a minimum wage. "It will be more effective and to the best interest of workers and trade unions to focus on programs to upgrade skills," suggests the FMM.⁵⁸ The overall point of the FMM is that minimum wage is negative for competition, and could result in shrinking production over time.⁵⁹

5. Philippines

What and Why a Minimum Wage

Minimum wages in the Philippines are regional and sectoral. The determinants used to calculate the minimum wage level is not specified.

In the Philippines, the Constitution firmly states that a living wage is a foremost right of workers that cannot be denied.⁶⁰ A minimum wage system is instituted to guarantee this right to all citizens.

How Minimum Wage is Set

According to the Wage Rationalization Act of 1988, the Regional Tripartite and Productivity Boards (RTPB) have the authority to set minimum wages. Members of the regional wage boards include government, industry representatives and labor representatives. There are RTPB for each of the 16 respective regions.

⁵⁶ Derived from the ILO Minimum Wage Database: <http://www.ilo.org/travaildatabase>

⁵⁷ Netto, 2002

⁵⁸ Netto, 2002

⁵⁹ At present, Malaysia's labor-intensive industry such as electronics does not have a minimum wage. For this reason, it is not possible to elaborate on the impact of minimum wage on its labor-intensive industries.

⁶⁰ Republic of the Philippines House of Representative, unknown date

The RTPB also sets sectoral rates within their regions; the most important division being between agriculture and non-agriculture sectors. In some regions, specific wage floors have been set up for hospital workers (7 regions), retail and service workers (12 regions), cottage and handicraft workers (10 regions) and workers in schools (3 regions).⁶¹

While the RTPB is allowed to fix the minimum wage levels in their respective regions, rates must be in compliance with the guidelines set by the National Wages and Productivity Commission (NWPC).⁶² The NWPC is chaired by the Minister of Labor and Employment, Minister of Agriculture, Minister of Finance, Minister of Trade, the Governor of the Central Bank, the Executive Director of the Council, one representative of workers and one of employers, who are appointed by the President upon recommendations from the Minister of Labor and Employment, each of whom serves for a three years term.

Minimum wages in Manila were last adjusted in late 1997 and early 1998. The wage board in Manila set the daily minimum at 198 pesos (P), about \$5.00, in January 1998⁶³. Daily minimum wage rates set by the Manila wage board (National Capital Region) in the 1990s are as following: P145 (\$5) in 1993, P165 (\$6.30) in 1996, and P185 (\$6.30)⁶⁴ in 1997.⁶⁵

According to a recent wage order by the NWPC dated January 2004, daily regional-sectoral minimum wages in the region XI, which includes the cities of Davao, Digos, Island Garden of Samal, Panabo and Tagum, were adjusted to⁶⁶:

- Non-agriculture, P195 (\$3.50);
- agriculture plantation, P185 (\$ 3.30);
- non-plantation, P164 (\$ 3);
- retail service employing more than 10 workers, P195 (\$3.50) and
- retail service employing not more than 10 workers, P164 (\$3)

Impacts of Minimum Wage

Some experts evaluate the initiation of a minimum wage in the Philippines as a wrong step towards increasing competitiveness.⁶⁷ Partly due to the overvalued peso at the time, the minimum wage introduced in 1952 was set at a relatively high level compared to the labor demand and supply conditions. Average wage levels, which use the minimum wage rate as a guidepost, also increased. The rate was also high in relations to neighboring countries – its main competitors.

⁶¹ Derived from the ILO Minimum Wage Database: <http://www.ilo.org/travaildatabase>

⁶² Based on the Executive Order No.614, dated August 1980

⁶³ About \$110 per month, assuming 22 working days.

⁶⁴ Depreciation of the peso to dollar exchange rate resulted in the unchanged minimum wage in dollars in 1996 and 1997.

⁶⁵ US Department of Labor, 2005. In terms of month based on 22 working days, minimum wage in 1993 is about \$110 and in 1996 as well as 1997, \$138.60.

⁶⁶ Monthly minimum wage (assuming 22 working days) is: non-agriculture, \$77; agriculture plantation \$72.60, non-plantation \$66; retails employing more than 10 workers, \$77; and retails employing not more than 10 workers, \$66.

⁶⁷ For instance, see: Sicat, G. (2004, September 10). Reforming the Philippine jobs market: Labor policy should multiply job opportunities. *Manila Times*. Also, according to efficiency wage theory, minimum wage could reduce a firm's competitiveness by raising labor *turnover* cost (not labor cost in general). The minimum wage could encourage firms to substitute skilled workers with unskilled workers. While this may help lower the wage bill, it will require the firm to make additional investment in training new workers, which may actually exceed the cost of hiring more expensive skilled workers.

Due to labor regulations such as minimum wage legislation and mandatory wage supplements, among other things, Philippine labor became expensive, despite the large pool of unemployed people. The high labor costs, according to some views, have caused a number of foreign operations to exit the country.⁶⁸

On the other side of the debate, some view that the present minimum wage is too low and is a major reason behind the country's high and growing poverty. They believe that a raise in the minimum wage is the best pro-poor government policy. Proponents of this view argue that while unemployment may occur in the short run due to an increase in the minimum wage level, it should increase demand and economic activity, leading to higher paying jobs in the long run. However, given the prevailing 12 percent unemployment rate in the country, this argument is hard to accept.

6. Singapore

What and Why a Minimum Wage

Singapore has no minimum wage laws or regulations.⁶⁹ Wages are set through collective bargaining based on recommendations from the National Wage Council (NWC).⁷⁰ According to the Employment Act, the NWC recommendations are "gazetted", which are used by negotiating parties during the setting of wages.⁷¹

*How Wages are Set*⁷²

The NWC, established in 1972, is the principal machinery for determining wage guidelines, which is a tripartite body consisting of 10 union leaders, 10 government officials, and 10 heads of business associations. All labor representatives of the NWC are members of the National Trade Union Congress (NTUC) or an affiliate; independent unions and non-unionized employees are not represented.⁷³

The main role of the NWC is to recommend wage adjustments that are consistent with long-term economic development plans.⁷⁴ Annual recommendations are based on the prevailing state of the economy.⁷⁵ The Employment Act, however, specifies that annual wage increases set after August 26, 1988 must not exceed the equivalent of one month's wages of the employees.⁷⁶

Wage recommendations by the NWC are not legally binding.⁷⁷ However, they strongly influence the wage levels set in agreements.⁷⁸ The NWC is viewed by the trade unions as part of an effort "to establish a broader role for trade unions, beyond collective bargaining for terms and conditions at the workplace, to help improve life for workers by participating in national development."⁷⁹ Largely

⁶⁸ For instance, see: Sicat, G. (2004, September 10). Reforming the Philippine jobs market: Labor policy should multiply job opportunities. *Manila Times*.

⁶⁹ U.S. Department of State, 2001

⁷⁰ Derived from the World Bank, Data and Statistics, Country Groups, at http://www.worldbank.org/data/countryclass/classgroups.htm#High_income, on April 11, 2003.

⁷¹ Based on the Employment Act, Article 49, retrieved on November 13, 2005, from <http://statutes.agc.gov.sg>

⁷² Since Singapore does not have a minimum wage, the structure of its case study is slightly different.

⁷³ Chew & Chew, 1998

⁷⁵ U.S. Embassy, 2002

⁷⁶ Based on the Employment Act of Singapore, Part IV, subsection 48

⁷⁷ U.S. Embassy, 2002

⁷⁸ ILO, 2000

⁷⁹ Wong, 2000

because of the participation by NTUC leaders in the setting of guidelines, NWC recommendations are generally followed more by unionized companies than those without unions.⁸⁰

Collective bargaining in Singapore is conducted directly between employers and employees within a framework that allows the Singaporean Government to set guidelines with respect to the determination of wages. For example, until September 2002, collective agreements in new enterprises that provided workers with more favorable annual and sick leave benefits than those required by the Employment Act had to receive approval from the Minister of Manpower.

The Government also plays a role in the conciliation of disputes between employers and employees through the Commissioner of Labor, an office within the Department of Manpower. Finally, Singapore's Industrial Court of Arbitration must review and certify all collective bargaining agreements.⁸¹ To be certified, an agreement must include a provision for the settlement of disputes and be for a period of between two and three years.⁸² Certified collective agreements are binding for the parties of the agreement as well as for any successor employer or trade union.⁸³ Collective agreements are usually certified within seven to eight weeks after being filed.⁸⁴

Impacts of Minimum Wage

Wages in Singapore offer a relatively high standard of living with an average annual income of US\$22,000 per person.⁸⁵ This may suggest that the wage setting mechanism is efficient. However, there appears to be no major research that specifically examines the impact of contractual minimum wage (wages fixed in collective bargaining agreements) on the economy or labor productivity in Singapore.

7. South Korea

What and Why a Minimum Wage

In South Korea, minimum wage is national. In determining the suitable minimum wage, the Minimum Wage Council (MWC) takes into account: cost of living, wages of kindred workers and labor productivity. To monitor changes in the cost-of-living, the MWC regularly conducts cost-of-living surveys. In addition to this survey, both the FKTU (employee's association) and the KEF (employer's association) prepare their own independent calculations to support their proposals for the revision of the minimum wage. Since the three studies use different methodologies, the estimates are usually very different. For instance, in September 1994 the FKTU's estimate was 72.7 percent higher than the actual cost-of living surveyed by the MWC. Meanwhile, the KEF's estimate was 5.7 percent lower than the MWC's calculation. The employees and employers association bargain to bargain as the proposals come in.⁸⁶

Minimum wage was established in South Korea as a response to the growing criticism from outside that export production mainly relied on cheap labor and poor working conditions. The Minimum Wage Act was legislated in 1988 with the aim to stabilize the livelihood of low-income workers.

⁸⁰ U.S. Embassy, 2001

⁸¹ Based on the Industrial Relations Act, Article 24(1).

⁸² Based on the Industrial Relations Act, Articles 24(2)(a) and 24(5).

⁸³ Based on the Industrial Relations Act, Article 26.

⁸⁴ Based on the Industrial Arbitration Court's certification of collective agreement rules.

Useful website: http://www.iac.gov.sg/Collective_Agreement/Certification/certification.html

⁸⁵ U.S. Embassy, 2002

⁸⁶ U.S. Embassy, 2002

How Minimum Wage is Set

The MWC is the institution responsible for fixing wages. It comprises of 27 members: nine workers' representatives, nine employers' representatives and nine independent members representing the public interest. At present, the MWC operates the costs of living committee and the wage level committee. The MWC prepares and submits proposals to the Minister of Labour for making adjustments in minimum wage. Decisions in the Council are made based two-third majority vote. In practice, the employers' representatives and the workers' representatives bargain over the rates of minimum wage, with independent members acting as moderators or mediators. Votes of the independent members, however, are decisive because employer and worker members rarely reach an agreement.⁸⁷

The coverage of the national minimum wage was phased in over the years. When started in 1988, the Minimum Wage System covered only manufacturing enterprises with ten or more regular employees. Coverage was broadened in 1989 to include manufacturing enterprises in general, construction, and mining enterprises with ten or more regular employees. In 1990, the system widened its scope to all enterprises employing ten or more regular employees; and 1999 to workplaces with 5 employees or more. Since 2000, the Act now applies to all enterprises.

Wage adjustments are made by the government annually, no later than August 5 of every year. The new minimum wage becomes effective from September 1 of each year to August 31 of the following year. The minimum wage in September 1, 2003 to August 31, 2004 is 2,510 won (about \$2.50) per hour (20,080 won or \$20 for a standard 8-hour work day)⁸⁸. Workers under the age of 18 can receive 90% (hourly rate of 2,259 won) of the minimum wage for the first six months of their employment. After an employment period of more than 6 months, workers under 18 become entitled to full minimum wage.

Collective negotiations on wages start at the beginning of each calendar year. A maximum of 90 days is provided to the MWC to reflect on the minimum wage and submit a proposal to the Ministry of Labour. The Minister has 20 days to send back the proposal for the MWC to reconsideration, though the MWC has no power to alter the recommendations of the council. The Council has 10 days afterwards or more to prepare and submit its new proposal to the Minister. The Minister announces the decision by 5 August, which enters into force on 1 September.⁸⁹

Impacts of Minimum Wage

There is raising concerns among economists and experts in South Korea that the minimum wage is deteriorating the country's export competitiveness. The country is finding itself falling behind its rivals due to high costs, especially related to wages.⁹⁰ In 1997, the export sector was hit with declining prices of microchips and a fall in labor productivity. According to a survey by the Korea Institute for Industrial Economics and Trade (KIET), South Korea's labor productivity in the manufacturing industry weaken to one third the level of the United States, largely due to soaring wages from 1996-2002.⁹¹ While the export sector is facing declining numbers due to the loss in cost competitiveness, the general South Korean economy have been performing well, mainly because of the expanding domestic sector, which has taken over the role once played by the export sector.⁹²

⁸⁷ ILO, 1999

⁸⁸ Assuming 22 working days per month, monthly minimum wage is \$55.

⁸⁹ ILO, 1999

⁹⁰ Asia Week, 1997

⁹¹ Korea Times, 2005, November

⁹² Kim, 1995

8. Sri Lanka

What and Why a Minimum Wage

Minimum wages are sectoral in Sri Lanka. Wage Boards must take into account the cost of living index when determining minimum wage levels and in adjusting rates.⁹³ There are usually time lags in the adjustments of the minimum wage levels.⁹⁴

The Sri Lankan government established a wage fixing mechanism in the early 1970s, when wages were increased across the board. The move did not take into consideration the labor market conditions at the time, but aimed to meet the increases in the cost of living.

How Minimum Wage is Set

Minimum wage is set through Wage Boards. At present, there are 37 Wage Boards. Procedures are tripartite, and include representatives of employees, the employers, and the government. In practice, decisions are usually made on based on the budget requirement or government directives.⁹⁵

There are two laws addressing minimum wage in Sri Lanka. One is the *Wages Boards Ordinance*, which regulates wages and working conditions for specific trades.⁹⁶ The ordinance allows for the establishment of "Wage Boards", which have the authority to make regulations on wages and other labor terms and conditions with respects to particular trades. The Wage Boards also have the power to set minimum wages. According to estimates, about 1.5 million workers are covered by the ordinance (or 40 percent of paid non-public sector workforce). Two, the *Shop and Office Employees' Act of 1954* sets regulation of employment, hours of work and remuneration of persons employed in shops and offices, overtime rates, holidays, and also covers matters such as leave, maternity benefits, working conditions, and manner of payment of remuneration, etc.⁹⁷

Generally, wages are determined irrespective of the country's international competitiveness. As of 2003, the average minimum wage rates for industry, commerce and the service sector is about 2,682 rupees (\$33.52) per month, while in agriculture it is approximately 114 rupees (\$1.42) per day⁹⁸. The minimum wage in the garment industry is 1,200 rupees (\$31.00) per month.⁹⁹

Minimum wage rates may also be set in collective agreements. Collective agreements may be extended to non-parties in accordance with Section 10, Industrial Disputes Act, 1950. Additionally, minimum wage rates for shop and office workers may be determined by the Minister of Labour either on his own motion or following an application being made by a prescribed number of employees, employers or trade unions. Such wage determinations cannot be extended to other shops or offices.

Impacts of Minimum Wage

Some studies on the labor markets in Sri Lanka assess that the wage determination structure has resulted in substantial wage rigidity, delinking any relationship between wages and productivity.¹⁰⁰

⁹³ Derived from the ILO Minimum Wage Database <http://www.ilo.org/travaildatabase>

⁹⁴ Derived from the ILO Minimum Wage Database <http://www.ilo.org/travaildatabase>

⁹⁵ Derived from the ILO Minimum Wage Database <http://www.ilo.org/travaildatabase>

⁹⁶ A "Trade" according to this ordinance includes any industry, business undertaking, occupation, profession or calling carried out or performed or exercised by an employer or worker.

⁹⁷ ILO, 1998

⁹⁸ About \$31.24 per month, assuming 22 working days per month.

⁹⁹ See the website: http://www.ticasia.org/TEXT/text_SL.htm.

¹⁰⁰ ILO, 1998

There exists no in-depth research on the potential impacts of minimum wage on the country's economy and on the productivity of covered sectors in the long run.

9. Thailand

What and Why a Minimum Wage

Thailand sets minimum wage by region. According to the Promulgation of the Revolutionary Party No. 103, the country's main labor law, minimum wage must take into account the standard of living, and the ability of businesses to pay, that is, the cost of living and the cost of production were factors.¹⁰¹ Standard of living is calculated based to the cost of commodities that provide minimum needs, while the ability of a business to pay means the cost of production, profits, and competitiveness in the market, i.e. high costs of production, low profits, and poor competitiveness limit the ability to pay.

Similar to other countries, the establishment of minimum wage in Thailand was sparked by social unrest caused by declining living standards. In the period 1960-1970, wages did not follow the growth in GDP. Especially for unskilled workers, wages remained fixed at eight baht a day. Though strikes were illegal at the time, there were a number of strikes by workers to protest this situation.

In response, the Department of Labor proposed new labor laws to calm worker unrest, as well as to impress the ILO. A new labor law was set into motion in 1972 called the Promulgation of the Revolutionary Party No. 103. The overall goal of setting a minimum wage in Thailand is to prevent and ensure that all workers can live at a level consistent with a society's basic norms and values. Also, minimum wage is set to permit employees to obtain a fair share of the rewards of economic growth and productivity gains.¹⁰²

How Minimum Wage is Set

The Law provides authority to the Ministry of Interior to regulate the minimum wage, wage payment, overtime pay, and wages for working on holidays. The ministry was permitted to establish a committee for determining the minimum wage. The National Wage Committee (NWC) presently comprises of 15 persons, which includes representatives of the government, employers and employees, with five members each. The first NWC set the criteria for the minimum wage as following:¹⁰³

- It had to ensure social justice.
- It had to be one which employers could adopt;
- It ought to aimed to help employees really suffering;
- It had to be adjustable to reflect changing standards of living;
- It had to relate to wages appropriate for a particular area or vicinity;
- It had to be appropriate according to the socio-political-economic conditions at the time of enforcement
- It had to be the living wage for one employee and two other members of his family.

In the law, it is provided that the NWC set the wage rate, which should be conducted through a process of negotiations between the three parties – representatives of employees, representatives of employers, and government representatives. The government plays a balancing role during the negotiations.¹⁰⁴

¹⁰¹ ILO, 1998

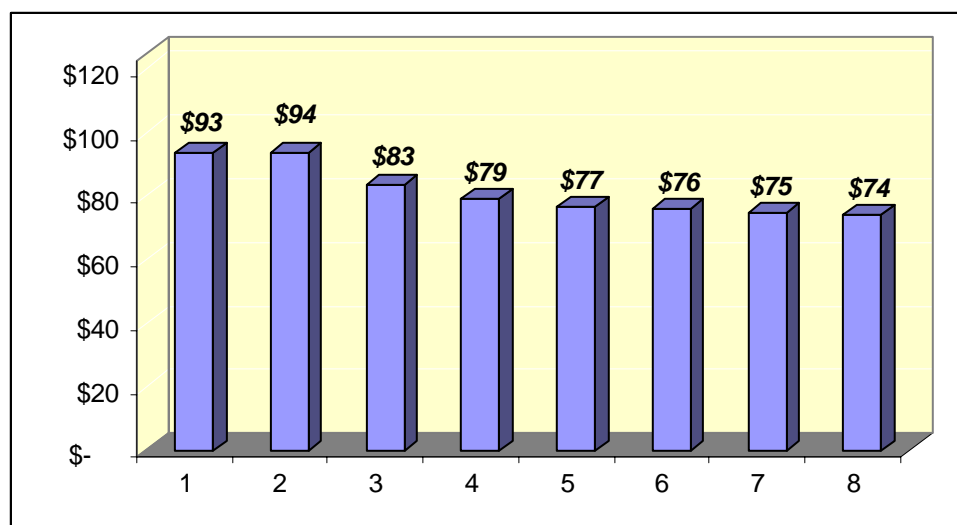
¹⁰² Brooker Group Consortium, 1999

¹⁰³ Vichai, 1992

¹⁰⁴ Brooker Group Consortium, 1999

The minimum wage in Thailand is regional (as illustrated in Figure 3 below). The level of the minimum wages is set on the basis of a basket and price set of goods. Because of the great variation in prices and cost of living, as well as the often-imprecise method of wage fixing throughout the country, the ratio of minimum wages to average wages differs significantly in Bangkok and urban areas as compared with the rural population. The wage is uniform to all private industries, while not covering the self-employed (informal sector) or agriculture.

Figure 3: Regional Minimum Wages in Thailand (\$ per month), effective as of August 2003



Source: Compiled from the Thailand Development Research Institute

Note:

- | | |
|---|-----------------------------|
| 1 – Phuket | 5 - Ang Thong |
| 2 – Bangkok and Municipal Area | 6 – Chachoengsao |
| 3 - Chon Buri | 7 - Sing Bur and Narathiwat |
| 4 - Chiang Mai, Nakhon Ratchasima, Phangnga, Ranong, Saraburi | 8 - Rest of Country |

Minimum wage is adjusted on a periodic basis, largely based on the changes in prices as well as GDP growth rate.¹⁰⁵ Negotiations and bargaining in the tripartite wage committee determines the level that the minimum wage should be adjusted to.

The Labor Protection Act of 1998 developed the minimum wage system in Thailand even more. According to the Act, power to determine regional minimum wage is decentralized to appointed Provincial Wage Subcommittees, though the NWC still have the final say. A general basic minimum wage rate is determined for the country as a whole. This general wage floor will be adjusted to the regional or industrial context of certain areas. Both types of wages (national and regional level) is based on: wage rates being received by employees; cost of living; rate of inflation; living standards; costs of production; prices of goods; capabilities of businesses; labor productivity; gross national product; economic and social situation.

At present, the minimum wage may be a disincentive to undertake investment or production in rural areas because wage rates for lower-skilled, new entrants tend to exceeds market rates. In Bangkok and certain other areas, there is a high percentage of compliance by firms in the formal sector. The

¹⁰⁵ Brooker Group Consortium, 1999

increasing concern, however, is the lack of compliance by the informal sector, resulting in competition issues.¹⁰⁶

Impacts of Minimum Wage

The impact of minimum wage on Thailand's overall economy is likely to be minimal. Firstly, the economy has experienced dramatic structural change and is moving rapidly towards a more technology-intensive based economy than labor-intensive.¹⁰⁷ As noted, Thailand's top exports are technology-intensive manufactured goods such as computers and parts, integrated electrical circuits electrical transmitters plastic products and vehicle parts. The economy is less reliant on industries dependent on cheap labor, such as textiles and garments. Secondly, a recent productivity and investment climate survey in Thailand (2005)¹⁰⁸ shows that firms are more concerned about the lack of skilled workers than about the wage levels. Attention is largely focused on raising skills, especially in IT. Thus, the minimum wage can actually help increase productivity over time, as firms continue to focus on upgrading human capital.

10. Vietnam

What and Why a Minimum Wage

Minimum wages in Vietnam differ by region, sector and ownership (foreign or domestic). The purpose of the minimum wage in Vietnam is to protect vulnerable, low wage laborers from exploitation and poverty. It usually applies to unskilled adults and is legally enforceable. The basic condition of the minimum wage is that it should be set at a level sufficient to attain a basic standard of living.¹⁰⁹

How Minimum Wage is Set

The Vietnamese Labor Code of 2002, the main minimum wage legislation, sets the regulatory framework for the rights and obligations of workers and employers, labor standards and labor utilization. The Labor Code applies to urban and rural laborers who have signed a labor contract or a labor agreement, or who have obtained a verbal agreement. However, exceptions exist. For instance, the Labor Code does not cover laborers below the 15 years old¹¹⁰

Decision No 708/1999/QD-BLDTBXH of June 1999 provides that foreign-invested enterprises must pay their employees minimum wages that are more than twice that of their domestic counterparts. According to the Decision, unskilled/untrained Vietnamese laborers in foreign-invested enterprises would be no less than 626,000 Dong (\$42) per month for foreign-invested enterprises located in urban districts of Hanoi and Ho Chi Minh City (HCMC), no less than 556,000 Dong (\$37) for foreign invested enterprises located in the rural districts of Hanoi and HCMC and urban districts of Hai Phong, Bien Hoa and Vung Tau cities. For foreign-invested enterprises located in urban and rural districts of other provinces and cities, the minimum wage level shall be no less than 487,000 Dong (\$32) per month. Finally, foreign-invested enterprises located in difficult geographical areas with poor infrastructure, the minimum wage level shall be no less than 417,000 Dong (\$28) per month. This dual wage system is used by the government to protect domestic industries; however such control of the labor market could seriously challenge the transition towards a market economy.¹¹¹

¹⁰⁶ Brooker Group Consortium, 1999

¹⁰⁷ Srawoath, et. al., 2001

¹⁰⁸ See the following website for a report: www.worldbank.or.th

¹⁰⁹ Brassard, 2004

¹¹⁰ Brassard, 2004

¹¹¹ Brassard, 2004

In January 2003, the Minister of Internal Affairs and Minister of Labor, War Invalids and Social Affairs and the Minister of Finance proposed a decree on adjusting salary and social subsidies and reforming the salary management mechanism. The decree stipulates that the minimum salary is raised to 290,000 Dong (\$19) per month (up from 210,000 Dong (\$14) from Decree 77/2000/ND-CP), applicable to persons who are entitled to salary and allowance financed by the State budget and employees working in enterprises, with exception of foreign-invested enterprises. This salary is based on a maximum of eight hours per day, six days per week and is equivalent to a daily salary of 12,080 Dong (\$0.80).^{112 113}

In the agriculture sector, the farm owner and the laborer arrange the wage according to the workload, load of products, or arrange the level of wage according to daily, weekly or monthly wage, based on the kind of job and the complexity of the job.¹¹⁴

Impacts of Minimum Wage

Vietnam's main intention is to use minimum wage as a tool to combat poverty. However, two major factors play against this: 1) the high level of under-employment and unemployment in the economy and 2) large informal sector.¹¹⁵

Summary of Case Studies

The overall impact of minimum wage on an economy, based on the country case studies in this research, is inconclusive and do not provide us with a general predication of the effects of minimum wage. However, the case studies suggest that the impact of a wage floor likely depends on the structure of the economy. For economies heavily dependent on labor-intensive industries and relying on cheap labor as the major source of competitive advantage (such as Bangladesh, Indonesia, Philippines and Sri Lanka), the introduction of a minimum wage has deteriorated their international competitiveness and export performance. However, in Bangladesh, for instance, relatively high productivity in the apparel industry helps minimize the negative impact of the minimum wage. In the case of more developed countries, such as Thailand and South Korea, which are more technology-based economies, the effects of minimum wage seems minimal. South Korea, especially, is able to counterbalance the loss of international competitiveness based on low cost labor by turning to the large and growing domestic market.

With the exception of the Philippine, which is presently facing an unemployment rate of about 12 percent, none of the countries in this study reported unemployment as a major economic problem. Though, this picture may be different if underemployment is taken into consideration; unfortunately, information on the situation of underemployment was not available during the time of this study.

In addition, the country case studies offer no clear understanding on how minimum wage affects skilled and unskilled workers. The example of Bangladesh asserts that minimum wage is negative for skilled workers because it attracts unskilled workers into the formal sector. On the other hand, the view in Malaysia is that unskilled workers are hurt by the minimum wage because it forces employers to substitute unskilled with skilled workers and erodes the competitiveness of labor-intensive industries, which uses unskilled workers. A study of Indonesia's labor market shows that the disemployment effect of minimum wage is actually quite insignificant.

¹¹² For consistency purposes, we assume that there are 22 working days in a month. Thus, the monthly minimum wage is about \$17.60.

¹¹³ Brassard, 2004

¹¹⁴ Brassard, 2004

¹¹⁵ Brassard, 2004

Table 5: Minimum Wage Provisions in Selected Asian Countries and its Impacts

Country	What and Why a MW	How MW is Set	Impacts
Bangladesh	Occupational, sectoral, and zones MW is to protect workers' interest so that they earn a minimum amount that enables them to live and work in a certain area.	Ministry of Labour and Employment sets MW based on recommendations from tripartite wage committees	For Bangladesh's well-developed garment industry, the impact of minimum wage appears to be minimal, reflected by its large international market share. Moreover, unit labor costs and wages in Bangladesh are also relatively lower than neighboring countries such as India, Pakistan and Sri Lanka, while the productivity level is competitive.
Indonesia	Regional and sectoral Labor unrest and pressure from trading partners	Regional MW fixed by authorities, while sectoral rates set by collective bargaining	Increase in average wage, decrease in wage employment and investment, although there is no evidence that this has reduce the profitability of manufacturers
Lao PDR	Regional and sectoral The reason for a MW is not specified in the law.	Government sets MW for public servants, while management sets for private business employees. Collective bargaining is not permitted and the law does not offer provision for consultation between stakeholders	No research
Malaysia	Sectoral MW to serve as incentives to raise productivity, increase national competitiveness and hence promote employment stability. Also, MW set to enable workers to obtain a fair share of the gains from productivity growth, which will lead to social cohesion and enhanced living standards.	MW determined through collective bargaining	Despite the growing demand of workers in Malaysia for a national MW, Malaysia's premier has refused the request, arguing that such a move would hurt national competitiveness.
Philippines	Regional and sectoral MW to ensure that workers receive a decent living wage.	Regional Tripartite and Productivity Boards (RTPB) have the authority to set MW based on guidelines set by the National Wages and Productivity Commission (NWPC)	High wage rates despite large supply of unemployed people (11.39% unemployment rate in 2003). Some argue that the high labor costs have resulted in a flight of foreign investors. On the other hand, some view the MW too be too low and contributes to the high and growing poverty.

Country	What and Why a MW	How MW is Set	Impacts
Singapore	No MW	Wages are set through collective bargaining based on recommendations from the National Wage Council (NWC). Collective bargaining is conducted directly between employers and employees.	The existing system has led to high living standards.
South Korea	National Response to external criticism that exports relied on cheap labor and poor working conditions.	MW is fixed by the Minimum Wage Council (MWC), which is tripartite group. Wage adjusted annually. Collective negotiations in the council start at the beginning of each calendar year. Then, a proposal is submitted to the Ministry of Labour for consideration.	Lower labor productivity in manufacturing sector, decreasing exports; however, expanding domestic sector has helped compensate.
Sri Lanka	Sectoral MW introduced to help workers meet the raising cost of living.	MW set by Wage Boards (currently 37 boards) based on the cost of living index. Collective bargaining may also be used to set MW.	MW has resulted in wage rigidity, de-linking any relationship between wages and productivity.
Thailand	Regional Labor unrest caused by declining living standards	The Ministry of Interior has the authority to regulate the MW based on recommendations from the National Wage Committee (NWC). The Wage Committee is tripartite and determines a suitable rate through negotiation. Provincial Wage Subcommittees have power to set regional rates, though the NWC has final decision.	Minimal impact because the economy is more technology-intensive, and relies less on cheap labor.
Vietnam	Ownership (foreign or domestic), regional, sectoral Purpose of MW is to protect vulnerable, low wage laborers from exploitation and poverty	MW is fixed by the government with legal decisions.	MW has not achieved its target of reducing poverty due to two factors: 1) the high level of under-employment and unemployment in the economy and 2) existence of a large informal sector.

11. Benchmarking Minimum Wages Against Key Economic Indicators

In the above section, we introduced the minimum wage systems in a number of selected countries, focusing on the process of wage fixing. This section assesses the validity of these wage rates in comparison to key economic indicators such as GNP per capita, consumption per capita and the average wage. These benchmarks give us a rough understanding on the wage level in relations to the macroeconomic context. Figure 5 below summarizes the essential benchmarks for the various countries.

Minimum wage and GNP per capita

Benchmarking the minimum wage to GNP per capita provides a quick snapshot of the income distribution in the country. If the ratio of the annual income of individuals earning the minimum wage level compared to the GNP or GDP per capita is less than 1, this implies that the living standards of workers earning the minimum wage is lower than the average citizen. A low ratio suggests that there is a wide income gap. If the ratio is greater than 1, this may imply that workers earning the minimum wage are much better off than the average citizen.

Based on available data, figures show that most of the ASEAN and Asian countries selected for this study have a minimum wage-GNP per capita ratio below 1. Among the countries, Malaysia has the lowest ratio of 0.29, followed by Indonesia with 0.33 and Sri Lanka at 0.40. The other countries have ratios of: Thailand, 0.51; South Korea, 0.53; Bangladesh, 0.60; Vietnam, 1.0; Philippines, 1.23 and Lao PDR, 1.5.

Minimum wage and consumption per capita

Consumption per capita can serve as a rough estimate for the cost of living for one person.¹¹⁶ Comparing the minimum wage to consumption per capita, thus, offers an indication of whether the minimum wage is a living wage.

Most of the countries in this study appear to have a minimum wage that reflects the cost of living. Sri Lanka, Indonesia and Malaysia, however, are outliers among the selected countries, having the spread between the minimum wage and consumption per capita of just 0.51, 0.55 and 0.59 respectively. The ratios for the other countries are as following: South Korea, 0.79; Thailand, 0.83; Bangladesh, 0.90; Vietnam, 1.71; Lao PDR, 1.88; and Philippines, 1.98.

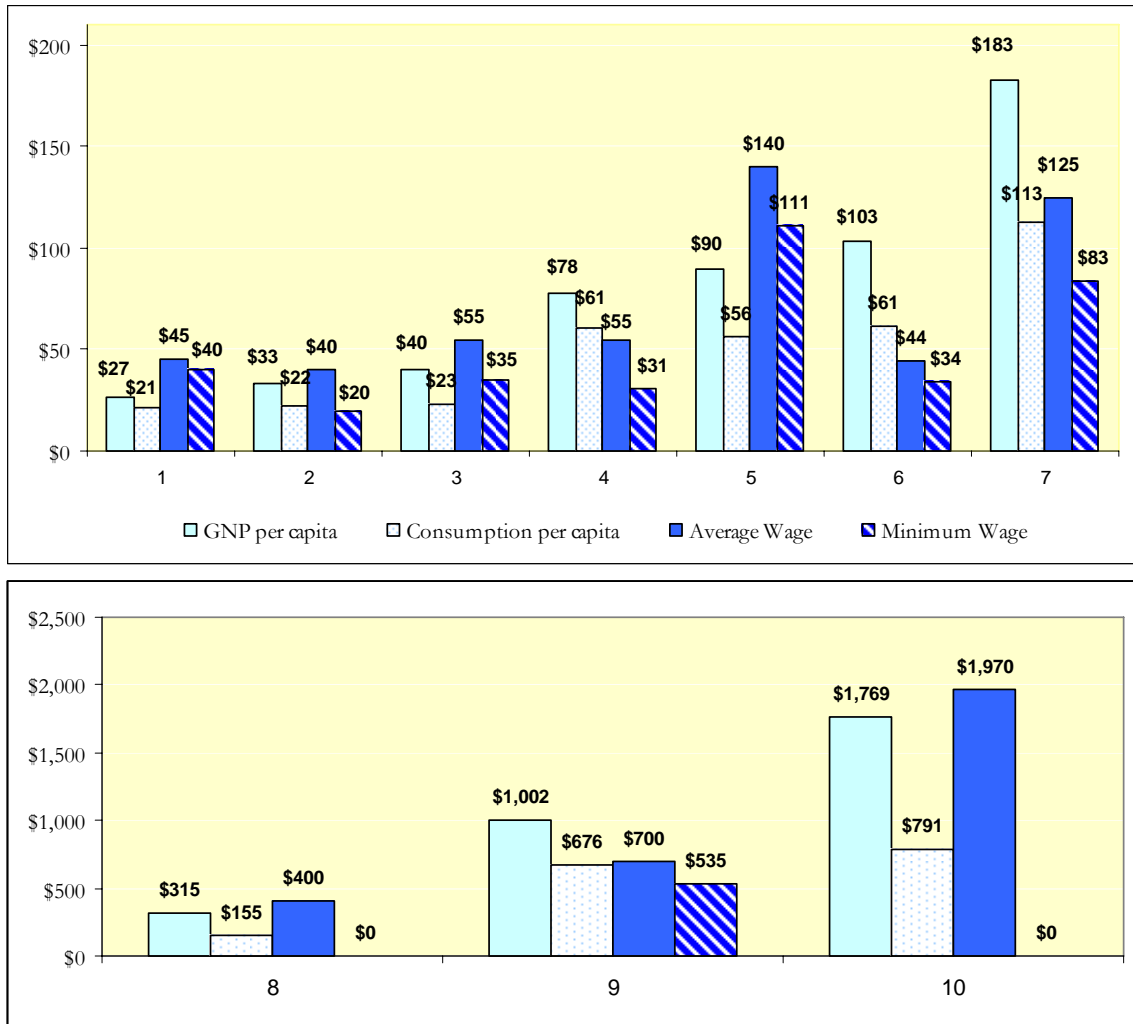
Minimum wage and average wage

The ratio between the minimum wage and the average wage is another indicator for understanding the living standard of minimum wage earners relative to the general society. Also, the variance between the minimum wage and average wage reflects a wage premium that may include factors such as productivity, seniority, and education level.

With the exception of Malaysia, which has a minimum wage-average wage ratio of just 0.46, most of the countries selected have ratios in a similar range. In Bangladesh, 0.50; Sri Lanka, 0.57; Vietnam, 0.73; Thailand, 0.75; South Korea, 0.76; Indonesia, 0.77, Philippines, 0.79; and Lao PDR, 0.89.

¹¹⁶ Though consumption per capita is not the same as the cost of living, it can serve as a basis for roughly estimating the cost of living.

Figure 4: Benchmarks of Selected ASEAN and Asian Countries (monthly)



Source: See Appendix 2 for a more detailed table with sources.

Notes: NCR – National Capital Region

Notes:

- 1: Lao PDF (private sector)
- 2: Bangladesh (garment sector)
- 3: Vietnam (foreign firms)
- 4: Sri Lanka (garment sector)
- 5: Philippines (NCR)
- 6: Indonesia (national average)
- 7: Thailand (national average)
- 8: Malaysia
- 9: South Korea
- 10: Singapore

PART IV: Cambodia and Minimum Wage: Where Does Cambodia Stand?

This study aims only to provide a brief, comparative look at minimum wage policies and their impacts in selected Asian countries. In Cambodia, although the Cambodian *Labor Code 1997* allows a Labor Advisory Council (LAC) to set minimum wages, the actual implementation is still under consideration. Before deciding to introduce a minimum wage in Cambodia, a full and comprehensive assessment needs to be conducted so that it can more fully understand both short-term and long-term potential costs and benefits. Such an analysis goes beyond the scope of this paper.

If there is a decision to introduce a minimum wage policy, a number of questions must be considered before implementation. The first key question to answer is: what determinants should be used as the basis for setting the minimum wage? Second, should the minimum wage be set at the national, regional or sectoral level? Third, who should implement the minimum wage, how should it be done, and how often should it be adjusted? If a wage board is formed, who should be its members: representatives of employers, employees, ministries, and/or international NGOs? And most importantly, what is the potential impact of a minimum wage on the economy? The economic theories and the practical experiences of other countries discussed in this study can help answer these questions.

Determinants

According to the Labor Code, the minimum wage must take into consideration:¹¹⁷

- The needs of workers and their families in relation to the general level of salary in the country, the cost of living, social security allowances, and the comparative standards of living of other social groups;¹¹⁸
- Economic factors, including the requirements of economic development¹¹⁹, productivity, and the advantages of achieving and maintaining high employment

These determinants are in line with the criteria suggested by the ILO and used by other Asian countries.

Among these factors, the most available and reliable criteria that may be most practical for calculating a minimum wage in Cambodia is household consumption (or the cost of living). The cost of living is a fundamental criterion that can be applied to all types of industries and occupations. Since the quality of such information remains low in Cambodia, setting a minimum wage with reference to the consumer price index (CPI) during the initial period can help reduce the arbitrariness in the calculation of wages. As the wage system matures, it may become more feasible to include other determinants such as productivity. Most importantly, using the CPI to automatically adjust a minimum wage can help ensure that wages remain in line with the cost of living and reduce the need to bargain for this basic component of the minimum wage.

Wage Fixing System

As stipulated in the Labor Code, the Ministry of Labor (MOL) has the authority to set a minimum wage based on proposals from the Labor Advisory Council (LAC). As in the other countries studied,

¹¹⁷ Article 107

¹¹⁸ The law, however, does not clarify how to determine the general level of salary and whether to base it according to the salaries of government employees, NGO staff, etc...

¹¹⁹ The requirement for sustainable economic development is broad-based development, which needs market development at the grass-root level (i.e. village, district... level).

the LAC is a tripartite system, consisting of employer, employee and government representatives. This arrangement helps guarantee that all relevant stakeholders have a voice regarding the minimum wage level. In Article 358, the Labor Code allows the ILO to play a consulting role to employers and employees during the wage setting process. Given that Cambodia is largely a donor-driven country, in which opportunities to export and receive preferential treatment depend heavily on political negotiations, giving the ILO an “external observer” seat in the LAC may be helpful. The Labor Code leaves open the time frame for adjusting minimum wage levels.

If the government decides to establish a minimum wage, it may be most pragmatic at this time to determine the rate at the national level rather than regional, but with a longer-term vision to introduce provincial mechanisms for setting regional rates. The minimum wage negotiated at the national level can then be indexed to fit the provincial cost of living. The rationale behind this is that there appear to be no significant trade unions or supporting institutions outside Phnom Penh. The absence of labor unions and supporting bodies in the provinces could result in a minimum wage that is one-sided and less responsive to the demands of workers. Therefore, it may be more practical to use the LAC at the national level and only gradually introduce it at the provincial level alongside the government’s decentralization efforts.

Collective bargaining is also legally permitted mechanism for fixing wage levels, though collective bargaining agreements can apply only to the specified establishments or sectors and cannot be extended. At present, contractual minimum wages have been set in the garments, textiles and shoe industry (\$45 per month) and for some hotel chains.

Potential Consequences of Minimum Wage

While the minimum wage could achieve the four objectives (i.e. ensure basic living standards, provide wage protection, create incentive to work, and obtain fair share of economic growth and prosperity), which are important for social development, it could also have adverse effects on the economy as illustrated in the country examples.

The minimum wage negotiated is usually higher than the market rate¹²⁰. This situation could lead to four potential consequences. First, unemployment in the formal sector may increase because enterprises will seek laborers in the informal sector, which is quite large in Cambodia. Second, national competitiveness may erode due to the higher wages. This is particularly important for Cambodia, whose economy is labor-intensive. Third, a minimum wage exceeding the market rate may discourage private investment in rural areas by increasing the already relatively higher production costs. Fourth, employers may choose to substitute unskilled workers with skilled workers (which includes workers from both formal and informal sectors), since skilled workers may offset the higher production costs by increasing the firm’s productivity.

The key lesson of this study is that the effects of minimum wage is unclear and depends on different circumstances such as the size of the informal sector, existing unemployment situation, etc. Research on these circumstances can provide a clearer conclusion on whether Cambodia should or should not introduce a minimum wage.

¹²⁰ Which is the reason for negotiating.

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Online Databases:

ILO Minimum Wage Database: <http://www.ilo.org/travaildatabase>
World Bank, Data and Statistics, Country Groups:
http://www.worldbank.org/data/countryclass/classgroups.htm#High_income