Minimum wages can be a key policy tool to promote inclusive and sustainable growth

Economic growth over the past decades has not translated into higher worker remuneration in the relatively richer Asia-Pacific nations, says the Survey, advocating the need for a minimum wage policy and asserting that it is also good for employers and the economy.

Fears of mandatory minimum wages leading to job losses, inflation and lowering of economic growth appear to lack empirical basis, ESCAP analysis shows. Indeed, the Survey estimates that the recent minimum wage adjustments in Thailand would boost job growth in the country by up to 0.6 of a percentage point by 2015 while increasing GDP growth 0.7 per cent more than what it would otherwise have been.

“A minimum wage policy boosts workers’ income and improves long-term job prospects without adversely affecting businesses if it is carefully designed along with supportive adjustment measures,” says the Survey, noting that minimum wage growth in the region has lagged behind rising GDP per capita over the past decades, especially in the relatively economically developed nations of South-East, South and South-West Asia.

Real wages in the region grew annually at an estimated average 5.2 per cent during 2008-2011 against average Asia-Pacific GDP growth of 6.8 per cent over the same period. However, if wage increases in China are not taken into account, real wage growth in the region declined annually by 0.3 per cent over these years.

It is difficult for workers in some countries in the region to meet basic daily necessities, including health care from current minimum wage levels. Bangladesh, India, Kyrgyzstan, Myanmar, Sri Lanka, Tajikistan and Uzbekistan have monthly minimum wages well below $100.

However, governments across the region have begun using minimum wages not only to protect vulnerable workers and stimulate domestic demand but increasingly as an integral element of a policy to improve income distribution and to promote industrial restructuring towards higher value added output and economic diversification to maintain international competitiveness.

Since the beginning of last year, more than 20 Asia-Pacific countries have either raised minimum wages or introduced these for the first time, with Malaysia setting up a national minimum wage in January 2013, at RM900 ($290) per month for Peninsular Malaysia and RM800 ($260) for Sabah and Sarawak. Thailand’s new daily minimum wage of THB300 ($10) took effect nationwide in January this year after more than a decade during which minimum wages were outpaced by inflation.

An ESCAP macroeconomic simulation exercise reveals that Thailand’s minimum wage rise is unlikely to lead to significant job losses. The Survey cites data from the country’s National Statistical Office which show that unemployment declined marginally since the introduction of the THB300 daily wage in six provinces in April 2012 ahead of the national implementation in January 2013.

The Survey urges care in formulating a minimum wage policy to avoid potential harmful impacts. Thus, China regularly reviews and revises minimum wages every few years to ensure against drastic changes and to minimize their short-term economic adjustment impact. Likewise, the Thai Government announced several policy support measure along with the minimum wage hike such as tax allowances and reducing employers’ social security contributions.