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Philippine Association of Multinational Companies Regional Headquarters, Inc.

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Position Paper on the Minimum Wage Increase

We, the Joint Foreign Chambers, support fair and competitive wages for the Philippine workforce. Fair in the sense that as many Filipinos as possible in the formal and informal labor markets are rewarded for their work and competitive in the sense that wage levels do not result in job loss through investors avoiding the Philippines in favor of other countries with lower costs and local markets selling more imported than locally-made goods.

Member companies from each of our chambers generally pay above minimum wage for new hires, who are usually college graduates with language and other skills needed for the higher-quality jobs that our members provide. Workers with better skills and higher productivity have no problem getting jobs that pay considerably above the minimum wage, for example in the ICT-enabled services and electronics manufacturing sectors of the economy.

It is in this light that <u>we support a new wage policy in the Philippines, the two-tiered wage system, which is being introduced as part of labor sector reform by the Philippine government, with the support of the International Labor Organization</u>. Under the two-tier wage system, the minimum wage is set close to the wage needed for an employee to receive compensation somewhat above the regional poverty threshold, while the second tier is additional compensation linked to productivity. Regional Tripartite Wage and Productivity Boards should begin to transition to the two-tier wage system as soon as possible. Setting wages through legislation is unnecessary and should be avoided

The following additional comments should be considered:

1. The relentless upward adjustment in the minimum wages in the Philippines has made minimum wages in the Philippines among the highest minimum wages in ASEAN and caused great harm to the country's domestic and export manufacturing sectors. It can be argued that millions of actual and potential jobs have been lost as a result. For example in the once strong footwear and garment sector hundreds of factories have closed in the face of competition from economies where labor costs are lower, such as Bangladesh, Cambodia, China, and Vietnam.

2. The current minimum wage in the Philippines (the highest is in the National Capital Region at more than US$9) is higher than in most competing neighbors in the ASEAN region where the Philippines competes for investments and jobs. According to data from the National Wages and Productivity Commission (NWPC), as of April 30, 2012 daily and monthly wages were: (1) Cambodia daily US$2.03, monthly US$61.00; (2) Vietnam daily $2.22-3.17, monthly $66.57-$95.09; (3) Indonesia daily $3.03-5.54,

monthly $90.95-166.07; (4) China daily $4.00-7.89, monthly $119.97-236.78; (5) Thailand daily $7.11-9.60, monthly $213.18-288.08; and (6) Philippines NCR daily $9.19-10.06, monthly $275.63-301.85.

3. Malaysia is for the first time setting regional minimum wages this year; in the Malaysian Peninsula they will be $297 and in East Malaysia $242. Thailand implemented a minimum wage increase in April 2012 to $9.53 from $8.58. (news sources) There are also news reports that the Thai Garment Manufacturers Association members are considering moving their production out of Thailand.

4. Pressure to increase wages elsewhere in Southeast Asia is growing. In Indonesia, following strikes and widespread worker and labor union protests in early 2012 calling for higher minimum wages, some provinces have increased wages. In Vietnam, minimum wages for workers in state-owned enterprises and other public sector agencies were increased in May 2012, the 4th increase in the last four years, in response to double-digit inflation. Vietnam has also seen unprecedented levels of industrial work disruptions related to wages and working conditions, primarily in foreign-owned companies. Similar disruptions have also been widely reported in China, where wages in some key export manufacturing sectors have reportedly increased as much as 20% this year (various media sources).

5. Foreign Direct Investments (FDI) seeks investment-friendly destinations. Too often, FDI is going AWAY from the Philippines, where minimum wages are high. During the past four decades (1970-2010), Malaysia received a total of $112 billion in FDI, followed closely by Thailand with $109 billion, based on United Nations Conference on Trade and Development (UNCTAD) data as cited by *Arangkada Philippines*. Vietnam received $57 billion and Indonesia $49 billion. FDI in the Philippines, however, was only $34 billion, averaging under $1 billion a year. This low level of investments in the Philippines has resulted in significantly lower levels of employment among Filipinos. Of course, there have been other reasons for low FDI, including corruption, inefficient infrastructure, high power costs, past political instability, red tape, and other high-cost production factors, all of which must be improved to make the Philippine economy more attractive to investors.

6. Even if the Regional Tripartite Wage and Productivity Boards follow the existing system of adjusting minimum wages, the current inflation rate of around 3% does not justify another round of wage increases that could spur inflation. The last adjustment in 2011 in the minimum wage was much higher than the erosion of the purchasing power and can still comfortably cover the small erosion in purchasing power that has taken place since. On the other hand, any upward adjustment in the minimum wage will likely result in higher inflation rates. (In addition, Channel News Asia recently reported that wage increase in Thailand is causing food price inflation as high as $0.16-0.64 per dish).

7. Any minimum wage adjustment will directly benefit 2.2 to 2.3 million workers in the formal sector, but the balance of 38 million more workers in the workforce today shall not be protected against inflation after a wage adjustment. A minimum wage increase will not help the intended beneficiaries. It will create more unintended consequences for the sector that needs help and protection. An across-the-board wage increase is even more harmful to the economy.

8. Of the more than 40 million workers in the workforce, 70% are in the informal sector. Sixty-two percent of workers in the formal sector are in companies in the micro, small, and medium categories that comprise 99% of all companies registered with the DTI and SEC. Any wage adjustment will tend to drive these MSM enterprises to the informal sector or simply to close shop. Over the last decade, more than 40,000 such enterprises have closed shop or moved to the informal or so with high wages.

The Philippines is slowly catching the attention of foreign investors who can bring investment and jobs to the country. We are already at a disadvantage with higher wages. With any further upward adjustment, the Philippines shall lose in the investors search for investor-friendly locations and therefore will be unable to create more new jobs. Local enterprises will not be able to absorb wage adjustments and will either pass on wage increases to consumers, or close shop. Either way, these small enterprises will be less competitive and will not be able to help in creating more jobs for the Filipinos.

Manufacturers are increasingly relocating within Asia, especially from Japan, China, and Thailand for various reasons (currency appreciation, wage increases, floods, power shortages, and shortages of workers). This presents the Philippines with a huge opportunity to attract many of these companies and the hundreds of thousands, and even millions of jobs that go with such investments. Let's take full advantage of this to help the Philippine economy grow twice as fast.

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