

Setting the Minimum Wage in Myanmar and Its Impact on the Economy and Labour Market

Introduction

The 2013 Minimum Wage Law is indicative of the commitment of Myanmar's government to transform the labour market by improving workers' welfare and creating a competitive business environment. Following a series of tripartite discussions between the government, employers and employees, the daily minimum wage for an 8-hour working day was set at MMK3,600 in 2015, then revised to MMK4,800 in May 2018. Both times, the minimum wage setting process engaged multiple stakeholders, establishing a new precedent for policy making based on collective participation and empirical evidence.

The implementation of minimum wage legislation has created a new system of minimum wage regulations, which is arguably beneficial to all workers across sectors. However, it is important to consider some of the areas in which the economy has lagged. This policy brief presents an overview of the minimum wage negotiation process, analyses the socioeconomic effects of the minimum wage, and proposes policy recommendations to improve the effectiveness of minimum wage law and regulations.

Key results

- The minimum wage has positive effects on income equality in Myanmar by increasing the earnings of economically vulnerable groups, including low-educated workers and female workers.
- Minimum wage policy has a spillover effect on sectors that are not in its purview, including the informal sector and workers earning above the minimum wage.
- Although disemployment effects of the minimum wage are not observed, high labour turnover in industrial sectors lowers the rate of productivity growth.
- Firms adopted various strategies to comply with the legislation, such as increasing their production targets and reducing their investment in human capital development.
- The business environment in Myanmar shows very little improvement. As a result, the majority of labour disputes recorded concern layoffs and wages.

The context and process of minimum wage setting

Myanmar promulgated the Agricultural Labourers' Minimum Wages Act in 1948

and the Minimum Wages Act in 1949 with the aim of developing a fair labour market and promoting labour-centred development. However, the inexperience of the administrative branch and the conditions of newly established industrial relations meant that a realistic minimum wage system could not be implemented and enforced.

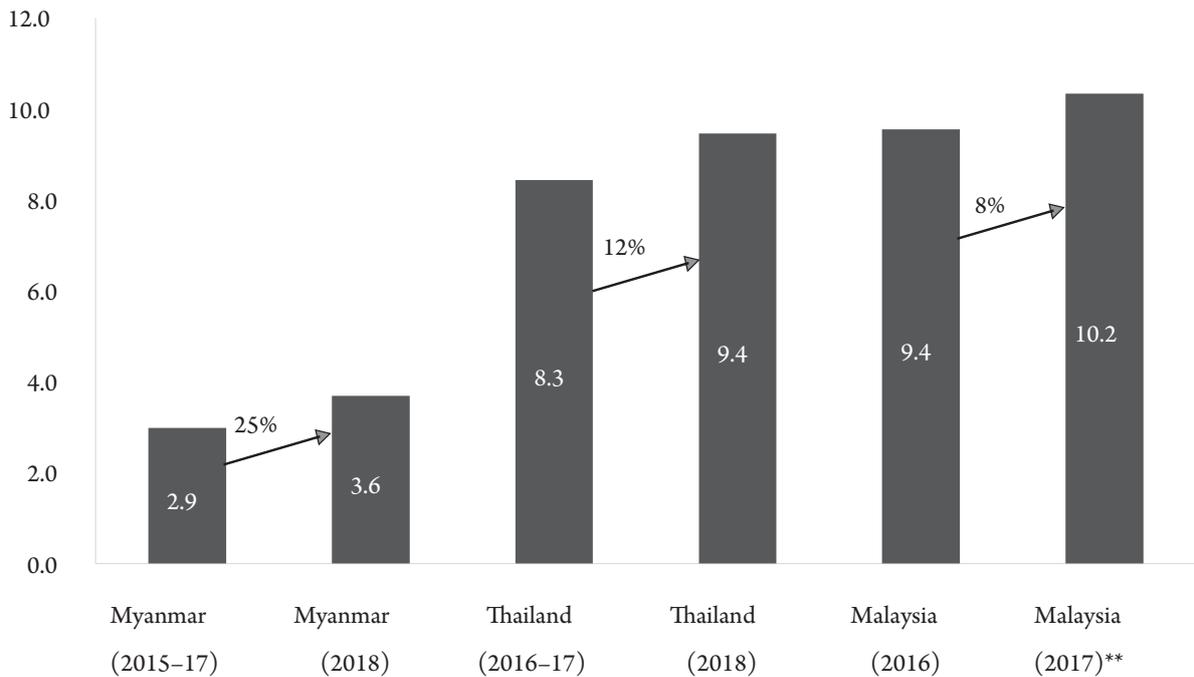
Although Myanmar transitioned from a socialist to a market economy in the early 1990s, its economic performance has been poor due to many shortcomings, resulting in market failures. A series of political reforms starting from 2011 enabled the newly elected quasi-civilian government to adopt more open market-oriented economic policies. At the same time, there were demands from the public for government intervention in the labour market where low-wage workers struggled to survive due to economic recession.

In order to address this issue, the union parliament redrafted and promulgated the Minimum Wage Law in March 2013.

The National Committee for Designating Minimum Wage¹ (the Committee) was formed to determine the minimum wage rate. The Centre for Economic and Social Development (CESD), with the support of the Ministry of Labour Immigration and Population (MOLIP), International Labour Organization (ILO) and International Development Research Centre (IDRC), contributed by conducting a survey to determine the cost of living in Myanmar. Information on labour market dynamics and living wages of workers and their families in the three regional capitals was collected and presented to MOLIP and the Committee. MOLIP also conducted a separate household expenditure survey of grassroots workers in states and regions to submit to the Committee.

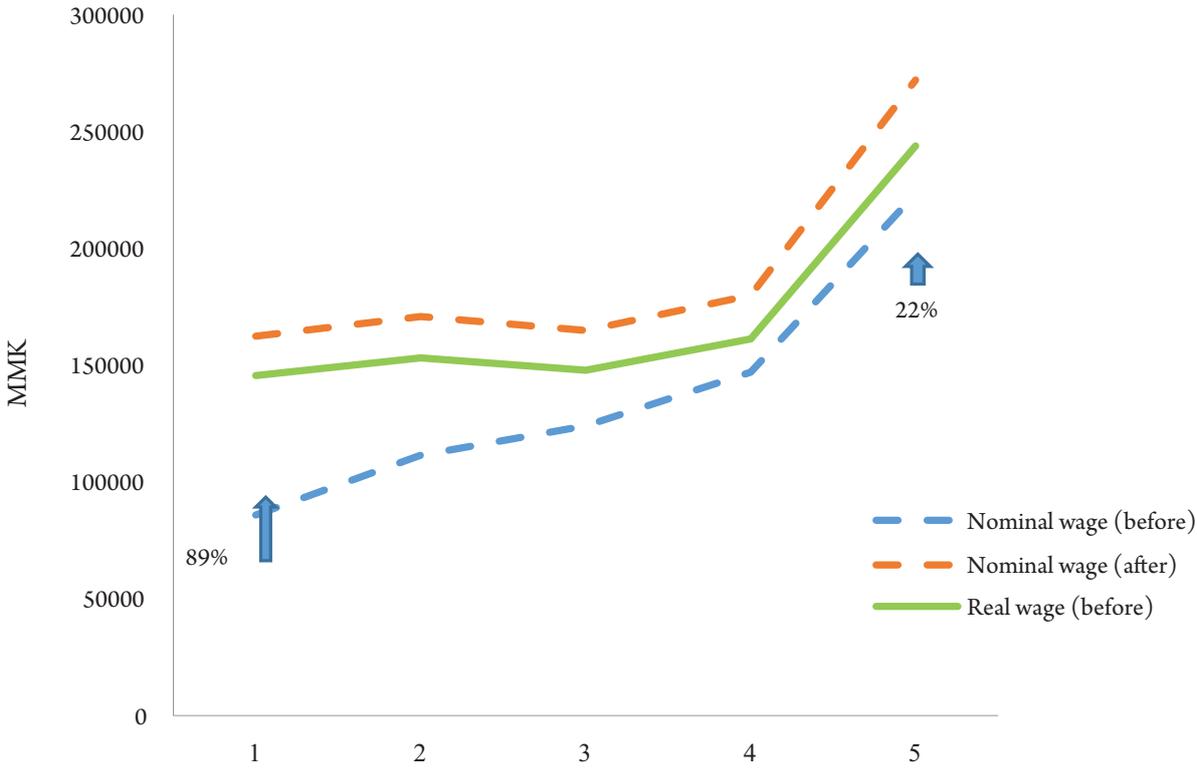
¹ The tripartite National Minimum Wage Committee, which comprises 5 worker representatives, 5 employer representatives, 12 government representatives and 5 independent experts, is tasked to determine an acceptable minimum wage for workers and employers.

Figure 1: Change in Myanmar minimum wages in comparison with other ASEAN members (percent)



** The daily minimum wage in Malaysia was estimated through the monthly minimum wage of 24 working days

Figure 2: Nominal and real wage distribution across quintiles



The Committee then embarked on initial discussions and negotiations. National and regional workshops were organised periodically to build consensus among all parties. The minimum wage rates proposed in these discussions were re-discussed not only at meetings of the tripartite Committee but also at workshops attended by experts, domestic and international organisations and interested stakeholders. In addition to field survey data, the base salaries of civil servants and wage rates of daily wage workers were considered before the minimum wage rate was approved.

In August 2015, the Committee passed a notification of MMK3,600 as the first minimum wage a worker is entitled to receive for an 8-hour day in all sectors across the country. However, small enterprises with less than 15 workers, small family enterprises, and those in the special industrial zones are exempt from minimum wage requirements.

The Minimum Wage Law also gives the Committee the mandate, with the

approval of the union government, to adjust the minimum wage. This can occur at least once every two years, depending on the situation and after inspecting work skills and workplace safety in commerce, manufacturing, services, agriculture and livestock production across the regions. Following the successful implementation of Minimum Wage Law in 2015, when the daily minimum wage for an 8-hour day was set at MMK3,600, the government ratified a new daily wage of MMK4,800 in May 2018. This adjustment represents the biggest minimum wage increase in the ASEAN region.

Designating the minimum wage in Myanmar is one of the most important processes of labour market reform. Policy priorities to improve workforce capacities include reforming wage structure, ensuring contract credibility, expanding training and education, improving social benefits, providing workplace safety and eradicating child labour. The minimum wage, together with other initiatives, underscores the

government's focus on economic objectives that prioritise labour welfare in the country. The introduction of a minimum wage has allowed Myanmar to tap special trade privileges such as the Generalized System of Preferences and motivated the US government to lift its economic sanctions on the country. These changes have brought forth tremendous results. For instance, export earnings from the garment industry increased from USD627.921 million (beginning of 2015–16 fiscal year to February 2016) to USD1,489.351 million (beginning of 2016–17 fiscal year to February 2017), according to trade figures from the Ministry of Commerce.

Impacts of the minimum wage on the economy and labour market

The findings presented here draw on secondary data from the nationwide Labour Force Survey (LFS) 2015 and 2017, the World Bank Enterprise Survey in 2016 and the Myanmar Garment Manufacturers Association (MGMA), and primary data from a survey conducted in 2016 by CESD and Yangon University of Economics to assess the impact of the minimum wage in garment and food processing industries.²

The minimum wage has a positive effect on income equality, directly increasing the earnings of economically vulnerable groups including low-educated workers and female workers. Minimum wage policy has arguably contributed to the increase in total monthly wages from MMK15,400 in 2015 to MMK170,800 in 2017 (LFS 2015, 2017). It has also had a positive effect on income equality. The gender pay gap has narrowed. Before the minimum wage, an average, female workers earned MMK96,700 per month or 33

percent less than male workers (LFS 2015). In 2017, the average monthly wage of female workers was reported to have increased by 65 percent compared to a 39 percent increase for male workers. The income gap between different economic groups has shrunk, increasing the wages of the lowest earners (CESD 2016). Specifically, income gaps between the highest-earning 20 percent and the lowest-earning 20 percent decreased 53 percent. Workers with the lowest level of education (read and write) are found to have benefited the most from minimum wage enforcement with a 67 percent increase in wages.

Minimum wage policy has a spillover effect on sectors beyond its purview, including the informal sector and workers earning above the minimum wage. Myanmar's economy is characterised by the dominant informal sector, which is the main source of job creation in the country. The share of informal employment in total employment was estimated at 87.5 percent in 2015 and 82.45 percent in 2017. Even though Minimum Wage Law applies only to workers in the formal sector, the increase in total monthly wages between 2015 and 2017 indicates that it has benefited informal sector workers as well. Income gaps remain, however, with informal sector workers earning 54 percent less than formal sector workers (LFS 2017).

The minimum wage has also increased the salaries of workers earning above the minimum wage; all quintiles experienced a rise in total income, albeit at varying rates (CESD 2016). Figure 2 shows that although there were high increases in the nominal wage before and after in the first quintile (89 percent) and the second quintile (53 percent), the differences declined markedly in the higher quintiles. For instance, the difference between the nominal wage before and after in the fifth quintile was only 22 percent.

² The survey was conducted in Hlaing Tharya Industrial Zone, Yangon region. It collected data on wages and benefits before and after the minimum wage, resulting in 525 observations from both food processing and garment sectors.

Although disemployment effects of the minimum wage are not observed, high labour turnover in industrial sectors lowers the rate of productivity growth. Because the informal sector accounts for a significant share of domestic economic activities, the unemployment rate is traditionally very low. Between 2015 and 2017, the unemployment rate increased from 0.8 percent to 1.55 percent, the labour force participation rate decreased from 64.7 percent to 61.3 percent, and the share outside the labour force increased from 35.3 percent to 38.6 percent. However, in contrast to the challenge of job creation in Myanmar, employment in industry rose sharply.

At the same time, high turnover rates persisted in labour-intensive sectors, with possible implications for productivity growth. The number of employees in the garment sector rose rapidly, from 245,961 in 2015 to 324,390 in 2017 and then to 381,774 in 2018 (MGMA data). However, garment firms reported a monthly turnover rate of 7 percent (2017 CESD Apparel Survey), as garment workers tend to job hop due to low wages or health issues. Although intersectoral mobility is not a big problem for garment employers, high turnover rates could worsen Myanmar's persistent poor productivity performance.

Firms adopted various strategies to comply with minimum wage legislation, including increasing production targets and reducing investment in human capital development. Data from CESD 2016 suggests that most garment and food processing firms comply with the legislation. However, a small number (9 percent) of employees reported receiving less than the minimum wage. In addition, employers have rearranged their production targets to boost productivity and cut back on training for their workers. In-depth interviews with garment employers and workers show that firms increased

their production targets by an average of 30 percent in 2016. For instance, at a garment factory in Hlaing Thayar, the target increased from 80–100 pieces for 40 people per production line to 150–200 pieces for 30 people per production line. Some supervisors fear that although the minimum wage has a greater impact on operators, it will put more pressure on them to reach targets.

The business environment shows very little improvement. As a result, the majority of labour disputes recorded concern layoffs and wages. When the minimum wage was introduced in 2015, many private sector representatives complained that the government must address the challenges and barriers facing SMEs so that they could comply with the minimum wage effectively. The government responded to these demands favourably as it started to implement liberalisation measures to reduce the burden of over regulation on businesses. Myanmar's steady rise up the Ease of Doing Business rankings from 187 in 2013 to 167 in 2016 is a testament to the government's commitment.

Deregulation efforts and business environment improvements continue at a slower pace, suggesting a more challenging task of structural adjustment and institution building. Amid this situation, a new minimum wage could be burdensome for business, especially for SMEs. According to representatives of Shwe Lin Ban Industrial Zone Management Committee, 12 factories closed down between 2014 and 2018. Some labour-intensive industries such as garments are finding it difficult to pay the new minimum wage of MMK4,800, though this is not a problem for nonlabour-intensive factories as some already pay more than the minimum wage. Some garment sector employers argued that the rise in the minimum wage should be linked to workers' skills; others said they would try to survive until the end

of 2018, then they would decide whether to continue or shutdown. Indeed, most of the labour disputes recorded by MOLIP in 2016 concern layoffs (53 percent) and wages (21 percent).

Policy recommendations

The government, in particular MOLIP, needs to monitor compliance with Minimum Wage Law and take corrective measures to deal with noncompliance. This process should go hand in hand with the formalisation of the economy. Formalising unregistered enterprises will help ensure the economic rights of informal workers.

The government should implement initiatives to mitigate the negative effects of the minimum wage on employers and workers. Labour-intensive industries such as garments will be the most affected by a hike in the minimum wage as the largest part of their production cost is wages. Therefore, it is imperative to resolve labour disputes arising from the minimum wage and create an economic environment conducive to good business. In this regard, it is important to have interministerial cooperation to resolve issues, some of which fall beyond MOLIP's mandate.

MOLIP, together with the private sector and development partners, should strengthen skill development schemes to boost labour productivity. Most labour-intensive industries in Myanmar, particularly the garment and food sectors, used to maximise their profits by paying their employees low wages. However, the new minimum wage rate has put pressure on labour-intensive industries to improve worker skills, upgrade technology and enhance management practices to boost productivity and product quality. Amid the general trend of firms reducing investment in human capital development, it is necessary

that the government, particularly MOLIP, provide skill development schemes to increase worker skills.

The government should ensure improvements in workers' net salaries and socioeconomic conditions. The minimum wage was initiated to guarantee a minimum monthly salary for workers and resolve wage inequality across sectors. The law does not ensure an increase in workers' net income. The government should therefore ensure price stability through inflation and exchange rate control. Moreover, it is crucial to raise awareness among workers about their rights and benefits, which in turn will keep firms accountable for their employees.

The government should continue efforts to reform the economy and overcome obstacles facing businesses, especially SMEs. The Ease of Doing Business index highlights four main obstacles: access to finance, poorly educated workers, access to land and electricity coverage. The government should therefore pay more attention to providing SMEs with access to finance, infrastructure and skilled labour.

Future studies should monitor and evaluate the impact of the minimum wage in all sectors. Besides labour-intensive industries, it is important to study the impacts of the minimum wage on workers in other sectors such as agriculture and services. Continuous assessment will make it possible to determine the wage rates needed to attract workers while keeping business profitable. This, in turn, will reduce labour underutilisation and labour turnover rates.