SOUTHEAST ASIA: The politics of minimum-wage setting

- Malaysia has been the first government in the region to substantially increase minimum wage rates in the current inflationary environment and might be followed by Vietnam and Thailand in the second half of the year.
- The Philippines and Indonesia hope that handouts, subsidies, and price controls can buy them enough time to weather the inflation peak, although the government in Manila seems to be content to kick the problem to the next administration.
- The fuel and rice prices trajectories during the harvest-lean third quarter could be key determinants of worker discontent in the second half of the year, and consequently, of the pressure on governments to react with wage or other compensatory policies.

Malaysia this month implemented a 25% increase in the minimum wage, based on a biennial review process. The prospect of early elections likely weighed strongly on the government of Prime Minister Ismail Sabri Yaakop, with political maneuvering having intensified in anticipation of a vote in the second half of the year. Thus, the wage hike should be seen in the context of economic policies through the next few months, leaning toward protecting the ruling coalition's vote bank, especially lower-income Malays. In Vietnam, a 6% minimum wage increase to be implemented in July is awaiting the prime minister's approval. The timing is uncommon — wages are normally adjusted on 1 January, and the last time the minimum wage was raised mid-year was in 2009.

Other governments, however, are not yet displaying the same level of political urgency on the minimum wage for now and hoping that their current policies will be enough to limit the popular discontent from rising prices.

Buying time on wage demands

Inflation has been less pronounced in Southeast Asia in the first quarter compared to the larger western economies, helped by direct and indirect subsidies, some price controls, and relatively stable rice prices. Also, anecdotally, the broad public relief, especially among low-income workers, from the relaxation of Covid-19 business and mobility restrictions, and the consequent broadening of economic activities, has helped limit wage-based grievances.

Nonetheless, to help head off any broad discontent, governments have targeted policies at some of the most vulnerable sectors. For instance, Indonesia in April introduced a "cooking oil cash assistance program" of IDR 300,000 (USD 21) per month for the next three months to about 23mn households. A wage assistance subsidy in April also provided a one-time payment of IDR 1mn (USD 70) to about 8.8mn workers who earn less than IDR 3.5mn (USD 240). The ban on palm oil exports was also meant to address the most urgent public concern about basic needs.

In the Philippines, the government has attempted to shield wage earners from rising prices. First, it has kept public transport prices flat, given a spike in the cost of their commutes would likely be the main trigger for a broader and stronger clamor for

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wage adjustments from low-income workers. In turn, the government has provided small transport earners with a one-time payment of USD 120 in direct fuel aid. More broadly, around 12mn low-income households will receive around USD10 for the next 12 months.

Second half risk

The risk for the private sector is that if policymaker's expectations of inflation peaking in the third quarter do not pan out, then governments that are more limited by their fiscal position or vulnerable to domestic politics could transfer more of the burden to the private sector through price controls and indirect subsidies or, in case they let the price of basic commodities and transport costs increase, through wage increases.

Minimum wage dynamics in key Southeast Asian countries

Country	Wage setting body	Last minimum wage adjustment	Status	Political dynamics of minimum wage
Philippines	Regional wage boards decide based on labor petitions	November 2018	Petitions are pending, and hearings have been held, but no signal on timing	Commuter transport costs and rice price are key in driving wage demands; but so far, there has been only limited political and social pressure
Vietnam	National wage council normally sets once a year for January implementation	January 2020	6% increase starting 1 July awaiting PM approval	No minimum increase in 2021, so government may agree to mid-year increase but lower than proposed 6%
Indonesia	Regional heads determine rate in November for January implementation	January 2022	2022 rates were approved in November; regional heads unlikely to implement mid-year increase	West Java and Central Java are the key provinces for 2023 rates; government may resort to more handouts in 2H 2022 if inflation becomes politically problematic
Thailand	National wage committee	January 2020	Hearings until April; proposal in July, targeting August or September for new minimum wage order	Businesses are lobbying against a significant increase, but prospect of early elections may tip scales in favor of labor

One key factor that may change is the outlook for rice prices. The third quarter to early in the fourth quarter is the smaller harvest season for the larger rice-growing economies, which generates the risk of countries — primarily the Philippines — signaling the need to import more by the end of the year, which could drive up rice prices regionally in H2 2022.

In a scenario where inflation remains a problem in the third quarter, the political balancing act would be greatest in Thailand, where, similar to Malaysia, early elections are possible. The administration of Prime Minister Prayuth Chan-ocha can deflect wage pressures to the national wage council, which is expected to set new rates by August or September. Even now, however, business groups are lobbying against a significant increase, saying that this would hamper the recovery. With Prayuth highly dependent on Bangkok elites for his support, a miscalculation on inflation and its effects on either businesses or voters could drive the ruling coalition to seek an alternative candidate.

In Indonesia, Widodo will have to continue to rely on his existing policy toolkit to limit the discontent from rising prices, from aid and handouts to the poorest to diversion of exportable commodities to the domestic market. Regional heads determine wages for the coming year in November, which are then implemented in January. Thus, an out-of-cycle increase would be highly irregular. However, last December, Jakarta governor Anies Baswedan ordered an increase of 5.1% in the capital's minimum wage, defying the formula set in the Omnibus Law on Job Creation, which would have resulted in a much lower 1.1% increase. It still seems doubtful that other governors would see Baswedan's move as a precedent to disregard wage-setting rules; nonetheless, the provinces to watch in this regard on wage pressures later this year would be West Java and Central Java.

Philippine President Rodrigo Duterte's single term is ending, and his administration has not levied pressure on wage-setting boards to accelerate their decisions on pending minimum wage petitions. The next president — very likely to be Ferdinand

Marcos Jr. — will have more political capital because of the elections, which limits the threat of price increases morphing into broad discontent. But there is a lack of knowledge currently about Marcos' likely policy advisers as well as his policy intentions, which sustains the risk that his government could revert to populist policies such as an oil price fund, intervention into agriculture markets, or even wage increases if prices were to continue to rise.

In Vietnam, a 6% wage increase order for implementation on 1 July is awaiting the approval of Prime Minister Pham Minh Chinh. However, chambers of commerce are asking that the wage hike be deferred to 1 January 2023 — since the start of the year, increases are more the rule than the exception. The last time Vietnam increased wages in July was in 2009, just after the financial crisis. However, since no increase was implemented last year, the government may be willing to have a mid-year adjustment, but at a slightly lower rate than the 6% proposed in April by the national wage council.

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