



Purposeful, Productive and Predictable Minimum Wage Systems: A Review of Strategic Options for EBMOs in ASEAN

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Introduction

Minimum wage setting systems are one of the most important long-term issues facing Employer and Business Member Organizations (EBMOs) in ASEAN. EBMOs and business members often complain that these systems lack evidence-based criteria and transparency in the wage setting process. Instead, they argue that political considerations are often of primary importance. Beyond political interference, minimum wage setting processes are facing a number of other challenges. In a few countries, successive large minimum wage increases have pushed minimum wages high both in comparison to other countries in the region, as well as to other measures of wages. This has affected businesses, who struggle to expand, comply with high wage levels, and make investment plans for the future. Compounding this are growing calls from union groups for a ‘living wages’, which has bred confusion as advocates often link this and minimum wages. Minimum wages setting is further complicated by recent and significant economic developments from the COVID-19 outbreak. For EBMOs, this confluence of challenges presents an opportune time to review minimum wage setting and propose reforms to ensure that these systems contribute to sustainable enterprises, employment growth, and decent outcomes for workers.

Using a range of data as well as information from stakeholder interviews, this report analyzes minimum wage systems and levels in ASEAN. Some minimum wage setting mechanisms in ASEAN lack predictability. The setting of wages levels is sometimes not supported with evidence, or not related to productivity growth. Employers have little lead time to implement new minimum wage levels. Wage levels have grown quickly in a number of ASEAN countries in the last decade, most notably in Cambodia and Indonesia. Because of this growth, minimum wages in some countries are high in comparison to regional and global peers. Further increases, or the implementation of an arbitrarily-defined ‘living wage’, could make these countries even less competitive. The growth in minimum wages has come despite fairly modest reductions in the size of the informal economy in most countries in ASEAN.

The report recommends that employers work towards the three goals of making minimum wage systems more purposeful, productive and predictable. More purposeful minimum wages are needed, with a clearly defined objective and monitoring and evaluation to ensure they help the people they claim to benefit. Employers could advocate that the stated purpose of minimum wages be defined in reference to all workers, even informal workers, because minimum wage policy also affects this group. It should also include a clear emphasis on compliance, which is needed for minimum wages to achieve their stated purpose. Productive minimum wages link wage and productivity growth, which employers regularly argue is what pays wages. Employers can note that this connection helps achieve a commonly-cited goal of worker advocates: that workers should enjoy a share of the fruits of their labor. Lastly, predictability is needed both in the minimum wage setting process as well as the outcomes. This helps both businesses and workers plan for the future, and often requires little additional cost or effort for government.

The report proposes both process improvements and five tools to help achieve these goals. These tools, which consist of formulas and rules, provide options to guide minimum wages setting and outcomes. Different tools have different degrees of flexibility and each has advantages and disadvantages. Employers can adopt one or more of the tools, but should always customize them for the country context. The adoption of some of these tools, in combination with process improvements, can play a vital role in helping to make minimum wage systems in ASEAN more purposeful, productive and predictable.

Research methods

The study was developed using a combination of qualitative and quantitative research, with a focus on the eight countries in ASEAN which have minimum wages: Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Thailand and Vietnam. The paper does not look at Singapore or Brunei, though Singapore's Progressive Wage Model can increase the income of some low-income earners. References throughout the paper referring to 'ASEAN countries' should be read as shorthand for the eight countries in ASEAN covered by this study.

Interviews were conducted with a range of stakeholders across the region, including EBMOs, trade unions and government representatives. Interviews were conducted via remote teleconference. During the interviews, a semi-structured questionnaire was used to guide the conversations, however a number of open-ended questions were also reviewed to ensure that interviewees had a chance to raise important issues not covered in the questionnaires. A few questionnaires were also administered via email, based on the request of respondents. In a select number of countries, some social partners were not interviewed due to scheduling challenges or other reasons.

Quantitative data was conducted using a wide range of existing data sets. These include both labor statistics from ILOSTAT, the ILO's database of international labor statistics, as well as other general economic indicators from the World Bank. While some statistics are available for each year, such as change in the consumer price index, other statistics are available only in limited years. This is most often the case with statistics that come from labor force or other surveys, which are not administered on an annual basis.

Additional data could help provide new and more relevant insights. Amongst the most important data that was not available for the study was median wages by country. Median wages are a vital tool for reviewing the general level of wages in a country, and a necessary ingredient for a Kaitz Index. However, because only average wage data was available, the study had to rely on this less useful data set. This introduces major challenges, as average wages are often heavily influenced by a fairly small group of high wage earners, whose incomes can increase the average wage in a country significantly.

Principles and Practicalities of Minimum Wages

Minimum wages are a widely used and important labor market tool that sets minimum standards of pay for employees. Minimum wages have been defined as “the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract.”¹ While they can serve a range of purposes, the ILO’s main convention that deals with minimum wages, Convention 131, notes that they play an important role in “protecting disadvantaged groups of wage earners” against unduly low wages.² Minimum wages exist in more than 90 per cent of the member states of the ILO.

Because minimum wage systems are designed by national governments and stakeholders, they vary significantly between countries. One of the most evident variations is in the rate of minimum wages. However, systems also have different structural characteristics. Some countries have minimum wages that vary based on the location, while others vary based by sector. Some have lower rates for younger workers, designed to ease their entry into the labor force. Some are applicable to all workers, and others have exclusions for particular groups, such as domestic workers. The minimum wage setting regime also varies between countries. The most common approach is one led by government with input from an expert body, though in many countries expert bodies also include social partners. Other countries use systems including government and social partners, expert-only bodies, government only, or bargained minimum wages between employers and workers.

International Labor Standards

Minimum wages and wage setting systems are addressed in International Labor Standards, most notably in Convention 131: Minimum Wage Fixing Convention. Convention 131 covers many of the general principles relating to minimum wage systems. Recommendation 135 provides some additional elaboration on these principles. These standards and others provide guidance to tripartite constituents about the design and function of minimum wages systems. Many minimum wage setting systems have been shaped by these international standards. However, the Convention is binding only for the 54 countries that have ratified it. Of these, only one country in ASEAN, Malaysia, has ratified the convention.

Convention 131 outlines a range of factors that should be considered during the minimum wages setting process. The Convention does not prescribe rigid requirements or outline a hierarchy for factors. Instead, it notes that consideration should be done “so far as possible and appropriate in relation to national practice and conditions.” The areas for consideration are:

- a) *the needs of workers and their families*, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups;
- b) *economic factors*, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.³

¹ International Labour Organization. Undated. “Minimum Wage Policy Guide,” pg. 3, available at: https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_508566.pdf

² International Labour Organization. 1970. “C131 – Minimum Wage Fixing Convention, 1970,” available at: https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C131

³ International Labour Organization. 1970. “C131 – Minimum Wage Fixing Convention, 1970.”

These factors are, both in concept and practice, very broad. While this has the benefit of leaving room for national actors to tailor them to national circumstances, it can also create disagreement over the relative importance of different factors in the minimum wage setting process.

Convention 131 provides guidance on a number of other important aspects of minimum wage systems.

Among the most important of these are:

- *The coverage of minimum wages*, which should be applicable to “all groups of wage earners whose terms of employment are such that coverage would be appropriate.”
- *The role of employers and workers in minimum wages setting*. Wages should be set only after agreement or full consultation with the representative organisations of employers and workers.
- *The need to update minimum wages*, which the Convention notes should be “adjusted from time to time.”
- *The need to enforce minimum wages*, through appropriate measures “such as adequate inspection reinforced by other necessary measures.”
- *Sanctions for failure to apply minimum wages*, which shall make the person or persons concerned liable to appropriate penal or other sanctions.⁴

Recommendation 135, the Minimum Wage Fixing Recommendation, provides additional insights and elaboration upon the purpose and process of fixing minimum wages. Notably, R.135 provides a clear statement of purpose for minimum wage fixing, which is to “give wage earners necessary social protection”.⁵ However, it notes that minimum wage fixing is “one element in a policy designed to overcome poverty and to ensure the satisfaction of the needs of all workers and their families.”⁶ This is a clear recognition that minimum wages alone are not the only tool to be used in overcoming poverty. R.135 also notes many avenues through which wages can be fixed, including statute, decision by a competent authority, decision by a wage board/council, labor courts, or through giving collective agreements legal force. R.135 also notes the importance of the collection and use of surveys and data in the minimum wage setting process, and highlights the need for resources to be dedicated for this purpose.

ILO Convention 26 (interim status) also addresses the subject of minimum wages, though this older convention contains less direct guidance.⁷ C.26 notes that states are free to decide in which trades minimum wage fixing machinery shall be applied, though does not have the emphasis on broad coverage that is contained in C.131. It also notes the importance of consultation with worker and employer organizations and the binding nature of minimum wages. It does not contain reference to the factors to be considered during wage setting. While ILO C.26 is currently in force in 104 countries worldwide, it also has only one ratification in ASEAN: Myanmar in 1954.

Other conventions and proclamations are also relevant to minimum wage setting. Some are directly related, such as Convention 99, which addresses the minimum wage fixing machinery in agriculture. This convention covers similar thematic areas to C.26. It is ratified by one country in ASEAN – the Philippines.

⁴ International Labour Organization. 1970. “C131 – Minimum Wage Fixing Convention, 1970.”

⁵ International Labour Organization. 1970. “R135 – Minimum Wage Fixing Recommendation, 1970,” available at: https://www.ilo.org/dyn/normlex/en/f?p=1000:12100::NO:12100:P12100_INSTRUMENT_ID:312473

⁶ International Labour Organization. 1970. “R135 – Minimum Wage Fixing Recommendation, 1970.”

⁷ Convention 26 is currently open for denunciation from 14 June 2020 to 14 June 2021.

C.189 also makes note of minimum wages, stating that ILO member states should ensure that domestic workers are covered by minimum wages. Recommendation 204, the Transition from the Informal to the Formal Economy Recommendation, also notes that members “should progressively extend, in law and practice, to all workers in the informal economy... a minimum wage that takes into account the needs of workers and considers relevant factors, including but not limited to the cost of living and the general level of wages in their country.” Other conventions and recommendations also have implications for minimum wage setting, including some technical conventions as well as C.144 on the consultation of workers and EBMOs. The ILO Centenary Declaration for the Future of Work also notes minimum wages, when it calls upon all members to strengthen the institutions of work to ensure adequate protection of all workers, including “an adequate minimum wage, statutory or negotiated”.⁸

Many countries, including some in ASEAN, incorporate principles of C.131 and R.135 into their minimum wage setting process. While international standards provide guidance about the principles of minimum wage setting, the specifics are largely left to the member states. This is done for numerous reasons, most notably the practical challenges associated with overly-prescriptive international standards. However, successful minimum wage systems depend heavily on turning principles into practice at the country-level.

Minimum Wages, the Economy and the Labor Market

While international standards highlight the importance of minimum wages as a social policy and human right, they are also an important economic policy shaped by market forces. International standards clearly outline the rights of workers to receive wages for their work, and often reference some measure of quality such as the need for wages to be “decent” or ensure a “basic” standard of living. Yet this right is, outside of the bounds of public employment, reliant on market forces for delivery. It depends on a voluntary relationship between workers and employers. While employers are obliged to pay their workers a minimum wage, employers generally are under no obligation to hire additional workers, nor ensure that every worker who wants a job has one. The creation of employment is driven by mutual benefit.⁹ This voluntary decision is affected by market forces which affect the sustainability and shape the terms and conditions of work, including compensation. To maximize the benefits of minimum wages policy, it must be designed in full consideration of market forces and the voluntary nature of employment.

Many market forces, including important factors that affect minimum wages such as changes in the cost of living, are beyond the control of both workers and employers. For example, prices are generally shaped by supply and demand, and influenced by factors such as government interventions, market institutions, monopolistic actors, or supply/demand shocks. Individual employers and workers are almost always price takers, paying market prices for the goods and services they purchase. They are not directly responsible for sound macroeconomic management or stable prices. However, changes in price levels often affect minimum wages, because consumer prices is an important factors in wage setting. The extreme example of Venezuela shows how employers (and workers) can be forced to shoulder the burden of poor macroeconomic policy. Venezuela’s government has taken a range of policy decisions which have

⁸ International Labour Organization. 2019. ILO Centenary Declaration for the Future of Work, International Labour Conference, 108th Session, Geneva, 2019, available at: <https://www.ilo.org/global/about-the-ilo/mission-and-objectives/centenary-declaration/lang--en/index.htm>.

⁹ Collective bargaining agreements can govern the creation of new positions, however tend to primarily focus on the terms and conditions of existing workers.

contributed to hyperinflation, which according to the National Assembly hit 13,476 per cent in November 2019.¹⁰ To make up for revenue shortfalls they have printed money, devaluing the currency and stoking inflation. At the same time, Venezuela's government has repeatedly raise minimum wages. While businesses can sometimes pass on wage increases in the form of higher costs to consumers, this is not always possible without affecting revenues. Many employers have suffered because of the government's macroeconomic policies. Employers in global supply chains similarly may not be able to pass on costs, as they compete with businesses from countries that do not face the same increases.

High costs in the business environment can reduce firm profitability and reduce employers' productivity. For most businesses, wages and inputs are two of their largest cost areas. However, businesses also spend a significant amount of money on non-wage costs from other parts of the business environment, such as electricity, internet, property tax rates and logistics. They can also include illicit costs, such as those related to corruption. A poor business environment can be very costly for employers. For example, underdeveloped urban infrastructure can contribute to traffic congestion, which in turn requires a delivery company to increase the size of their truck fleet. This lowers productivity per worker and requires additional capital outlays. Together, high business environment costs can have a significant and negative effect on an employer's productivity.

There is a strong connection between wages and productivity. The goods and services that a business produces—its productivity—is what pays for wages. The macro-economic evidence of a productivity-wage link is strong. The connection is also evident at the micro level, where productivity-based pay, such as piece rate schemes, are often related with higher productivity.¹¹ Traditional economic theory suggests that for employment to be sustainable, the value of a worker's marginal productivity must exceed the additional costs of having that worker. There can be exceptions, such as the employment of a worker in training, though this is likely due to the expectation of higher productivity after training is complete. In very limited cases of specific incentive-based pay structures, minimum wage increases can contribute to a decrease in productivity, however this is rare.¹² Some studies have even suggested that minimum wage increases induce firms to improve operational efficiency and invest in new technologies to improve productivity and reduce labor costs as a share of overall costs.

Though minimum wages should theoretically provide broad coverage, they often fail to benefit workers in the informal sector. C.131 notes that employment levels should be considered during minimum wage setting, which implicitly connects informal work and minimum wages. In ASEAN, most countries have large informal sectors, including own-account workers, employees of informal businesses and informal employees of formal businesses. Informal work lacks protections and is characterized by lower

¹⁰ Yapur, Nicolle. 2020. "Venezuela's Maduro Starts Year with a 67% Minimum Wage Hike," Bloomberg News, January 10. Available at: <https://www.bloomberg.com/news/articles/2020-01-11/venezuela-s-maduro-starts-year-with-a-67-minimum-wage-hike>

¹¹ See for example Hill, Alexandra E. "The Minimum Wage and Productivity: A Case Study of California Strawberry Pickers," available at: https://arefiles.ucdavis.edu/uploads/filer_public/a8/81/a881c6e7-7140-4129-9068-16f69d80a844/hill_jmp.pdf; Bandiera, O., Barankay, I. & Rasul, I. 2004. "Relative and Absolute Incentives: Evidence on Worker Productivity." *The Quarterly Journal of Economics*, 120(3), 917-962; Frick, B.J., Goetzen, U., & Simmons, R. 2013. The Hidden Costs of High-Performance Work Practices: Evidence from a Large German Steel Company. *Industrial and Labor Relations Review*, 66(1), 198-224; or Jones, D.C., Kalmi, P., & Kauhanen, A. 2010. Teams, Incentive Pay, and Productive Efficiency: Evidence from a Food-Processing Plant. *Industrial and Labor Relations Review*, 63(4), 606-626.

¹² Hill, Alexandra E. "The Minimum Wage and Productivity: A Case Study of California Strawberry Pickers."

productivity than formal sector work. Given this, governments should have a strong incentive to increase the share of formal sector employment in the economy. Unfortunately, some minimum wage setting processes do not fully consider the informal sector, due to the lack of data or an unclear mandate for wage setting. This risks creating two distinct groups in a labor market: formal workers, or those who have minimum wages and other protections, and informal workers who do not.

The long-standing theoretical prediction is that minimum wage increases reduce employment, but actual evidence shows this effect is small and variable. The traditional view on minimum wages is that they fix the lowest legal wage above the market rate (i.e. the rate at which supply and demand meet), resulting in lower employment, reducing formal sector output and displacing formal employees into the informal sector. Formal sector employers only retain workers whose marginal product is greater than their marginal cost. Higher minimum wages therefore means reducing low-productivity workers, who move to the informal sector, increasing informal output but lowering real informal wages. *However, evidence from studies of minimum wage changes across a range of countries shows that these theoretical predictions sometimes do not materialize.*

On one of the most important questions—the employment effects of minimum wages increases—most studies find a small negative impact in developing countries. A recent report from the World Bank noted that “the clear majority of developing-country studies find some adverse employment effects.”¹³ The OECD, however, found that “increases in the minimum wage are found to have only a minimal (or no) impact on employment in emerging economies.”¹⁴ The effects of minimum wage changes, even in developing countries, tend to be modest. One high-level analysis, which covered the findings of many small studies, found that a 1 per cent increase in the minimum wage would lead to a negative employment effect of 0.01 per cent to 0.2 per cent.¹⁵ *While the literature is not always uniform, there is not strong evidence for a powerful link between minimum wage increases and lower employment.* However, the overall effects of minimum wage increases can mask important variations across country or time, as well as the distribution of impacts amongst workers and businesses.

Minimum wage increases can potentially have negative effects on vulnerable groups of workers. This is an important subject for policymakers, who often define minimum wages as a safety net for poor workers or a tool for poverty reduction. However, there is evidence to show that workers negatively affected by minimum wage increases tend to be amongst the least productive and most vulnerable members of the labor force. Various studies have found that minimum wage increases can have a greater negative effect on low-skilled, youth, and low wage earners.¹⁶ For example, one study found that a 10 per cent increase

¹³ Betcherman, Gordon. 2014. “Labor Market Regulations: What do we know about their Impacts on Developing Countries?” The World Bank Research Observer 30: 124-153. Available at: https://openknowledge.worldbank.org/bitstream/handle/10986/24811/wbro_30_1_124.pdf?sequence=1&isAllowed=y

¹⁴ Broecke, Stijn, Forti, Alessia, and Vandeweyer, Marieke. 2015. “The Effect of Minimum Wages on Employment in Emerging Economies: A Literature Review,” available at: <http://nationalminimumwage.co.za/wp-content/uploads/2015/09/0221-Effect-of-Minimum-Wages-on-Employment-in-Emerging-Economies-A-Literature-Review.pdf>

¹⁵ Adam, Christopher and Buffie, Edward. 2020. “The Minimum Wage Puzzle in Less Developed Countries: Reconciling Theory and Evidence,” International Monetary Fund, Working Paper No. 20/23, available at: <https://www.imf.org/en/Publications/WP/Issues/2020/01/31/The-Minimum-Wage-Puzzle-in-Less-Developed-Countries-Reconciling-Theory-and-Evidence-48980>

¹⁶ Broecke, Stijn, Forti, Alessia, and Vandeweyer, Marieke. 2015. “The Effect of Minimum Wages on Employment in Emerging Economies: A Literature Review.”

in minimum wages was associated with a 3 per cent increase in the probability that a formal sector worker will not be employed in the formal sector. However, for the specific sub-group of workers earning within 20 per cent of the minimum wage, the probability of no longer being employed in the formal sector increased by 5 per cent.¹⁷ Other studies have found that minimum wage increases have a negative employment effect on women.¹⁸

Other studies suggest that minimum wage increases are particularly challenging for micro and small businesses. In general, less is known about the effects of minimum wages on business types, as most studies look at the effects on workers. A couple studies have reviewed firm entry and exit. Some of these have found that workers in small firms are amongst the most likely groups of workers to be negatively affected by employment loss because of an increase in the minimum wage.¹⁹ There is also evidence that minimum wages hurt micro and small firms directly. While it is normal for a share of businesses to close every year due to inefficiency or other reasons, high levels of firm exits can signal economic problems. However, more firm level research is needed, because “evidence on the effect of the policy (and changes to it) on firm profitability, productivity, investment, and overall performance is nearly nonexistent.”²⁰

As the size of a minimum wage increase grows, some research has found that the negative employment effects can increase exponentially. While many studies show that small minimum wage increases have only negligible employment effects, some studies show the effects are not linear. One report summarizes this as follows: “if a 50 per cent increase in the minimum wage results in a 10 per cent drop in employment (where the wage-employment elasticity is thus -0.2), it is not the case that a 100 per cent increase will result in a 20 per cent drop in employment. The literature suggests that where increases in a minimum wage are large and immediate this can result in employment losses, especially for unskilled workers.”²¹

While there is some evidence that minimum wages increases can help reduce income inequality, the relationship is not always clear and often conditional on the labor market characteristics of a country. While many observers assume that higher minimum wages lead to lower inequality, this is not always the case. The ILO’s Global Wage Report 2020-21 argues that minimum wages can reduce inequality, however this depends on three conditions being met. The three conditions are: (1) legal coverage and the level of compliance; (2) the level at which minimum wages are set; and (3) the structure of the country’s labour

¹⁷ Alaniz, E., Gindling, T. and Terrell, K. 2011. “The Impact of Minimum Wages on Wages, Work and Poverty in Nicaragua,” IZA Discussion Paper No. 5702, May 2011, available at: <http://ftp.iza.org/dp5702.pdf>

¹⁸ Feliciano, Z. 1998. “Does the Minimum Wage Affect Employment in Mexico?” Eastern Economic Journal, Eastern Economic Association, vol. 24(2), pgs. 165-180; and Arango, C. and Pachon, A. 2004. “Minimum Wages in Colombia: Holding the Middle with a Bite on the Poor,” Central Bank of Colombia, available at: <https://www.banrep.gov.co/docum/ftp/borra280.pdf>

¹⁹ Rama, M. 2001. “The Consequences of Doubling the Minimum Wage: The Case of Indonesia,” ILR Review, Vol 54, Issue 4, 2001, available at: <https://journals.sagepub.com/doi/10.1177/001979390105400407>;

Kertesi, G. and Köllő, J. 2003. “Fighting “Low Equilibria” by Doubling the Minimum Wage? Hungary’s Experiment,” IZA Discussion Papers 970, Institute of Labor Economics (IZA), available at: <https://ideas.repec.org/e/pke125.html>.

²⁰ Del Carpio, X. and Pabon, L. 2014. “Minimum Wage Policy: Lessons with a Focus on the ASEAN Region,” World Bank East Asia & the Pacific: No. 87864, pg. 63.

²¹ Borhat, H., Kanbur, R., and Stanwix, B. 2017. “Minimum Wages in Sub-Saharan Africa: A Primer,” World Bank Research Observer No. 32, pg. 21-74, available at: https://openknowledge.worldbank.org/bitstream/handle/10986/30139/wbro_32_1_21.pdf?sequence=1&isAllowed=y

market and the characteristics of the beneficiaries.²² Some studies have found that the effects of minimum wage on poverty are unclear, due in part to the disproportionately negative costs of minimum wage increases on workers at the bottom of the wage distribution.²³ This is an important issue in ASEAN, given the size and structure of the informal economy in many countries in the region. In Asia and the Pacific more broadly, over 60% of wage employees are in the informal sector. Amongst the poorest tenth of households, very few have wage work at all – in either the formal or informal sector. Only 8.5 per cent of workers from the poorest tenth of households are in wage work, with most being own account workers.²⁴

The effects of minimum wage increases may be higher in countries with certain characteristics, such as high minimum wages relative to average wages. This was found in a number of countries in Latin America. These countries experienced higher than normal negative employment effects from minimum wage increases, which the researchers argue was related to the high relative minimum wages.²⁵ Another study found negative formal sector employment effects from minimum wage increases in Nicaragua, where the minimum wage was set at 86 per cent of the median wage.²⁶

Minimum Wages and the “Living Wage”

Though C.131 outlines the factors for consideration in minimum wage setting, a number of advocacy organizations, unions and even some work from the ILO has advocated for setting minimum wages at a “living wage”. The concept of a living wage has been cited in numerous declarations, constitutions, and statements. The ILO Constitution, from 1919, references the concept when it notes the ILO’s obligation to further “policies in regard to wages and earnings... to ensure a just share of the fruits of progress to all, and a minimum living wage to all employed.”²⁷ The ILO’s Declaration of Philadelphia makes similar references.²⁸ The more recent ILO MNE Declaration notes that wages “should be at least adequate to satisfy basic needs of the workers and their families.” Beyond the ILO, the concept is echoed in the UN Universal Declaration of Human Rights which notes that “everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity.”²⁹

Though regularly referenced, there is no widely accepted definition of a living wage. The ILO has argued that a living wage can be defined as a wage sufficient to allow “workers and their families...to live above

²² International Labour Organization. 2020. “Global Wage Report 2020/21,” pg. 89, available at:

https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_762534.pdf

²³ Gindling, T.H. 2013. “Legal Minimum Wages in Developing Countries,” World Bank Labor Market Policy Core Course, available at: <https://olc.worldbank.org/sites/default/files/Legal%20Minimum%20Wages%20in%20Developing%20Countries.pdf>

²⁴ International Labour Organization. 2020. “Global Wage Report 2020/21.”

²⁵ Kristensen, N. and Cunningham, W. 2006. “Do Minimum Wages in Latin America and the Caribbean Matter? Evidence from 19 Countries,” World Bank Policy Research Working Paper No. 3870, Available at SSRN: <https://ssrn.com/abstract=923223>; Del Carpio, X., Nguyen, H. and Wang, L.C. 2012. “Does the Minimum Wage Affect Employment? Evidence from the Manufacturing Sector in Indonesia,” World Bank Policy Research Working Paper No. 6147, available at:

<https://openknowledge.worldbank.org/bitstream/handle/10986/12000/WPS6147.pdf?sequence=1&isAllowed=y>

²⁶ Alaniz, E., Gindling, T. and Terrell, K. 2011. “The Impact of Minimum Wages on Wages, Work and Poverty in Nicaragua.”

²⁷ International Labour Organization. 1918. “Constitution of the International Labour Organization,” available at :

https://www.ilo.org/dyn/normlex/en/f?p=1000:62:0::NO:62:P62_LIST_ENTRIE_ID:2453907:NO

²⁸ International Labour Organization. 1944. “ILO Declaration of Philadelphia,” available at:

<https://www.ilo.org/legacy/english/inwork/cb-policy-guide/declarationofPhiladelphia1944.pdf>

²⁹ United Nations General Assembly. 1948. “Universal Declaration of Human Rights,” available at:

https://www.ohchr.org/EN/UDHR/Documents/UDHR_Translations/eng.pdf

the poverty line, and be able to participate in social and cultural life.”³⁰ Living wage definitions generally support a standard of living that is more than just the necessities of food, shelter and clothing. Elsewhere, however, the ILO has noted that numerous different definitions of ‘living wage’ reference a “basic” or “adequate” standard of living, while others mention “basic needs”. Various descriptions include health care, education, transportation, recreation, savings, and discretionary spending. Definitions generally include reference to the worker and family. The “basic standard” that is often used in living wage definitions tends to increase with economic development.³¹ The Global Living Wage Coalition notes that in their research, they have found over 60 definitions for the concept. They provide a consolidated definition, which is:

*The remuneration received for a standard workweek by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, health care, transportation, clothing, and other essential needs including provision for unexpected events.*³²

Setting minimum wages to an ‘living wage’, however defined, without considerations of economic factors would seem to contradict international standards as outlined in C.131 and R.135. C.131 explicitly notes that other factors should also be considered in minimum wages setting. Many ‘living wage’ advocates have failed to reconcile the question of how minimum wages can be set in accord with C.131 when considering only living costs. It also leaves many practical questions unanswered, such as whether the ‘living wage’ applies to all workers, or just those in employment relationships?³³ How will living wages be guaranteed for those in the informal sector? Beyond this, it is also unclear about the practical consequences of fixing the minimum wage without other considerations. This could result in unintended negative outcomes in the labor market, notably the risk of decreases in employment and/or growth in informality if minimum wages are increased significantly.

Employers have previously noted their skepticism of new interpretations of the ‘living wage’ concept and its feasibility and fairness. They note instead that C.131 identifies the minimum wage as one part of an overall approach to addressing poverty and inequality. Other parts of that approach could include social protection schemes, regulatory reforms, or business environment improvements that yield productivity gains. They argue that government also has an important role to play in providing support for a society’s poorest members, through various social programs. They argue that the entire burden for supporting society’s poorest should not fall on employers, but include both the labour market and government intervention. They also note that the size of minimum wage increases demanded by some living wage activists could result in dramatic growth of minimum wages. This is problematic given some of the literature shows that the negative effects of minimum wage increases grow exponentially in comparison to the size of the increase.

³⁰ Anker, R. 2011. “Estimating a Living Wage: A Methodological Review,” International Labour Organization, Conditions of Work and Employment Series No. 29, available at: https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_162117.pdf.

³¹ Anker, R. 2011. “Estimating a Living Wage: A Methodological Review.”

³² Global Living Wage Coalition. “What is a Living Wage?” available at: <https://www.globallivingwage.org/about/what-is-a-living-wage/>

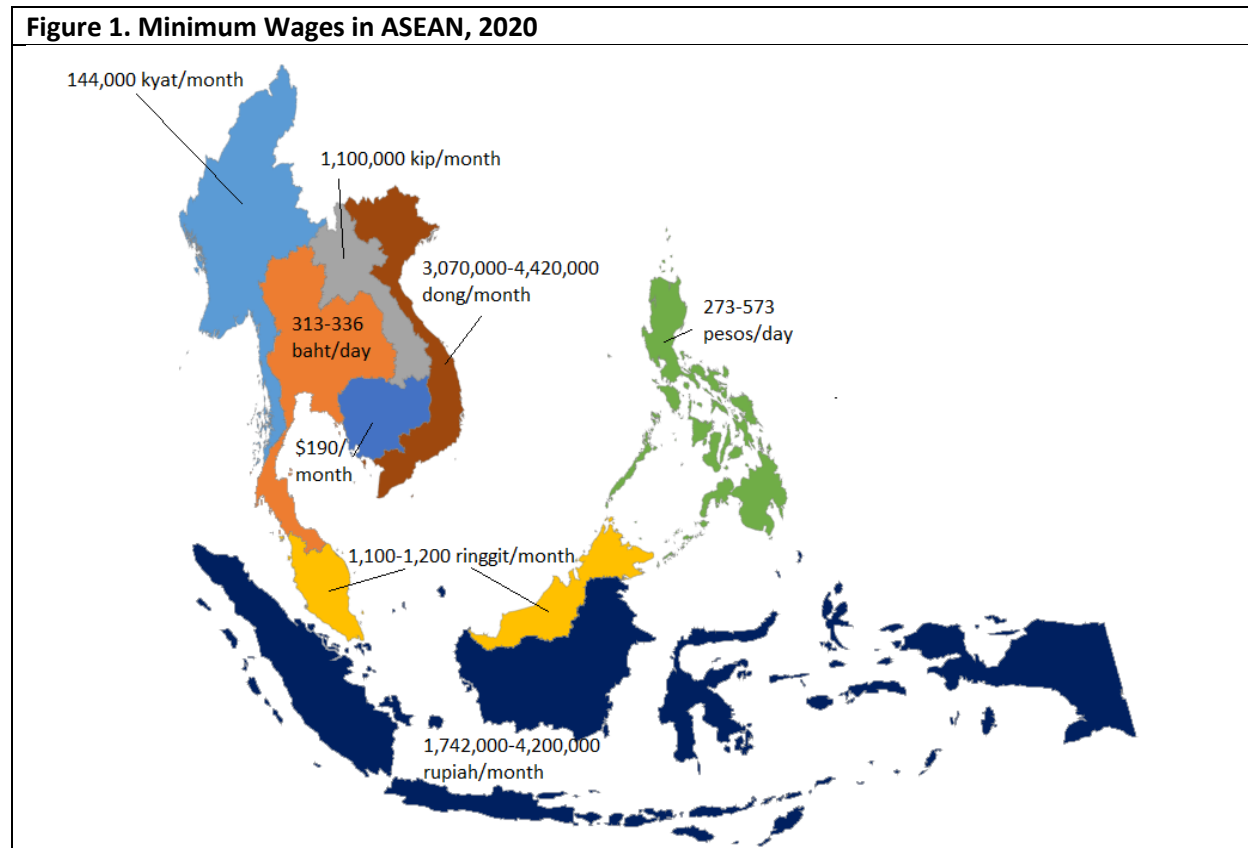
³³ The ILO is implementing at least one project that bears resemblance to the use of ‘living wages’ in the context of minimum wage setting. See: https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/projectdocumentation/wcms_736786.pdf. It is unclear how this project incorporates the other elements of C.131, or whether its implementation provides participants with an understanding of wage setting that accords with international standards.

Minimum Wages in ASEAN

Minimum wages are a key policy tool in ASEAN, and have a significant impact on workers, employers and labor markets across the region. The vast majority of workers in ASEAN live in a jurisdiction with a minimum wage; only Singapore and Brunei do not have them. In some countries, a significant share of the workforce earns at or near minimum wages. For example, in Cambodia, whose minimum wage covers only the garment, textile and footwear sectors, over two thirds of the sector’s full-time workers had base pay that equaled the minimum wage.³⁴ For employers, minimum wages have become an increasingly important issue, in part because its growth has generally outstripped productivity growth.

Minimum Wage Systems and Rates

Countries in ASEAN have many different minimum wage systems, including national single wages, sectoral wages, geographical wages, and skills-based wages or premiums. Most countries in ASEAN use a geographical system. Vietnam, for example, has four different levels of minimum wages, and each province is assigned to one of these four groups based on its economic circumstances. Malaysia has a similar system, though with two tiers: a higher tier for 56 cities and municipal councils and their surrounding districts, and a lower tier for other locations. Indonesia and Thailand both have provincial systems of minimum wages, whereas the Philippines has a system with 17 different regions, comprised of multiple provinces and cities, which have multiple MW rates based on business sector and size. Cambodia



³⁴ International Labour Organization. 2018. “How has garment workers’ pay changed in recent years?” Cambodian Garment and Footwear Sector Bulletin Issue 7, pg. 2, available at: https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/publication/wcms_631686.pdf.

has a single national minimum wage rate set in US dollars and applicable only to the garment, textile and footwear sector. Myanmar and Laos both have a single national rate.

A number of countries in ASEAN have seen significant growth in minimum wages in the last decade. Cambodia, for example, has seen its minimum wage increase 48 per cent since 2015, rising from US \$128 to \$190, and by 198 per cent since 2010, when the minimum wage was \$61. Vietnam and Laos have both seen minimum wages more than triple in nominal terms from 2010 to 2020. Indonesia has seen consistent growth as well, with wages in the Jakarta region increasing 55.6 per cent over the last five years, with many other districts seeing comparable growth. Of all countries in the region, the Philippines has seen the slowest growth in minimum wages in the last decade, with nominal increases of 33 per cent from 2010 to 2019.

	Minimum wage rate (local currency)	Minimum wages rates (\$USD)	Year of last MW adjustment	Advance notice of minimum wage change (days)
Cambodia	na	\$190.00	2020	102
Indonesia	1,742,000-4,200,000 rupiah	\$119.02 - \$286.96	2020	77
Lao PDR	1,100,000 kip	\$121.49	2018	10
Malaysia	1,100-1,200 ringgit	\$260.66 - \$284.36	2020	21
Myanmar	144,000 kyat*	\$105.65	2018	0
Philippines	273-573 pesos (per day)	\$5.57 - \$11.68	2019	variable
Thailand	313-336 baht (per day)	\$10.08 - \$10.82	2020	20
Vietnam	3,070,000-4,420,000 dong	\$132.44 - \$190.67	2020	46

**Note: Myanmar's minimum wage is officially described in legislation as being either a daily rate of 4,800 kyat or an hourly rate of 600 kyat. In practice, however, the government requires many employers, including those in the important garment, textiles and footwear sector, to pay the minimum wage for 30 days per month, regardless of the number of days in the month, or actual workdays. As such, it is listed as an effective monthly wage of 144,000 kyat per month.*

Many countries in ASEAN are moving towards increases each calendar year. Annual updates that correspond to the calendar year have taken place in Vietnam, Indonesia and Cambodia for a number of years. After a multi-year period without any wage increases, Thailand has increased its minimum wages in each of the last two years. Malaysia has done the same despite a legal framework that calls for wages to be reviewed and updated once every two years. Myanmar and Laos continue to adjust minimum wages at irregular intervals of about three years, though they do not align with calendar or financial years.

Despite the regularity with which many countries have been updating minimum wages, the advance notice period remains short. The three countries with a well-established record of annual increases (Vietnam, Cambodia and Indonesia) are also the three that provided the greatest notice period in 2019 – an average of 75 days. The countries providing the least amount of formal notice about a minimum wages change were Laos, which gave 10 days' notice, and Myanmar, which issued a minimum wages revision with immediate effect. Short lead times can be problematic for both employers and the public sector, which often needs to reflect higher wages in budgets, which often requires a few months.

A number of countries in ASEAN have made notable structural changes to their minimum wages systems in the last few years. Malaysia, for example, previously had a two-tiered geographical wages

system, with one tier for Eastern Malaysia and another for Peninsular Malaysia. Its current system has one tier for cities, municipal councils and their surrounding districts, and a second for other locations. Indonesia issued new regulations in 2015 regarding minimum wages, which contain a wide range of provisions including a new minimum wage formula to be used in the wage determination process.³⁵ It passed additional changes in 2020, including minimum wage exemptions for micro, small and labor-intensive businesses and flexibility for regions to adopt different formulas. Thailand, which established a single national minimum wage rate in 2013, reverted back to a system of provincial level wages in 2017. Myanmar, which had a largely moribund minimum wages regime until 2013, passed a new law and issued its first minimum wage under the new law in 2015.

Representatives of employers and workers are regularly involved in minimum wage setting processes in all ASEAN countries, though it is unclear whether wages are set “in agreement or after full consultation” with these organizations, as called for in C.131. All countries in ASEAN have some mechanism for the participation of worker and employer organizations. In many countries, this is done through a legislatively-mandated body. In Malaysia, for example, consultation happens through the National Wages Consultative Council, a body established by law with specific requirements for at least five representatives of both employers and employees.³⁶ Myanmar’s Minimum Wages Law established a National Committee for the Minimum Wage, with similar numbers of representatives as Malaysia. Both of these committees also allow for participation of others, often technical experts. Despite the existence of these bodies, however, they sometimes fail to function properly and can be overridden by politicians. For example, the Malaysia Employers Federation (MEF) raised objections to the country’s most recent minimum wage increase, noting that proper consultation was not conducted under the relevant legal framework.³⁷ In Cambodia, the government’s initially proposed wage of \$187 for 2020 was raised by \$3 by Prime Minister Hun Sen before being enacted.³⁸

³⁵ Republic of Indonesia. 2015. “Government Regulation of the Republic of Indonesia No. 78 of 2015 on Wages,” Article 44, No. 2, available at: <http://ditjenpp.kemenkumham.go.id/arsip/terjemahan/44.pdf>.

³⁶ Government of Malaysia. 2011. “National Wages Consultative Council Act 2011.” Laws of Malaysia Act 732, available at: <https://www.ilo.org/dyn/travail/docs/1506/National%20Wages%20Consultative%20Council%20Act%202011%20-%20malaysianlaw.my.pdf>

³⁷ Malaysia Employers Federation. 2019. “Raising employers’ concerns on increasing minimum wages to RM1,200 for 57 bigger cities and towns is not fear mongering,” Press Release, available at: http://www.mef.org.my/news/pr_article.aspx?@ID=34.

³⁸ Kimmarita, Long. 2020. “Minimum Wages Set at \$190 for 2020,” Phnom Penh Post, available at: <https://phnompenhpost.com/national/minimum-wage-set-190-2020>.

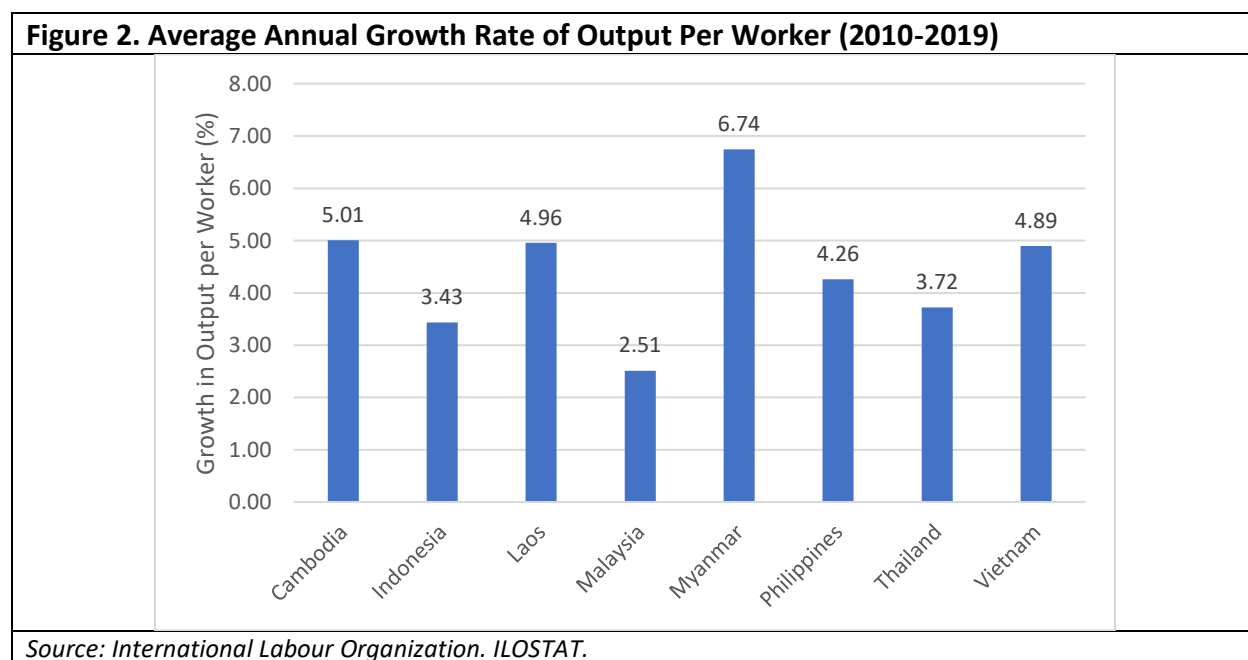
Table 2. Minimum Wage Systems in ASEAN by Country			
	<i>Description</i>	<i>Criteria for Wage Setting</i>	<i>Tripartite Involvement</i>
Cambodia	Single national wage set in USD, applicable to garment, textiles and footwear sector only	According to Article 107 of the Labor Law, criteria include the needs of workers and their families, living costs, social security allowance, economic development and productivity.	Labour Advisory Council (LAC): Comprised of 28 representatives: 14 from government, 7 from employers and 7 from workers. The LAC is chaired by the Minister of Labour and Vocational Training with deputies from trade unions and CAMFEBEA.
Indonesia	Provincial minimum wage, determined by provincial governors with input from provincial wage councils and/or district heads. New omnibus bill excludes micro and small businesses from minimum wages, and creates a separate minimum wage for labor intensive businesses.	Article 88 (4) of Law 13/2003 and Article 2 of Regulation of Minister of Manpower No. 15/2018 notes that three factors determine minimum wage, namely: decent living cost, productivity and economic growth. The new omnibus legislation allows provinces to use formulas set at the provincial, as opposed to the national level. Formulas should incorporate inflation and economic growth.	Wage Councils: Indonesia has national, provincial and city/district wage councils, which are relatively independent as they affect different level of policies. The ratio between APINDO, trade unions and government representatives in all councils is 1:1:2. The government makes the final determination on MWs based on input from the Wage Council.
Lao PDR	Single national minimum wage rate applicable to all employees. According to Article 46 of the Labour Law, the determination of minimum wage aims to secure a minimum living standard for employees consistent with the level of change in the cost of living in each period.	No specific criteria for minimum wage fixing outlined in law, though there are criteria for enterprise level remuneration, which include: the material and spiritual needs of workers; the cost of living (or changes therein); social welfare and social security benefits for workers; and the evaluation of the skills and abilities level of the various social groups or the level of the payment of wage or salary in other labour units. MW setting includes reviews of various economic data though its use is not systematic.	Tripartite Committee on Industrial Relations: The committee is composed of 18 members, 6 each from government, LFTU and the LNCCI. It is co-chaired by the vice-minister, a vice-president of the Lao Federation Trade Unions (LFTU), and a vice-president of the LNCCI. Article 108 of the Labour Law (2013) authorizes the State to promulgate the level of minimum wage based on the results of consultations with third parties.
Malaysia	Two-tiered geographical system of minimum wages. The higher tier, set at RM 1,200 in 2020, applies to 56 city and municipal councils (both urban and rural areas in districts). The lower rate, set at RM 1,100 in 2020, applies to all other areas. Public consultation and data analysis are conducted before the council meets.	Several socio-economic indicators are used as either base criteria or adjustment criteria. Base criteria include the poverty line, income per worker, and median wages. The PLI is used to account for the basic cost of living per worker in a household while median wages of the lower half of wage earners in the private sector reflects the firms' ability to pay. These two elements are averaged to represent the floor wage, which is then adjusted based on adjustment criteria which include productivity growth, CPI and real unemployment.	National Wages Consultative Council: A 23-29 member body appointed by the Labor Minister. It includes five government representatives plus three designated members (Chairman, Vice Chairman, Secretary), five public interest representatives, five workers' representatives, and five employers' representatives. The council is supported by a technical committee. The government makes the final decision about MW levels following recommendations from the NWCC and stakeholder consultation.

Myanmar	Single national rate set by government. Though officially set at 4,800 MMK per day, in practice many employers pay for 30 days a month, making the MW rate functionally 144,000 MMK/month. The law excludes employers with 9 or fewer employees. It allows multiple MW rates for different regions and sectors, though the government has to date opted for a single national rate.	The Minimum Wage Act (Law No. 7/2013) outlines eight factors including the needs of workers and their families, existing salaries, social security benefits, living costs (and changes therein), compatible living standards, employment opportunities, GDP and per capita income and health implications of work. There is also a provision for other factors. Though a number of factors are listed, data use is not systematic.	National Minimum Wage Committee: 27 members, including 12 government representatives, 5 worker representatives, 5 employer representatives and 5 experts. There are also state/region and sectoral committees formed under the national committee. Employer representatives must be from proscribed sectors.
Philippines	Minimum wages are set subnationally by tripartite wage boards, and presently range from 320 to 537 pesos per day. The dates of revision are not the same for all locations; most recent update by any location was 2019.	The cost of living in each region is the primary consideration in the determination of the minimum wage. The National Wages and Productivity Commission has guidelines (No. 1, 2007) that state criteria for wage setting including the needs of workers and their families, capacity to pay, comparable wages and incomes, and requirements of economic and social development.	Two tripartite committees: At the national level, the tripartite National Wages and Productivity Commission (NWPC) prescribes the rules and guidelines for the determination of appropriate minimum wages. At the regional level, Regional Tripartite Wages and Productivity Boards determine the applicable minimum wage rates.
Thailand	Provincial minimum wage system, with each province being placed into one of seven rate levels, ranging from THB 313 to THB 336. There are also 19 minimum skill wage rates, which range from THB 345 and THB 825.	Criteria include workers' cost of living (including CPI), employers ability to pay (including production costs, labour productivity, and business capacity to pay) and overall economic and social indicators (including GDP growth and unemployment).	National Wage Committee (NWC): The NWC is a tripartite committee with five representatives from each tripartite partner: government, workers and employers. There are 76 provincial minimum wage sub-committees as well as technical and screening sub-committees.
Vietnam	Provincial minimum wage system, with each province placed into one of four rate levels, ranging from VND 3,070,000 to VND 4,420,000/month. The wage is applicable to workers in enterprises, cooperatives, farms, households, and for individuals, institutions and organizations that use employees under labour contracts.	There are five criteria for setting and adjusting the minimum wage level. They are: (1) the minimum living needs of workers and their families; (2) the relationship between the minimum wage and other wage rates; (3) consumer price index and economic growth rate; (4) labour supply and demand, employment and unemployment rates; and (5) productivity and businesses' payment capacity.	National Wage Council (NWC): The NWC is a tripartite council with five representatives from each tripartite partner: government, workers and employers. The government decides on the minimum wage rates based on the recommendation of the NWC.

Macroeconomic conditions

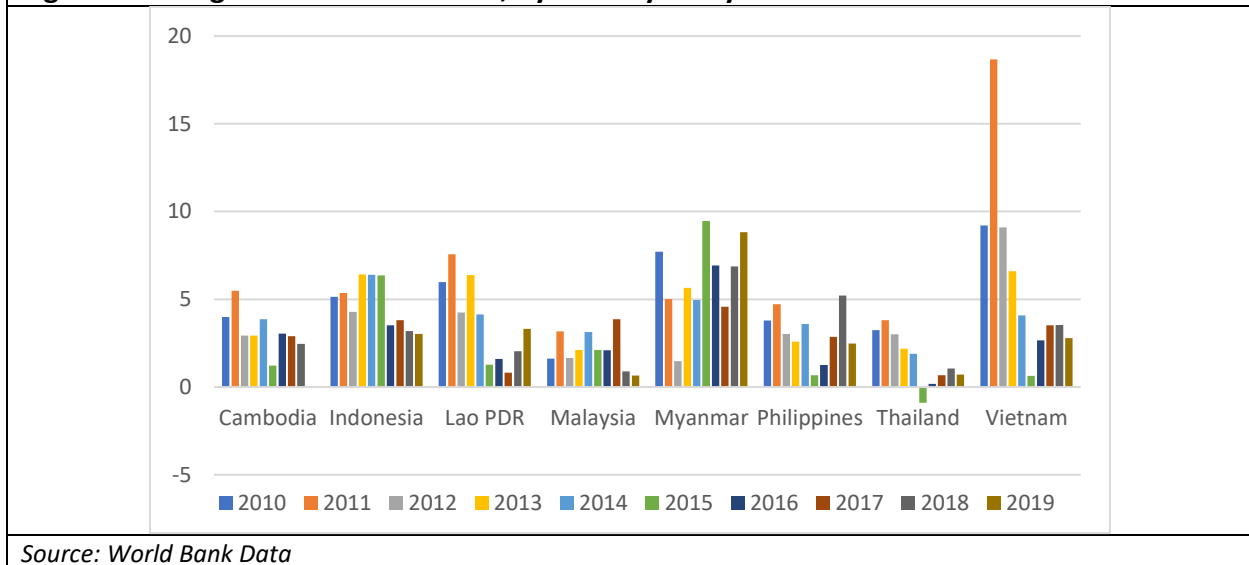
Minimum wage growth in ASEAN had, at least until the COVID-19 crisis, been set against a backdrop of favorable macroeconomic conditions and strong economic growth. Three ASEAN countries, Cambodia, Lao PDR and Vietnam, saw their GDP per capita double between 2010 and 2020. Even the region's most well-off country with a minimum wage, Malaysia, saw GDP per capita rise over 25 per cent during the decade. This growth helped every country in the region reduce poverty, with some very notable success stories. When measured by the national poverty line, Vietnam saw its poverty incidence fall from 21 per cent of the population to 7 per cent from 2010 to 2018. Myanmar, the ASEAN country with the highest poverty rate, saw poverty levels fall from 42 per cent in 2010 to 25 per cent.

Growth has been accompanied by significant gains in output per worker. Growth in output per worker in ASEAN ranged from decent to robust. Myanmar saw the highest growth, an annual average rate of 6.75 per cent, albeit from a fairly low level. Malaysia had the lowest level of growth in output per worker, at just over 2.5 per cent per year on average, though it started from a higher base than any of the other countries in the comparison.



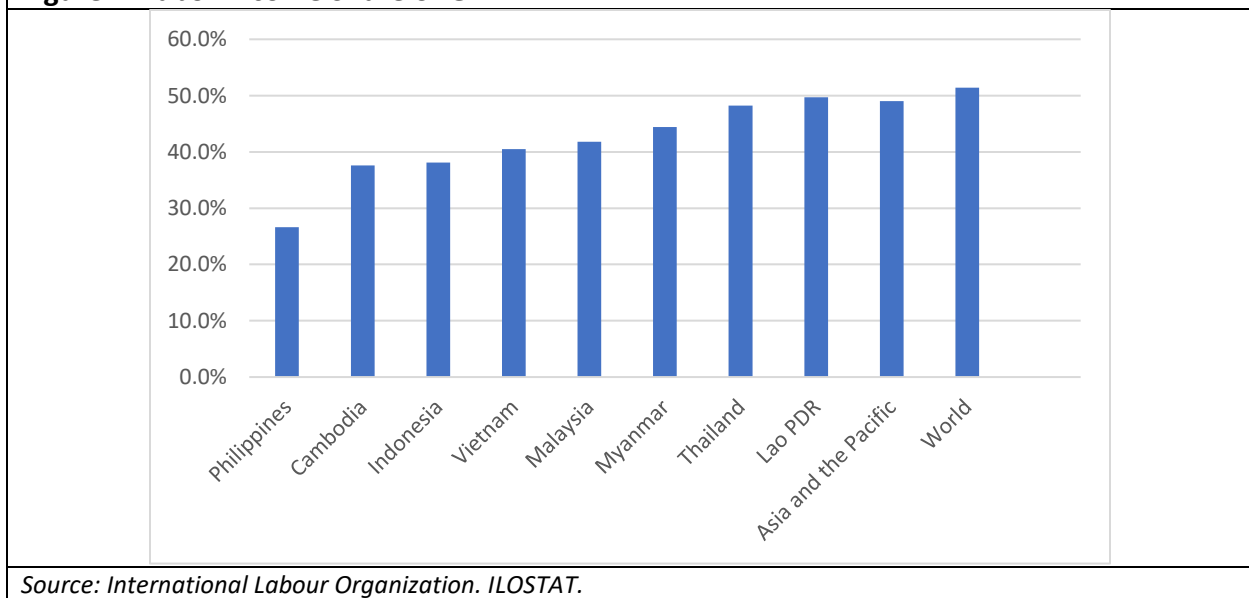
Consumer prices growth, which at times has been significant in some ASEAN countries, has generally been constant or trended slightly downward during the last decade. Annual growth in consumer prices from 2010 to 2019 averaged from between 1.58 per cent in Thailand and 6.14 per cent in Myanmar. However, the growth trend has decreased in recent years. In both 2010 and 2011, average consumer price growth was greater than 5 per cent across the eight ASEAN countries with minimum wages. However, from 2015 to 2019, average consumer price growth averaged less than 3 per cent. Vietnam, which struggled with relatively high consumer price growth in the beginning of the decade (including over 18 per cent growth in 2011) saw prices stabilize, and has since experienced six years of consumer price growth below 5 per cent per year.

Figure 3. Change in Consumer Prices, by country and year



Labor share of income in ASEAN is lower than the average for Asia and the Pacific, and trending slightly downward in many countries. The labor share of income amongst ASEAN countries with minimum wages ranges from 26.6 per cent in the Philippines to 49.7 per cent in Laos. This compares to an average in the Asia Pacific region of 49 per cent and a world average of 51.4 per cent. The lower labour income share in ASEAN countries may be due in part to their large informal sectors, which have lower levels of productivity when compared with the formal sector. It may also be due to their stage of economic development, in which the labour share of income experiences U-shaped change.³⁹ A number of ASEAN countries have seen the labor share of income decline in the last decade, despite significant growth in minimum wages.

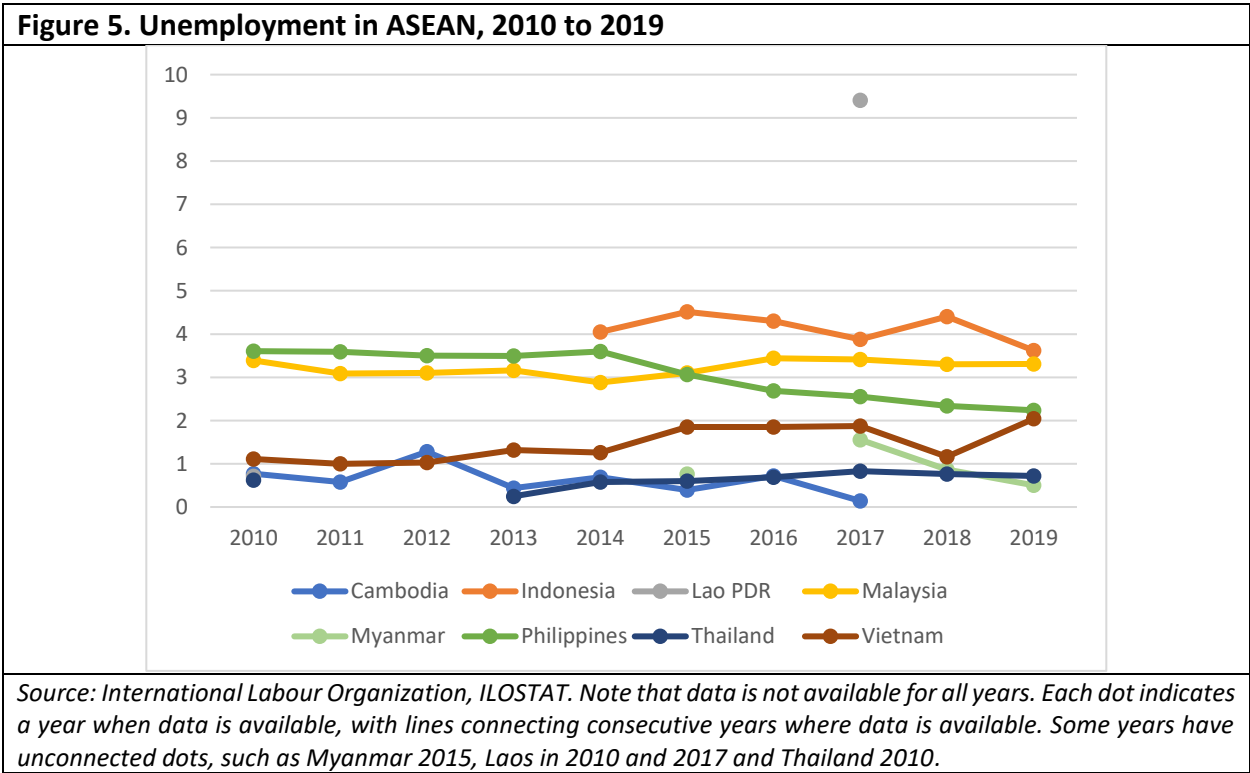
Figure 4. Labor Income Share of GDP



³⁹ Mareek, Paul. 2012. "Labor share, informal sector, and development," available at: https://mpr.aub.uni-muenchen.de/38756/1/MPRA_paper_38756.pdf

This is generally in line with the global trend of a declining labor share of income. However, Malaysia’s labor income share has increased since 2005, while income inequality has reduced. This trend is mainly due to “the growing importance of more traditional service subsectors and SMEs in the economy,” according to the ADB.⁴⁰

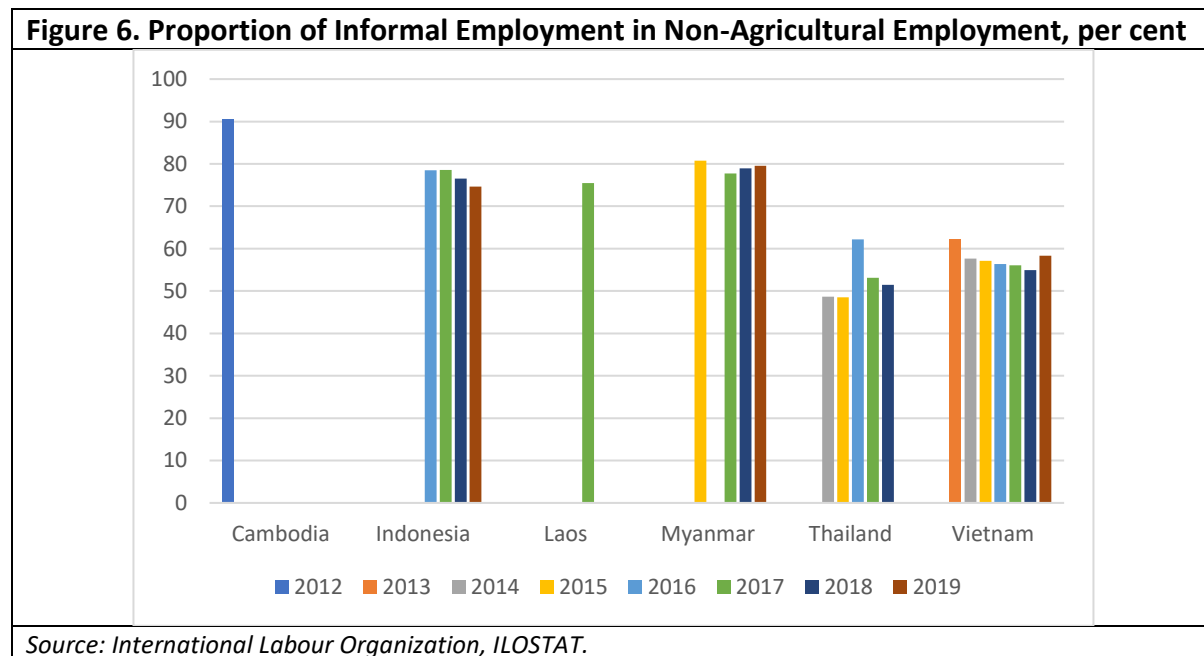
Unemployment rates in ASEAN are generally low, however underemployment and informality are common. Thailand, Cambodia, and Myanmar all have unemployment rates of less than one per cent. The region’s highest unemployment rate, in Laos, is 9.4 per cent. These low rates of unemployment are closely connected to the large informal economy. Across ASEAN, informal employment accounts for more than half of non-agricultural employment in all countries for which data is available. However, data on informality is collected at different intervals in ASEAN countries, with two countries in the region (Malaysia and Philippines) not having any recent data on informal employment. The six ASEAN countries with data available all had significant rates of informal employment, as is further explored in Figure 5.



Though there has been general economic progress across ASEAN, the informal sector remains large and continues to influence the labor market. Of the countries with data for multiple years, the share of employment in the informal sector has generally been somewhat intractable. Both Vietnam and Indonesia made notable progress towards reducing the share of informal employment, both doing so by just under 4 per cent. However, the level of informality remains high in both countries – notably Indonesia, where approximately three in four work in the informal sector. In Thailand and Myanmar, however, the share of informal employment has remained unchanged. These trends stand in contrast to the rapidly rising

⁴⁰ Ng, A., Theng, T.T., and Gen, T.Z. 2018. “What Explains the Increase in the Labor Income Share in Malaysia?” Asian Development Bank Institute Working Paper Series No. 894, available at: <https://www.adb.org/sites/default/files/publication/469216/adb-wp894.pdf>

minimum wages across much of the region. The large share of informal employment in ASEAN countries, and the slowly declining share of informal employment suggests that much of the workforce will remain in informal employment for decades to come. This is problematic, given that these workers cannot access the protections of formal employment while also generally receiving lower incomes, which is a common characteristic of the informal economy.



The COVID-19 pandemic has caused widespread economic disruption, and created significant uncertainty about the future economic trajectory of ASEAN countries. Of the ASEAN countries with minimum wages, six are expected to see an economic contraction in 2020, including Thailand, whose economy may contract by more than 8 per cent. The share of households reporting lost earnings has been similarly high – nearly 80 per cent in Indonesia and Cambodia and 85 per cent in Myanmar.⁴¹ Businesses have reported significant reductions in sales, with micro and small enterprises the hardest hit. For example, micro enterprises reported a 52 per cent reduction in sales in Cambodia, 58 per cent in Indonesia, and 59 per cent in Myanmar.⁴² The crisis is also affecting current and future productivity, potentially forcing even more productive firms into insolvency while reducing the number of new entrants and saddling existing firms with debt.⁴³ While the full extent of the damage from the COVID-19 crisis is yet to be realized, its effects on ASEAN economies is dramatic and will inevitably affect the region’s minimum wages processes for some time.

The Effect of Minimum Wages in ASEAN

Wage growth, including minimum wages, is one of the most important issues for businesses in ASEAN. According to a recent survey of Japanese businesses across a range of countries in Asia and the Pacific

⁴¹ World Bank. 2020. “From Containment to Recovery,” East Asia and Pacific Economic Update (October), World Bank, Washington, DC, available at: <https://openknowledge.worldbank.org/bitstream/handle/10986/34497/9781464816413.pdf>

⁴² World Bank. 2020. “From Containment to Recovery.”

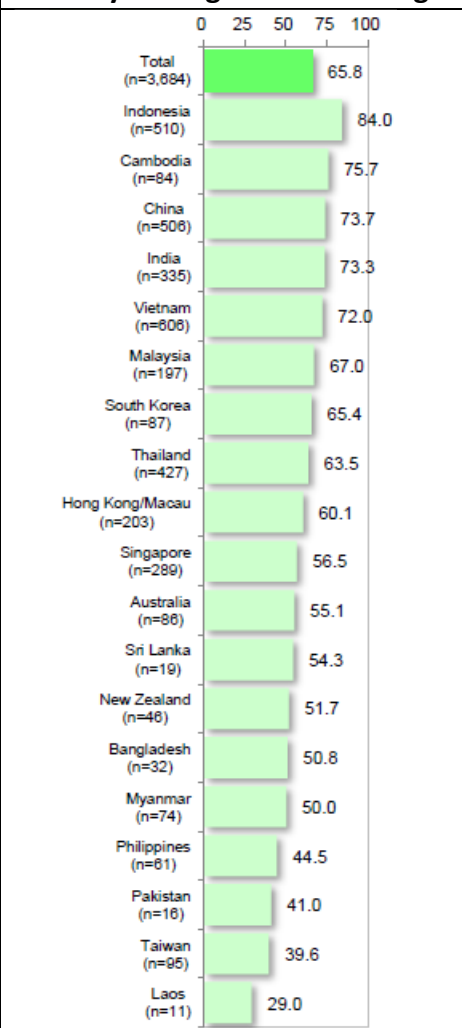
⁴³ World Bank. 2020. “From Containment to Recovery,” pg. 26-27.

(see Figure 7), “wage hikes” were listed as the top concern for management, cited by 65.8 per cent of respondents. Businesses from Indonesia and Cambodia cited wage growth more frequently than respondents from any other country. Notably, both of these countries have also seen significant growth in minimum wages in recent years. Minimum wages have also been frequently cited by EBMOs across ASEAN as one of the most important issues for their members, and a key policy area for increased focus.

Despite businesses highlighting the importance of wage growth, and especially minimum wage growth, the evidence about its effect on key outcomes such as employment is mixed. Generally, most studies in ASEAN countries find a modest yet statistically significant negative relationship between minimum wage growth and existing employment. For example, in Indonesia a 10 per cent increase in minimum wages was accompanied by a 1.12 per cent reduction in employment.⁴⁴ In Thailand, there is also a negative relationship, though it was a somewhat smaller 0.56 per cent reduction in employment for every 10 per cent increase in minimum wages.⁴⁵ In Vietnam, the effect was larger, with a 2.93 per cent reduction in employment for a 10 per cent increase in the minimum wage.⁴⁶ These findings vary significantly based on country circumstances, as well as the design of the study, the years implemented and a wide range of other factors. This makes it very difficult to use previous findings or findings from other countries in minimum wage setting processes in ASEAN.

A number of studies find that minimum wage increases affect informal employment. One study found an increase in the minimum wage is correlated with formal job losses, with a 10 per cent increase in minimum wages resulting in losses of 0.52 per cent.⁴⁷ However, this was accompanied by informal sector job gains, with the same ten percent increase resulting in gains of 0.87 per cent.

Figure 7. Share of Japanese Businesses Citing “Wage Hikes” as a Key Management Challenge



Source: https://www.jetro.go.jp/ext_images/en/reports/survey/pdf/rp_firms_asia_oceania2019.pdf

⁴⁴ Suryahadi, A. et al. 2003. "Minimum Wage Policy And Its Impact On Employment In The Urban Formal Sector," Bulletin of Indonesian Economic Studies, Taylor & Francis Journals, vol. 39, no. 1, pgs. 29-50.

⁴⁵ Del Carpio, X., Messina, J. and Sanz-de-Galdeano, A.. 2014. "Minimum Wage: Does It Improve Welfare in Thailand?" Discussion Paper 7911. Institute for the Study of Labor, Bonn, Germany.

⁴⁶ Del Carpio, X. N., and Liang, C.W. 2013. "The Impacts of Minimum Wages on Employment, Wages and Welfare: The Case of Vietnam." Working Paper. World Bank, East Asia and Pacific Social Protection and Labor Unit, Washington, DC.

⁴⁷ Comola, M., and L. De Mello. 2011. "How Does Decentralized Minimum Wage Setting Affect Employment and Informality? The Case of Indonesia." Review of Income and Wealth 57, No. 1, pg. 79-99.

The effects of minimum wage on economic inequality in ASEAN are unclear, with some studies suggesting that minimum wage increases actually increase inequality in some segments of the population. For example, in Thailand, “rises in the minimum wage increased inequality in consumption per capita within the bottom half of the distribution.”⁴⁸ This outcome is driven by the distribution of minimum wage and informal income earners in Thailand, where many of the country’s poorest members of society are not minimum wage earners and therefore do not benefit from increases. This same economic structure, with minimum wage earners not concentrated at the bottom of the income distribution, is also evident in a number of other ASEAN countries.

While the overall effects of minimum wages differ across ASEAN countries, many studies suggest that increases in minimum wages affect some workers and businesses more than others. One of the more common findings is that there are negative employment effects from increased minimum wages amongst small firms, whereas not amongst large firms.⁴⁹ Other studies have found that minimum wages have an effect on employment in most firms, but not those in tradable manufacturing.⁵⁰ One study, focused on campaigns for real wage increases at foreign-owned textile, footwear and apparel exporters in Indonesia, found wage gains were associated with reduced investment, lower profits, and a greater likelihood of insolvency for smaller formal firms, but not larger formal firms.

Another key finding in ASEAN is that minimum wage increases have a greater negative effect on women. In Indonesia, for example, one study finds statistically significant evidence of a strong negative correlation between minimum wage increases and job losses for women, with a 10 per cent increase associated with a 3.07 per cent decrease in women’s employment. Other studies find a statistically significant relationship between minimum wage increases and negative effects on female non-production workers.⁵¹ For this group, a 10 per cent increase in minimum wage is correlated with a 0.69 per cent decrease in employment. Notably, there wasn’t a significant relationship for male workers, nor for female production workers.⁵² In Thailand, the same negative relationship was seen but with a notably greater magnitude, with a 10 per cent increase in minimum wages associated with a 1.09 per cent decrease in female employment.⁵³

Another key finding from many studies is that minimum wages increases have a disproportionately negative impact on people with lower levels of education. In both Indonesia and Thailand studies have found statistically significant associations between minimum wage increase and reduced employment among lower educated workers. In Indonesia, the study found that a 10 per cent increase in minimum wages reduced employment among ‘less educated’ workers by 1.96 per cent.⁵⁴ In Thailand, another

⁴⁸ Del Carpio, X., Messina, J. and Sanz-de-Galdeano, A.. 2014. “Minimum Wage: Does It Improve Welfare in Thailand?”

⁴⁹ Alatas, V. and Cameron, L. 2003. "The Impact of Minimum Wages on Employment in a Low-Income Country: An Evaluation Using the Difference-in-Differences Approach," Working Paper 2985, Policy Research Department, World Bank; and Del Carpio, X., Nguyen, H. and Wang, L.C. 2012. “Does the Minimum Wage Affect Employment? Evidence from the Manufacturing Sector in Indonesia,”

⁵⁰ Magruder, J. 2013. "Can Minimum Wages Cause a Big Push? Evidence from Indonesia." *Journal of Development Economics* 100, 48-62.

⁵¹ Del Carpio, X., Nguyen, H. and Wang, L.C. 2012. “Does the Minimum Wage Affect Employment? Evidence from the Manufacturing Sector in Indonesia.”

⁵² Del Carpio, X., Nguyen, H. and Wang, L.C. 2012. “Does the Minimum Wage Affect Employment? Evidence from the Manufacturing Sector in Indonesia.”

⁵³ Del Carpio, X., Messina, J. and Sanz-de-Galdeano, A.. 2014. “Minimum Wage: Does It Improve Welfare in Thailand?”

⁵⁴ Suryahadi, A. et al. 2003. "Minimum Wage Policy And Its Impact On Employment In The Urban Formal Sector."

different study found that a 10 per cent increase in minimum wages reduced employment among workers with less than elementary education by 1 per cent, and for workers with an elementary education by 1.47 per cent. In both studies, the negative employment effect on low educated workers was significantly greater than for the population as a whole.

While there is some evidence about the immediate effect of a minimum wage increase on employment, there is less information about the long-term effects of repeated minimum wage increases. For a number of countries in ASEAN, minimum wage increases that exceed inflation are becoming regular, almost predictable. The cumulative impact of these increases, as well as the likely sentiment about their continuation, weigh on business decision-making. However, it is much more difficult for studies to capture, with any degree of rigor, how repeated minimum wage increases affect the location, employment and technology investment decisions made by businesses. Therefore, though it is useful to measure and understand the relationship between one or a few minimum wages increases and employment, this does not capture the entirety of the long-term impacts of these policies in ASEAN.

Key Minimum Wage Challenges for Employers

Though employers face a range of minimum wage challenges, they often relate back to views that the process in many ASEAN countries is being politicized. Sometimes the politicization is symbolic. For example, the most recent minimum wage increase in Laos was announced to take effect on May 1, Labour Day. This sends an implicit message that minimum wages are a gift to workers, instead of a wage set for all social partners based on evidence and equity. In other cases, EBMOs have noted large increases close to election dates. In Indonesia, APINDO noted major minimum wage increases in a number of provinces in 2014, immediately before an election. Some EBMOs have noted that politicization is facilitated by the fact that the government holds the balance of power in tripartite boards, and in some cases such as Myanmar and the Philippines, has a larger share of representation than workers or employers.

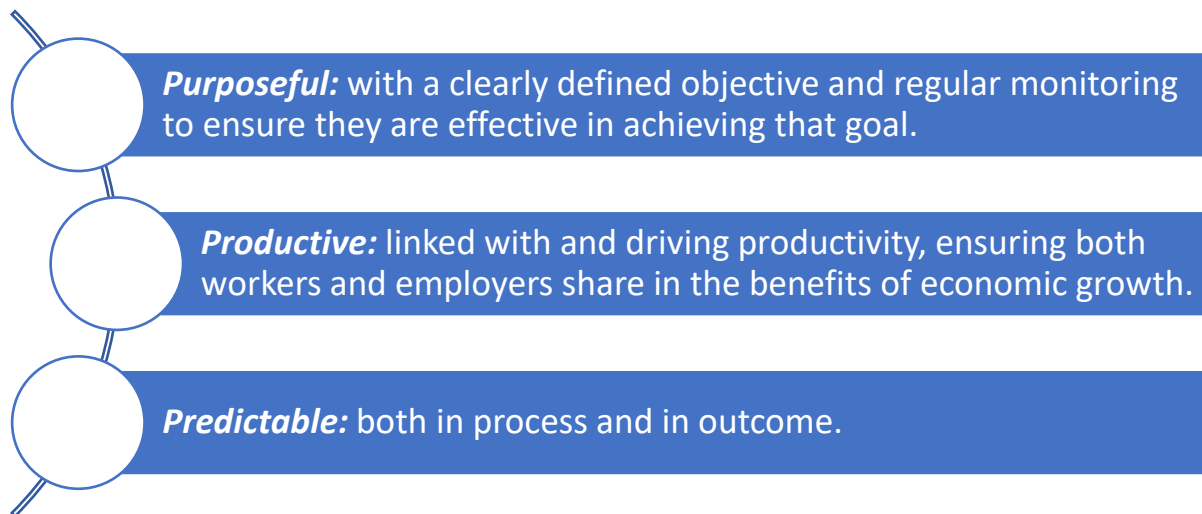
The frequency of minimum wage changes was noted by many EBMOs as a major challenge. This was raised by LNCCI, amongst the smallest EBMOs in ASEAN. They noted that annual increases would be impossible, not only for their members but also logistically for the organization. LNCCI has only five people and they noted that that it is hard for them to participate regularly and fully in minimum wage setting, especially if it happens every year. They stated that they “do not have the capacity to participate at the same level as the Union.” Similarly, ECOP noted the annual updates as the biggest challenge in the Philippines. ECOP noted that they have advocated that MW should be set no more than once every two years, giving employers time to absorb the increase. For employers it is notable that CPI has decreased significantly in most countries in the region in the second half of the 2010s. Employers could begin to emphasize the relative stability of prices when advocating for less frequent minimum wage updates.

Other employment-related costs that are fixed to minimum wages, such as social security or social protection schemes, are another issue for employers. These costs increase incrementally when minimum wages are adjusted, increasing employers costs beyond the increases to a worker’s take-home pay. In Vietnam, for example, VCCI noted large contributions for social security, which is fixed to wages, compounds the challenges associated with growing minimum wages. LNCCI noted the same in the context of Laos, and noted that the increased costs that are fixed to wages, as well as the other costs of formalization, are a large reason why many businesses remain informal.

Lastly, some EBMOs noted that they lack experience and need assistance to explain the broader effects of minimum wages to government and the public. The “optics” of minimum wages are a challenging. They are complex and have wide ranging economic implications. Setting minimum wages that are too high can have unintended though indirect negative consequences. However, connecting these unintended consequences to minimum wages is a challenge, and explaining them to the public is even more difficult. Some EBMOs noted that support from ILO ACTEMP to improve messaging would be useful, helping them explain the negative impacts of minimum wages from the employers’ point of view.

The Three Principles for Minimum Wage Reform in ASEAN

EBMOs in ASEAN identified a number of minimum wage reform needs, which generally fit into three overarching goals of making minimum wages more purposeful, predictable and productive. The first theme, purposeful, can be framed in two key questions: What is the purpose of minimum wages? Is the minimum wage system effective at achieving that purpose? As a policy, minimum wages should have a clearly defined rationale and evaluation should be done to see if help to achieve the stated goals. The second theme is productive: minimum wages should help an economy be more productive, and have a direct link with productivity, ensuring that the benefits of growth are enjoyed by both workers and employers. The final theme, predictability, has a number of components. In some countries, there is still uncertainty about timing and procedures, such as when dialogue will occur or how long they have to adjust to new rates. In other countries, the main source of unpredictability is in the wage rates, which employers argue are not evidence-based. Formulas or other data-based rules and approaches along with process improvements can help improve the minimum wages process in many countries in ASEAN.



Purposeful: Defining and achieving a clear objective for minimum wages

While many countries in ASEAN have outlined a purpose for their minimum wage policies, they vary considerably between country. The stated purpose of minimum wages often makes general reference to the needs of workers, however there are differences in exactly who is targeted and the specific goals. Stated purposes for minimum wages in various ASEAN countries are:

Myanmar: "To meet with the essential needs of the workers, and their families, who are working at the commercial, production and service, agricultural and livestock breeding businesses and with the purpose of increasing the capacity of the workers and for the development of competitiveness."⁵⁵

Cambodia: "it must ensure every worker of a decent standard of living compatible with human dignity"⁵⁶

⁵⁵ Government of the Republic of the Union of Myanmar. 2013. "The Minimum Wages Law," Law No. 7/2013, available at: <http://www.ilo.org/dyn/natlex/docs/ELECTRONIC/90652/114148/F1221961295/MMR90652%20Eng.pdf>

⁵⁶ Government of Cambodia. 1997. "Kram Dated March 13, 1997 on the Labor Law," available at: <https://www.ilo.org/dyn/natlex/docs/ELECTRONIC/46560/89368/F135012943/KHM46560.pdf>

Indonesia: the lowest monthly wage set by a provincial governor as a social safety net to cover the reasonable living costs of a single (unmarried) worker in their jurisdiction⁵⁷ during the first year of work.

Vietnam: “the lowest payment for a worker who performs the simplest work in normal working conditions in order to ensure the minimum living standard of the worker and his/her family, in full consideration of socio-economic conditions.”⁵⁸

There are a number of differences between countries in the stated outcomes towards which minimum wages should contribute. In Cambodia, it is a “decent standard of living” while in Indonesia it is “reasonable living costs” while in Myanmar it is “essential needs”. Some countries, such as Indonesia and Laos, specifically reference the needs of a single worker, whereas Myanmar’s legislation directly references the needs of workers and their families. Cambodia’s legislation says that minimum wages target “every worker” while Myanmar’s law covers only workers in specific sectors.

While the often generic language about purpose may not seem important, it is vital for laying the foundation of an effective minimum wage system. These changes, which may often require the passage or revision of a law, are not easy. EBMOs may decide that in their national context, revisions are not necessary. However, if an opportunity arises, employers could seek to promote a definition of minimum wages that:

- *Considers the outcomes for all workers, including informal sector workers, and not simply wage workers or employees.* This provides a clear basis for incorporating discussions about the informal sector into the minimum wage process. This is relevant, especially as socioeconomic research in ASEAN shows that households with some of the lowest incomes depend on income from the informal economy, not minimum wages. There are also clear links between the formal and informal parts of the labor market. Minimum wage policy affects people in the informal economy, even if they are not a minimum wage earner. This can also forestall attempts by unions to drive minimum wages higher while at the same time unemployment or informal employment are commonplace. However, it is important to note that ILO C.131 makes reference only to “wage earners”.
- *Includes reference to the need for productivity and the continued competitiveness of businesses.* Though often unstated, the need for the continued competitiveness of businesses are essential for labor market stability and the continued viability of jobs. Ideally, language about the purpose of minimum wages should include this as a moderater, for example: “while preserving and building productivity and the competitiveness of the country’s private sector.” This should replace references to ‘employers capacity to pay’.
- *Does not reference ‘employers capacity to pay’.* This phrase has been referenced in various places in regards to minimum wages, often as shorthand for the affordability of minimum wages. However, whether employers can ‘afford’ wages is simply an indirect reference to productivity.

⁵⁷ Based on Article 88-89 of Law 13/2015 & Article 1 (1) of the Regulation of the Minister of Manpower No. 15/2018 on Minimum Wage, Article 41 (1) of Regulation 78/2015. See <http://ditjenpp.kemenkumham.go.id/arsip/terjemahan/44.pdf>

⁵⁸ Government of Viet Nam. 1994. “Labour Code,” Article 91, available at: <https://www.ilo.org/dyn/natlex/docs/WEBTEXT/38229/64933/E94VNM01.htm>

Employers should avoid this language and instead focus on an approach that emphasizes that workers should enjoy a ‘share of productivity’.

- *Makes reference to the minimum wage being a minimum standard*, to ensure that it is not conflated with living wages and does not interfere with collective bargaining.
- *Contributes to an overall policy framework of formalization*, given the noted benefits of formal work, including labor protections and higher productivity levels.

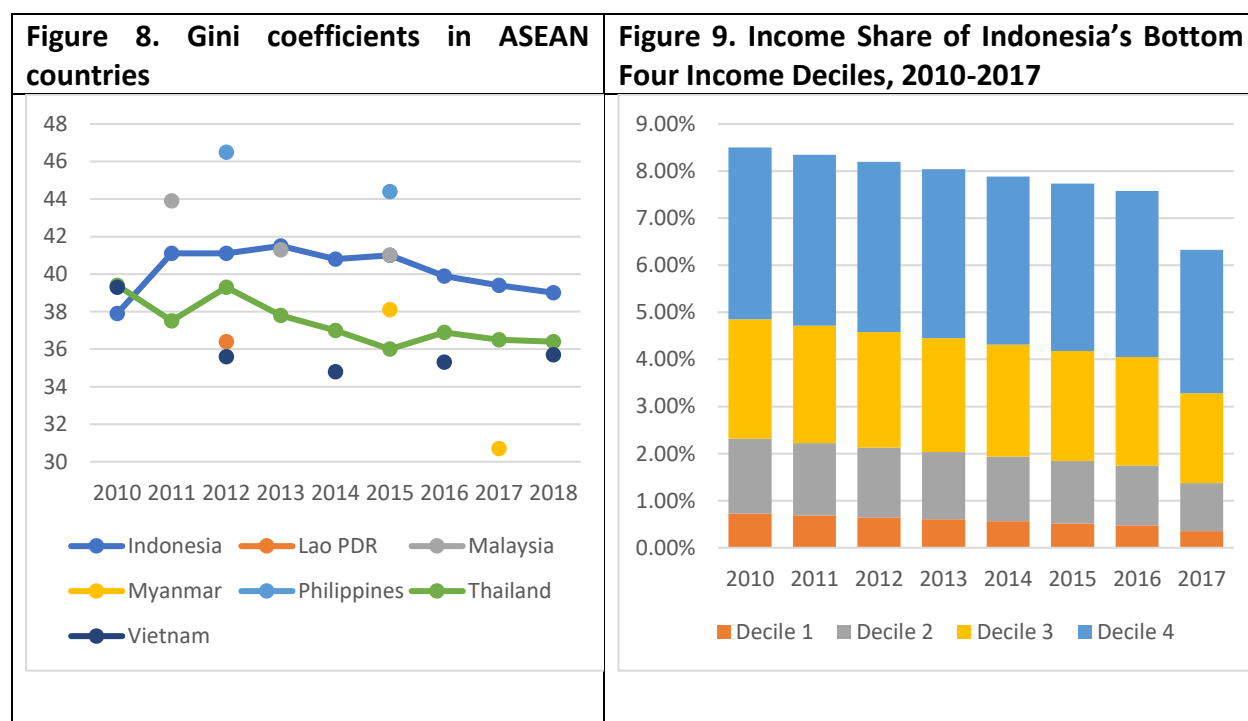
Efforts to define a clear purpose for minimum wages should be complemented by efforts to improve compliance. While outlining a clear purpose for minimum wages is an important step, it is incomplete if little effort is made to ensure compliance. Steps to promote improved compliance should start with education, to ensure workers and employers are fully aware of their legal rights and obligations, as well as improved enforcement. However, they should also include increased regulatory efforts by select government departments.

With a clear purpose and improved enforcement, employers should then encourage evidence-based reviews of whether the minimum wage is effective in achieving this stated objective. For minimum wage systems with a narrow goal of ensuring a basic standard of living for formal sector wage earners, the analysis is straightforward. It can be done simply by looking at whether the minimum wage level provides a certain amount of purchasing power for a well-defined group of workers. However, most countries have broader goals for minimum wages. Often, these goals are framed around helping “workers” and sometimes around reducing poverty. With these objectives, a new set of questions becomes relevant: Who benefits from the minimum wage? What is their income in relation to all workers? How can minimum wages be modified to provide a safety net for those at the bottom end of the income distribution?

Evidence-based reviews could consider whether minimum wages are working as a minimum for the lowest-paying parts of the workforce, or being used broadly in lieu of effective social protections and collective bargaining. One approach to this is to review the “influential rate” – or the share of the workforce whose wages will be directly affected by a minimum wage change. In many countries, the rate is less than 25%. However, in other countries the rate is very high. It can be even higher in sector-specific wages, such as Cambodia’s minimum wage in the garment, textile and footwear sector. Reviewing the influential rate can help to assess whether minimum wage is being used for its stated purpose.

Evidence-based reviews should also cover the relative incomes of minimum wage workers, who in ASEAN are often not amongst the poorest. The limited data available suggests that low income workers overwhelmingly are not wage workers; they are own account workers who do not get the minimum wage. In order to determine whether minimum wages actually help all workers, ASEAN countries could conduct a “decile test”. This test breaks all the households in the country into ten groups, from the lowest income households (Decile 1) to the highest (Decile 10). It then looks at where amongst these income deciles minimum wage earners are concentrated. It could also look at individual incomes only, and compare minimum wage earners to the overall wage distribution. Of course, results will vary by country. However, they will allow social partners to get a clear understanding of whether minimum wages benefit and provide a social safety net for “all workers” or whether the benefits flow to the middle of the income distribution, missing the most vulnerable. Though evidence from ASEAN is limited, it suggests that most households at the bottom of the income distribution do not include minimum wage earners.

While income inequality has fallen in a number of ASEAN countries, it has risen in others, suggesting that minimum wage increases are not always improving inequality. Gini coefficients for ASEAN often show improvements in income inequality, though incomplete data makes it difficult to establish a clear trend in many countries. The region’s best performing country, Myanmar, saw a notable drop in the Gini coefficient from 2015 to 2017. Though the country has increased its minimum wages rate, it has not been amongst the most aggressive minimum wages policies in ASEAN. Indonesia, on the other hand, offers a cautionary tale. No country has increased minimum wages as quickly, yet income decile data shows a notable decline in income share among poorer households.⁵⁹ Notably, households in Indonesia’s poorest decile saw their share of labor income drop by 50 per cent over this period. The lowest six deciles all saw their share of labor income decline, while the top four deciles—Indonesia’s richest 40 per cent of households—saw their income share increase.



Productive: Linking minimum wages and productivity

For employers, productivity is often the most important consideration in minimum wages setting. Productivity is what pays wages. When wages increase, businesses need higher productivity to help generate additional revenue and in turn pay those higher wages. There are a number of different drivers of productivity. It can result from increases in human capital, such as increased education or skills of workers that allows them to perform their job more efficiently. It can result from investments in capital that help workers be more productive. It can result from technological innovation that allows for the more efficient operation of businesses. It can result from improved management processes in practices.

⁵⁹ World Bank. 2016. “Indonesia’s Rising Divide: Why Inequality is Rising, Why it Matters and What can be done,” available at: <http://documents1.worldbank.org/curated/en/267671467991932516/pdf/106070-WP-PUBLIC-Indonesias-Rising-Divide-English.pdf>.

Generally, countries with lower levels of output per worker are able to increase their productivity at a faster rate than more developed economies.

There is strong theoretical underpinning for linking minimum wages to productivity. First, productivity is explicitly mentioned in C.131 as a factor for consideration. It is also noted repeatedly in publications from the ILO that minimum wages should “help ensure a just and equitable share of the fruits of progress to all.”⁶² What are the fruits of progress? While it does not explicitly say, it’s likely referring to economic growth. This is reasonable - workers should benefit when the economy grows. However, the challenge is to determine a “just and equitable share” for workers, while also ensuring that businesses benefit from

Box 1. What is Productivity?

There are many ways to measure productivity, including single-factor measures and multi-factor measures – both of which have advantages and disadvantages. The most common single-factor measure is single-factor labor productivity, which is calculated by dividing total economic output by the number of workers. While easy to calculate, its biggest shortcoming is that it does not include the other factors that drive productivity. This can often lead to confusion or misapplication of this statistic. The OECD, which published one of the key guides on the subject entitled “Measuring Productivity” explicitly noted that this measure is not the same as “the productivity of the individuals in the labour force.”⁶⁰

Multi-factor productivity provides greater detail on the multiple drivers of productivity growth. Multi-factor productivity measures generally include labor, capital and total factor productivity (TFP). TFP is the residual, or the change in outputs that cannot be explained by either changes in labor or capital. TFP can be viewed as growth through “technological innovation and efficiency achieved by enhanced labor skills and capital management.”⁶¹ It reflects the ability to combine the factors of production more efficiently over time. Another approach, called KLEMS multi-factor productivity, measures capital, labor, energy, materials, and services. In both of these approaches, labor is measured as the number of hours worked or the number of workers.

While productivity measures provide useful insights about economic growth, there are limitations on their application to minimum wages setting. Growth in the “labor” input in multi-factor productivity measures changes in quantity, not quality of hours worked. Therefore, it should not have an effect on hourly wages, though of course may change monthly earnings if time worked changes. Some productivity assessments break down the labor input even further, into hours worked and labor quality. Growth in labor quality reflects gradual increases in the share of hours worked by more productive workers, and decline in share of hours worked by less productive workers. This change does have a connection to median and average wages. TFP includes enhanced labor skills and other changes that affected worker productivity, and so does have a connection to wage levels. However, it is difficult to isolate the productivity benefits of enhanced labor skills alone because of other factors included in TFP.

⁶⁰ Organization for Economic Cooperation and Development. 2001. “Measuring Productivity: Measurement of Aggregate and Industry-Level Productivity Growth,” OECD Manual, Paris, France, pg. 14, available at: <https://www.oecd.org/sdd/productivity-stats/2352458.pdf>

⁶¹ Asian Productivity Organization. 2020. “Total Factor Productivity,” available at: https://www.apo-tokyo.org/resources/p_glossary/total-factor-productivity-2/

⁶² International Labour Organization. Undated. “Minimum Wage Policy Guide”.

their capital investments, and that there is a return to technological adoption, which is necessary to continue to incentivize businesses to improve their technological use over time.

While productivity in ASEAN has grown in the last decade, minimum wages in most countries have grown much more quickly. Four ASEAN countries (Vietnam, Indonesia, Cambodia and Laos) experience nominal minimum wages growth of 150 per cent or more. However, when using single-factor labor productivity, no country in the region experienced 100 per cent growth over the same time period (see Figure 2 for average output per worker growth figures in ASEAN over the last decade). This does not necessarily mean that minimum wages level at present are not appropriate – only that they have grown more quickly in the last decade than has output per worker. The next section, on approaches to minimum wage setting, offers some concrete ideas on how to incorporate productivity into minimum wages setting.

Predictable: The Process of Minimum Wages

The predictability of minimum wage processes can be improved in many ways, benefitting not only employers but all tripartite partners. Enhanced clarity of minimum wage setting and implementation is a useful step – for example the change to fixing wages per hour worked instead of day or month, making them more clearly implementable for part time workers. This section focuses on two specific ways that the minimum wages setting process can be more predictable. First, social partners can agree and abide by a set frequency for wage reviews, and establishing a clear timeline for the minimum wage setting process. Second, they can define the criteria that will be considered in the wage setting process. Agreeing on the types of data to be considered is also helpful, though further agreement on the data source to be used is even more beneficial. This can prevent disagreements between parties about which data set should be considered. These types of process improvements not only help the wage setting process to move more smoothly, but also help to ensure that outcomes will be more predictable. This can help employers' weather minimum wage changes without disruption, while also giving certainty to workers and contributing to increased compliance.

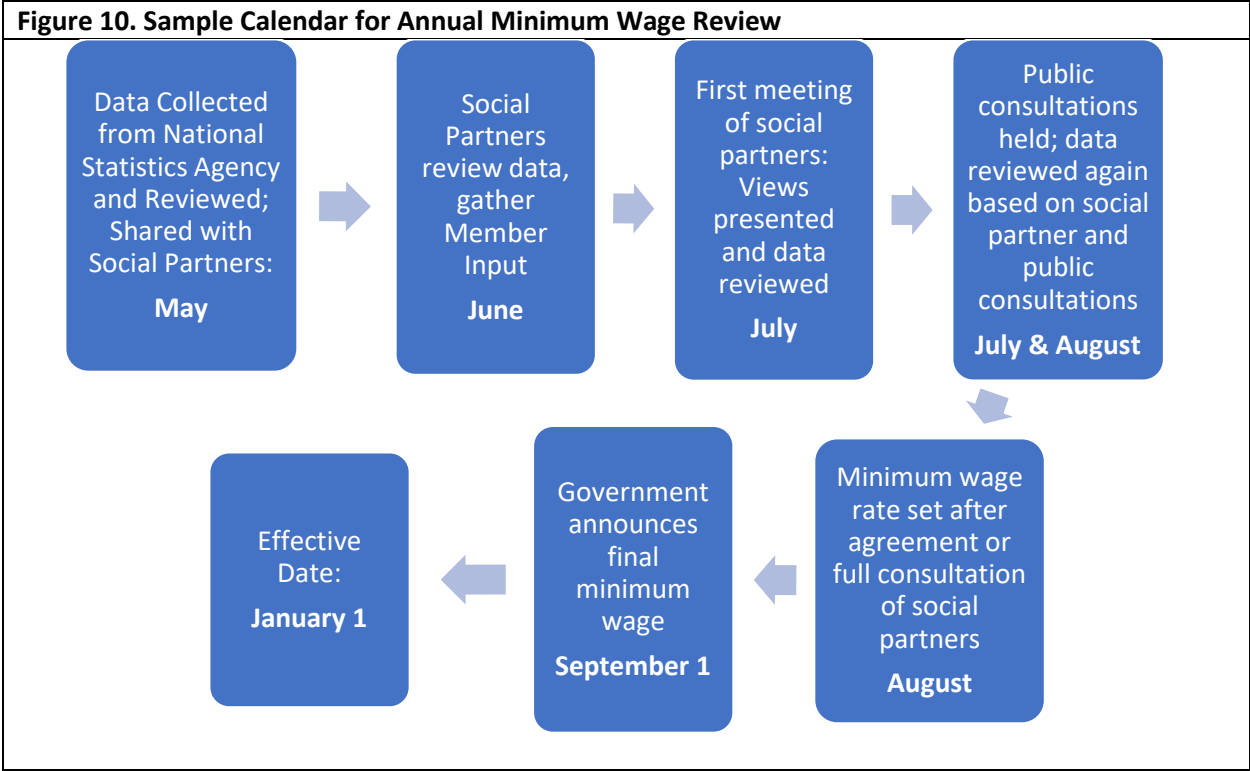
Fixing the Frequency and Timeline for Wage Setting

Employers should advocate for minimum wages to be reviewed at a regular frequency. Reviewing minimum wages at set intervals gives employers certainty about when to expect a minimum wage change, even if the amount of change is not yet certain. It can also help reduce the chances that minimum wage setting is used for political purposes. For example, it will limit the chances of an increase in wages just before an election, in hopes of gaining votes. However, minimum wage increases that happen according to a fixed schedule may present challenges for employers if increases are significant but not evidence-based. Therefore, it is preferable that a schedule for wage increases is used alongside clear criteria or a formula for wage setting.

While a set frequency is desirable, it does not mean that wages must be reviewed every year. A number of ASEAN countries already review wages at a set frequency, with the most common interval being one year. However, the length of time between minimum wage setting processes does not have to be one year. Some countries may struggle with setting wages this often, think it is not appropriate in the context, or think they are not yet able to review wages that often. Small countries, such as Laos, may prefer to revise wages less frequently, as tripartite partners have relatively smaller numbers of staff who have a wide range of responsibilities. They may be unable to adequately review minimum wages on an annual

basis due, unlike larger countries who can dedicate more staff time to minimum wages setting. Similarly, countries that are new to minimum wages setting (such as Myanmar) may also choose to set wages less frequently. As tripartite partners become more familiar with the wage setting process, the frequency of revisions could then be increased. EBMOs should make recommendations about how often wages are set based on the local context, though should aim for a range of one review every one to three years.

Each minimum wage setting process has many steps, which should follow a timeline that is realistic, mutually agreed, clear and encoded in regulations. Governments should make every effort to ensure that the timeline for minimum wage setting remains the same for each review. The process should start with the collection and sharing of key data, such as CPI, unemployment, and productivity. Some of the more important pieces of data in the wage setting process, such as CPI and output, should be available from national statistical agencies for the entire previous year by April or May. After data is reviewed and shared, tripartite partners should hold a first meeting, where initial views are presented. This could be followed by public consultation and further reviews by tripartite partners. The government should aim to finalize and publicly announce the wage in advance of its effective date. This gives employers a chance to price minimum wage changes into future orders, prepare HR for the transition, and ensure they have the funds available to pay the new wage rates. Advance notice reduces disruptions for businesses while also helping to increase compliance.



Following a timeline in the minimum wage process has many benefits, despite employers incentive to see the process drawn out. A clear timeline can help workers and employers’ organizations prepare for their participation in the wage setting process. With a set schedule, employers and workers know exactly when their inputs into the MW process will be needed, and can prepare accordingly. This will help the process to move efficiently, and ensure that negotiations and data do not become dated because of a

slow process. This was noted by the LFTU, which stated that the slow wage setting process in 2016/17 led to data and negotiations becoming dated and a result that was, in their view, not as appropriate when it was finally launched. An LFTU representative noted that a process of between one to three months would be preferable. However, employers also have a clear incentive to see minimum wage changes proceed slowly, since reviews almost always lead to increases and therefore higher costs for employers. However, the benefits of a predictable process may outweigh any gains from short, intermittent delays.

The Criteria for Wage Setting

Setting clear criteria for the minimum wage setting process can significantly improve its predictability.

The criteria should broadly mirror ILO C.131, including both the needs of workers and their families as well as economic circumstances. They should align with the purpose of minimum wages that is outlined in the national context. A number of countries in ASEAN have already given general criteria to be considered in the minimum wage process, which is a useful step. However, it would be more beneficial if general criteria can be translated into specific, measurable and contextually relevant metrics.

Having specific and measurable criteria for wage setting, instead of general areas as often identified in international standards and national laws, can prevent disagreement and minimize opportunistic data use by social partners. To do this, social partners need to review key factors and then clearly outline what information they will use for each general principle. Often, there is more than one relevant type of data to review under a single general principle. For example, the general principle about attaining a high level of employment could include data on unemployment, underemployment and informal employment, which are all relevant. Taking this step helps to make data central to the minimum wage setting process.

The next step beyond setting criteria is to identify and agree on the specific data sources that will be considered in the minimum wage setting process. Why is this beneficial? It can help to reduce ambiguity and disagreements during the wage setting process. Employers and workers would likely adopt and advocate for the data source that is more favorable to their interests in any given year. However, agreeing on the source that will be used before the process begins can eliminate an area of potential disagreement. This could help tripartite partners focus on analyzing the data, not fighting about which data to use. Table 3 below presents a sample of what this might look like. It contains a list of general principles (based on Convention 131), specific criteria that fall under the general principle, and then an exact data source for that criteria. EBMOs could take this example and adapt it to increase its relevance and accuracy in a particular country context.

Official government data should be used whenever possible, though data from other impartial sources may also be helpful. Official data is often available from a national statistical agency. All countries in ASEAN have national statistics agencies that collect economic data, including important data for minimum wage setting, such as change in living costs. Data should be sourced from national statistical agencies whenever possible and given precedence in discussions. All data should be equally available to all members of the tripartite discussions, and ideally to the general public as well. However, some social partners have noted that some key data is not always readily available from national statistics agency – this was noted by employers in Laos, who said the CPI data was incomplete and not sufficient for the wage setting process.

Table 3. Defining Clear Criteria for Minimum Wage Setting		
General Principle	Specific Criteria	Exact Data Source
The Needs of Workers and Their Families		
General level of wages	Median wages	Labor Force Survey
	Average wages	ILOSTAT Database, SDG Indicator 8.5.1
	Informal and formal sector wages	Labor Force Survey
	Minimum wages in key competitor countries	ILOSTAT Database, “Statutory Nominal Gross Monthly Minimum Wage (local currency)”
	Kaitz index	Derivative: Minimum wages/median wages
The cost of living	Consumer price index	World Bank Data, “Inflation, consumer prices (per cent annual)”
	Dependency ratio	World Bank Data, “Age dependency ratio (per cent of working age population)”
Social security benefits	Value of cash transfer programs	
	Value of government education, health and other benefits	
	Costs to employers of social security benefits	
Relative living standards of other groups	Share of minimum wage workers by decile	Labor Force Survey
Economic Factors		
Requirements of economic development	Number of business exits	Economic Census
	Foreign direct investment data	World Bank Data, “Foreign direct investment, net inflows (BoP, current \$US)”
	Trade data	World Bank Data, “Imports of goods and services, constant LCU” & World Bank Data, “Exports of goods and services, constant LCU”
	Capital to the private sector	World Bank Data, “Domestic credit to private sector (per cent of GDP)”
	Doing Business Indicators	Doing Business Rankings
Levels of productivity	Output per worker	ILOSTAT, “SDG indicator 8.2.1 - Annual growth rate of output per worker (GDP constant 2010 US \$)”
A high level of employment	Unemployment Rate	ILOSTAT, “SDG indicator 8.5.2 - Unemployment rate”
	Underemployment Rate	ILOSTAT, “Time-related underemployment by sex and age -- ILO modelled estimates”
	Share of non-agricultural workers in formal sector employment	ILOSTAT, “SDG indicator 8.3.1 - Proportion of informal employment in non-agricultural employment”
<p><i>Notes: all sources listed are from international organizations. National statistics agencies may have many of the same types of data available, however this varies from country to country.</i></p> <p><i>Key sources: International Labour Organization, ILOSTAT, available at: https://ilostat.ilo.org/data/; World Bank Data, available at: https://data.worldbank.org/; Doing Business data, available at: https://www.doingbusiness.org/en/rankings</i></p>		

Box 2. Where can key data be found?

Having timely access to reliable data is vital for all parties in the minimum wages setting process. National statistics agencies in ASEAN should be the first place that governments and social partners look for relevant data. The collection of data that supports minimum wage setting is specifically called for by the ILO which notes that “periodical surveys of national economic conditions should be carried out ... to the extent that national resources permit, and the frequency of such surveys should be determined in the light of national conditions.”⁶³

Table 4. List of National Statistics Agencies in ASEAN

Cambodia	National Institute of Statistics	http://nis.gov.kh/index.php/en/
Indonesia	Statistics Indonesia	https://www.bps.go.id/
Lao PDR	Lao Statistics Bureau	https://www.lsb.gov.la/
Malaysia	Department of Statistics Malaysia	https://www.dosm.gov.my/v1_/
Myanmar	Central Statistical Organization	https://www.csostat.gov.mm/
Philippines	Philippine Statistics Authority	http://www.psa.gov.ph/
Thailand	National Statistics Office	http://www.nso.go.th/sites/2014en
Vietnam	General Statistical Office of Vietnam	https://www.gso.gov.vn/

The most recent minimum wage setting process in Laos illustrates the challenges that come from using other types of data. Though the Ministry of Labor and Social Welfare has traditionally collected cost of living data for minimum wage setting, in the most recent process the MLSW asked the LFTU to collect the data. While some guidance was given about data collection, there are many subjective aspects that can affect the final figures. For example, the LFTU may look at a higher quality of meat during collection of price data, whereas employers may look at a lower quality – leading to different results. The result, according to the MLSW, was that there was a “a lot of arguing” during the minimum wage setting and some accusations of bias towards the trade union. Regardless of the data quality, the fact that it was collected by a party that had a representative role in the wage-setting process naturally undermines faith in the data quality. Instead of using data collected by a party to the minimum wages process, the MLSW could instead consider using CPI data from the Lao Statistics Bureau, which is publicly available and regularly updated.

⁶³ International Labour Organization. 2014. “Minimum Wage Systems,” International Labour Conference, 103rd Session, pg. 134, available at: https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_235287.pdf.

Turning Principles into Practice: Five Approaches to Guide Minimum Wage Setting

This section presents five approaches for which EBMOs can advocate to improve and provide structure for the setting of minimum wage levels. Drawing on the above principles of a purposeful, productive and predictable wage, this section provides detailed examples of how EBMOs can operationalize these principles. They build on the process improvements recommended in the last section but focus on sound technical approaches primarily aimed at influencing wage levels. These approaches are not the only ones available to employers, but instead examples that employers can adopt.

The five approaches use formulas and rules to help build an evidence-based framework that guides wage setting. The five approaches are not mutually exclusive. Multiple approaches can be used together. They range from fairly loose rules that allow significant room for negotiation to rigid formulas that closely link results to data. One approach may fit better in one national context, while a different approach could be more appealing in another. In this section, we review the five approaches, explaining each and discussing the pros and cons.

Three of the five approaches involve the use of formulas to guide minimum wage setting, which can help improve the process if designed well but also have a number of drawbacks. Formulas are appealing to employers for their predictability and technical rigor. Their use makes it clear to all parties which factors affect minimum wage rates. However, there are also a range of challenges associated with formulas. Poorly crafted formulas can lead to significant long run issues. Overly-rigid formulas can limit flexibility in crises, a point that the recent COVID-19 pandemic brings to the fore. Formulas generally struggle to capture the many complex real-world factors that influence the labor market. They can, for example, run into challenges such as the lack of data or delays in data releases, or simply not be able to incorporate the broad range of variables that affect labor markets. The ILO recognizes this and notes that it is not unusual to see “the application of a formula is made conditional on a number of situations” and that formulas are often used in complement to social dialogue.⁶⁴

Approach 1: Establish Rules to Guide the Level of Minimum Wages

A clear set of rules can help provide a flexible framework for minimum wage levels. Instead of a formula, which uses data to produce an exact level for minimum wages, rules simply provide some limitations on minimum wages. This can include limits on the level as well as limits on the speed at which wages can change. Within the bounds of these rules, tripartite partners still have flexibility to negotiate. They can still consider a wide range of other criteria in the wage setting process. However, they provide all parties a level of predictability because they limit the potential size of minimum wage changes.

The sample rules below provide examples though should be adapted at the national level, based on local conditions. Example rules that countries may wish to consider adopting include:

- **Minimum wages should not be set lower than the national poverty line.** Poverty lines are established by competent statistical authorities after careful study about the basic needs of individuals. They are based on the cost of necessities such as food, housing and shelter. Minimum

⁶⁴ International Labour Organization. Undated. “Minimum Wage Policy Guide.”

wage rates below this level may not meet the stated purpose of minimum wages in many countries, which is to provide a basic but decent standard of living.

- **Minimum wages should not be set higher than a country's median wage.** Median wages, or the wage that separates the higher half and lower half of wage earners, are often used to

measure relative wages. In developed countries, minimum wages often fall between 40 per cent to 60 per cent of median wages. However, minimum wage levels that are above the median wage are very likely to indicate that the labour force is bifurcated: a comparatively well-off group of formal workers but also a large group of less well-off informal workers.

- **Minimum wages should not increase by more than a certain amount in a single adjustment.** While the relationship between employment and increases in minimum wages generally shows small effects with modest increases, larger increases in minimum wages can have exponentially greater consequences. This is because employment elasticities are not constant, and tend to grow with larger minimum wage increases. A limit on the amount which minimum wages can change in a single year helps reduce significant one-time increases, and their potential consequences.
- **Minimum wages should not grow more quickly than the sum of the change in CPI and change in labour productivity.** This rule, similar in function to the rule above, limits the size of an annual minimum wage increase.

ADVANTAGES:

- Can help shape the final wage rates, not just the size of wage increases
- Not overly rigid
- Leaves room for social dialogue

DISADVANTAGES:

- May not have a significant practical effect

Approach 2: The CPI and Productivity Formula

A formula incorporating two important components, change in cost of living and productivity growth, is a sound technical approach to adjusting minimum wages that are at reasonable levels. *This formula is not designed to assess whether the existing minimum wages are appropriate. Instead it is meant to guide future changes to minimum wages that are at a reasonable level.* However, in this context, the formula is appealing for a number of reasons. First, it explicitly includes cost of living, which in practice in ASEAN is the most important consideration in the wage setting process. It is unlikely that minimum wages setting will be viewed as legitimate if this factor is not included. Second, it includes productivity, which employers repeatedly cite as the most important factor to them. Third, because it focuses on just two factors it is simple. A complex formula may, if perfectly implemented, better mirror the real world. However, complex formulas require more data, are more difficult to use, and are more open to political interference. A simple formula is beneficial partly because it improves predictability and transparency.

Box 3. The CPI and Productivity Formula

The core formula for setting minimum wages using CPI and productivity is:

$$MW_{t+1} = MW_t + \Delta CPI_{t-1} + (a) * \Delta OPW_{t-1}$$

Where MW = minimum wage, CPI = consumer price index, OPC = output per worker, and t = the time period (so t+1 is the year after, while t-1 is the year before).

Cost of living changes are a core component in this formula, and can be measured using the Consumer price index (CPI). The cost of living is explicitly mentioned in C.131. It is also regularly regarded by employers as the baseline for minimum wage changes. This approach is reasonable, as increasing the minimum wage by the same amount that the cost of living has changed simply keeps workers on an even plane – their real wages are no more or less than they were the last time the minimum wage was set. The CPI is the most appropriate tool for measuring cost of living changes because it is constructed from a broad

and representative basket of consumer goods. The CPI generally comes from the country’s national statistical agency, is overseen by competent technical experts and supported by field data collection.

ADVANTAGES:

- Rigid, which can increase predictability
- Relies on commonly available data

DISADVANTAGES:

- Only addresses rate of change, and therefore is not useful in assessing whether the final wage level is appropriate
- Use of the “output per worker” is not ideal
- Eliminates scope for some social dialogue
- Negotiation of coefficient could present challenges

Growth in output per worker is the other major component of the formula. While output per worker is not an ideal productivity measure, it is both relevant nationally while also easily measured. A better measure is “output per hours worked” though this may not be available for all ASEAN countries. Employers overwhelmingly noted that productivity growth helped them afford wage increases, and that there was a very close relationship between the capacity to pay and productivity. Incorporating productivity in the formula allows workers to share in the benefits of growth while aligning minimum wage increases with increases in the employers ability to pay. Notably, the formula is designed so that minimum wages increased by a portion of overall growth in output per worker, not 100 per cent, given that some share of growth will also flow to capital.

Box 4. Indonesia: Case Study of an Inappropriate Formula

While minimum wages formulas can provide transparency about how wages are set, poorly designed formulas can result in inappropriate minimum wages. While there are numerous examples of this, the case of Indonesia demonstrates some of the challenges associated with formulas. Until October 2020, Indonesia used the following formula for minimum wages setting:

$$MW_{t+1} = MW_t + (MW_t * (Inflation_t + \Delta GDP_t))$$

In the formula, MW = minimum wages, ΔGDP = change in gross domestic product and t is the time period, which in Indonesia is one year. Three aspects of the formula merit attention.

First, Indonesia’s formula is simple and does not incorporate a wide range of information relevant to minimum wages setting. C.131 outlines a wide range of factors that are to be considered during minimum wages setting. The Indonesian formula explicitly contains one of these, which is the change in consumer prices. It also contains GDP growth, which has an indirect relationship with other factors noted in C.131, notably productivity and employment. However, it is only somewhat useful in its representation of these factors. Other factors, such as the relative level of wages, social security

provisions and requirements of economic development, are not incorporated. While this approach is simple, it may not always be able to account for other economic changes.

Second, the minimum wages formula overlays a geographical system of wages, but does not account for the differing economic trajectories of Indonesia's diverse provinces. Over time, some provinces grow faster than others. This could be due to geography, wise policy choices, good governance, or a host of other factors. However, the formula simply takes national changes in consumer prices and GDP, and applies that to all provinces. There is not a clear mechanism to adjust minimum wage growth based on provincial circumstances. Over time, the relative value of minimum wages between provinces will need to adjust to account for these differing economic trajectories, however this formula fails to provide a tool for this to happen.

Third, the formula fails to fix minimum wage increases to per capita GDP growth, introducing a key long-run vulnerability. The current formula fixes minimum wages simply to GDP growth. However, GDP growth can be driven by existing members of the labor force as well as new entrants to the labor force. This will result in minimum wage growth that is inappropriately high, because the formula fails to consider the impact of labor force growth.

A simplified example illustrates this issue: Country J has an economy with two people, each of which produce \$5 of output in their first year of work. So, the total GDP of J's economy is \$10. It also has a minimum wage of \$5. After the first year, output per worker and overall GDP grows 10 per cent, so the new GDP is \$11. Using the formula, and assuming no growth in consumer prices, the new minimum wage would be \$5.50. However, in year two, a new person enters the economy, increasing the number of workers to three. The existing two people in the economy grow their GDP again by 10 per cent, so they produce \$6.05 of output each. However the new person also contributes output worth \$5.50. This results in a new GDP of \$17.60, for an annualized growth rate of 60 per cent. However, because the minimum wages formula does not account for the new labor market entrant, it calculates the new minimum wage as $\$5.50 + (\$5.50 * 0.6)$, resulting in a new minimum wage of \$8.80. However, this minimum wage rate is higher than the output of any of the three workers, and not possible in the economic context. This formula issue illustrates in dramatic fashion a long-run problem with Indonesia's formula – it's failure to account for labor force growth.

Box 5. Hypothetical Minimum Wages using a CPI and Productivity Formula

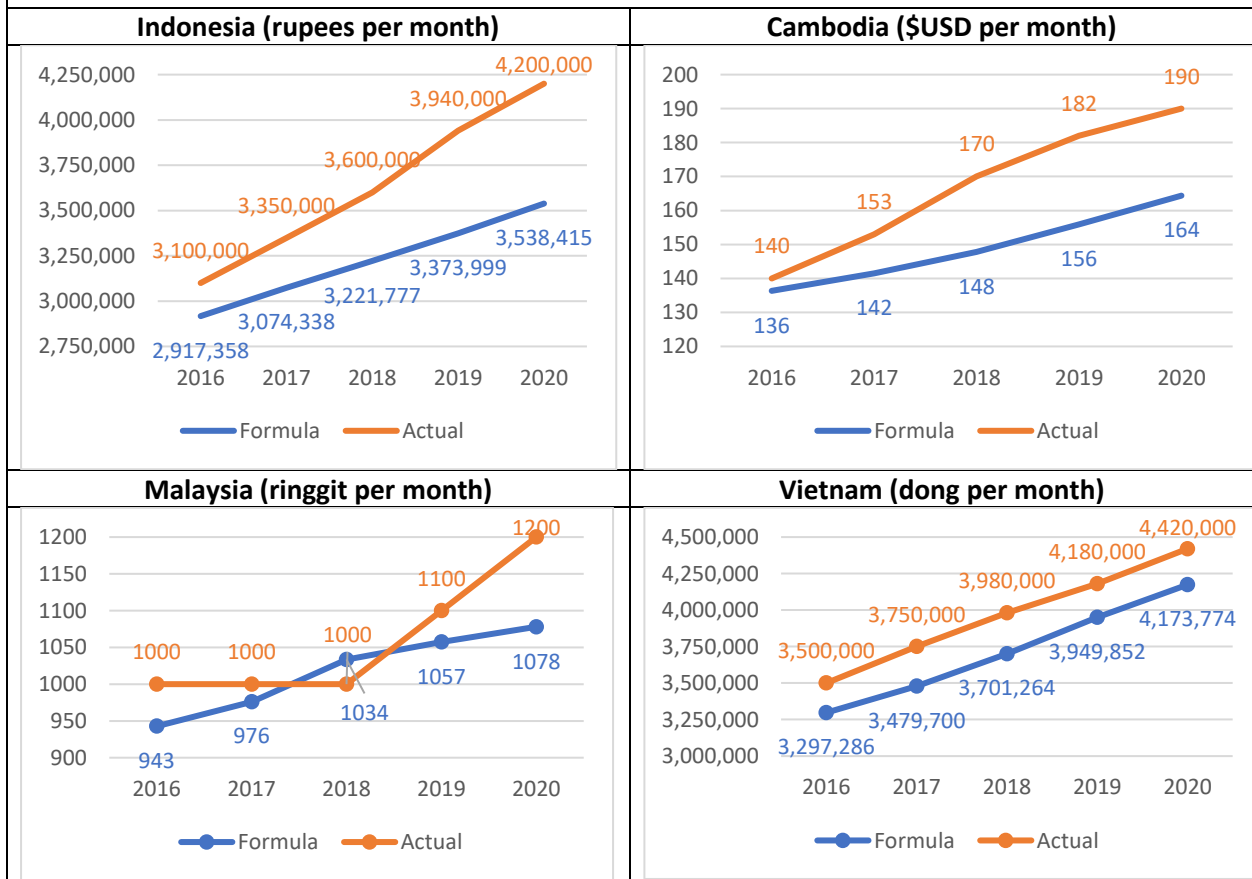
What would have happened if, in 2015, each country in ASEAN with a minimum wage had decided to adopt our formula-based approach, which fixes the new minimum wages to the most recent changes in CPI and output per worker? Assuming no other changes in the economy and a coefficient of 0.5 for productivity gains (e.g. minimum wages increase by half of the annual growth in output per worker) the hypothetical formula would be:

$$MW_{t+1} = MW_t + \Delta CPI_{t-1} + (0.5) * \Delta OPW_{t-1}$$

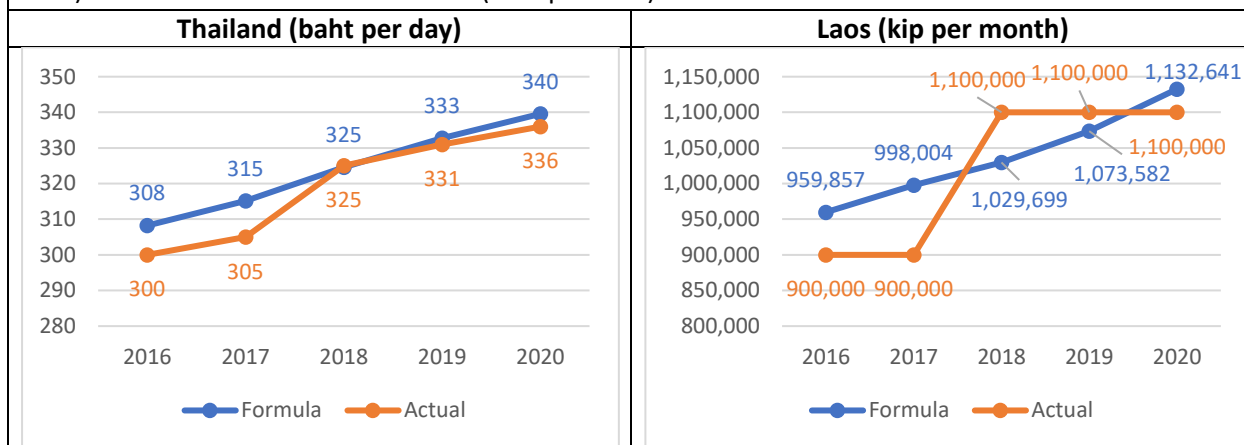
We can read this formula as: "The minimum wage next year equals the minimum wage this year plus the per cent change in the consumer price index last year plus half of the per cent change in output per worker last year."

Using historical data, we compare what would have happened using the formula versus what actually happened in eight ASEAN countries. Overall, the results were similar, with actual minimum wages increasing by an average of 33.3 per cent since 2015, as compared to increases of 30.3 per cent using the hypothetical formula. Amongst the eight ASEAN countries, four would have had a higher minimum wage using the formula, while the other four had a higher actual minimum wage. *However, the overall figure masks significant variation between countries.*

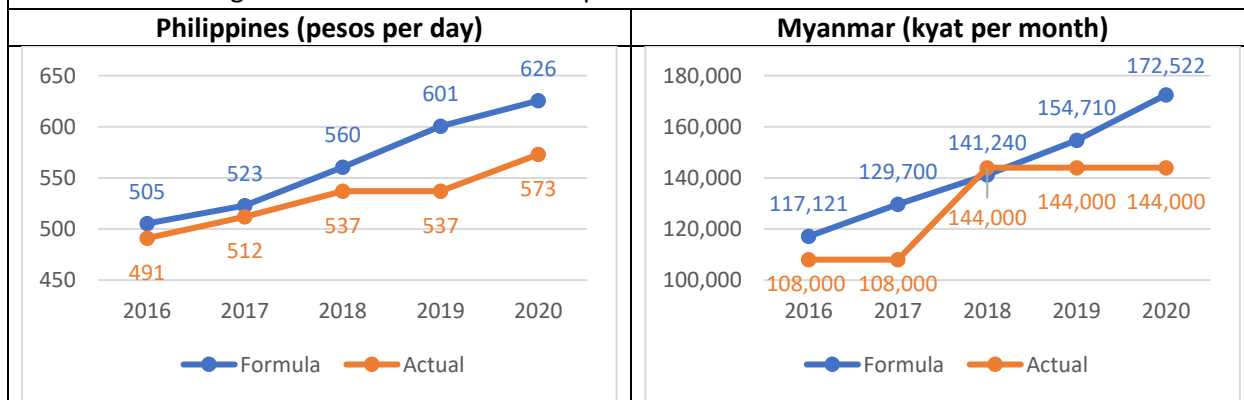
Some countries, most notably Cambodia and Indonesia, would have had a significantly lower minimum wage in 2020 using the hypothetical formula. In Indonesia, actual minimum wage increases were 55.6 per cent, compared to 31.1 per cent using the formula. In Cambodia minimum wages increases were 48.4 per cent compared with 28.4 per cent using the hypothetical formula. Notably, in Cambodia and Indonesia there is a consistent and growing divergence between the actual rate and formula, which is not evident in other countries. Indonesia’s recent history is particularly problematic for employers: minimum wages there have increased by more than 100 per cent of the growth in output per worker. EBMOs from these two countries were amongst the most vocal about the challenges associated with minimum wages increases, and saw the highest share of businesses citing “wage hikes” as a key challenge. The other countries whose actual minimum wage increases were higher than the hypothetical formula were Malaysia (actual increases of 33.3 per cent versus 19.8 per cent under the formula) and Vietnam (actual increases of 42.6 per cent versus 34.6 per cent using the formula).



Two other countries, Thailand and Laos, experienced actual minimum wage increases that very closely mirrored the hypothetical levels of our formula. In Thailand, actual minimum wage growth (12 per cent) was slightly lower than the formula (13.2 per cent). In Laos, actual minimum wage growth (22.2 per cent) was also lower than the formula (25.9 per cent).



In Myanmar and the Philippines, the actual minimum wages increased less quickly than they would have using the hypothetical formula. Myanmar has the most significant divergence between the actual which have increased by 33.3 per cent, and the rates derived using the hypothetical formula, which would have increased 59.7 per cent. Part of the explanation for this divergence may be because of the COVID-19 related delays in the country’s 2020 minimum wages review. In the Philippines, actual minimum wages increased by 19.1 per cent, as compared to a formula which would have produced increases of 30 per cent. This was driven by above-average growth in output per worker, combined with below-average increases in the consumer price index.



Notes: Numerous countries including the Philippines, Indonesia, Malaysia and Vietnam have multiple wage rates, based on geography, sector, or both. We select the highest applicable rate for this analysis, because in each country it reflects the minimum wage rate in the largest business city (or cities) in the country. The analysis reviews changes over time, but does not provide insights about whether the wage rate during any given time period is suitable. These simplified models do not mean that other factors, as enumerated in C.131, should not be examined in a national context. The coefficient chosen for this example, 0.5, is used for illustrative purposes only and may or may not be appropriate in a national context.

Approach 3: Establish a Relationship between Minimum Wages to Other Wage Levels

A second formula-based approach to minimum wages is to fix them to a measure of overall wages in the economy. This approach is most suitable where employers believe the current minimum wage is not

aligned with (e.g. high compared to) the overall wage distribution. The approach is directly supported by ILO C.131, which explicitly mentions the “general level of wages in the country” as an areas for consideration in minimum wages setting. This type of formula has been adopted by other countries, such as the United Kingdom, which presently fixes minimum wages to 60% median wages. This goal was established a number of years ago, however the UK implemented the change over time, to avoid a large immediate increase in minimum wages and the accompanying risks to businesses and employment.

Using median wages as the reference set is the preferred approach to relative minimum wages setting.

Median wages record the salary at the midpoint of the income distribution. This is preferable to using average wages, which are skewed higher because a few very large incomes can often significantly affect the overall average income, and potentially suggest minimum wage levels that are not reasonable. The formula for fixing minimum to median wages is simple:

$$MW_{t+1} = (a) * medW_t$$

Where MW is the minimum wage, medW is the median wage, and a is a coefficient which defines the percentage of median wages where the minimum wage is fixed. So, if the country chooses to set the minimum wages at 55 per cent of the median, the coefficient would be 0.55.

This approach to minimum wages setting has a number of distinct advantages, most notably through creating a close connection to productivity. Amongst the positive aspects of this approach are:

1. *It provides a direct link to productivity.* Wages and productivity are highly correlated, so much so that economists use wages as a way to measure productivity. A formula linking minimum wages to median wages therefore also creates a clear link to productivity, through its close connection to median wages.
2. *It eliminates the need to try to define difficult concepts, such as ‘needs’ or a ‘living wage’.* Discussions about these terms can be highly subjective, leading to significant disagreement.
3. *It ensures that minimum wages are always aligned with the overall distribution of wages.* This gives employers room to ensure higher-skilled workers receive the appropriate wage premium.

ADVANTAGES:

- Simple and easy to explain
- Includes informal sector
- Assesses whether the wage level is appropriate (not focused just on the rate of change)
- Links to productivity (because of the relationship between wages and productivity)
- Redefines ‘fair’ as relative to other wages, not arbitrary criteria or employer’s capacity to pay

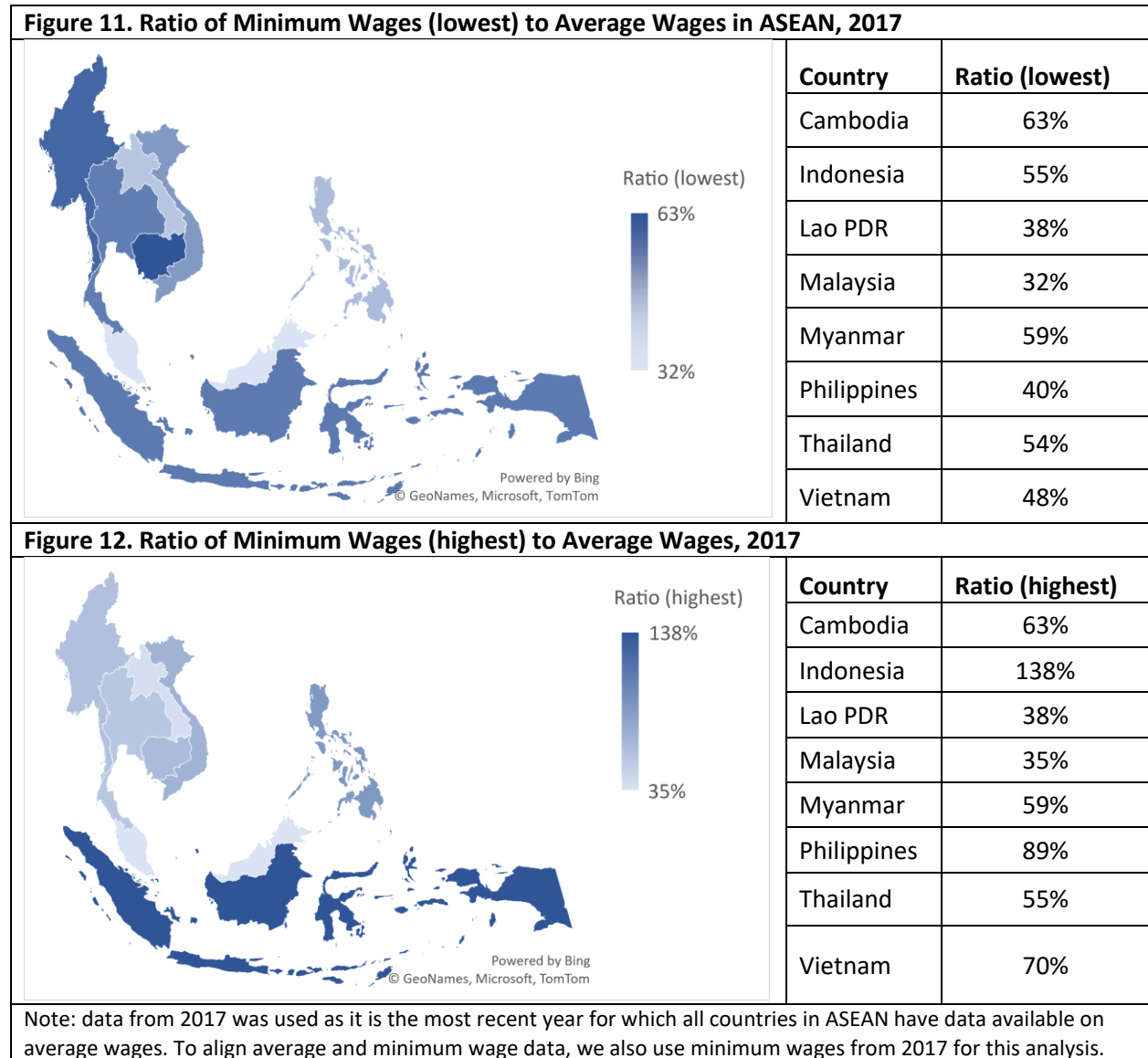
DISADVANTAGES:

- Annual data not available in all countries

Though the statistical agencies of many countries have the data available to calculate median wages and make this approach to wage

setting possible, it is generally not publicly released. Median wage data is available from labor force surveys, which most countries in ASEAN have completed in the last three years. EBMOs should work with

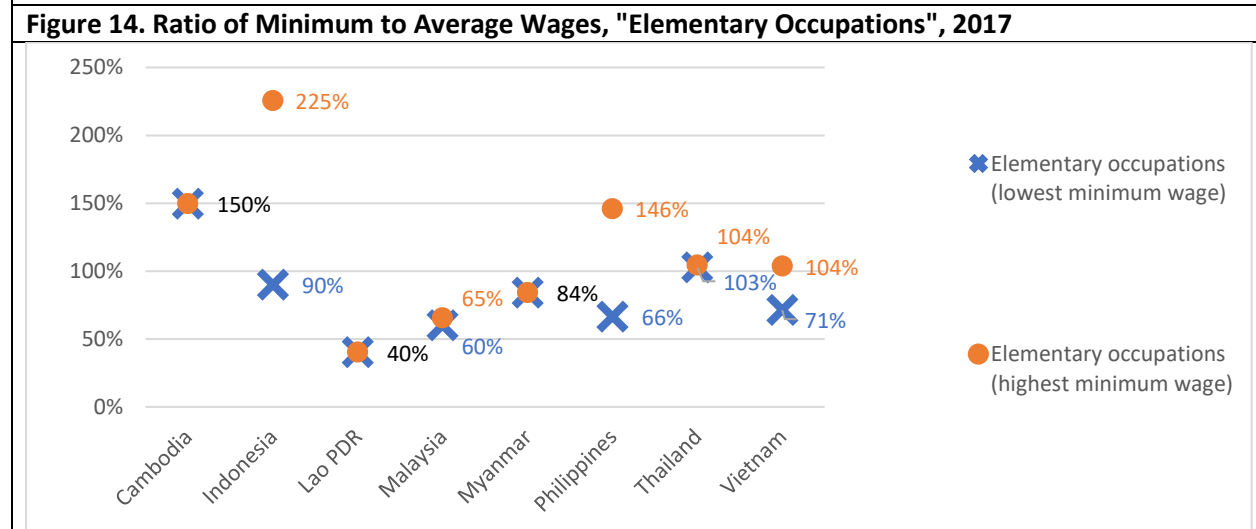
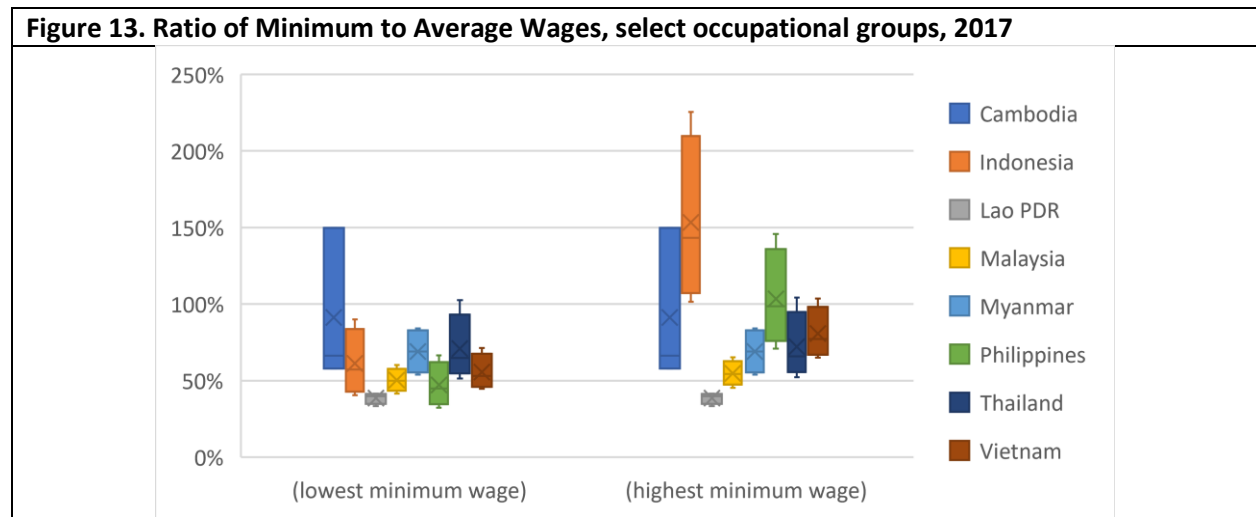
their respective labor ministries and statistical agencies to obtain this data if they hope to further review this approach to wage setting.



Comparing minimum to average wages, which are publicly available but less than ideal, shows that some ASEAN countries have set minimum wages at much higher relative levels than others. When comparing to the lowest minimum wage in each country, the ratio of minimum to average wage varies from 32 per cent in Malaysia to 63 per cent in Cambodia. However, when comparing to the highest minimum wage in each country, variation is greater. In Malaysia, it is 35 per cent however in Indonesia it is 138 per cent. A minimum wage level set higher than an average wage level, as we see in Indonesia, is a warning signal and merits significantly more investigation about whether the wage level is appropriate. Similarly, in the Philippines the highest minimum wage is 89 per cent of the average national wage, still a very high ratio. Any country where minimum wages exceed 50 per cent of average wages should begin investigating the wage distribution more thoroughly. Because these average wages are often heavily

influenced by a small group of higher, we investigate wages more deeply by removing these high-earning groups and focusing on occupational groups where the minimum wage is more relevant.

In lower income occupational groups, the ratio of minimum wages to average wages is higher, and in some cases suggests problems in minimum wage levels. Amongst the lower income occupational groups considered are clerical support workers, service and sales workers, plant and machine operators and assemblers, and elementary occupations. The last of these, which is most close to unskilled labor, has the lowest average incomes in all but one country in ASEAN. The data again shows that higher minimum wage rates in Indonesia, Philippines and Cambodia are above average wages for some groups. This again raises questions about low coverage levels, poorly set wages, or poor compliance.



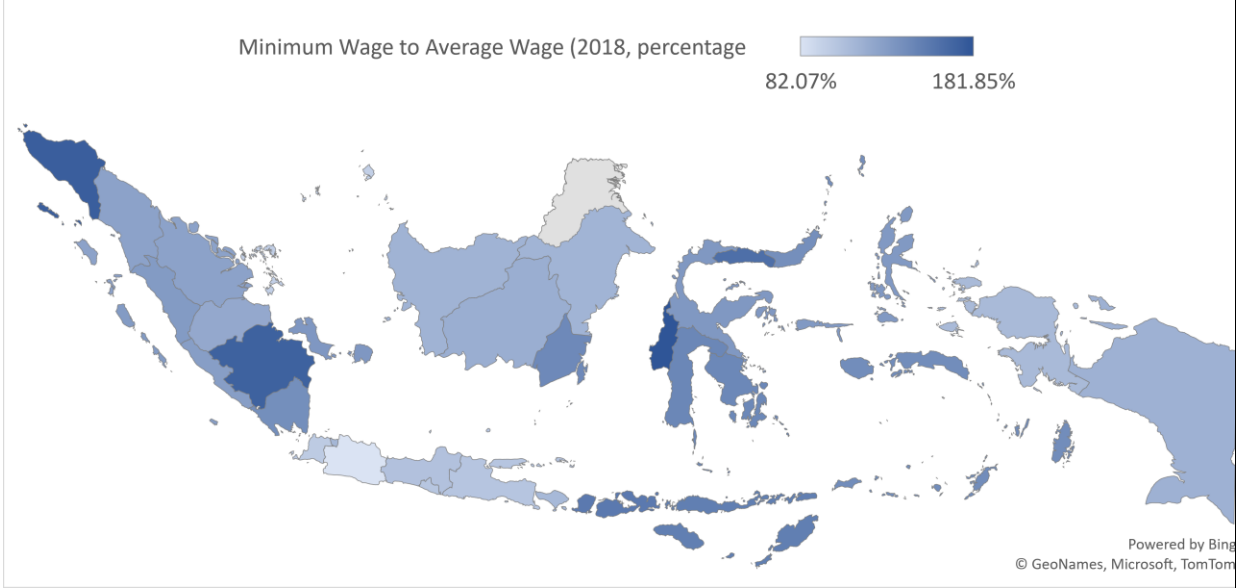
Many countries state that the purpose of minimum wages is to help the most vulnerable group of workers, yet data about the average wages of workers in “elementary occupations” suggests they may cover only a small share of these workers. While a number of countries have ratios of minimum to average wages that are not immediately alarming, countries with ratios over 100 per cent should raise questions. In Cambodia, the result is likely not very meaningful because it probably covers very few workers. The garment sector, which is the only sector where Cambodia’s minimum wage is applicable,

has only a small share of its workforce in this occupational group (with most being classified as “plant and machine operators and assemblers”). In Indonesia, however, the range from 90 per cent to 225 per cent raises significant questions. Using a population-weighted minimum wage of 1,808,097⁶⁵ rupiah per month, the data shows that minimum wages are still significantly higher than the *average* wage for elementary occupations, which in 2017 was 1,486,430 rupiah per month. The minimum wage remains 21 per cent higher than the average, suggesting a significant share of “elementary workers” are not benefitting from minimum wages. Philippines, Thailand and Vietnam also have many regional minimum wage levels above average wages for this group of workers, suggesting that more detailed analysis is needed.

Box 6. Indonesia’s Minimum Wages and Informal Employees

Minimum wages setting should consider a range of factors, including the general level of wages and the relative living standard of other social groups. In Indonesia, many workers are engaged in the informal sector, which must be considered to fully capture the general level of wages and living standards of all groups. However, a province-level analysis shows a major disconnect between the formal and informal sectors.

Using informal income and minimum wage data from 2018, we find that all but three of Indonesia’s provinces set minimum wages higher than the *average wage* in the informal sector. This is a major contributor behind Indonesia’s persistently large informal sector. The costs of formality are significantly higher, deterring formal sector job creation and relegating the bulk of Indonesia’s workers to the lower-paying informal sector. If the income data is normally distributed, a rough estimate suggests that *95 per cent of informal employees in Indonesia’s Aceh and Sulawesi Barat make less than the minimum wage*. This raises major questions about whether Indonesia’s minimum wage achieves its stated purpose or aligns with international standards which require consideration of other groups in minimum wages setting.



⁶⁵ The population-weighted minimum wage takes the minimum wage from each province, and weights it based on the share of the country’s overall population. Since the average income data comes from a representative national sample, this approach allows for a more accurate comparison of the minimum and average wages.

	Average wage, informal (2018)	Minimum wage (2018)	Minimum Wage to Average Informal Wage (2018, percentage)
Sulawesi Barat	1,206,201	2,127,157	181.85%
Aceh	1,547,604	2,099,385	175.61%
Sumatera Selatan	1,501,799	1,888,741	172.86%
Gorontalo	1,348,609	2,206,813	163.64%
Nusa Tenggara Barat	1,168,359	3,648,035	156.20%
Nusa Tenggara Timur	1,088,654	2,243,718	152.48%
Sulawesi Selatan	1,804,007	1,544,360	146.77%
Sulawesi Tenggara	1,489,794	1,486,065	146.13%
Kalimantan Selatan	1,691,582	1,508,894	145.11%
Maluku	1,558,987	2,046,900	142.54%
Lampung	1,468,371	2,454,671	141.29%
Sulawesi Utara	1,999,295	2,421,305	141.26%
Kepulauan Bangka Belitung	2,037,486	2,543,331	135.24%
Sulawesi Tengah	1,458,321	2,755,443	134.76%
Maluku Utara	1,735,731	2,563,875	133.71%
Sumatera Barat	1,594,744	2,074,673	132.88%
Bengkulu	1,447,690	2,222,220	130.47%
Riau	1,928,436	2,320,803	127.78%
Sumatera Utara	1,673,701	2,717,750	127.39%
Jambi	1,821,541	2,559,903	123.18%
Kalimantan Tengah	2,031,525	1,825,000	119.19%
Papua	2,472,904	1,660,000	117.10%
Kalimantan Barat	1,764,395	2,895,650	116.01%
Kalimantan Utara	2,226,340	2,667,000	114.98%
DKI Jakarta	3,222,666	2,464,154	113.20%
Bali	1,905,095	2,193,530	111.66%
Papua Barat	2,405,351	2,647,767	110.88%
Jawa Tengah	1,407,657	1,965,232	105.57%
Jawa Timur	1,467,091	2,177,052	102.85%
DI Yogyakarta	1,415,677	2,824,286	102.72%
Kalimantan Timur	2,476,219	2,119,067	102.71%
Banten	2,121,536	2,595,995	98.96%
Kepulauan Riau	2,676,592	2,132,188	95.79%
Jawa Barat	1,881,809	1,454,154	82.07%

Sources: Average income data from Statistics Indonesia, "Average of Net Income Per Month of Informal Employee by Province and Educational Attainment (rupiahs), 2018," available at: https://www.bps.go.id/indikator/indikator/view_data_pub/0000/api_pub/74/da_03/2. Minimum wages data from wageindicator.org, <https://wageindicator.org/salary/minimum-wage/indonesia/archive-before-2019/minimum-wages-in-indonesia-with-effect-from-01-01-2018-to-31-12-2018>

Box 7. Hypothetical Minimum Wages using a CPI and Average Wages

Setting minimum wages as a share of median or average wages provides another tool to assess wage levels, with some similar findings but also some notable divergence. Most notably, Indonesia's minimum wages are again the highest in ASEAN when compared to average wages. However, the comparison with average wages also finds that Myanmar's minimum wages are comparatively high. This could be due to a lack of high-income earners whose absence fails to pull up overall average wages.

Both Malaysia and Laos appear to have actual minimum wages that are low compared to the country's average wages. However, the findings for Malaysia should be taken with significant caution, given that it is a more developed country where average wages are likely significantly skewed due to many middle- and high-income earners. For Malaysia especially, using average wages as a comparator for minimum wages would not be appropriate in the minimum wages setting process. Laos is the other country where the actual minimum wage is low compared to the average wages. However, *it is vital to stress that median wages are more appropriate for use in this type of wage setting.*

Table 5. Minimum Wage Projections based on 50 per cent of average wages

Country	Year	Average Wage (monthly)	Projected Minimum Wage (50% of average)	Difference between projected and actual minimum wage (variable years)	
				Lowest MW	Highest MW
Cambodia	2017	957,890	478,945	-21%	-21%
Indonesia	2019	2,595,717	1,297,859	-17%	-67%
Lao PDR	2017	2,354,377	1,177,189	31%	31%
Malaysia	2018	3,087	1,544	68%	54%
Myanmar	2019	209,712	104,856	-27%	-27%
Philippines	2019	14,693	7,347	20%	-37%
Thailand	2019	15,200	7,600	-6%	-12%
Vietnam	2019	6,656,730	3,328,365	14%	-20%

Approach 4: Use Formulas as the Basis for Minimum Wage Setting

While the predictability of using a formula in minimum wages setting is appealing, some EBMOs may find the approach too rigid. This is a common and valid critique of formulas. Some EBMOs note that a formula does not leave enough room for negotiation. Others note that it can be difficult to capture the wide range of factors affecting minimum wages into a simple formula. However, there can be a role for formulas to assist in the process of minimum wages setting, even without allowing them to be the sole and binding guide of minimum wage levels.

One flexible approach to using a formula is to have it serve as the basis for tripartite negotiation. In this approach, a formula that includes changes in CPI and output per worker (or other factors) could be used to produce a suggested new minimum wage. Using this figure as a starting point, tripartite partners could then engage in dialogue, negotiation and public consultation to assess whether there are any other factors that should affect the final wage rate. These adjustments could then be made, and a final wage rate issued. However, using this approach, the initial rate that is yielded from the formula is not binding, but instead subject to tripartite negotiation.

ADVANTAGES:

- Similar to other formula approaches
- Leaves room for social dialogue

DISADVANTAGES:

- Similar to other formula approaches
- Multiple formulas that provide a broad range as the basis for negotiation may yield little practical benefit

Another flexible approach is to develop a formula system that produces a range within which the minimum wage could fall, not a single figure. Using this approach, formulas could produce an upper bound and lower bound minimum wages. For example, the proposed formula that used CPI and productivity in Approach 2 could be modified so that it produces an upper-bound minimum wage and a lower-bound minimum wage. In this example, the upper bound minimum wage is calculated by increasing the minimum wage by

60 per cent of the growth in output per worker, while the lower bound by 30 per cent. The formula system would be as follows:

$$UMW_{t+1} = MW_t + \Delta CPI_{t-1} + (0.3) * \Delta OPW_{t-1}$$
$$LMW_{t+1} = MW_t + \Delta CPI_{t-1} + (0.6) * \Delta OPW_{t-1}$$

After upper-bound and lower-bound rates are determined, tripartite negotiation could take place to determine the final wage rate.

Approach 5: Use Triggers to Incorporate Exceptional Circumstances into Formulas

Simple formulas could be complemented by “triggers” for other economic factors, allowing them to be included only when certain criteria are met. A trigger is an approach that allows for other factors to be included only when they reach a certain level. If the factor surpasses that level, a one-time addition to the formula is incorporated.

The rationale for “triggers” is to allow other factors to influence the minimum wage in serious situations, while providing some protection against their regular or politicized use in every minimum wage setting process. This reduces unpredictability for employers, as these factors are only incorporated into the minimum wage rate in more extreme scenarios. If these factors were simply to be included in the minimum wage formula like CPI and productivity, it would likely lead to more difficult minimum wage negotiations and increase the likelihood that other factors would be used in a politically-motivated way.

Triggers should be designed with due consideration to national circumstances, and could resemble the following examples:

- Unemployment – Adjustments to the minimum wage should be made when unemployment increases/decreases 0.5 per cent or more in the previous period, or 0.8 per cent in the last two periods.
- Informal employment – Adjustments to the minimum wage should be made when informal employment decreases/increases 1 per cent or more in the previous period.
- Business exits – Negative adjustments to the minimum wage should be made when business exits increase 25 per cent or more above their rolling three/five-year average.⁶⁶

⁶⁶ This data may not be available for all countries. An example of this type of data is provided by the OECD, available at: <https://stats.oecd.org/index.aspx?queryid=70734>

- Median wages – Adjustments to the minimum wages should be made when minimum wages fall outside the range of 40-60 per cent of median wages.
- Informal sector wage discount – if the discount rate for informal sector median wages is below a certain percentage of formal sector median wages, minimum wages should be decreased.
- Social protection changes – modifications to social security benefits which increase benefits for working families by a certain percentage should result in a negative adjustment to minimum wages.
- Competitiveness – significant falls in exchange rates (+-15 per cent), Doing Business Indicators (increase/decrease of 10 or more in rankings), etc. should trigger minimum wage adjustments.
- Changes in capital available to the private sector – Businesses require financial capital in order to invest in productivity-enhancing capital. Significant changes in capital available to the private sector should trigger additional adjustments to the minimum wages.

Triggers could also be used to require emergency meetings or guide emergency adjustments to minimum wages in times of crisis. Many countries have had special meetings to discuss the implications of the COVID-19 pandemic on minimum wages, including many in ASEAN. Triggers could be adopted as a tool to ensure that meetings and/or revisions are undertaken in extreme circumstances, such as those seen recently because of the COVID-19 pandemic.

ADVANTAGES:

- Reduces opportunities for political interference
- Allows a wide range of data to be considered in a rigid minimum wage setting process

DISADVANTAGES:

- Primarily for use with rate of change formulas (option 2)
- Not useful to assess whether the final wage rate is appropriate

Other Minimum Wage-Related Strategies for EBMOs

To complement process changes and the formula and rule-based approaches for setting wage levels, there are a few other strategies that employers can utilize to help address minimum wage challenges.

These strategies are focused in a few areas: mitigating the effects on certain businesses, finding other avenues to create wage differentiation, engaging in awareness raising efforts, building EBMO data resources, and building EBMO analytical capacity.

Employers could advocate for new measures, targeting at-risk workers and businesses, to reduce the negative effects experienced during minimum wage increases. Micro, small and informal businesses are often more affected by minimum wage than medium, large and formal businesses. To help these micro, small and informal businesses adjust to higher minimum wage levels, the government could offer programs designed to reduce its effect. Programs could include:

- An access to capital program, potentially delivered through MFIs, that specifically funds micro, small and informal businesses to invest in new, productivity-enhancing technology. Loans should be of a suitable duration to allow businesses to repay. It could include participation criteria such as having formal employees. It could also include a requirement that informal enterprises register, creating an incentive for taking some steps towards formalizing.
- An incentive program for micro and small employers to retain low paid or low skilled workers, who are often at higher risk of losing their jobs from a minimum wage increase than other workers. For example, the government could offer a waiver of certain taxes, such as skills fund contributions or social security, for a period of time. It could do this only for workers who make less than the new minimum wage, ensuring that it is targeted at low-wage workers who are more at risk of redundancy.
- Phased implementation of the new minimum wage for micro and small businesses. With this approach, these businesses would be allowed to raise wages more slowly, giving them time to adjust. This could be offered to businesses with certain conditions, such as a guarantee that no workers are made redundant if the phased implementation is approved.

To maximize their effect, transition programs should vary in size, based on needs and the size of the minimum wage increase. Large proposed increases should be accompanied by additional efforts to help micro, small and informal businesses through the transition.

Employers should also review other tools to better segregate wages, including promoting collective bargaining and considering separate wage increments for exporters. Though employers are generally reluctant to engage in collective bargaining, its low penetration rates in ASEAN are not unrelated to the pressure workers place on government for higher minimum wages. Efforts to engage in bargaining, often met with failure, have been replaced by efforts to achieve similar outcomes through minimum wage legislation. Employers, especially in high wage countries such as Indonesia and Cambodia, may want to reconsider whether the revitalization of bargaining could give them more control of the trajectory of wage increases.

Especially in countries where there are large wage gaps between local employers and employers in global value chains, EBMOs should consider new tools to segregate these groups. In some countries in ASEAN, such as Myanmar and Cambodia, minimum wages in practice are heavily focused on the foreign-

invested garment sector. They serve, in part, as a tool to set wages amongst foreign businesses in labor market that might otherwise see notably lower average wages.

One approach to differentiating businesses that are integrated into global value chains is to encourage the adoption of trade agreements with labor-related provisions. The most direct example of this is the recent US Mexico Canada Agreement (USMCA), which requires a certain percentage of the value of vehicles produced in Mexico to be made by workers earning at least \$16 an hour. The requirement, which will be phased in, could encourage higher wages in Mexico, or alternatively require Mexican producers to import components produced in the US or Canada.⁶⁷ The CPTPP, the post-US successor to the Trans-Pacific Partnership, also includes labor-related provisions. It requires members to reaffirm their obligations as members of the ILO to upholding the fundamental principles and rights at work. It also notes that “each party shall adopt and maintain statutes and regulations, and practices thereunder, governing acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health.”⁶⁸ It further requires countries to not weaken worker protections, or fail to enforce them “in a manner affecting trade or investment.”⁶⁹ While developing a separate legal framework or compliance regime for trade-related employers may be objectionable to some, it also serves as a fairly useful tool to segregate the business sector according to capacities to pay, and potentially freeing up minimum wages policy to become more focused on domestic-oriented and micro and small businesses.

EBMOs can develop and implement new data collection tools to improve their labor market insights. At present, important data at most EBMOs is fragmented across business functions, underutilized, and poorly managed. Few EBMOs have explicit policies recognizing data as an asset and many lack systems and procedures to ensure its appropriate stewardship. However, more effective use of data can lead to better business intelligence, analysis-based decision-making, and real time information about operations and labor markets. This can enable EBMOs to improve their strategic and tactical decisions, provide meaningful insights and intelligence to members, and ultimately to have more influence over policy outcomes. EBMOs can achieve this through new data collection, and improvement management and use of existing data.

EBMOs could consider tracking employment levels and wage data amongst members, and use this data to inform views on minimum wages. Many EBMOs already have data on member employment levels, if this is used to determine membership level. Similarly, some EBMOs collect wage data through surveys or membership tools. Both of these types of data could help shed insights on the long-range trajectory of members, and especially if there are any effects that can be attributed to changes in the minimum wage. It could be especially useful in highlighting whether particular sectors or types of employers are most affected, and whether employers take any mitigation steps. These insights could be complemented by member surveys when EBMOs are shaping views and advocacy on minimum wages, however surveys are

⁶⁷ Caporal, J. and Reinsch, W.A. 2018. “From NAFTA to USMCA: What’s New and What’s Next?” Center for Strategic and International Studies, available at: <https://www.csis.org/analysis/nafta-usmca-whats-new-and-whats-next>

⁶⁸ Comprehensive and Progressive Agreement for Trans-Pacific Partnership. 2018. Available at: <https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpp/index.aspx?lang=eng>

⁶⁹ Department of Foreign Affairs and Trade. “CPTPP outcomes: Labour,” available at: <https://www.dfat.gov.au/trade/agreements/in-force/cptpp/outcomes-documents/Pages/cptpp-outcomes-labour>

often viewed by other members in the minimum wage process as opinionated. Though it is important for employers to share views, this perspective can limit the usefulness of employer-provided data.

To take advantage of this data, EBMOs should increase data analysis and improve analytical capacity.

This can include either enhancing in-house resources or developing strategic partnerships with independent research institutes or universities. Through this new capacity, EBMOs should seek to increase their analysis of both their own data as well as the macroeconomic data relevant to minimum wages. They can also identify and implement specific studies that can further build their understanding of minimum wages, such as an investigate of the compliance rate and drivers of noncompliance.