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Minimum Wage Comparison: Asian Countries Minimum Wage Fixing

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Paycheck India a research initiative at Indian Institute of Management Ahmedabad is part of [WageIndicator](#), an organization that collects and shares data about wages, labour law and career in more than 80 countries. Paycheck India aims to bring transparency in the labour market by providing salary predictions for 1600 occupations in India through its Salary Checker. It also provides regular updates on state wise minimum wages in India, living wage calculation, labour laws and career advice.

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conditions data. This report is made by the Indian Regional Office of WageIndicator Foundation and Indian Institute of Management Ahmedabad.

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Executive summary

For countries which have a minimum wage, the minimum wage fixing system differs according to objectives and criteria, machinery and procedures, coverage, and subsequent adjustment as well as the operation and enforcement of rules established. In many countries, a tripartite committee sets minimum wages or commission comprised of representatives from workers, employers, and the government, while in others they are set by executive decree or legislative actions.

This report is a part of a series of reports, which will cover various aspects of minimum wage in Asian countries like, Official Representation of Minimum Wages, Minimum Wage Fixation, Legal Compliance and Minimum Wage Rate Comparison. For the comparative analysis of minimum wage representation in Asian countries, we have considered only those, which are under the Wage Indicator project¹. These countries are:

- Cambodia
- China
- India
- Indonesia
- Pakistan
- Sri Lanka
- Vietnam

The previous report² on Minimum Wage Comparison, gives a brief on Minimum Wages and how the Minimum wage Legislation differs from one country to another. The focus remains on the above mentioned Asian countries. The paper also checks the extent and reality of minimum wages in these countries and which occupational groups they apply to. The paper ends with a discussion on the official representation of minimum wages in the chosen Asian countries.

¹ For details on Wage Indicator Project visit www.wageindicator.org

² For more information please refer to "*Minimum Wage Comparison: Asian Countries. Official Representation of Minimum Wages*" available at <http://www.wageindicator.org/main/documents/publicationslist/publications-2012/120627Minimum%20Wage%20Comparison_Aasian%20Countries_Representation.pdf>

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1. Introduction

Minimum wages are a simple mechanism of the wage floor that is applicable to all wage earners that ensures that they get a minimum level of wage protection³. But this is not as simple as it is presented. The reasons for this complexity can be found in the foundations of the minimum wage systems, i.e., minimum wage fixing procedures and criteria.

As per ILO, by the late 2000s, 90 per cent of 151 countries had applied a statutory minimum wage. Almost all countries in Asia⁴ have statutory minimum wage, but their definition defers from country to country. Most Asian countries have multiple minimum wage rates, with the exception of few countries like Korea and Thailand that have a single minimum wage rate. These multiple minimum wage rates complicate the fixing procedures and criteria. (Klaveren, 2015, pp. 11-15)

Minimum wages are set to address the issue of income inequality. In some nations statutory minimum wage affects the national wage policy. For example in Indonesia and Thailand, with most large groups or formal private sector workers, the minimum wages have replaced effective wages. In India, minimum wage sets the floor for large informal sector (92%), which is non-unionized (Varkkey, 2015, pp. 120-138). Hence it is important to have a sound procedure for minimum wage fixing, as they are important in determining labour wages through spill over effect. (Klaveren, 2015, pp. 11-15)

This report explores the minimum wage fixing procedures and criteria in 7 Asian countries; viz., Cambodia, China, India, Indonesia, Pakistan, Sri Lanka and Vietnam.

³ For more information on Minimum Wage meaning and definition check "*Minimum Wage Comparison: Asian Countries. Official Representation of Minimum Wages*" available at http://www.wageindicator.org/main/documents/publicationslist/publications-2012/120627Minimum%20Wage%20Comparison_Aasian%20Countries_Representation.pdf

⁴ Asia comprises of the countries in the Asian continent including Saudi Arabia, Uzbekistan, Russia, India, Japan, Turkey, etc.

2. Evolution of Minimum Wage Regulation in Asian Countries⁵

1.1 Background

The evolution of minimum wage systems in Asian countries is very different from the developed regions of the world. In Asia there are still a few countries where minimum wage regulation does not exist (Macau, Brunei, Bahrain, United Arab Emirates) (Herman & Samet, 2000). In the countries where it does exist, minimum wage is restricted to a limited number of workers. Countries with common colonial history had a general tendency to follow already established models, which resulted in a uniform pattern of minimum wage regulation. It was observed that Asian countries, particularly those under British colonial authority, introduced minimum wage regulations during and immediately after the Second World War (1939-1945) (Starr, 1981).⁶

Among the countries studied, Sri Lanka was the first to establish the system for minimum wage regulation for “*sweated trades*” under the Wages Board of Ordinances of 1941 and in many ways its resemblance can be traced to British system of Wage Councils⁷. In India, immediately after independence from the British rule in 1947, the Minimum Wages Act (1948) was passed which also followed the pattern of Britain’s minimum wage fixing protocols (i.e., minimum wage fixing by industry). Pakistan introduced minimum wage regulation in 1957, but in spite of its colonial background it is substantially different from the British system, with responsibility for decisions assigned to centralized boards. Of the 7 focus countries of this study, China Labour Law in 1994 specified the requirement to implement minimum wage, but enforcement was tightened only by 2004 (Huang, Loungani and Wang, 2014). The timeline for the selected countries is given in Fig 2.1 (below).

⁵Gerald Starr, *Minimum Wage Fixing: An International Review of Practices and Problems* (Geneva: International Labour Office, 1981; second printing with corrections, 1993), pp. 11-12.

⁶ Sri Lanka (1941), India (1948) and Pakistan (1957)

⁷ It was a statutory body empowered to fix minimum wages. It was abolished in 1994.

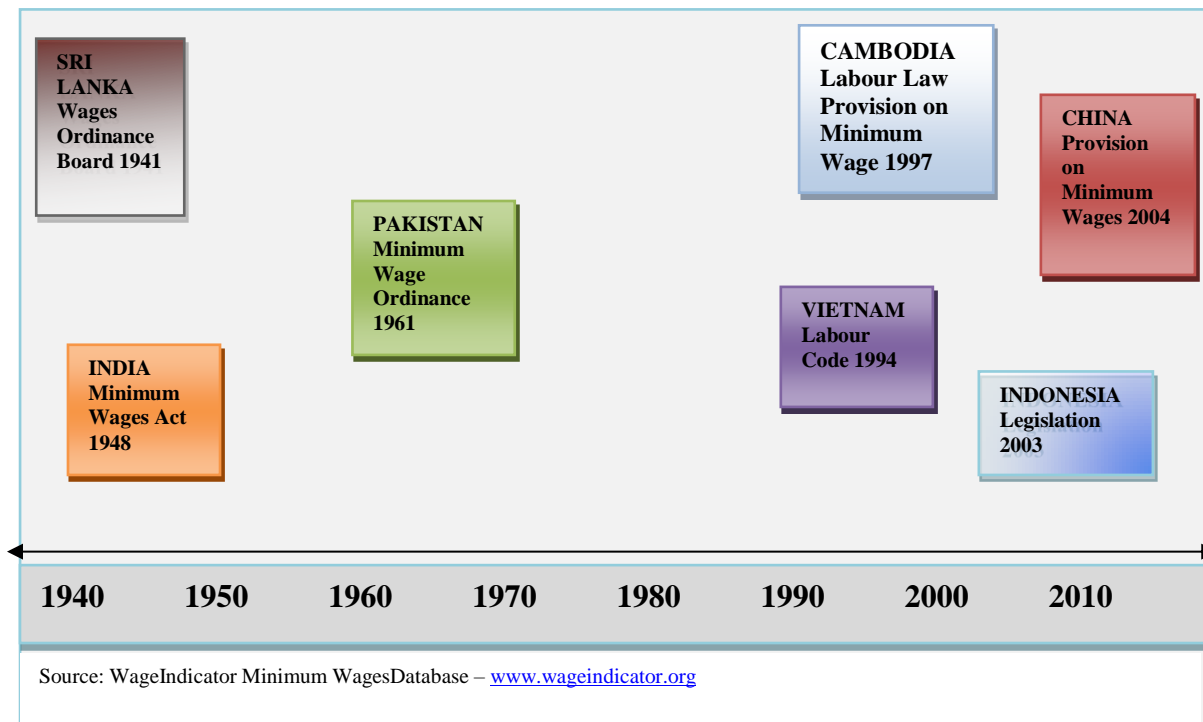


Figure 0.1 Timeline for the setup of Minimum Wage policy/law in Cambodia, China, India, Indonesia, Pakistan, Sri Lanka, and Viet Nam.

The coverage of industry minimum wages varies across the selected Asian countries. Limited coverage can be seen in Cambodia, where the minimum wage is applicable only to the workers of the garment and shoe-making industries. In India and Pakistan, the number of sectors under minimum wage regulation is large but only a small proportion of the non-agricultural labour force is covered under minimum wage in both the countries. Only in Sri Lanka, the wages board have been able to build a system wherein they are able to extend the minimum wage protection to a majority of the working population.

India was one of first amongst developing countries to introduce a minimum wage law, but it also has one of the most complicated structures for minimum wage. China and Pakistan are also complicated in terms of their minimum wage structures⁸. Our analysis of minimum wage institution shows that, notwithstanding population and geographic diversity, the level of maturity of minimum wage fixing mechanism and its representation also depends on how early a country had introduced it.

⁸Annexure I: Mechanism to Institutionalize Minimum Wage in Asian Countries

3. Minimum Wage Fixing Methods in Asian Countries

3.1. Background

From our initial analysis of minimum wage systems (Varkkey & Korde, 2012), different minimum wage fixing mechanisms are followed by each Asian country. These mechanisms are an outcome of the constitutional/legislative intents of respective countries, method of ILO minimum wage implementation adopted, and its evolution over time. Consequently, we see that there is homogeneity among countries in the methods they use to fix minimum wages since most of it is adopted from the ILO framework. In terms of the workers that are included under minimum wages, however, there is heterogeneity of minimum wage coverage such that different groups of workers in each country receive legal protection. For example only the workers in the garment and footwear sector in Cambodia are covered under minimum wages⁹, whereas in China minimum wage are divided regionally and not as per the sector¹⁰, and in India workers from different sectors, occupation, and states are covered under different minimum wage rates¹¹. Apart from some similarities in few countries, diversity prevails. This diversity reflects the differences between countries in their industrial relations systems and traditions of public policy decision-making as well as in their size and stage of economic development.¹²

Amongst other things, two interdependent factors have a fundamental part in establishment and development of the minimum wage mechanisms. They are:

- the state of collective bargaining in the country
- the use of minimum wage as tool for economic policy by the governments

The countries with weak collective bargaining have higher impact of statutory minimum wage mechanism. This leads to the '*lighthouse effect*' which states that the statutory minimum wage affects, and sometimes replaces, the wage policy (Klaveren, 2015, pp. 11-15). Weak collective bargaining also increases the extent of application of minimum wage, both in terms of sectors and different categories of workers covered under the minimum wage (Eyraud & Saget, 2005).

⁹ WageIndicator: Minimum Wages, Cambodia < <http://www.wageindicator.org/main/salary/minimum-wage/cambodia-1>>

¹⁰ WageIndicator: Minimum Wages, China < <http://www.wageindicator.org/main/salary/minimum-wage/china-custom/minimum-wage-in-china-frequently-asked-questions> >

¹¹ Paycheck: Minimum Wages, india, 2015 < <http://www.paycheck.in/main/salary/minimumwages>>

¹² Eyraud, E; Saget, C. *The fundamentals of minimum wage fixing*. Geneva, International Labour Office, 2005. International Labour Organization, pp. 2-6.

At the same time, the concentrated use of minimum wage instrument, by the government authorities for realizing their economic policy objectives can reduce the role of collective bargaining. Indonesia is facing a similar problem due to 'maxi minimum wages' where high level of minimum wages is reducing the effect of collective bargaining thus weakening trade unions (Tjandra, Klaveren, 2015, pp. 139-155; Klaveren, 2015, pp. 11-17). It can be summed by stating that, if the process of collective bargaining is well-established in a country or industry, it will automatically result in weakening of direct government intervention, protecting the low wage workers from its influence.

Minimum wage is also used as a political and economic tool mainly to redistribute the earnings to lesser paid workers (Freeman, 1996, pp. 639-40). This makes minimum wage, both a powerful and a complicated economic tool to work with. It can tip the balance in favour of the lesser paid or it can render them unemployed. In a study done by ILO in 2013 they reported that "*rising minimum wages can help to rebalance sources of growth even with limited fiscal space*" (ILO: World of Work Report, 2013). However, they also mentioned the short coming of minimum wage in policy making. Apart from the issue of the "optimal minimum wage rate" problems can arise due to partial coverage through minimum wage, which would reduce the effect of minimum wage as a demand management tool. Minimum wages can also have several indirect effects on the market and aggregate demand (ILO: World of Work Report, 2013). Thus it is important to establish minimum wage fixing procedures such that it benefits not only the low-paid workers but also the economic situation of the country. For this reason there are four main types of minimum wage fixing mechanism that are in place and the 7 countries in our study follow either one of these or a combination of some of these four types of minimum wage fixing methods.

3.2. Types and Combination of Minimum Wage Fixing¹³

The methods of fixing minimum wages include a broad and varied range of practices that does not fall in any fixed pattern. The four main types of minimum wage fixing mechanism are as below¹⁴:

3.2.1. Single base rate for the whole country or one for each region with State or bipartite/tripartite body as decision maker:

It is one the simplest and most common method that is used to fix minimum wages. It is adapted by many countries and is altered as per suitability. In this

¹³Eyraud, E; Saget, C. *The fundamentals of minimum wage fixing*, Geneva, International Labour Office, 2005

¹⁴The classification is based on the number of minimum wage rates and the parties involved in minimum wage fixing.

system, while market forces may play a role, the government is the ultimate decision maker. This is true in case of China¹⁵ and partially in case of India¹⁶ and Vietnam¹⁷. In countries like Pakistan¹⁸ and Indonesia, minimum wage is set by the government after recommendations from the tripartite body (Ali, Hisam, & Javed, 2015, pp. 110-119; Tjandra & Klaveren, 2015, pp. 142-148). A tripartite body is similar to a wage council or Labour Advisory Committee that consist of social partners like workers, employer, and government who come together to solve issues related to work and working conditions (WageIndicator). In this system there can either be a single rate, like Single National Minimum Wage for unskilled workers in Pakistan (Paycheck, Pakistan), or single regional rate like in China, Indonesia, and Vietnam.

The regional minimum wage rates are fixed in order to:

- i.* Facilitate the administrative and the political structure of the country.¹⁹
- ii.* To make allowances for differences in the living standards between the regions.

In a slightly different format, a single base wage rate is set for the whole economy or region. In this case also, the public authority often plays the lead role in making the final decision.

Limitations: (a) Sometimes it can lead to depopulation of certain areas where minimum wage rates are low to overpopulation of areas where higher minimum wage rates are set (ILO). (b) Administrative and implementation difficulties cannot be ignored. (c) This system fails in a corrupt and inefficient bureaucratic setup.

3.2.2. Multiple rates by sector and/or occupation, with the State or Bipartite/Tripartite body as the decision-maker:

In this method, multiple minimum wage rates for each sector or occupation (or both) are fixed by the government or a tripartite body. Often the task of setting the sectoral minimum wage is assigned to a public authority, which keeps the national or regional minimum wage in mind while taking decision. This practice is common in some former British colonies, where tripartite commissions are established for some sectors, where effective collective bargaining processes was

¹⁵ China sets a single minimum wage for each region.

¹⁶ India sets minimum wage at central, regional and occupational level.

¹⁷ Vietnam sets 3 types of minimum wages, a general minimum wage, a regional minimum wage and a sectoral minimum wage.

¹⁸ Pakistan has national, regional and occupational minimum wage.

¹⁹This is method is used in countries with federal set up, where a country's individual states or regions maintain a certain level of autonomy, as in case of India, China and Indonesia.

not in place. In Cambodia occupational minimum wage is set up based on skill level by a tripartite body such as Labour Advisory Committee²⁰ and public authority like Ministry of Labour and Vocational Training²¹. This system can be seen as a remnant of the British Wage Council system where tripartite body was established in sectors with weak collective bargaining in place (Eyraud & Saget, 2005, pp. 9-11).

Sectoral or occupational minimum wages are closer to the enterprise level and thus provide better details regarding the actual wage policy in the enterprises. Hence multiple wages are a useful tool to regulate enterprise policies. This makes multiple minimum wage rates a system of actual wage fixing than minimum wage regulation. (Eyraud & Saget, 2005, pp. 9-11)

Limitations: (a) Distinguishing between the two systems, a single national or regional rate and multiple minimum wage rates, leads to creation of a system with multiple wages between the two. This causes the weakening of the implementation of minimum wages.(b) It is seen that despite the minimum wage rate being set by public authorities in some countries there still persists a regional or national variation. For example in Vietnam, regional wage rates can be set the central level for foreign-invested enterprises. Based on where the companies are established, the minister of labour sets different rates. But, there is also a provision to determine these rates autonomously at regional level. In the case of India, the government first sets minimum wage rates for 45 occupations. Then the local governments are assigned to fix minimum wage rates for additional occupations at regional level. In India currently there are more than 1500 occupational and sectoral rates. In 1996, the government of India also introduced a base minimum wage rate that is applicable to the entire region.

3.2.3. One base rate for the whole country or per region, determined by collective bargaining:

This system of minimum wage fixing is followed by a very few countries across the world.²² The countries where a single national minimum wage rate is set by the government, there are sectoral and enterprise level agreements. The collective bargaining method of setting sectoral and enterprise level wage rates is as such beyond the legal framework relating to the minimum wage rate.

²⁰ It is a tripartite institution, which consists of representation of 14 government official, 7 trade union members and 7 employers.

²¹ It has established a tripartite working group consisting of 9 representatives each from government, trade union and employers to discuss MINIMUM WAGE issues for the garment and shoe industry.

²²Belgium and Greece

3.2.4. Multiple rates that vary by sector and/or occupation, determined by collective bargaining:

This system of minimum wage fixing is found in those countries where there is no centralized authority involved in setting minimum wage standards. This role is taken over by sectoral agreements, and market forces are allowed to play a big role. It is usually a network of collective agreements that make up for the minimum wage fixing system²³. This method of minimum wage fixing is found in India, Pakistan, and some European countries²⁴.

Limitations: (a) There might be some workers in enterprises that are not subject to collective bargaining and thus, will not be covered by the minimum wage. This case is particularly visible where sectors are made up of mostly small and informal enterprises, and low trade union coverage. In such cases, the easy way increase the scope of coverage of minimum wage is through State intervention. (b) Sometimes the wages set are very low because the workers lack effective bargaining power. A system for national level minimum wages or an alternative mechanism/institution would help to solve this problem. For example, in India the prescribed wage rate under MNREGA became the equivalent of a floor (Varkkey, 2015, pp. 120-138). The above problems combined together, can in fact, force the unemployed to take up extremely low paying jobs in the worst case scenario.

Table 3.1 Minimum Wage Fixing Mechanism

Types of Minimum Wage Fixing Mechanism	Cambodia	China	India	Indonesia	Pakistan	Sri Lanka	Vietnam
National or regional minimum wage rate set by government or tripartite body		✓	✓	✓	✓		✓
Sectoral and/or occupational minimum wage rates set by government or tripartite body	✓		✓		✓	✓	✓
National or regional minimum wage rate set through collective bargaining							
Sectoral and/or occupational minimum wage rates set through collective bargaining			✓		✓		

²³Based on ILO conventions we can assert that these are minimum wages, since these wages are fixed by some competent authority and social partner which work towards deciding which workers need protection and how this protection will be provided. Similarly, from an economic point of view these can be called minimum wages because by the process of collective bargaining they set benchmark wages for enterprises, i.e., wages may not fall below this level, but can be higher than this level – “wage drift.”

²⁴Germany and Italy

3.3 Reason for Different Minimum Wage Methods

From the above mentioned methods it is clear that there does not exist one universal method of minimum wage fixing. The main reason behind this is, that minimum wage fixing has been essentially linked not only to the level at which the collective bargaining is developed, but also to the role of the State (Eyraud, and Saget, 2005, pp. 12-23).

If the collective bargaining structure is not well-organized in the country, demand for higher wages often leads to strikes and conflicts, both with disastrous social and economic consequences. In order to substitute for the collective bargaining process and avoid uncomfortable situations, in many cases the government intervenes (Eyraud, and Saget, 2005, pp. 12-23). The concept of minimum wage, in the absence of collective bargaining, is to provide support to the workers.

Analysis of existing approaches to minimum wage fixation shows the following patterns:

Table 3.2 Parties involved during the minimum wage fixing and adjustment

Minimum Wage Fixing Body	Role of Social Partners	Country
Minimum Wages fixed by government	No obligation to consulting partners	---
	After direct consultation with social partners	China, Vietnam
	After recommendation/ advice from social partners	Cambodia, India, Indonesia, Pakistan
Minimum Wages set by specialized bodies	---	Sri Lanka
Collective bargaining/other procedures	---	India, Pakistan

3.3.1. Systems where the public authorities plays the central role:

It has been seen that even in those countries where the legislation does not provide for consultation for minimum wage fixing, there is some form of formal or informal consultation with the social partners. In cases where the public authorities are obligated to accept recommendations from social partner or specialized committees, it restricts the decision making power of the public authority. Thus, it is essential to distinguish between these two methods of minimum wage fixing:

- a. **Government decision following consultation:** Minimum wage rates are proposed by the government and consultations can take place based on its proposal.

- b. **Government decision based on recommendation:** Minimum wage rates are determined by a specialized body, which are recommended to the government for its final decisions.

Though Government takes the final decision in both the cases, the outcome is not the same. Government's influence in decision making is stronger in the former case than the later. Considering these two approaches, countries following them are more or less equal. (All governments ensure broader participation in minimum wage fixing, either in the form of consultation or recommendation by specialised body. However, no study has been done on the efficacy of the process).

3.3.2. Specialized bodies involved in Wage Fixing Process²⁵

Specialized wage committees are setup in those countries, where government decisions are (often by legislation) based on expert recommendations. These committees comprise of employer's and employee's representatives with some government representatives and independent members. This system is still found in some wage councils which are based on the former British system and have similar tripartite structure. But their scope is sometimes limited to the specific sectors rather than being applicable to the entire economy. In this arrangement, an agreement is made with the specialized bodies, which are required to draft a technical report before they give their recommendations. Based on which, the government is expected to give its decision. In cases where social partners are not able to reach to some agreement, the Government has the final authority to make a unilateral decision.

Table 3.3 Specialized bodies involved by country in Wage Fixing Process

Country	Specialized Bodies
Cambodia	• Labour Advisory Committee (tripartite)
China²⁶	• China Entrepreneur Association • All-China Federation of Trade Unions
India	• Advisory Board and Committees (bipartite)
Indonesia	• National Wage Council (Provides national wage policy advice - tripartite) • Provincial Wage Councils (Advise provincial governors, who determine minimum wages - tripartite) • District/City Wage Councils (Advise provincial governors, who determine provincial minimum wages - tripartite)
Pakistan	• Provincial Minimum Wages Boards (bipartite)
Sri Lanka	• Wages Boards (Workers in certain trades) • Remuneration Committees (tripartite)
Vietnam²⁷	• National Wages Council (tripartite)

²⁵Eyraud, E; Saget, C. *The fundamentals of minimum wage fixing*, Geneva, International Labour Office, 2005

²⁶WageIndicator: Minimum Wage in China – Frequently Asked Questions, 2014
<<http://www.wageindicator.org/main/salary/minimum-wage/china-custom/faqs/minimum-wage-in-china-frequently-asked-questions-2014#q1>>

3.3.3 Bipartite/Tripartite System:

Bipartite/Tripartite essentially means a party consisting of two/three different representing parties. They have been seen in few countries²⁸ that, tripartite systems sometimes do more than just making recommendations. They are entrusted the responsibility for setting minimum wages. Though, the announcement of the decision is with the Government, it may be sometimes just a formality. In this type of arrangement, the authorities are generally required to come to an agreement with the employer's and representatives of the workers. The presence of government representatives to influence of minimum wage rates cannot be neglected. The government sometimes also uses indirect methods to influence the decision by vigilantly selecting the date on which minimum wage rates are revised. If the frequency of revising of minimum wage rates is not stipulated in the legislation²⁹, the government may choose the period for revision which suits it the best. But strong opposition from the social partners may not allow the government to use its discretionary powers. The situation may be very different in cases where minimum wage fixing charge is given to social partners.

3.3.4 Collective Bargaining:

The decision of minimum wage fixing is not shared between the Government and the social partners. From legal point of view, minimum wage fixing is the complete responsibility of the social partners. Thus, it is essential to differentiate between two possible situations:

- a. Minimum wage rate does not exist and all minimum wage rates are established through sectoral agreements.
- b. A national multi-sectoral agreement sets a national minimum wage rate for the entire country.

Though, the Government does not legally participate in the collective bargaining process it does not imply that they are completely ignored for the process. Their intervention is possibly seen under:

- a. Public bodies can intervene when extensions are needed by collective agreements.
- b. Public bodies can also make recommendations regarding increase in minimum wage rates.

²⁷ Dieu, D. Q.; and Dong, H. T. T. (2015) Vietnam. In Klaveren, M. V., Gregory, D. and Schulten, T., *Minimum Wages, Collective Bargaining and Economic Development in Asia and Europe* (pp.43-50). London: Palgrave Macmillian

²⁸About 15 countries

²⁹This is the case with most of the countries

Collective bargaining is generally led through the discussions of trade unions with the employers. However, in countries with weak unionization the overall impact of collective bargaining reduces. Hence collective agreements are one of the standards used to evaluate the performance of local government in China³⁰. This is valid for other countries as well since collective agreements or collective labour agreements help determine the strength of trade unions in collective bargaining. In Vietnam, the collective labour agreements are inadequate and do not provide clarity in terms of negotiation process, leading to multiple disadvantages for the workers and weakening unionization³¹.

India and Pakistan set sectoral minimum wages based on collective bargaining. Traditionally in India, this was true for formal sectors only but more recently the importance of collective bargaining through trade union has decreased. While public sector claims to have 80% unionization, the private sector has lesser, and in case of IT/BPO and Indian diamond industry there is no reported unionization³². Some of the main reasons for the decline in unionization are fragmentation, negative public perception, and resistance from employers and governments³³. Similarly, while Pakistan also sets minimum wage based on collective bargaining for some sectors, there is very little research done on the participation or the efficiency of trade unions and collective agreements. In Pakistan, all large-scale industries employ workers at contractual basis, but in order to evade taxes they do not release the list of such workers to the concerned authorities. Even the trade unions' collective bargaining agency does not ask the industries to share their balance sheet and hence only 2.2% of firms consider the role of trade unions to be important in wage setting³⁴ (Klaveren, Gregory, & Schulten, 2015).

³⁰ Hu, Y. (2015). China. In Klaveren, M. V., Gregory, D. and Schulten, T., *Minimum Wages, Collective Bargaining and Economic Development in Asia and Europe* (pp.19-38). London: Palgrave Macmillian

³¹ Dieu, D. Q.; and Dong, H. T. T. (2015) Vietnam. In Klaveren, M. V., Gregory, D. and Schulten, T., *Minimum Wages, Collective Bargaining and Economic Development in Asia and Europe* (pp.43-50). London: Palgrave Macmillian

³² Varkkey, B., & Kumar, R. (2013). *Keeping the Sparkle On: Workforce Retention in Indian Diamond Cutting and Polishing Firms During Economic Recession*. International Journal of Organizational Analysis 21(3): 454-70.

³³ Varkkey, B. (2015). India. In Klaveren, M. V., Gregory, D. and Schulten, T., *Minimum Wages, Collective Bargaining and Economic Development in Asia and Europe* (pp.120-138). London: Palgrave Macmillian

³⁴ Ali, K., Hisam, Z., and Javed, S. (2015). Pakistan. In Klaveren, M. V., Gregory, D. and Schulten, T., *Minimum Wages, Collective Bargaining and Economic Development in Asia and Europe* (pp.107-119). London: Palgrave Macmillian

4. Minimum Wage Fixation Criteria

4.1. Minimum Wage Fixation Criteria

In most countries, the criteria to be taken into account for minimum wage fixing by the respective authorities are laid down by the legislation. They can be divided in two broad groups:

- a. Social Group: They try to address the basic needs of the workers.
- b. Economic Group: They try to address the country's economic constraints.

Thus, it is essential to understand the criteria most commonly followed by the countries and also analyse the objectives behind it.

4.1.1. Legal Criteria for Minimum Wage Fixing³⁵

There are eight main criteria used for fixing the minimum wages. But certain criteria are used more often than the others. These criteria are:

1. Level of Wages
2. Social Security Benefits
3. Needs of workers and their families
4. Inflation and/or cost of living index
5. Level of unemployment
6. Economic situation and /or level of development
7. Productivity of the workers
8. Enterprises' ability to pay

Table 4.1 Legal Criteria of Minimum Wage Fixing

Criteria	Country						
	Cambodia	China	India	Indonesia	Pakistan	Sri Lanka	Vietnam
Inflation &/or Cost of Living Index	✓	✓	✓	✓	✓	✓	✓
Economic Situation and/or level of development	✓	✓		✓	✓	✓	✓
Level of wages	✓	✓		✓			
Needs of Workers & their Families	✓			✓			✓ ³⁶
Level of Employment	✓	✓		✓			
Social Security Benefits	✓	✓					
Productivity of Labourers	✓	✓					
Enterprises' ability to pay				✓			
No set criteria							

³⁵Eyraud, E; Saget, C. *The fundamentals of minimum wage fixing*, Geneva, International Labour Office, 2005

³⁶ The minimum wage set should ensure that workers could make some savings as well.

It is seen that inflation and/or cost of living index is the criterion which is used by all the countries to determine the minimum wage levels. Economic situation and/or level of development in the country follow next in line, with only India being an exception. The next popular criteria are level of wages (Cambodia, China and Indonesia), needs of workers and their families (Cambodia, Indonesia and Vietnam) and level of employment (Cambodia, China and Indonesia). Social security benefits (Cambodia and China) and productivity of workers (Cambodia and China) seem to be used less as criteria for minimum wage fixing. Only Indonesia considers Enterprises' ability to pay for setting minimum wages. Cambodia uses all the criteria to set its minimum wages, whereas India uses only the cost of living index. China and Indonesia use most of the criteria listed to determine their level of minimum wages.

Thus, this comparative analysis of legislation on minimum wages followed in different countries reveals that different countries follow different criteria based on their interpretations. But in practice, the legal framework of minimum wage fixing is even more complicated.

1. The fact that bodies entrusted with the task of setting minimum wages can include factors that are not listed in the legislation or can use criteria very different from those listed in the legislation cannot be ignored.
2. Another difficulty can arise in conducting a comparative analysis of minimum fixing is in terms of emphasis laid by each country on any criteria might not only be different, but also changes over time.

4.2. Periodic Adjustments in Minimum Wage Fixing

Most of the countries today face the problem of determining the rate of increase in minimum wages that have been fixed and the frequency with which they should be increased. The adjustment process in the country depends very much on the consultation process.

1. The adjustment process is automatic in countries where the consultation process is more flexible.
2. In some cases governments may decide to increase the minimum wage rates based on economic conditions of growth.
3. The revision procedures are different in countries where there are specialized bodies entrusted with the task of making recommendations for minimum wage fixing. These

bodies are required to submit a proposal to the government and the final decision of minimum wage revision lies with the government authorities.

4. In few countries, there are specialized committees autonomously deciding on minimum wage revisions.

The minimum wage revisions depend mainly on the procedures of minimum wage fixation and also how these change and evolve over a period of time.

Table 4.2 Frequency of Minimum Wage Adjustment

Country	Annual Adjustment	Every 2 Years or more	Flexible
Cambodia ³⁷			✓
China ³⁸		✓	
India ³⁹		✓	
Indonesia ⁴⁰	✓		
Pakistan ⁴¹		✓	
Sri Lanka ⁴²			✓
Vietnam ⁴³			✓

³⁷Cambodia Minimum Wages. Retrieved, May 15th, 2013, from [wageindicator.org](http://www.wageindicator.org/main/minimum-wages/cambodia/cambodia-minimum-wage-faqs) website: <http://www.wageindicator.org/main/minimum-wages/cambodia/cambodia-minimum-wage-faqs>

³⁸China Minimum Wages. Retrieved, May 15th, 2013, from [wageindicator.org](http://www.wageindicator.org/main/minimum-wages/china-custom/faqs) website: <http://www.wageindicator.org/main/minimum-wages/china-custom/faqs>

³⁹India Minimum Wages. Retrieved, May 15th, 2013, from [wageindicator.org](http://www.wageindicator.org/main/minimum-wages/india/minimum-wages-faq) website: <http://www.wageindicator.org/main/minimum-wages/india/minimum-wages-faq>

⁴⁰Indonesia Minimum Wages. Retrieved, May 15th, 2013, from [wageindicator.org](http://www.wageindicator.org/main/minimum-wages/indonesia/faqs-minimum-wages-in-indonesia) website: <http://www.wageindicator.org/main/minimum-wages/indonesia/faqs-minimum-wages-in-indonesia>

⁴¹Pakistan Minimum Wages. Retrieved, May 15th, 2013, from [wageindicator.org](http://www.wageindicator.org/main/minimum-wages/pakistan) website: <http://www.wageindicator.org/main/minimum-wages/pakistan>

⁴²Sri Lanka Minimum Wages. Retrieved, May 15th, 2013, from [wageindicator.org](http://www.wageindicator.org/main/minimum-wages/sri-lanka/faq-minimum-wages-in-sri-lanka-1/faq-minimum-wages-in-sri-lanka) website: <http://www.wageindicator.org/main/minimum-wages/sri-lanka/faq-minimum-wages-in-sri-lanka-1/faq-minimum-wages-in-sri-lanka>

⁴³Vietnam Minimum Wages. Retrieved, May 15th, 2013, from [wageindicator.org](http://www.wageindicator.org/main/minimum-wages/vietnam/faqs-minimum-wages-in-vietnam) website: <http://www.wageindicator.org/main/minimum-wages/vietnam/faqs-minimum-wages-in-vietnam>

5. Minimum Wage Fixing in Practice

The more stringent the minimum wage fixing criteria becomes the more difficult it is to apply those criteria in practice. Cambodia uses all criteria to set its minimum wages but sets it only for Garment and Footwear sector; while India uses only one criterion and has over 1500 minimum wages for several sectors, occupations, and regions. Hence the ground reality for minimum wage fixing differs based on the regional and sectoral differences in the minimum wages.

5.1. Minimum Wage Legislation in Practice

In Cambodia, a tripartite discussion in the Labour Advisory Committee decides the minimum wage followed by an official notification of the Ministry of Labour. However, as per law Labour Advisory Committee is required to conduct a nationwide study on minimum wages to be able to advice the Labour Minister, which it has failed to conduct. Hence a nationwide minimum wage has never been determined and the minimum wage set is most likely fixed through bilateral negotiations between employer and union leader in the presence of a government facilitator.⁴⁴

In China, on the other hand, there is no separate legislation for minimum wage only provisions exist which are promulgated by Ministry of Labour and Social Security⁴⁵.

India, Indonesia and Pakistan (after 2010) are the only countries with minimum wage legislations. The other countries, including Sri Lanka and Vietnam, have no separate legislation for minimum wage. Sri Lanka has a Wage Board Ordinance, which regulates minimum wages, and in Vietnam the general Labour Code consists of provisions on minimum wages (Varkkey & Korde, 2012) (WageIndicator, n.d.).

5.3. Minimum Wage setting and determination in practice

In Cambodia, minimum wages are set for all apprentices, probationary and regular workers; whereas in reality minimum wage for apprentice was set in 1997 and has never been revised since. Also except for garment sector (including garment, textile, and

⁴⁴ Cambodia Minimum Wages. Retrieved, Dec 5th, 2015, from [wageindicator.org](http://www.wageindicator.org/main/minimum-wages/cambodia/cambodia-minimum-wage-faqs) website: <http://www.wageindicator.org/main/minimum-wages/cambodia/cambodia-minimum-wage-faqs>

⁴⁵ China Minimum Wages. Retrieved, Dec 5th, 2015, from [wageindicator.org](http://www.wageindicator.org/main/minimum-wages/china-custom/faqs) website: <http://www.wageindicator.org/main/minimum-wages/china-custom/faqs>

shoes) no other sector has set minimum wages. The other sectors pay employees based on sympathy.⁴⁶ (WageIndicator, n.d.)

Apart from the regional minimum wage, there is sectoral minimum wage in China but not a national minimum wage. However, the local human resources and the social security departments set the sectoral minimum wage, but only for companies' reference.⁴⁷

In Indonesia, provincial minimum wage is set based on agreements between corporate organizations and worker unions and the governor based on negotiations between employers and trade unions determines the sectoral minimum wage.⁴⁸

In India the minimum wage is set as per piece rate, hour rate, and as monthly rate. It is decided on a national, regional, and sectoral level. But in reality there is no one national minimum wage in India.⁴⁹

On the other hand, Pakistan decides minimum wages at provincial and occupational level for skilled, unskilled, intellectual, technical, clerical, manual, or other work including domestic work for hire or reward⁵⁰. Provincial governments on the recommendation of minimum wage boards set Minimum Wage.

Since 2004 there are two types of minimum wages that are applied in Vietnam – the general minimum wage for public servants and armed forces and the regional minimum wage for private and other sectors. Despite this segregation, since 2010, Vietnam has a universal coverage of minimum wages that applies to all wage earners; even those in the informal sector. Vietnam also has sectoral minimum wages, and two of the sectoral Collective Labour Agreements often introduce minimum wages that are higher than the regional minimum wages. Despite this the minimum wage agreement mechanism in enterprises is very weak and the determination of minimum wage is not consistent with market principles. Also, some provisions have not kept up with the current economic

⁴⁶ Cambodia Minimum Wages. Retrieved, Dec 10th, 2015, from wageindicator.org website: <http://www.wageindicator.org/main/minimum-wages/cambodia/cambodia-minimum-wage-faqs>

⁴⁷ China, Minimum Wage. Retrieved Dec 12th, 2015, from wageindicator.org website: <http://www.wageindicator.org/main/salary/minimum-wage/china-custom/minimum-wage-in-china-frequently-asked-questions>

⁴⁸ Indonesia, Minimum Wage. Retrieved Jan 5th, 2016, from wageindicator.org website: <http://www.wageindicator.org/main/salary/minimum-wage/indonesia/faqs-minimum-wages-in-indonesia>

⁴⁹ India Minimum Wages. Retrieved, Jan 10th, 2016, from wageindicator.org website: <http://www.wageindicator.org/main/minimum-wages/india/minimum-wages-faq>

⁵⁰ Pakistan Minimum Wages. Retrieved, Jan 10th, 2016, from wageindicator.org website: <http://www.wageindicator.org/main/minimum-wages/pakistan>

development and there is a lack of synchronization of wage policies with financial and other related policies. (Dieu, & Dong, 2015, pp. 43-50)

In Sri Lanka minimum wages and working conditions are set as per sector and industry by the established Wage Boards. However those sectors that are not covered by the wage boards are not covered by any minimum wage.⁵¹

⁵¹ Sri Lanka Minimum Wages. Retrieved, Jan 15th, 2016, from wageindicator.org website: <http://www.wageindicator.org/main/minimum-wages/sri-lanka/faq-minimum-wages-in-sri-lanka-1/faq-minimum-wages-in-sri-lanka>

6. Conclusion

There are sufficient commonalities and differences that could be observed in the minimum wage fixing criteria and procedures among the seven countries. The first common string is the history of development and the colonial background of Asian countries. While not all the seven countries share the same colonial background, the colonial history has helped in establishing the framework for minimum wages. In these countries minimum wage development has been spread over seventy years with Sri Lanka and India are some of the early adaptors, China has adopted a minimum wage policy since 2004 only. Survey of literature shows most other Asian countries have adopted legal minimum wage policies over the years. Recently Singapore, which did not have a minimum wage, set basic wage for sweepers and cleaners and has declared that it will have minimum wages for guards from 2016⁵². Even other Middle East countries like UAE have been considering minimum wages for housemaids. Hence minimum wage is becoming an increasingly common tool for labour market stabilization in Asia.

Another commonality is the presence of multiple wages. China and Indonesia have different wage rates for different regions. Cambodia and Sri Lanka have different wage rates for different sectors and occupations. Whereas India, Pakistan and Sri Lanka have regional, sectoral and occupational wage rates.

In terms of minimum wage rates of countries, government or bi/tripartite bodies set them. Collective bargaining is rare, and the only countries that have some type of collective bargaining are India and Pakistan. There too, its role has been weakening and the government through analytic and computational approaches, such as using standard formulas and collecting data to build various scenarios, is deciding all sectoral rates.

All countries in the study have specialized bodies for setting minimum wage rates, though the role of these differs. Most bodies are bi/tripartite and their main function is to recommend wage rates to the government.

In terms of other criteria for fixing minimum wage, they range from seven or six variables in Cambodia and Indonesia to very few in India, Pakistan and Sri Lanka. In practice the trend is to use every criteria while setting up minimum wage rates.

The periodicity of minimum wage revision differs from country to country. While Indonesia adjusts minimum wage every year, it revises the fixed components of minimum wage every five years. Countries like Cambodia, Sri Lanka, and Vietnam have

⁵² Tan, J. (2014, January 8). Singapore sets a basic wage of S\$ 1,000 for cleaners. Retrieved from <https://sg.news.yahoo.com/singapore-sets-basic-wage-of-s-1-000-for-cleaners-105754101.html>

varying adjustment periods and some sectoral rates haven't been adjusted since they were first decided. In China it is adjusted every two years and in India it is adjusted between two to five years, however the revision period varies for every province or sector.

Even though the Asian countries share some commonalities in terms of minimum wage fixing methods and background, diversity exists among them at various levels. The one positive trend seen in all countries is that they believe in minimum wage as a powerful labour market stabilizing tool and have adopted suitable methods that allow labour and employer representation in the fixing process. The negative trend of this is seen in the declining involvement of Trade Unions in collective bargaining, and the declining favour of collective bargaining as the mechanism for minimum wage fixing. Collective bargaining is being substituted by bi/tripartite bodies, which approach minimum wage fixing more mechanically.

Annexure

Annexure I

Mechanism to Institutionalize Minimum Wage in Asian Countries

Mechanism	Description	Country
Minimum Wage Legislation	Legislation: the act of making or enacting laws ⁵³	India ⁵⁴ , Indonesia ⁵⁵
Minimum Wage Provision	Provision: a clause in a legal instrument, a law, etc., providing for a particular matter; stipulation ⁵⁶	China ⁵⁷
Passing ordinances	Ordinance: an authoritative rule or law; a decree or command ⁵⁸	Pakistan ⁵⁹ , Sri Lanka ⁶⁰
Minimum Wage provision in the Labour Code	Labour Code: a systematically arranged collection or compendium of laws, rules, or regulations ⁶¹	Cambodia ⁶² , Vietnam ⁶³

Source: Varkkey & Korde, 2012

⁵³Legislation. (n.d.). *Collins English Dictionary - Complete & Unabridged 10th Edition*. Retrieved April 26th, 2013, from Dictionary.com website: <http://dictionary.reference.com/browse/legislation>

⁵⁴India, Minimum Wages Act, 1947, as per Section 2 of the Act and Section 27, 28. Retrieved March 6th, 2013, from Ministry of Labour and Employment, Government of India: <http://labour.nic.in/upload/uploadfiles/files/ActsandRules/LawsRelatedtoWages/The%20Minimum%20Wages%20Act,%201948.pdf>

⁵⁵Indonesia Minimum Wage Act: According to Article 89 of the Act. Retrieved 15th May, 2013 from wageindicator.org website: <http://www.wageindicator.org/documents/publicationslist/publications-2011/INDONESIA.pdf>

⁵⁶Provision. (n.d.). *Dictionary.com Unabridged*. Retrieved April 26th, 2013, from Dictionary.com website: <http://dictionary.reference.com/browse/provision>

⁵⁷China Provisions of Minimum Wage, as per Articles 5 and 7 of the Provisions on minimum wages, 2004. Retrieved March 10th, 2013, from Economic and Commercial Counsellor's Office of the Embassy of the People's Republic of China in the Republic of India: <http://in2.mofcom.gov.cn/aarticle/chinalaw/humanresource/200604/20060402015809.html>

⁵⁸Ordinance. (n.d.). *Dictionary.com Unabridged*. Retrieved April 26th, 2013, from Dictionary.com website: <http://dictionary.reference.com/browse/ordinance>

⁵⁹The West Pakistan Minimum Wages for Unskilled Workers Ordinance, 1969. Retrieved on March 10th, 2013, from Punjab Laws, Government of Pakistan : <http://punjablaws.gov.pk/laws/234.html>

⁶⁰Sri Lanka Wage Board Ordinance, No. 27 of 1941 of 19 September, 1941, as amended up to Act No. 36 of 1982 which regulates minimum wages in the country. Retrieved March 10th, 2013, from Law Net, Government of Sri Lanka: http://www.lawnet.lk/section.php?file=http://www.lawnet.lk/docs/statutes/leg_enact_1981/indexes/1981Y7V165C.html

⁶¹Code. (n.d.). *Dictionary.com Unabridged*. Retrieved April 26th, 2013, from Dictionary.com website: <http://dictionary.reference.com/browse/code>

⁶²Cambodia Labour Code, 1997, under chapter VI, section 1(B), articles 104 - 109 deals with minimum wage regulations. Retrieved March 2013, from ilo.org website: http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---ilo_aids/documents/legaldocument/wcms_150856.pdf

⁶³Vietnam Labour Code, 1994, Article 56 (Chapter VI - Wages) of Labour Code. (Para 2). Retrieved March 10th, 2013, from Vietnam Labour Code: <http://www.global-standards.com/Resources/VNLaborCode1994-2002.pdf>

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