

The minimum wage and its relevance to socio-economic progress in the Lao People's Democratic Republic: A workers' perspective



Pong-Sul Ahn

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DWT for East and South-East Asia and the Pacific
Bureau for Workers' Activities

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Foreword

For the past decade, the Asia-Pacific region has enjoyed impressive economic growth at an annual average of 6 per cent (2001–12). It has generated jobs and improved living standards. Yet increasing income inequality within countries and between countries is a predominant concern across the region. An estimated 700 million of the region's 3.7 billion people still live below the extreme poverty line of US\$1.25 a day, with twice as many living in modest poverty, below \$2 a day. With millions of working poor people in the region, the application of the minimum wage is considered an imperative policy to mitigate poverty and to promote dignity and equity for all workers and their families.

Due to its complex processes, minimum wage fixing is often a controversial interplay between workers demanding a higher wage and employers questioning corporate payability. Wages that do not cover workers' living costs could trigger industrial conflicts, potentially leading to violence and political unrest as we have witnessed recently in several Asian countries. Having strong legal and institutional mechanisms for minimum wage fixing is essential for the periodical adjustment of a minimum wage on the basis of scientifically-collected data by an authentic institution.

In addition to its important role, the minimum wage serves as a bottom line set by a government to secure workers' basic income. In many Asian and Pacific countries, the minimum wage is overall low and insufficient for decent living, but it is equivalent to 60–80 per cent of worker's median wage. The ILO Minimum Wage Fixing Convention, 1970 (No. 131) recommends "the needs of workers and their families" as a social criteria in fixing a minimum wage and pursues a decent wage. Hence, coupled with an increase in the minimum wage ceiling, trade unions need to strengthen collective

bargaining power to harness wage and non-wage benefits in workplaces. They also need to launch organizing campaigns to recruit workers in both the formal and informal economy to improve working standards and remunerations. In addition, the growth-oriented global economy, which is heavily reliant on supply chains, tends to distort workplace relations and undermine labour standards. A shift is needed to an inclusive, gain-sharing growth model that can leverage the living standards of workers and their families.

This paper on *The minimum wage and its relevance to socio-economic progress in the Lao People's Democratic Republic: A workers' perspective* provides in-depth analysis on the application of the minimum wage in the context of various socio-economic developments. I am thankful to Pong-Sul Ahn, Senior Specialist on Workers' Activities, ILO DWT for East and South-East Asia and the Pacific, for conducting the study and making the report available to unionists, employers, policy-makers and academics. I expect this publication be useful for discussions and subsequent studies on wages at the national, regional and global levels.

Maria Helena André

Director

ACTRAV

ILO Geneva

Contents

	<i>Page</i>
Foreword	iii
Acknowledgements	xi
Abstract	xiii
Abbreviations	xiv
1. Introduction	1
1.1 A snapshot of the contemporary development in the Lao People's Democratic Republic	2
1.2 An overview of the minimum wage in the Lao People's Democratic Republic	3
1.3 Composition of the report	4
1.4 Methodology of the research	5
2. The regulatory and institutional frameworks for minimum wage fixing	7
2.1 The regulatory framework on minimum wage fixing	7
2.2 The institutional framework on minimum wage fixing	8
2.2.1 Lao Federation of Trade Unions (LFTU)	8
2.2.2 Lao National Chamber of Commerce and Industry (LNCCI)	9
2.2.3 Ministry of Labour and Social Welfare (MOLSW) ..	10
2.3 Processes and methodologies for minimum wage fixing ..	10
2.4 National minimum wage fixing, 1991–2011	13
2.5 Enforcement of the minimum wage	14

	<i>Page</i>
3. The minimum wage and collective bargaining	17
3.1 Wage-related labour disputes	17
3.2 Collective bargaining coverage	18
4. The minimum wage and employment	23
4.1 The economically active population	23
4.2 The unemployment rate	24
4.3 Distribution of employment by sector	25
4.4 Distribution of the workforce by status of employment...	26
4.5 Size of economic units	28
4.6 The impact of FDI on economic growth and employment	29
4.7 A scenario in employment change and its impact on wages	31
5. Application of the minimum wage to different sectors	35
5.1 Wages in the private sector	35
5.1.1 The garment and textile sector	35
5.1.2 The rubber and timber plantation	37
5.1.3 Restaurants and resorts	37
5.2 Wages in a state enterprise	38
5.3 Wages in the informal sectors	38
5.3.1 Construction	39
5.3.2 Wood-processing manufacturing	39
5.3.3 Clothes shop in Luang Prabang	40
5.3.4 Restaurants in Luang Prabang and Bolikhamxay ..	40
5.3.5 Rural areas	40
5.4 Wage disparity between male and female workers	40
5.5 Civil servants' pay scale and the minimum wage	41
6. The minimum wage and improved living standards	43
6.1 GDP growth rates and economic sectors as a share of GDP	43
6.2 Consumer price index, inflation rates and minimum wage adjustments	46
6.3 National and international poverty lines	47

	<i>Page</i>
7. The minimum wage and labour productivity	53
7.1 Labour productivity	53
7.2 Comparison of labour productivity in the ASEAN Member States	58
7.3 Comparison of minimum wages among the ASEAN Member States	59
8. The minimum wage and social security benefits	67
8.1 The four social security schemes	67
8.1.1 State Authority for Social Security	67
8.1.2 Social Security Organization	68
8.1.3 Community-Based Health Insurance	68
8.1.4 Health Equity Fund	69
8.2 Implications of the social security schemes on workers' income and living standards	69
9. Conclusions	71
9.1 Findings	71
9.2 Recommendations	74
Endnotes	77
References	83

Tables

Table 1.	Number of trade unions and their membership, 1995–2013	9
Table 2.	Comparison of monthly minimum wage proposals between LFTU and LNCCI, 2011	12
Table 3.	National minimum wage increases in kip and US\$, 1991–2011	14
Table 4.	Labour dispute cases, 1995–2013	18
Table 5.	Number of collective bargaining agreements by the LFTU, as of December 2013	20
Table 6.	Distribution of workforce by status of employment, 1995, 2005 and 2010	27
Table 7.	Number and value of approved foreign direct investment projects, 2001–12	30
Table 8.	Monthly base salary for civil servants, as of January 2013 (index: 4,800) (LAK '000s)	42
Table 9.	Gini coefficient index, 1992–2012	50
Table 10.	A worker's yearly value-added output by size of firms surveyed in 2009	54
Table 11.	Labour productivity performance measured as GDP per worker, 1991–2013	55
Table 12.	Enrolment of primary, secondary and tertiary education, 1999–2011 (%)	57
Table 13.	Distribution of the employed workforce by completed education level, 2010	57
Table 14.	Comparison of monthly minimum wages among the ASEAN Member States	60

Figures

Figure 1.	LNCCI membership by sector, 2014	9
Figure 2.	Economically active population aged 15 or older, 1995–2012 ('000s)	24
Figure 3.	Distribution of the estimated employment by sector, 1995, 2005 and 2010 (%)	25
Figure 4.	Elasticity of total employment to GDP in the ASEAN Member States, 2004–08 (%)	31
Figure 5.	GDP growth rates and share of GDP by sector, 2002–12 (%)	44
Figure 6.	An increase of GNI per capita (constant US\$), 1999–2012 ..	45

	<i>Page</i>
Figure 7. Real minimum wages and poverty incidence, 1991–2013 ..	45
Figure 8. Consumer price index and inflation rates, based on the GDP deflator, 1997–2012	46
Figure 9. Population living below the poverty lines and the Gini coefficient index	49
Figure 10. Household consumption of goods and services, 2007–08 (%)	50
Figure 11. World Bank assessment of investment constraints for non-resource sectors in 2005 and 2009 (%)	56
Figure 12. Cross-country comparison of labour productivity performance, measured as GDP per worker, 2011 (US\$ '000s)	59



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Abstract

This paper examines empirical aspects of the regulatory and institutional frameworks and the process of minimum wage adjustment in the Lao People's Democratic Republic, as well as its actual implementation in different sectors – private, public and informal. Included is a review of collective bargaining coverage to measure how such agreements affect wage increases. It also analyses the relationship between the minimum wage and certain socio-economic developments, such as gross domestic product growth rates, consumer price indices, inflation rates, employment trends, the national and international poverty lines, labour productivity and social security coverage.

The Lao People's Democratic Republic is undergoing rapid demographic growth and urbanization, which is creating challenges in employment, especially for youth, women and rural migrants. This trend will trigger an increase in salaried workers in non-agriculture sectors and urban areas. With a potential for faster and bigger economic expansion, the minimum wage system becomes a central stage for policy development related to employment, living standards, poverty reduction and social security.

A visionary minimum wage policy would serve as a basis for an inclusive economic growth model for the country, with better jobs and shared prosperity. The country needs to establish a solid minimum wage fixing mechanism that is supported by all essential services and statistics from a standing institution. This case study provides insights to tripartite partners in the Lao People's Democratic Republic and abroad on minimum wage fixing and aims to generate a debate on the minimum wage system. With no other apparent research on the minimum wage in the country, this paper's analysis should be useful for further studies on wages and relevant policies.

Abbreviations

ACTRAV	ILO's Bureau for Workers' Activities
ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
CBHI	Community-Based Health Insurance
CPI	consumer price index
ECCIL	European Chamber of Commerce and Industry in Laos
FDI	foreign direct investment
GDP	gross domestic product
GEI	gender equality index
GSDC	Garment Skills Development Centre
ILO	International Labour Organization
LECS	Lao Expenditure and Consumption Survey
LFTU	Lao Federation of Trade Unions
LNCCI	Lao National Chamber of Commerce and Industry
MOF	Ministry of Finance
MOLSW	Ministry of Labour and Social Welfare
MPI	Ministry of Planning and Investment
NSC	National Statistics Centre
NSEDP	National Socio-Economic Development Plan
PPP	purchasing power parity
SASS	State Authority for Social Security
SSO	Social Security Organization
UNDP	United Nations Development Programme

Introduction

1

Macroeconomic indicators directly and indirectly inspired the recent minimum wage adjustment in the Lao People's Democratic Republic and drew tripartite interest on how significant the fixing and fair application of the country's minimum wage is for both workers and employers. As the Lao economy transforms at a rapid rate, its employment structure is changing, with an evident increase in the number of salaried workers in non-agriculture sectors. This change has increased the impetus to establish a solid minimum wage fixing institution that can provide all essential services and statistics required to regularly adjust the minimum wage and facilitate tripartite consultations in the process. A regularly scheduled wage adjustment would help improve the income and livelihoods of workers in low-end jobs and prevent labour conflicts. So far, collective bargaining has had little influence on the improvement of the minimum wage floor or even wage hikes in the country. This demonstrates that the minimum wage adjustments have had a much greater impact on wage increases than have collective bargaining agreements.

The approaching economic integration plan of the Association of Southeast Asian Nations (ASEAN) by 2015 is seen as a great opportunity for the country to increase trade and investments. With the potential for faster and bigger economic expansion, the Government intends to orient its policy development on employment, improved living standards, poverty reduction and social security around the minimum wage. The minimum wage could be an overarching policy leading to the successful execution of the national agenda.

This paper reviews the regulatory and institutional frameworks and the process of minimum wage adjustment in the Lao People's Democratic

Republic, as well as its actual implementation in different sectors. It also analyses the relationships between the minimum wage and national socio-economic progress.

1.1 A snapshot of the contemporary development in the Lao People's Democratic Republic

The Lao People's Democratic Republic, known then as Laos, gained independence from France in 1953. The country was divided during the second Indochina War (1959–1975), with eastern portions controlled by the Communist Pathet Lao and backed by North Viet Nam and with the western portions controlled by the Royal Army and the Government, backed by South Viet Nam and the United States. After the fall of South Viet Nam to the communist forces in December 1975, the communists took control of the country, renaming it the Lao People's Democratic Republic. Between 1975 and 1985, the country had close economic and political relations with Viet Nam and the former Soviet Union and received a great amount of aid and commodities from those governments.

Just as the Vietnamese experienced severe economic hardships after the civil war (1954–1975), the Lao people encountered extreme difficulties after 1975 with the state-led socialist economy due to the absence of a self-sustaining structure and development. Hundreds of thousands of Lao who fought against the communists and feared retaliation from the Pathet Lao fled the country seeking political asylum; some 250,000 people emigrated to the United States and many more to Thailand.¹ Fearing economic collapse, the Government began to shift its socialist policies from mid-1979 to encompass a market economy.

In 1986, the Government started reforming the state-planned economy with a policy of privatization, the acceptance of foreign direct investment and the expansion of the private sector. The National Socio-Economic Development Plan (2011–15) aims to advance the economy above the status of a least developed country by 2020. Through its economic transition, the country has achieved a high economic growth rate, at an annual average of 7.4 per cent between 2002 and 2012. But it has also endured a high rate of inflation, at 7.6 per cent per annum over the same period. The portion of the population living below the national poverty line remains large, at 27.6 per cent (31.7 per cent in rural areas and 17.4 per cent in urban areas) in 2007–08 (the latest statistics). The portion of the population living below the international poverty line of US\$1.25 per day was estimated at 37.4 per cent in the same year.

The Lao People's Democratic Republic is geographically surrounded by Cambodia, China, Myanmar, Thailand and Viet Nam. Its economy is heavily reliant on the economies of China, Thailand and Viet Nam, which leaves it vulnerable to economic tides in those countries. Its population, at approximately 6.51 million in 2012, consists of 49 ethnic groups, within which inequalities remain high. Around 58.9 per cent of the population is younger than 25 years. In 2012, there were more than 3.32 million economically active workers; nearly 78.9 per cent of the male population was economically active, while 76.3 per cent of the female population was active.

In the ongoing economic transformation from a state-planned to an open-market economy,² the minimum wage remains an important instrument for sharing economic gains with workers and improving the living standards of working people. The *Global Wage Report 2012/13* of the International Labour Organization (ILO) reiterates the fact that the minimum wage is an important tool to ensure decent jobs and ultimately reduce the number of the working poor.³

1.2 An overview of the minimum wage in the Lao People's Democratic Republic

The first national minimum wage was instigated in 1991 (effective in January 1992) and has been periodically reviewed by tripartite consultations (in 1997, 2000, 2005, 2009 and 2011) – with the adjustment period becoming shorter more recently in response to inflationary pressures. The minimum wage has been used as a floor wage for unskilled workers, but the definition of unskilled workers is not legally clear.

The latest population census showed that employment in the formal economy represented around 16.2 per cent of some 3 million workers in 2010, compared with around 12 per cent in 2005. A total of 97 per cent of the 137,357 economic units surveyed by the National Statistics Centre in 2006 were small-sized enterprises (fewer than ten workers), mostly dominated by family businesses relying on unpaid family members. In 2010, the total salaried workforce was estimated at 472,000 workers, with slightly more than half of them (215,000) in the private sector. Within small-sized enterprises and agriculture, the minimum wage is unlikely to be well applied, while workers in public enterprises, non-agriculture enterprises, skilled and semi-skilled workers in construction and workers in hotels and big tourism businesses are likely to earn much more than the minimum wage. After more than two decades of its implementation, the tripartite social partners have started considering the minimum wage as a crucial element for sustainable economic development.

There are several barriers to fixing the minimum wage in the Lao People's Democratic Republic, which include: (i) no regulation stipulating the process for adjusting the minimum wage; (ii) no standing tripartite institution able to provide the necessary information and statistics, fix the minimum wage and then monitor its implementation; and (iii) no fixed timeline for regularly reviewing the minimum wage according to economic performance indicators.

Instead, Ministerial Decree No. 4942, issued in October 2007, guides the Lao Federation of Trade Unions (LFTU) and the Lao National Chamber of Commerce and Industry (LNCCI) in conducting a cost-of-living survey. Those results are the basis for the tripartite consultations that come together irregularly to adjust the minimum wage. Once a tripartite consensus is formed and the cabinet endorses it, the Prime Minister's Office makes the final decision on the increment of the minimum wage.

1.3 Composition of the report

This paper is divided into nine chapters. Following the introduction (chapter 1), chapter 2 presents descriptions of the legal and institutional frameworks guiding the national minimum wage fixing in the country. Chapter 3 reviews collective bargaining and its impact on wage increases. Chapter 4 looks into changing employment structure by sector, sex and the unemployment rates since 1995 to analyse the impact of the minimum wage on employment. Chapter 5 explains how the national minimum wage has been applied to different categories of employment in the private, public and informal sectors. The pay scale for civil servants is also elaborated as a comparison with wages for workers in other sectors. Chapter 6 analyses the correlation between the minimum wage and poverty to measure how the minimum wage has contributed to the improved living standards of working people. Chapter 7 presents changes in labour productivity and its coherence with the minimum wage. The Lao People's Democratic Republic is among the ASEAN Member States with the lowest labour productivity and the lowest labour costs. Chapter 8 looks at the coverage of social security schemes over the working population to measure how the social security benefits supplement the minimum wage to workers' income. Chapter 9 concludes the report by summarizing the findings of the study and presenting recommendations.

1.4 Methodology of the research

This case study primarily relied on a literature review of publications retrieved from online resources. To fill the gaps that emerged from the literature review, interviews were conducted with local experts and workers. The experts work with research centres and government and non-government institutions, such as the LFTU, the LNCCI, the World Bank, the Ministry of Planning and Investment, the Ministry of Labour and Social Welfare (MOLSW), the Lao Statistics Bureau, the National Economic Research Institute and the Garment Skills Development Centre. A few union leaders and workers (a store clerk, waiters, resort staff and a public sector employee) who were interviewed narrated their experiences with the application of the minimum wage and its impact on their living standards.

Obtaining reliable data proved to be difficult because various national and international institutions in the Lao People's Democratic Republic generate statistics using different standards or methodologies, which, nonetheless, were painstakingly collected, analysed and compared where possible. To help the Government improve its capacity for statistical accounting, the World Bank recently extended a grant of US\$8 million to the Ministry of Planning and Investment to establish a national system for producing quality macroeconomic and poverty statistics.⁴ The use of ambiguous terminologies and definitions by the Lao authorities, which are inconsistent with international norms and standards, was also challenging due to the various analytical errors they produced.



The regulatory and institutional frameworks for minimum wage fixing

2

This chapter presents an analysis of the legal and institutional frameworks that guide the fixing of the minimum wage, as well as the processes and practices for subsequent adjustments in the Lao People's Democratic Republic. It also looks at the mechanisms in place to enforce the minimum wage. The first national minimum wage was set up in 1991 when the Government introduced an open market policy for the industrialization of the country. Since then, and in response to inflationary pressures, the minimum wage has been periodically adjusted through tripartite consultations (in 1997, 2000, 2005, 2009 and 2011).

2.1 The regulatory framework on minimum wage fixing

A minimum wage is the legally required basic hourly, daily or monthly remuneration that employers must pay workers; it should not include allowances, bonuses and overtime pay. Article 46 of the Labour Law (2006) authorized the Government to determine the minimum level of salary or wages for each area of work.⁵ Article 108 of the Labour Law (2013) authorizes the State to promulgate the level of minimum wage or salary at every interval, based on the results of consultations with third parties.⁶ The 2013 Law diminishes the Government's absolute decision-making power on the minimum wage and defines the minimum wage as a basic income means for sustaining a minimum living standard. The Labour Law (2006) aimed to secure a basic minimum living standard for employees that was consistent with the level of change in the cost of living in a certain time period, while guaranteeing social harmony, stability and sustainable economic development for the nation. The 2013 Law makes the definition of the

minimum wage rather ambiguous, as Article 105 states that “the minimum wage is the level of salary or wages, which the government announces its official use on each period to ensure a basic livelihood”.⁷

Two government ordinances, Prime Minister's Decree No. 64 on Improvement of the Minimum Wage for Workers in Enterprises (issued March 2005) and the Ministerial Notification on the Adjustment of Minimum Wage for Workers in the Business Sector (issued in 2011 by the MOLSW), set the terms and coverage of the minimum wage.⁸ The minimum wage is the basic monthly wage for an unskilled worker, set on the basis of eight working hours per day and 48 working hours (six days) per week. It excludes the payment of overtime work, bonuses, incentives, meal allowances and other forms of benefits, and it applies to all unskilled and/or inexperienced workers in the manufacturing, business and service sectors. It does not apply to workers in international organizations, civil servants or contracted officials in state-run agencies, officials working for the Communist Party organization, the National Front for Construction, mass organizations, the defence forces or other security forces.

2.2 The institutional framework on minimum wage fixing

As noted, the minimum wage adjustments have been made on an irregular basis through consultations among tripartite partners. In May 2010, the tripartite partners agreed to set up the Tripartite Committee on Industrial Relations, with Ministerial Decree No. 1797 (November 2010), which outlined its formation as a consultative, non-standing body consisting of 18 members (six from the LFTU, six from the LNCCI and six from the MOLSW). It was supposed to meet on a regular schedule once every three months on a rotation basis in the office of one of the three organizations, but its meetings take place on an irregular basis as needed. A MOLSW staff member records each meeting's proceedings. The following subsections introduce the organizational structure and policies of each party of the Tripartite Committee.

2.2.1 Lao Federation of Trade Unions (LFTU)

The LFTU is the country's only national union. Article 5 of the Labour Law (2006) stipulates its roles and responsibilities in protecting the rights and benefits of workers, sharing information with workers and representing workers in tripartite forums.⁹ However, the Labour Law (2013) does not include any article regulating the roles and responsibilities of trade unions. No union pluralism is allowed at any level – national, provincial, industrial or

enterprise. The LFTU was founded in 1956, with a membership of around 50,000 among civil servants and workers at state enterprises. As shown in table 1, as of December 2013, the LFTU consisted of 17 provincial unions (including the Vientiane municipality union), 29 ministerial associations, 185 district or equivalent trade unions (145 district unions and 40 industrial branch offices) and 8,491 local unions with a membership of 195,015 (116,148 men and 78,867 women).

Table 1. Number of trade unions and their membership, 1995–2013

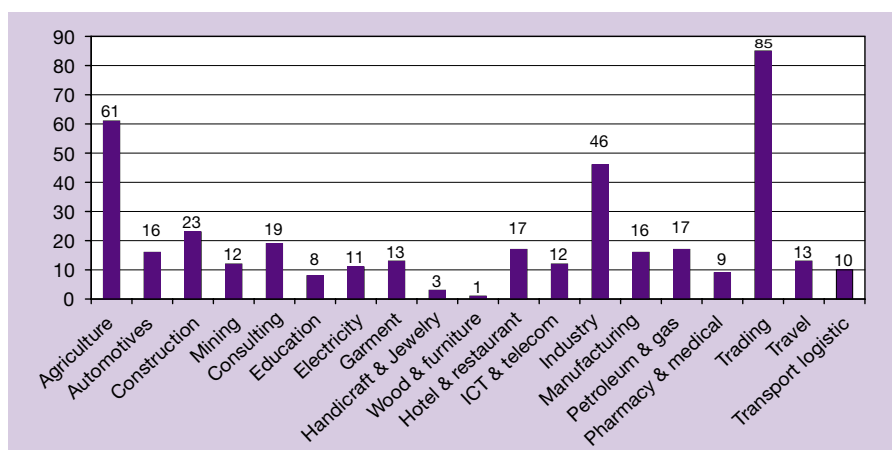
	1995	2000	2005	2010	2013
No. of local unions	4 801	5 290	5 685	8 057	8 491
Total membership	86 962	81 967	98 899	155 108	195 015
Male	67 044	70 429	54 533	94 319	116 148
Female	19 918	11 538	44 366	60 789	78 867

Source: Based on reports of the LFTU Congress, 1996, 2001, 2006 and 2011. The data of 2013 were provided by the LFTU Labour Protection Department in August 2014.

2.2.2 Lao National Chamber of Commerce and Industry (LNCCI)

The LNCCI is the most representative employers' organization in the country. Its primary role is to offer education and training to its members and to promote harmonious industrial relations. It represents employers at national tripartite forums concerning minimum wage fixing, labour law amendments and labour policies. Figure 1 shows that as of June 2014, the LNCCI registered 392 members who represent business units in some 20 industries

Figure 1. LNCCI membership by sector, 2014



Source: Based on the LNCCI's member directory, available at: www.laocci.com/index.php?option=com_content&view=article&id=54&Itemid=60&lang=en [accessed 27 May 2014].

(a unit has capital of 50 million kip) and operate in accordance with the Law on Enterprises (2005).¹⁰ The LNCCI also collaborates with 26 business associations and 17 provincial affiliates (with a membership of approximately 3,000 business units) that are not entitled to participate in any election of the LNCCI decision-making bodies.

2.2.3 Ministry of Labour and Social Welfare (MOLSW)

The MOLSW is the Government's steward of harmonious industrial relations, full employment and social welfare. It is mandated to ensure implementation of the Labour Law and other associated legislation. It has oversight of the Tripartite Committee on Industrial Relations and facilitated the tripartite consultation on the minimum wage fixing in 2011. It is composed of seven departments: (i) Organization and Personnel; (ii) Inspection; (iii) Labour Management; (iv) Skills Development and Employment; (v) Social Security; (vi) Pension and Disabilities; and (vii) Social Security.

2.3 Processes and methodologies for minimum wage fixing

When workers who had migrated from rural to urban areas for jobs in factories encountered high living costs due to steep inflation in the late 1980s, the LFTU proposed the Government to adopt a minimum wage. Years later, Ministerial Decree No. 4942 (October 2007) mandated the LFTU and the LNCCI to conduct a survey on the cost of living. Each organization conducted a survey on workers' living costs in 2009 and 2011, using the same formula on eight essential household commodities (food, cooking utensils, clothes, housing, transport, medical care, savings and other expenses (such as social and religious functions like weddings)).

The Lao People's Democratic Republic has yet to ratify ILO Minimum Wage Fixing Convention, 1970 (No. 131). Article 3 of the Convention recommends that countries consider two sets of factors in determining a minimum wage in the national context: (i) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits and the relative living standards of other social groups; and (ii) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.¹¹ The "needs of a family" may mean a basic, but decent, life style that a worker and his/her family are able to live above the poverty line and participate in social and culture activities. The needs of a family can be measured by the cost of basic necessities

(nutritious low-cost food items, adequate housing with acceptable standard and available amenities, adequate clothing and footwear) and cost of other needs (children's education, health care, transportation, communications, recreation and cultural activities).¹² ILO studies indicate that the minimum wages in many countries remain at the range of 40–60 per cent of the median wage. In the Russian Federation, the minimum wage accounts for only 13 per cent of the median wage, while it is 21 per cent in India, 34 per cent in the Republic of Korea, 52 per cent in the United Kingdom and 61 per cent in France.¹³

In its 2011 survey, the LFTU set three criteria for making a proposal for a new minimum wage: (i) daily actual consumption expenditure per person for survival (the LFTU referred to standard data for the individual costs compiled by the Ministry of Health and collected fresh data on commodity prices at Thongkhankham market (Chanthabouly district) and Sikhai market (Sikhotabong district) in Vientiane; (ii) employers' capability to cover workers' salaries; and (iii) comparison of the country's minimum wage with the level in China, Malaysia, Thailand and Viet Nam. The LNCCI circulated its questionnaire on workers' cost of living among its business associations and provincial affiliates and analysed the collected data.

The LFTU adopted two methods for calculating a new minimum wage for 2011 and for comparing them. Method 1 calculated a worker's daily consumption that is expenditure-based, and Method 2 is relevant to the daily consumption expenditure affected by inflation plus economic growth rates.¹⁴ The use of Method 2, which is based on the actual purchasing power of goods, would be a more scientific analysis than Method 1, which is pertinent to the costs of consumption that would vary considerably according to the economic disparities of different regions.

Method 1: Monthly living costs were measured according to a worker's daily consumption expenditure. As a result of its survey, the LFTU proposed 665,000 Lao kip (LAK) as the monthly minimum wage a worker needed to maintain a basic livelihood. It also proposed LAK798,000, including LAK113,000 for food and other allowances, as a monthly basic salary. The LFTU survey on living costs is unlikely to be comprehensive because the data on consumption expenditure were collected only from workers at two markets (Thongkhankham and Sikhai) in Vientiane, which did not represent the average level of daily consumption of workers throughout the country.

Method 2: The estimated rates of inflation and economic growth were used as indicators to calculate the living costs during the review period of 2009–10. Based on its assessments, the LFTU proposed LAK16,000 as a daily

minimum wage, which represented a 19 per cent increase from the LAK13,400 set in 2009. The 19 per cent increase was based on the following calculation (the total value of (i) + (ii) + (iii) divided by 3);

- (i) the total 16 per cent inflation rate for 2010–11 (an average of 8 per cent per year), plus
- (ii) the total 15.8 per cent economic growth rate for two years (an average of 7.9 per cent), plus
- (iii) an estimate of 25 per cent increase in living costs.

The second method arrived at a monthly figure of LAK480,000 as a new minimum wage guideline (on the basis of a daily consumption expenditure of LAK16,000 multiplied by 30 working days, including paid leave days). The LFTU proposed LAK480,000 as a monthly minimum wage and LAK795,000 (including LAK315,000 for a food allowance) as a basic salary for a worker.

As shown in table 2, the LNCCI recommended LAK416,000 as a minimum wage and LAK689,000 as a basic salary to the Tripartite Committee on Industrial Relations.¹⁵ The Committee agreed to a monthly minimum wage of LAK689,000, including non-wage benefit costs, and submitted it to the cabinet, which endorsed the proposal and forwarded it to the Prime Minister's Office. Ultimately, the Prime Minister's Office revised the proposed minimum wage to LAK626,000 after consideration of how it might affect foreign direct investment (FDI).

Table 2. Comparison of monthly minimum wage proposals between LFTU and LNCCI, 2011

Workers/ employers	Minimum wage without benefits (1)	Food allowance and bonus for no days absent (2)	Total basic salary (1+2)	Total in \$
LFTU option 1 (by method 1)	665 000	113 000	798 000	93
LFTU option 2 (by method 2)	480 000	315 000	795 000	93
LNCCI	416 000	273 000	689 000	81

Source: Data provided by Labour Protection Department, LFTU, 2013.

The hourly minimum wage was set at LAK3,009, and the daily minimum wage was fixed at LAK24,076, effective from January 2012. The daily minimum wage is compensation for work undertaken in a day for an employment contract that does not include non-wage benefits, such as meal

and transport allowances and seniority benefits. In addition, employers who hire workers for certain types of conditions must pay an additional 15 per cent of the minimum wage. These conditions encompass heavy work, complicated work, hazardous work or work that can negatively affect a worker's health, such as exposure to poisons, chemical substances, toxic substances, diseases or smoke, or work in a tunnel, underground, under water or in high places, or workplaces that are hotter or colder than a normal working environment, or work with vibration machines, in rural remote areas, in areas with high risks or difficult living conditions.

2.4 National minimum wage fixing, 1991–2011

Since 1991, the national minimum wage has been adjusted five times as table 3 illustrates. The first minimum wage was set at LAK26,000 (\$28.26, based on the exchange rate of that year) and increased to LAK36,400 (US\$39.56) in 1997. It was subsequently increased by 157 per cent to LAK93,600 in 2000, although the actual value (based on the kip/dollar exchange rate) declined sharply from \$39.56 in 1997 to \$12.15 in 2000. During that period, the accumulated inflation rate was as high as 447.3 per cent, and the value of kip against the dollar depreciated more than eight times.

When the Asian economic crisis hit Thailand in 1997, the Lao People's Democratic Republic felt the reverberations. As the Government had adopted a floating exchange rate, the value of the Lao kip severely depreciated from LAK920 to \$1 in 1997 to LAK7,700 in 2000.¹⁶ The rapid depreciation of Lao kip resulted in extraordinarily high inflation. The minimum wage increases for 2005 and 2009 moderately reflected the inflation rates and the devaluation of the kip, at 30 per cent. The 2011 minimum wage, at LAK626,000, represented an increase of 79.9 per cent from the 2009 minimum wage of LAK348,000. It was an extraordinary rise in comparison with the accumulated inflation rate of 14.0 per cent for the 2009–11 period.

The sharp increase of the minimum wage included the food allowance and attendance bonus, which is typically factored separately, because some employers paid it and some did not. According to Phongxaysack Inthalath, Director General of the Labour Management Department of the MOLSW, "at that time, non-wage benefits covered lunch, attendance bonus and the dormitory fee (electricity and water), at LAK8,500 per day."¹⁷ Sengdavone Bangonesengdet, LNCCI Deputy Secretary General, says "the unusual sharp increase in the minimum wage did not have a huge impact on businesses in the garment, textile, embroidery, hotel and manufacturing sectors because their wages were higher than the minimum wage anyway."¹⁸

Table 3. National minimum wage increases in kip and US\$, 1991–2011

Date minimum wage declared	Minimum wages (LAK)	Daily wages (LAK)	Minimum wages in US\$ (exchange rate on 30 Jan. in the respective year)	Minimum wage rises (%)	Accumulated inflation rates during each minimum wage review period (%)
PM Decree 92 (Dec. 1991)	26 000	1 000	28.26 (at LAK920)	–	
PM Decree 118 (Oct. 1997)	36 400	1 400	39.56 (at LAK920)	40.0	114.9 (1992–97)
PM Decree 14 (2000)	93 600	3 600	12.15 (at LAK7 700)	157.1	447.3 (1998–99)
PM Decree 64 (Mar. 2005)	290 000	11 500	38.87 (at LAK7 460)	209.9	63.1 (2000–04)
Ministerial Order 279 (Feb. 2009)	348 000	13 400	41.7 (at LAK8 344)	20.0	20.2 (2005–08)
Ministerial Order 2951 (Nov. 2011)	626 000	24 076	78.87 (at LAK7 937)	79.9	14.0 (2009–11)

Note: PM = Prime Minister.

Source: Actual increase of the minimum wages comes from MOLSW, 2012; the accumulated inflation rates are based on World Bank data, 2014f; exchange rates available at Gocurrency.com.

The minimum wage increased by 209.9 per cent in 2004, while the accumulated inflation rate was 63.1 per cent during 2000–04. It was followed by a 20 per cent increase in 2008 when the gross inflation rate was 20.2 per cent during 2005–08 and then by a 79.9 per cent increase in 2011 when the inflation rate was 14 per cent in 2009–11. As noted, without regular revisions of the minimum wage, the interval between the adjustments has progressively shortened, in recent years, in response to inflationary pressures and increased living costs. Based on the minimum wage trends during 1991–2011, the minimum wage increases in kip value have been enormously high, but it has been stagnant in the kip–dollar exchange value, apart from the 2011 adjustment, which added the allowances into the minimum wage.

2.5 Enforcement of the minimum wage

In enforcing payment of the minimum wage, the definition and scope of ‘unskilled workers’ within Ministerial Notification No. 2951 is unclear. There is also no penalty clause in the law for employers who do not comply with

the minimum wage. After the 2011 minimum wage adjustment, some companies no longer intend to pay additional allowances, but rather regard the minimum wage as inclusive of those payments. Such real cuts of allowances and benefits typically become the rationale for labour disputes.¹⁹

To effectively inspect compliance with the minimum wage requirement, the Government initiated several measures. In 2009, the MOLSW organized a training course for all 270 labour inspectors (constituted by five inspectors in Vientiane, three inspectors in each province and two inspectors per district) to explain the minimum wage system. The Labour Management Department and the Labour and Social Welfare Department in all districts are responsible for promoting and enforcing the minimum wage among employers.²⁰ After circulation of Ministerial Notification No. 2951 on the minimum wage, the provincial Tripartite Committees on Industrial Relations (wherever they were established) discussed enforcement measures. Monitoring and enforcement of the minimum wage system was also the subject of a special tripartite meeting in June 2012. During the 2012 fall session of Parliament, the Government set up a telephone hotline to receive complaints from workers about non-compliance with the minimum wage requirement. The LFTU has used its newspaper and radio programme to advocate the minimum wage system. Although there has been no assessment of the effectiveness of these various measures, the advocacy efforts of the Government and of the LFTU must help the social partners to recognize the importance of the minimum wage system, as well as to root the system in the workplace in the long run.



The minimum wage and collective bargaining

3

This chapter presents the analysis of collective bargaining coverage and its influence on wage increases in the country. The minimum wage and collective bargaining should complement each other: the minimum wage sets a floor, requiring employers to pay their workers above that level, while collective bargaining is a negotiation tool to improve the wage floor along with improvements in corporate benefits and working conditions.²¹ The Lao People's Democratic Republic, however, has a relatively weak collective bargaining system, with little influence on wage increases in general, largely because it is limited to 350 enterprises (as of December 2013), accounting for 4.1 per cent of the 8,491 local unions and 22.8 per cent of the 195,015 union members. Interestingly, the number of collective agreements have increased in recent years, benefiting more workers.

3.1 Wage-related labour disputes

Since 1995, the LFTU has tracked labour disputes with the help of its provincial offices. As shown in table 4, between 1995 and 2013, the LFTU offices received 1,179 complaints from workers. Around 70 per cent of them were resolved by LFTU intervention, resulting in a compensation of more than LAK4.3 trillion from employers. During 1995–2013, roughly 90 per cent of the complaints related to rights disputes, such as dismissals without severance pay, and around 10 per cent of the cases were interest disputes, specifically related to unpaid salaries and unpaid overtime. The MOLSW also registered 15 labour dispute cases in 2009, 46 cases in 2010–11 and 69 cases in 2012–13 (from 17 provinces and one prefecture). Of the 69 labour disputes in 2012–13, 44 cases were resolved; seven cases went to the people's court; and 18 cases were cancelled by the claimants. Only one case involved a lower-than-minimum wage complaint.²²

Table 4. Labour dispute cases, 1995–2013

Period of labour disputes compiled	1995–2000	2001–05	2006–10	2011–13	Total
Cases filed with LFTU	378	385	348	68	1 179
Workers involved	2 902	70% for individual complaints 30% for collective complaints	Fewer than 50 collective complaints and the remaining were individual complaints	882	–
Compensation after resolution	LAK102 514 from roughly 50% of the total cases	LAK2.2 million from 136 resolved cases	LAK2 million from roughly 70% of the total dispute cases	LAK656.7 million	LAK4 302 million
Rights disputes (%)	95	90	90	80	
Interest disputes (%)	5	10	10	20	

Source: Based on reports for the fourth, fifth and sixth LFTU Congresses (Vientiane, LFTU, 2000, 2005 and 2010); the data on 2011–13 were provided by the LFTU Labour Protection Department in August 2014.

3.2 Collective bargaining coverage

Articles 164 and 168 of the Labour Law (2013) guarantee that ten workers have the right to form a union within six months after the establishment of an enterprise.²³ Article 165 also specifies the rights and responsibilities of union representatives to negotiate with the employers on wages.²⁴ Article 11 of the Law of Lao Trade Unions Federation stipulates the representative role of the LFTU in negotiation and collective bargaining.²⁵ The scope of collective bargaining focuses on six issues, such as employment contract, working hours, remuneration (salary, benefits and allowance), safety at work, welfare and awards.²⁶

Collective bargaining is a crucial instrument to improve wages and working conditions. A study report, *Unions and collective bargaining: Economic effects in a global environment*, states that industries with the high union density and more coordinated collective bargaining practices tend to be associated with higher wages.²⁷ Some analysts interpret the expansion of low wages in all countries of the Organisation for Economic Co-operation and Development due to the decline of collective bargaining power.²⁸ In some European countries with relatively weak collective bargaining power, the

minimum wage tends to have a strong influence on national wage development.²⁹ A total of 22 of the 28 European Union countries have adopted a minimum wage system. For instance, Germany introduced a new minimum wage, at €8.50 (\$11.75) an hour, in July 2014 when sector-based collective bargaining practices proved ineffective due to the declining number of enterprises covered by collective bargaining agreements. The minimum wage policy took effect for some workplaces on 1 January 2015. After a two-year grace period for some employers, it will be required for all workers as of 1 January 2017.³⁰

In the Lao People's Democratic Republic, wage negotiation is neither coordinated industry-wide nor powerful enough to influence wage increases nationwide, even though the number of collective bargaining agreements has steadily increased since 2009. The collective bargaining agreements were signed at 20 industrial units in 2009, followed by 37 units in 2010, 69 units in 2011, 105 units in 2012 and 119 units in 2013.

As seen in table 5, as of 2013, the LFTU had reached a total of 350 collective bargaining agreements, benefiting 44,538 workers (20,734 males and 23,802 females). By sector, 188 agreements were signed in industry (manufacturing, mining, construction and electricity), 149 agreements in the service sector and 13 agreements in the agriculture sector. The agreements signed in the service sector cover post, telecommunications, banks, restaurants, hotels and insurance companies. The size of the factories covered by collective bargaining agreements varies from an enterprise employing 15 workers to an enterprise with more than 2,500 workers. By region, Vientiane city and Khammouane, Xayaburi, Savannakhet and Vientiane provinces – where the LFTU had promoted collective bargaining on a pilot basis – share more than half of the agreements.

The LFTU head office was directly involved in the negotiations and signed 41 collective agreements with state enterprises (banks, post, telecom, electricity and medicine) under the supervision of the Ministries of Energy and Mines, Health, Industry and Commerce, Communication, Transport, Post and Construction but with some joint ventures in garment manufacturing. After the LFTU Executive Committee meeting held in February 2012 exclusively discussed strategies to promote collective bargaining agreements, the LFTU has vigorously promoted the practice in all provinces.

The concepts of collective bargaining were introduced to LFTU members through technical assistance from Oxfam Belgium, the Australian People for Health, Education and Development Abroad and the ILO. Promoting the ILO Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87) and the Right to Organise and Collective Bargaining Convention, 1949 (No. 98) is a prerequisite for forming trade

**Table 5. Number of collective bargaining agreements
by the LFTU, as of December 2013**

Number	Province/unit	Collective bargaining agreement
1	LFTU head office	41
2	Vientiane city	27
3	Vientiane Province	70
4	Xayaboury	37
5	Khammouane	37
6	Savannakhet	29
7	Sekong	21
8	Champasak	16
9	Bolikhamxay	15
10	Luang Namtha	11
11	Bokeo	11
12	Oudomxay	9
13	Houaphan	8
14	Luang Prabang	7
15	Xiengkhouang	7
16	Phongsaly	4
Total		350

Source: Data provided by the Labour Protection Department, LFTU, June 2014.

unions and increasing collective bargaining agreements. Although the Lao People's Democratic Republic joined the ILO in 1964, it has not yet ratified these Conventions. Since 2011, when the country became a member of the World Trade Organization, it has been under pressure to comply with international labour standards, particularly ILO Conventions No. 87 and No. 98. In the meantime, the Global Rights Index published by the International Trade Union Confederation in 2014 rated the Lao People's Democratic Republic as five, which means "no guarantee of rights".³¹ In recent years, the MOLSW sought out the LFTU to recommend what the Government could do to ratify ILO Conventions No. 87 and No. 98. At the request of the LFTU, the ILO then conducted a workshop in Vientiane Province in July 2013 on what ratification of those Conventions would mean for the trade unions. A total of 44 senior union leaders attended, representing 15 provinces and line ministries (Labour and Social Welfare, Planning and Investment, Education, Home, Security and Foreign Affairs), the public and private sectors (Bank of Lao, Lao Electrical State Enterprise, Beerlao, Lao

Front and National Construction) and LFTU headquarters. The workshop initiated a nationwide debate on the ratification of the Conventions and prompted further consultations among the social partners. A follow-up workshop held in Bolikhamxay Province in July 2014 involved all tripartite partners and further contributed to the building of a tripartite consensus for their ratification. Ratification of those Conventions would help the country enhance compliance with international labour standards and create an environment conducive to freer negotiation and collective bargaining on wages in unionized enterprises.



The minimum wage and employment

4

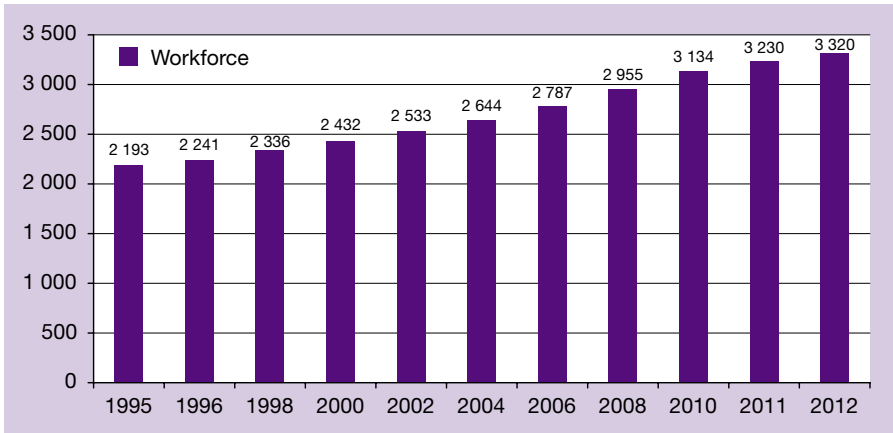
This chapter looks into the employment structure by sector and sex, as well as unemployment rates. The private sector and civil servants have led the employment growth in the country since 1995. In particular, job creation in the service sector has been remarkable. Garments, wood-processing manufacturing, tourism, agriculture products, mining and hydroelectricity have been the main industries driving economic growth. Almost half of the economic units in the country are concentrated in four provinces; Champasak, Luang Prabang, Savannakhet and Vientiane. Various employment scenarios are unfolding, affecting the wage trends. The number of salaried workers who can directly benefit by the minimum wage have substantially increased over last two decades. The country has been experiencing a demand for high-wage skilled jobs with its high economic growth. A shortage of labour in almost all sectors except services is pushing wages higher to attract workers. Rapid urbanization is also increasing wage employment in urban areas, lowering wages for unskilled jobs, while worsening a shortage of labour in rural areas, where it is pushing wages up.

4.1 The economically active population

The Lao Statistics Bureau's census data (2012) indicate an estimated population of 6,514,432 (3,259,980 females and 3,254,452 males).³² Approximately 34.5 per cent of them were younger than 15 years, with 61.6 per cent aged 15–64 years and 3.9 per cent aged 65 or older. Approximately 58.9 per cent of the country's total population was younger than 25 years in 2012.³³ The population growth rate averaged 2.4 per cent per annum from 1990 to 2000, 1.7 per cent from 2001 to 2010 and then nearly 1.9 per cent per year in 2011 and 2012.³⁴

Figure 2 shows that the economically active population aged 15 years or older has increased by 1.1 million people, from nearly 2.2 million in 1995 to 3.3 million in 2012. In 2012, the total labour force participation rate was 77.6 per cent (76.3 per cent for females and 78.9 per cent for males).³⁵ The report of the sixth five-year National Socio-Economic Development Plan (NSEDP) noted that an estimated 1.2 million people would be searching for jobs over the 2006–10 period. Of them, around 406,000 people would find employment in the agriculture and forestry sectors; 102,000 people would find jobs in the industry and construction sectors; and 144,000 people would work in the service sector.³⁶ The report of the seventh NSEDP highlighted that approximately 669,884 new jobs were created during the previous five-year plan period, exceeding the employment generation target.³⁷ The MOLSW forecasts that the labour force will increase by 2.5 per cent per annum, and around 55,000 young people will enter the world of work every year from 2011.³⁸

Figure 2. Economically active population aged 15 or older, 1995–2012 ('000s)



Source: World Bank, 2014a.

4.2 The unemployment rate

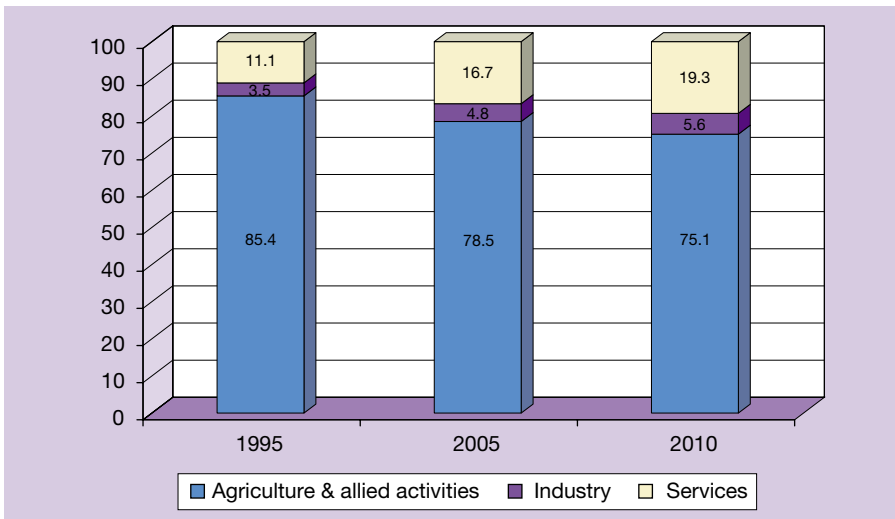
Due to its predominant agriculture economy and weak governance system, the country did not maintain any data on unemployment from 1986 to 2012, except in 2005, 2009 and 2010 when the Lao Statistics Bureau conducted surveys on employment. The estimated unemployment rate was as low as 2.4 per cent in 2005, 2.5 per cent in 2009 and 1.9 per cent in 2010.³⁹ The unemployment rate was around 0.9 per cent in the rural areas in 2009, which

was lower than 2.2 per cent in urban areas and 2.8 per cent in Vientiane. A survey jointly conducted by the ILO and the Government in 2010 estimates the unemployment rate at 1.9 per cent nationwide (3.2 per cent in urban areas, 1.4 per cent in rural areas with roads and 0.7 per cent in rural areas without roads). Such low unemployment has been supported by job creation in the government sector, the private sector and unpaid family work.

4.3 Distribution of employment by sector

Figure 3 illustrates the distribution of the workforce by the primary, secondary and tertiary sectors in 1995, 2000 and 2010. The workforce engaged in agriculture and its allied activities shrunk by 10.3 percentage points, from 85.4 per cent in 1995 to 75.1 per cent in 2010, while the number of people employed in services expanded by nearly 8.4 percentage points, from 11.1 per cent in 1995 to 19.5 per cent in 2010. The service sector represented 19.3 per cent of the total workforce, including 6.1 per cent in government services, 4.9 per cent in wholesale and retail trade, 1.7 per cent in education and 6.6 per cent in other services. The share of employment in industry was as low as 3.5 per cent in 1995 and as high as 5.6 per cent in 2010.

Figure 3. Distribution of the estimated employment by sector, 1995, 2005 and 2010 (%)



Source: National Statistics Centre, 1996; MPI, 2011, p. 20.

Over the 2005–10 period, the agriculture and forestry sector contributed 30.4 per cent to the country's gross domestic product (GDP), while the industrial sector added 26.1 per cent and the service sector generated 37.2 per cent; the gross tax of products and import customs shared 6.3 per cent of GDP.⁴⁰ Over the same period, industry's contribution to GDP was remarkable and appears to offer potential for further growth, which will simultaneously create more job opportunities in the sector.

As illustrated in figure 3, the employment in the service sector has, to a large extent, risen since 1995, absorbing the labour surplus that had largely transferred from agriculture and its allied activities. The service sector is likely to offer great potential for employment generation in the future, as compared to the share of neighbouring countries' employment in the service sector; for instance, in 2012, Thailand's service sector provided 40 per cent of employment (36 per cent for males and 44 per cent for females), while Viet Nam's service sector provided 31.5 per cent of employment (29 per cent for males and 34 per cent for females).⁴¹ The current low level of employment (19.3 per cent) in the Lao service sector suggests considerable room to grow.

The country's urban population has more than doubled in the past two decades, from 15.4 per cent in 1990 to 35.4 per cent in 2012.⁴² The urban population grew at an annual average of 6 per cent during the 1990–2000 period and 5.9 per cent per annum during the 2001–12 period.⁴³ The large movement of the workforce from rural to urban areas is attributed to a government policy, which aimed to reduce the agricultural workforce by 70 per cent by 2015 and increase the workforce by 7 per cent in the industry and construction sectors and by 23 per cent in the service sector.⁴⁴ The growth of the service sector and its expected employment generation in urban areas will inevitably have a great impact on the growth and decline of wages in the coming years. The rapid urbanization could lead to a rapid growth of wage employment in urban areas, stimulating not only job demands but job competition in cities, which will simultaneously cause a negative impact on wage growth.

4.4 Distribution of the workforce by status of employment

Table 6 depicts the distribution of the workforce by status of employment in 1995, 2005 and 2010. The workforce increased by some 854,000 people, from approximately 2.16 million in 1995 to roughly 3 million in 2010. While employment for civil servants, private enterprise workers and own-account workers increased in that period, employment of unpaid family workers

Table 6. Distribution of workforce by status of employment, 1995, 2005 and 2010

Type of employment	1995	%	2005	%	2010	%
Civil servants	130 500	6.02	168 388	6.15	224 181	7.42
Parastatal employees	19 000	0.88	11 446	0.42	8 407	0.28
Private employees	8 000	0.37	121 786	4.45	215 304	7.13
State enterprise employees	51 700	2.39	19 486	0.71	24 402	0.81
Employers	5 400	0.25	7 210	0.26	14 906	0.49
Own-account (self-employed) workers	1 226 500	56.62	1 149 906	41.98	1 479 983	48.99
Unpaid family workers	725 100	33.47	1 260 671	46.03	1 050 946	34.79
Other					3 083	0.10
Total	2 166 200	100.00	2 738 893	100.00	3 021 212	100.00

Source: Data in 1995 and 2005 from National Statistical Centre, 1996 and 2006; data in 2010 from ILO, MOLSW and MPI, 2012, p. 91.

(or contributing family workers) and parastatal (public-private) employees declined. The employment in the private sector expanded tremendously from 8,000 people in 1995 to 121,786 people in 2005 and further to 251,304 people in 2010, presumably due to a NSEDP policy that aimed at creating a favourable business environment for attracting FDI into the private sector and for privatizing the public sector.⁴⁵ As the country eased its strict regulations on trade and the overall economy, more FDI flowed into the market and businesses, eventually contributing to the private sector's employment growth.

As noted, the private sector and civil service have led the country's employment growth since 1995. The employment in public enterprises sharply dropped from 51,700 people in 1995 to 19,486 people in 2005 and slightly increased to 24,402 people in 2010. The decline of employment in 2005 was attributed to the privatization of the state-owned enterprises and government agencies, while the employment rise in 2010 was likely related to the expansion of public sector utilities. The share of employment in the informal economy (own-account work and unpaid family work in the Lao context) has gradually declined from 90 per cent in 1995 to 88 per cent in 2005 and further to 83.8 per cent in 2010.⁴⁶

The number of own-account workers decreased slightly from 1.2 million in 1995 to nearly 1.1 million in 2005, but then increased to nearly 1.4 million

in 2010. Unpaid family workers increased significantly in the same period, from 725,100 people in 1995 to nearly 1.2 million people in 2005 before declining to around 1 million in 2010. The own-account workforce is on a rising trend, while the unpaid family workforce is likely to further decrease. Various sources define categories of own-account workers, casual workers or unpaid family workers as 'informal workers' and agriculture work and micro and small enterprises employing fewer than five workers as the 'informal economy'.⁴⁷ At the 90th session of International Labour Conference (2002), the ILO discussed decent work and the informal economy and defined the informal economy as all economic activities conducted by workers who are not recognized, registered, regulated or protected under labour legislation and social protection; yet there is no universally accurate or accepted description or definition of the informal economy due to its highly elusive quality.⁴⁸

A survey conducted by the Ministry of Planning and Investment and the United Nations Development Programme (UNDP) in 2007–08 among 10,791 people (5,358 males and 5,433 females) from 2,043 households in 20 villages across the country found that 94.6 per cent of the respondents were informal workers who identified themselves as self-employed, unpaid family workers or casual wage workers.⁴⁹ Around 97 per cent of females were engaged in the informal economy, compared with an estimated 92 per cent of males. The survey findings indicate that over the 15 years before 2009, female employment in the formal economy decreased and moved towards precarious and informal jobs.⁵⁰ Women workers were prevalent in the agriculture, textile, garment and service sectors. The Government still focuses on a labour-intensive employment policy to accommodate the sharply increasing workforce in the informal economy.⁵¹ Remarkably, the informal employment rate of the total workforce decreased from 88 per cent in 2005 to 83.8 per cent in 2010.⁵²

Approximately 15.8 per cent of the total workforce employed in the private and public sectors are eligible for the minimum wage. The minimum wage often serves as a floor wage, which helps gauge wage increase for different types of employment in both the private and public sectors. It is also assumed that a large share of informal workers are earning either equivalent to or more than the daily minimum wage, as described in section 5.3.

4.5 Size of economic units

In their study on family businesses in the Lao People's Democratic Republic, Walsh and Southiseng classified the size of enterprises – micro, small, medium and large – on the basis of assets, annual turnover and the number of employees. Micro-enterprises employ fewer than three workers; a small

enterprise employs fewer than 19 workers and has a total asset value of up to LAK250 million or an annual turnover of up to LAK400 million. A medium-sized enterprise employs fewer than 99 workers and has up to LAK1.2 billion assets or an annual turnover of LAK1 billion. And a large enterprise employs more than 100 workers and has an annual turnover of more than LAK1 billion.⁵³

As of October 2006, there were 209,484 economic units registered and approved for the operation of their business activities.⁵⁴ Some 96,040 units (46 per cent) were located in urban areas, while 87,732 units (42 per cent), were in villages with road access; the remaining 25,712 units (12 per cent) were in villages without road access. A total of 48.9 per cent of the economic units were concentrated in Vientiane (at 18 per cent) and the three largest provinces (Champasak, at 12 per cent; Savannakhet, at 9.9 per cent; and Luang Prabang, at 9 per cent). The concentration of the economic units in the four geographical localities makes it easier to enforce the minimum wage.

The National Statistical Centre (now the Lao Statistics Bureau) conducted an Economic Census in 2006 with 137,357 economic units to analyse their employment structure (using classifications that differed slightly from those used by Walsh and Southiseng).⁵⁵ It found that 93 per cent of enterprises employed fewer than five people; 4 per cent employed five to nine people; 2 per cent employed 10–99 people; and around 1 per cent, or 196 enterprises, employed more than 99 people. More than 90 per cent of the economic units were related to family businesses concentrating in the retail, handicrafts and personal services sectors.⁵⁶ More than half of the family businesses were female-owned and managed, and around 31 per cent of the enterprises employing more than five workers were female-owned.⁵⁷ Therefore, monitoring the application of the minimum wage in the small enterprises with fewer than five workers would be a challenge.

4.6 The impact of FDI on economic growth and employment

Foreign direct investment has been a source of economic development and employment. In 1990, the Lao Government began to privatize less competitive state enterprises to attract foreign investment and promote the private sector. The Government believed at that time that FDI would bring advanced technologies and knowledge to the country. As a result of massive privatization, only 7 per cent of 777 registered companies were state-owned enterprises in 1999.⁵⁸ According to the Investment Promotion Department of the Ministry of Planning and Investment, in March 2012, the top ten countries

by FDI inflow value were Viet Nam, Thailand, China, the Republic of Korea, France, Malaysia, Japan, Norway, India and Australia.⁵⁹

As shown in table 7, from 2001 through 2012, the accumulated FDI totalled over \$20.3 billion for 2,378 projects. Investment in mining and hydroelectricity plants was the biggest, but FDI had diversified to many other sectors. As of 2011, there were 154 domestic and foreign companies operating in mining with 269 new projects, including 49 at the exploration stage and 220 in the surveying stage.⁶⁰ In the first six months of 2013, more local and foreign investment went into the energy sector (with investment valued at \$739 million), followed by mining (with investment at \$217 million) and then construction (\$100 million).⁶¹ The largest proportion of the Government's annual revenue is derived from the export of minerals (gold, silver, copper, etc.), valued at \$2.5 billion in 2011 and representing 49 per cent of total revenue, followed by tourism, at 16.1 per cent of total revenue, and electricity, at 13.5 per cent of total revenue.⁶²

Table 7. Number and value of approved foreign direct investment projects, 2001–12

Year	New investment projects	Value of investment (US\$'000s)
2001	64	54 097
2002	80	133 037
2003	178	465 987
2004	161	533 148
2005	143	1 245 307
2006	171	2 699 690
2007	191	1 136 905
2008	162	1 440 815
2009	208	4 312 887
2010	476	2 919 314
2011	443	3 519 727
2012	101	1 856 852
Total	2 378	20 317 766

Source: Lao Statistics Bureau, 2010, pp. 74–76; Lao Statistics Bureau, 2012, pp. 80–81. Data in 2012 are provisional.

FDI appears to drive economic development and job creation in the formal economy. As of May 2013, the Government had established ten special economic zones, including the Golden Triangle in Bokeo Province, the Boten Dankham in Luang Namtha Province, the Luang Marsh in Vientiane Province, the Savan-Seno in Savannakhet Province and the Phoukhiew in

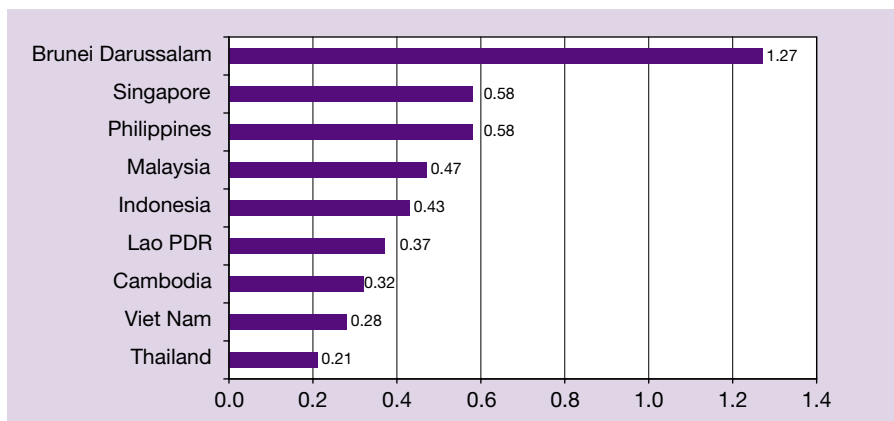
Khammouane Province. Private sector investment in the ten special economic zones totalled \$949 million and generated more than 6,700 jobs for local workers.⁶³

Some studies found that investors, particularly exporters, consider wage level as one of the most important determinants of FDI in developing countries.⁶⁴ For instance, the 2006 Economic Census found 24,149 FDI-funded or joint-venture factories employing 114,882 people. Of those factories, 19,106 units were small-sized, employing fewer than 19 workers; 268 units were medium-sized, with 20–99 workers; 218 units were large, with more than 100 workers; and the remaining were micro-sized. No data are available for the wage level of those factories.

4.7 A scenario in employment change and its impact on wages

Figure 4 indicates that from 2004 to 2008, the elasticity of total employment to GDP was only 0.37 in the Lao People's Democratic Republic, which means that every 1 percentage point of GDP growth was associated with a 0.37 per cent increase in employment.⁶⁵ During the 2004–08 period, employment elasticity was much stronger in Brunei Darussalam (at 1.27), the Philippines and Singapore (at 0.58), Malaysia (at 0.47) and Indonesia (at 0.43) than the Lao People's Democratic Republic. Employment elasticity in the Lao People's Democratic Republic came out stronger than Cambodia (at 0.32), which relies heavily on the textile, garment and shoe sectors, Viet Nam (at 0.28) and Thailand (at 0.21). Nonetheless, the application of employment elasticity to GDP may be not appropriate to countries with a trend of jobless economic growth.

Figure 4. Elasticity of total employment to GDP in the ASEAN Member States, 2004–08 (%)



Source: ILO, 2010b, p. 10.

Capital-intensive industries, such as mining and electricity, contributed 2.5 percentage points to GDP growth in 2006, 3.3 percentage points in 2009 and 4 percentage point in 2010. But the elasticity of labour used in the mining sector was only 0.3 per cent, while it was less than 0.5 per cent in hydroelectricity during the 2001–10 period.⁶⁶ This illustrates that despite the large contribution of mining and hydroelectricity to GDP growth, their relationship with job creation has been rather marginal.

Three employment scenarios are unfolding, affecting the potential for wage increases. First, the country is experiencing a demand for high-wage skilled jobs. In aiming to achieve 8 per cent annual GDP growth for the 2011–15 period, the seventh NSEDP thus requires an estimated 200,000 skilled workers. The agriculture and forestry sector is forecasted to grow annually at 3.5 per cent and contribute 23 per cent of GDP by 2015; the industry sector is expected to grow at an annual average of 15 per cent, amounting to 39 per cent of GDP by 2015; and the service sector is projected to grow at 6.5 per cent per annum and amount to 38 per cent of GDP.⁶⁷

Second, the country is currently undergoing a shortage of labour in almost all sectors except services, which is pushing wages higher to attract workers. In January 2013, for instance, the LNCCI conducted a telephone survey with its members on job vacancies and found 50,000–60,000 jobs available throughout the country; however, the survey did not include employers in the three special economic zones (the Golden Triangle in Bokeo, the Boten Dankham in Luang Namtha and the Luang Marsh in Vientiane) and thus did not count their job vacancies.⁶⁸ The labour shortage is attributed to outflows of Lao migrants to neighbouring countries like Thailand. Due to the fierce anti-trafficking migration policy of the junta in Thailand in early 2015, undocumented Lao were forced to return home. As of 2010, the stock of Lao emigrants, including workers, students and residents, was approximately 366,600, accounting for 5.7 per cent of the population.⁶⁹

Interestingly, the Lao People's Democratic Republic receives foreign migrant workers from neighbouring countries, such as China, Thailand and Viet Nam. According to the *Statistical Yearbook 2012*, there were 20,942 foreign workers in 2012, including 10,542 Chinese, 4,246 Vietnamese, 3,228 Thais and 2,926 other nationalities. Some 1,768 foreign workers were involved in agriculture, 12,441 in industries and 6,733 in services.⁷⁰ By contrast, the Department of Skills Development and Employment Services of the MOLSW reported that a total of 61,334 foreign workers (41,624 people with a work permit and 19,710 people without a work permit) resided in the country in 2013.⁷¹

Third, speedy urbanization is rapidly increasing wage employment in urban areas where job competition is lowering wages, while a shortage of labour in rural areas is pushing wages up. The urban population has more than doubled in the past two decades, from 15.4 per cent in 1990 to 22 per cent in 2000 and further to 35.4 per cent in 2012, which was attributed to the large movement of the workforce from rural to urban areas. Rapid urbanization is becoming a variable in employment, especially for youths and women, and is affecting wages in cities.



Application of the minimum wage to different sectors

5

This chapter illustrates how the national minimum wage has been applied to different categories of employment in the private, public and informal sectors. Various reports, available statistics and this study's interviews with workers indicate that workers in the public sector and the organized private sector for skilled and semi-skilled construction workers and educated shopkeepers and restaurant workers (with work experience) are paid more than the minimum wage of LAK626,000. This claim could differ according to wage disparity between workers in urban and rural areas and between occupations. However, those who are newly recruited in micro and small enterprises, are engaged in the informal sectors or have little career development typically receive a salary lower than the legal minimum wage. Civil servants are not eligible to receive the unskilled workers' monthly minimum wage (although it was indirectly used as a barometer in adjusting the civil servants' pay scale in 2012). Around 76 per cent of 472,000 paid employees (civil servants, parastatal employees, private employees and state enterprise employees) are paid on a monthly basis, another 12 per cent on a daily basis, 2 per cent on a weekly basis and the remaining 10 per cent are unreported.⁷²

5.1 Wages in the private sector

The following offers a snapshot of wages paid in the garment and textile sector, a rubber and timber plantation and restaurant and resort companies.

5.1.1 The garment and textile sector

In 2010, 463 garment factories employed around 30,000 workers. Of them, 39 factories were large-sized, 18 factories medium-sized and 406 factories small and family-owned.⁷³ Additionally, there were a number of associated

factories, such as five laundry factories, 12 logo-sewing factories, ten logo-printing factories and three carton-producing factories. Of the 109 factories employing more than 100 workers in 2012, 54 were large-sized export factories, 32 FDI factories, 13 joint ventures and ten Lao-owned factories.⁷⁴ The World Bank's Lao Garment Sector Survey conducted between March and May 2011 found that a monthly base wage varied from \$46 for unskilled workers in small factories to \$71 for skilled or semi-skilled workers in large factories; workers' earnings in production lines were more than double the basic amounts due to overtime wages.⁷⁵ Garment workers were mainly paid on a piece-rate basis (the more a worker produces, the more he or she earns).

The LFTU claims that many businesses have not increased the monthly wage, nor are they now paying allowances if they pay the required minimum wage. A female worker employed at a garment factory in Xaythany district of Vientiane, for example, earned a total income of less than LAK626,000 per month in February 2013.⁷⁶ On the contrary, "a garment worker in 2011 started at a gross value of \$100 a month, which included overtime, bonuses, food and accommodation allowances, and then would earn \$120 per month after a couple of years; a line supervisor earned \$150–200 a month after a couple years", said Borivon Phafong, the Director of GSC Garment Skills Development Centre in Vientiane.⁷⁷ Around 12 per cent of workers in small garment firms and 16 per cent of workers in medium-sized garment firms engage in extra work. A salary survey conducted by the European Chamber of Commerce and Industry in Laos (ECCIL) found that garment factories in Vientiane pay workers (non-management) in the range of LAK947,979 (\$118.90) to LAK1.5 million (\$188.20) per month in 2014.⁷⁸ Recruitment advertisements in 2014 offered the following conditions:

- **Ma... International (Lao) Sole. Co., Ltd in Vientiane:** Producing work wear and safety shoes, Ma... pays LAK1 million to newcomers, LAK1.04 million after one month training and LAK1.12 million after signing an employment contract. Other benefits include free lunch, free clinic, annual health check-up, free shuttle bus service (or LAK120,000 for users of private transportation) and annual bonus.
- **Lao Uni... Garment Co., Ltd in Vientiane:** Uni... operates three garment factories in Vientiane Capital. Uni... pays newcomers LAK1–1.2 million per month, LAK1.3–2 million for semi-skilled workers and LAK2.1–3 million for skilled workers. It applies eight working hours, six working days and statutory holidays. It also offers free shuttle bus services between the factories and villages, free accommodation (electricity and water) and free meals (lunch and dinner).

5.1.2 The rubber and timber plantation

The Teak Company is a rubber and timber plantation and trading company in Luang Prabang.⁷⁹ Of its 33 employees (ten females and 23 males), 21 are union members. The workers' monthly salaries range from LAK800,000 to LAK1.2 million, and each worker receives an extra LAK200,000 per month as a rice subsidy. Workers are entitled to 15 days of annual leave after three years of employment. The unused leave days are not compensated. Workers are insured by the Social Security Organization, which covers 100 per cent of medical costs incurred from work injuries. In comparison, workers in a Vietnamese-owned rubber plantation and factory in Sekong Province earned only LAK15,000–30,000 a day in 2012, and the high end of that range barely met the level of the daily minimum wage.⁸⁰

5.1.3 Restaurants and resorts

In 2012, there were 468 hotels, 1,491 guesthouses and resorts, 1,276 restaurants, 220 entertainment companies and 275 travel agents in the Lao People's Democratic Republic.⁸¹ Around 184,000 people were involved in tourism and its downstream businesses, such as food supply, hotel support and handicrafts (with an estimated 17,000 people in direct employment and the remainder in indirect employment).⁸²

A restaurant company: L'Elephant Restaurant is a Lao-owned company operating five restaurants in Luang Prabang and employing around 200 staff.⁸³ None of the workers are unionized. The staff work in two shifts (from 7 a.m. to 2 p.m. and 2 p.m. to 10 p.m.). The company offers individual employment contracts, pays a fixed salary of LAK800,000 and provides one meal per day. During the high season of December to February, each worker earns a 10–15 per cent bonus, depending on the company's annual performance and profit margins. The management collects customers' tips every night and shares them equally among the staff at the end of each month.

A resort company: The Lao-owned Napakuang Resort in Thalad, Vientiane Province employs a total of 12 workers.⁸⁴ None of them are unionized. One employee, a woman in her late twenties with a tenth grade education, has been working as a cashier since July 2011. She supervises two other employees. She works 13 hours per day (7 a.m. to 8 p.m., with a one-hour lunch break) five days a week in the rainy season and seven days a week in the high season (April and May). She is not allowed any holiday leave in the high season. Her salary, including overtime pay, ranges from a minimum of LAK1 million in the low-tourist season to a maximum of LAK1.3 million in the

high season when a bonus is added. She can save LAK300,000–500,000 per month. One year ago, her salary was LAK500,000 per month, which is what newly hired staff are paid. The resort provides its staff with accommodation (two people share a room), three meals a day and a uniform. She is not covered by the social security scheme. She does not know about the minimum wage.

Prior to her employment with the resort, she worked for a year and a half for a Chinese-owned Three Mark garment factory in Vientiane that produces ladies' jackets and T-shirts. Her salary began at LAK500,000 per month, including overtime pay, and increased to LAK800,000 on the basis of eight working hours and two hours' overtime from Monday to Friday. She shared a dormitory apartment with 20 other people, which was free; its facilities, such as the shower rooms and toilets, were not sufficient for the number of people living there. The company offered only sticky rice for lunch without any additional dishes. She bought breakfast and dinner from the street vendor outside the factory and shared it with her factory friends, spending LAK6,000 per day. She said the working conditions in the resort restaurant are much better than in the garment factory.

5.2 Wages in a state enterprise

The Luang Prabang Water Supply State Enterprise (founded in 1969) is a sister company of the Lao Water Supply State Enterprise. Of its total 104 workers, 95 are members of the Water Supply Enterprises Union.⁸⁵ A newly recruited worker earns LAK700,000–800,000 as a basic wage, and a worker who has been employed more than 20 years earns up to LAK3.3 million. All workers receive various allowances, including LAK35,000 a month for lunch, overtime for emergency checking on the water supply and one-month severance pay per year service, which is equivalent to the December salary.⁸⁶ Workers are entitled to 15 days of annual leave and are compensated in cash for the unused leave days at the rate of half of the nominal salary. They are covered by the social security scheme and provided with an allowance for additional training and education.

5.3 Wages in the informal sectors

The following presents a snapshot of wages in the private sectors with the nature of informal employment, such as construction, wood-processing manufacturing, a clothes shop, restaurants and rural agriculture.

5.3.1 Construction

In 2010, there were around 1,300 construction companies across the country, including 300 contractors and 1,000 subcontractors, employing approximately 126,000 workers.⁸⁷ There were 342 factories supplying construction materials, which included 24 steel factories, ten tile factories and 308 concrete factories.⁸⁸ In 2011, the daily wage in construction was LAK60,000 (\$7) for a semi-skilled Lao worker, LAK80,000 (\$9.30) for a semi-skilled Vietnamese worker and LAK100,000 (\$11.60) for a semi-skilled Thai worker. It is commonly known that contractors prefer foreign workers who are more skilful and experienced. The daily rate for an unskilled Lao worker ranged from LAK30,000 to LAK40,000 (\$3.50–4.60).⁸⁹

A survey conducted by the Sekong Provincial Department of Labour and Social Welfare in November 2012 found that workers in sawmills and construction sites in the province earned LAK40,000–50,000 per day.⁹⁰ In 2013, unskilled construction workers in Vientiane were paid the daily wage rates of LAK55,000 (\$6.90), while semi-skilled workers were paid LAK70,000 (\$8.80). By comparison, the daily wage of unskilled construction workers in Luang Prabang was LAK50,000 (\$6.30).⁹¹ In 2014, non-managerial construction workers earned in the range of LAK1,163,000–2,500,000 (\$145–313) per month in Savannakhet Province, LAK1,300,000–2,965,000 (\$163–372) a month in Vientiane, and between LAK1,200,000 and LAK3,605,000 (\$150–452) in Champasak, according to the size of firms.⁹² This confirms that all categories of construction workers – skilled, semi-skilled and unskilled – earned more than the statutory daily minimum wage of LAK24,076.

5.3.2 Wood-processing manufacturing

There were a total of 1,451 furniture and wood-processing manufacturers (180 sawmills, two plywood factories and 1,269 furniture firms) employing approximately 22,000 workers in 2001.⁹³ Most of them were family-owned micro-enterprises. In 2005, an unskilled worker in wood processing in Vientiane earned \$25–35 a month, while semi-skilled workers earned \$35–40, skilled workers earned \$50–70 and machine operators received more than \$100.⁹⁴ The ECCIL study published in 2014 found that non-managerial workers in furniture production in Vientiane earn within a range of LAK1,340,000–2,522,500 (\$168–316) a month, according to the size of firms.⁹⁵

5.3.3 Clothes shop in Luang Prabang

In February 2013, a French-owned clothes shop in a busy tourist street of Luang Prabang employed four sales clerks. One of them, who spoke English, has been working there for the past two years. She earned \$1 an hour, or around \$54 a week. Her monthly income was around LAK1.7 million (\$200). She worked nine hours a day and six days a week. From her earnings, she paid LAK250,000 a month for a room (with a small kitchen and bathroom) that she shared with a friend. A more recently hired co-worker earned the equivalent of \$0.66 per hour.⁹⁶

5.3.4 Restaurants in Luang Prabang and Bolikhamxay⁹⁷

In the tourist street in Luang Prabang, a young male restaurant worker with no work experience earned LAK700,000 per month and paid LAK83,000 a month to rent a small room and a bathroom he shared with others. “My Restaurant” in Paksan, Bolikhamxay Province is a typical Lao restaurant offering lunch at around LAK30,000 (\$3.50). One of the four staff employed was earning a net of LAK600,000 after six months of employment; another woman, a college student in Vientiane, just started working there and thus receives a monthly salary of LAK500,000. They worked from 5 a.m. till the last guest left the place at night. The restaurant owner provided them with a dormitory residence and three meals a day.

5.3.5 Rural areas

In 2013, a daily wage in rural areas, which is mainly associated with removing bushes or planting and harvesting crops, ranged from LAK20,000 to LAK30,000 (\$2.50–3.76) in general, which was slightly lower or slightly higher than the daily minimum wage of LAK24,076 (\$3.02).⁹⁸

5.4 Wage disparity between male and female workers

In 2012, the labour force participation rate of females aged 15 years or older was 76.3 per cent; the unemployment rate of females is unknown.⁹⁹ Along with differences in job security, type of work and working conditions, female workers earned far less than male workers. The low level of education among women in general is reflected in the low pay that working women receive. Women's monthly wages in the formal sectors averaged LAK1.4 million in 2006, compared with the men's average wages of LAK2.7 million.¹⁰⁰ A study by the Food and Agriculture Organization of the United Nations concluded that the average wage rate for women was 28 per cent lower than the wages earned by men.¹⁰¹

A study by Social Watch found that excluding workers in agriculture, in 2009, women earned only 59.2 per cent of what men earned.¹⁰² Around 87.8 per cent of the female workforce were engaged in the informal economy in 2010;¹⁰³ some industrial sectors paid women less than the daily and monthly minimum wages. The Social Watch Gender Equality Index (GEI) measures the gender gap between women and men in three dimensions (education, economic activity and political empowerment) on a scale from zero to 100 (perfect equality). In 2012, the Lao People's Democratic Republic was ranked at 106th of 153 countries surveyed with a value of 0.56 points, which is equivalent to the ranking for Bangladesh and Cambodia, as well as the global average. But it is far lower than the index for East Asia and the Pacific, at 0.69 points.¹⁰⁴

The UNDP Gender Inequality Index measures indicators of maternity mortality rate, adolescent birth rate, share of seats in parliament, secondary education rate and labour force participation rate for each country. In 2012, the Lao People's Democratic Republic ranked 118th of 187 countries surveyed with a value of 0.534 points, which was far higher than the average value of 0.331 points in East Asia and the Pacific and the global average of 0.451 points.¹⁰⁵

5.5 Civil servants' pay scale and the minimum wage

There were 224,181 government employees as of 2010. The Instructions of the Office of the Prime Minister concerning the implementation of Decree No. 82 on Public Service Regulations of the Lao People's Democratic Republic (2003) outlines the ranks, duties and remunerations of civil servants.¹⁰⁶ A new pay scale was introduced in 2012 (taking effect in January 2013) after the 2011 minimum wage exceeded most of the low-grade civil servants' salaries.

Table 8 shows the civil servants' pay scale divided into six levels. The salary structure is based on an indexed pay system, which is adjusted by a standard multiplier (LAK4,800). Except level 6 that has only four steps, each level has an increment of 15 steps, depending on years of employment. A civil servant at the lowest ranking – level 1, step 1 – earns the base salary of LAK648,000, which is only LAK22,000 higher than the national minimum wage. The highest-ranking government official, at level 6, step 4, receives a salary of LAK2.5 million per month. Different rate allowances (including position in rank, gasoline and telephone) are paid according to different grades. The national minimum wage is not directly relevant to the wages of civil servants, even though it was assumed to be a reference for adjusting the civil servants' pay scale in 2012.

**Table 8. Monthly base salary for civil servants, as of January 2013
(index: 4,800) (LAK '000s)**

Step	Level 1		Level 2		Level 3		Level 4		Level 5		Level 6	
	Index	Salary	Index	Salary	Index	Salary	Index	Salary	Index	Salary	Index	Salary
15	165	792.0	205	984.0	261	1 252.8	333	1 598.4	421	2 020.8		
14	162	777.6	200	960.0	254	1 219.2	324	1 555.2	410	1 968.0		
13	159	763.2	195	936.0	247	1 185.6	315	1 512.0	399	1 915.2		
12	156	748.8	190	912.0	240	1 152.0	306	1 468.8	388	1 862.4		
11	153	734.4	185	888.0	233	1 118.4	297	1 425.6	377	1 809.6		
10	150	720.0	180	864.0	226	1 084.8	288	1 382.4	366	1 756.8		
9	147	705.6	175	840.0	219	1 051.2	279	1 339.2	355	1 704.0		
8	144	691.2	170	816.0	212	1 017.6	270	1 296.0	344	1 651.2		
7	141	676.8	165	792.0	205	984.0	261	1 252.8	333	1 598.4		
6	140	672.0	162	777.6	200	960.0	254	1 219.2	324	1 555.2		
5	139	667.2	159	763.2	195	936.0	247	1 185.6	315	1 512.0		
4	138	662.4	156	748.8	190	912.0	240	1 152.0	306	1 468.8	530	2 544
3	137	657.6	153	734.4	185	888.0	233	1 118.4	297	1 425.6	485	2 328
2	136	652.8	150	720.0	180	864.0	226	1 084.8	288	1 382.4	450	2 160
1	135	648.0	147	705.6	175	840.0	219	1 051.2	279	1 339.2	425	2 040

Source: Financial Bureau, MOF, 2013.

The minimum wage and improved living standards

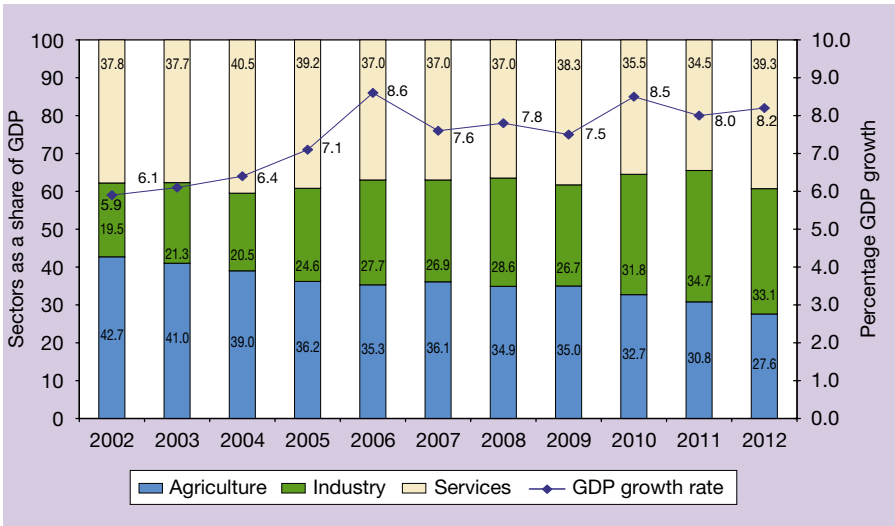
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This chapter covers the analysis of the correlation between the minimum wage and poverty reduction. The high economic growth has led to a similar path of GDP per capita growth and, simultaneously, the substantial reduction in the proportion of people living below the international poverty line of \$1.25 a day, from 56.9 per cent in 1992–93 to 37.4 per cent in 2007–08. The proportion of people living below the national poverty line declined as well, from 46 per cent to 27.6 per cent over the same period. In many countries, a minimum wage policy is commonly imposed to tackle rising inequality and persistent poverty. *Key Indicators of the Labour Market* published by the ILO in 2014 points out that “the creation of employment opportunities is an important means of raising per capita income in addition to productivity growth”.¹⁰⁷ In fact, the salaried workers who directly benefited by the minimum wage have increased, to a large extent, from 9.7 per cent in 1991 to 11.7 per cent in 2001 and then to 15.6 per cent in 2011.¹⁰⁸ A study that examined technological capabilities in garment manufacturing in the Lao People’s Democratic Republic claims that “the growth in jobs had obviously generated material improvement in the living conditions of the people”.¹⁰⁹ It can be, therefore, argued that the increasing minimum wage coupled with the increasing salaried workers has contributed to improving the country’s living standards.

6.1 GDP growth rates and economic sectors as a share of GDP

As shown in figure 5, the Lao People’s Democratic Republic has achieved high GDP growth, at an annual average of 7.4 per cent between 2002 and 2012. Workers’ income most likely improved as the economy grew.

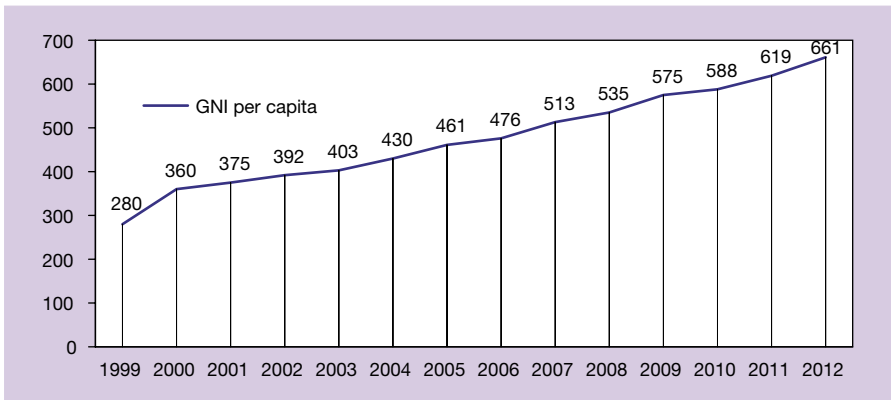
Figure 5. GDP growth rates and share of GDP by sector, 2002–12 (%)



Source: Based on data from World Bank, [http://search.worldbank.org/data?qterm=gdp+per+capita+Lao People's Democratic Republic&language=EN&format=](http://search.worldbank.org/data?qterm=gdp+per+capita+Lao+People's+Democratic+Republic&language=EN&format=) [accessed 12 Aug. 2014].

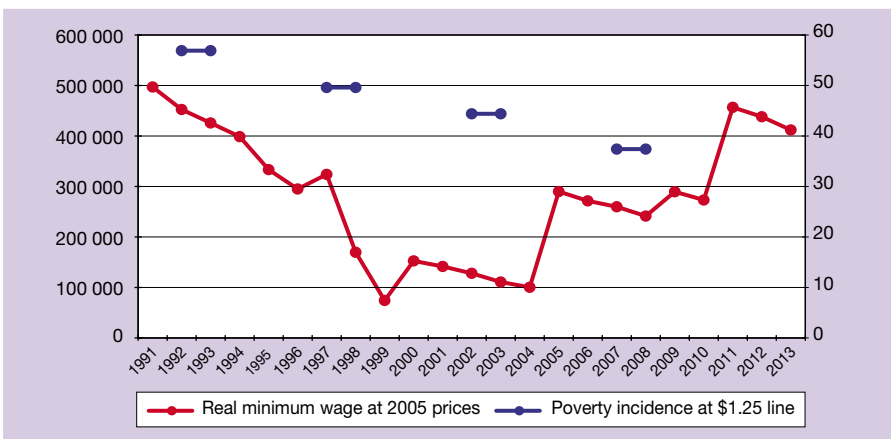
Over the years, the contribution of agriculture to GDP shrunk by 15.1 percentage points, from 42.7 per cent in 2002 to 27.6 per cent in 2012, while the share of industry increased by 13.6 percentage points, from 19.5 per cent in 2002 to 33.1 per cent in 2012.¹¹⁰ The contribution of the service sector to GDP remained in the range of 34.5–40.5 per cent in the same period. The data indicate that with industry leading GDP growth, workers employed in industry reaped greater economic benefits than workers in agriculture or services. It is claimed that the increased minimum wage has been an effective instrument in raising wages without supressing employment growth as salaried workers have substantially increased as a share of the employed from 9.7 per cent in 1991 to 15.6 per cent in 2011.

Figure 6 shows an increase in gross national income (GNI) per capita from 1999 to 2012. Unlike GDP, it adjusts for net receipts of primary income from abroad and hence excludes the repatriated profits of foreign investors, which do not directly benefit the population of the country. The country's GNI per capita income went up around 136 per cent, from \$280 in 1999 to \$661 in 2012, while the minimum wage increased by 569 per cent during 2000–11 (from LAK93,600 in 2000 to LAK626,000 in 2011). In contrast to the steady growth of GNI per capita, the minimum wage has risen rapidly during the review period.

Figure 6. An increase of GNI per capita (constant US\$), 1999–2012

Source: World Bank data. <http://data.worldbank.org/indicator/NY.GNP.PCAP.CD?page=3> [accessed 23 Feb. 2015]

Figure 7 illustrates real minimum wages (at 2005 prices) and poverty incidence (at \$1.25 per day) in the Lao People's Democratic Republic during the 1991–2013 period. The real minimum wage declined between 1991 and 1999. Since 1999, the real minimum wage has been in a rising trend. In 2000, 2005, 2009 and 2011 when the new minimum wages were introduced, the real wages had gone up and slightly declined during the interval period prior to the adjustment. The figure indirectly indicates that after 2000, the minimum wage was one of the factors that contributed to the growth of GNI per capita, which is strongly linked to the improvement of living standards in the country.

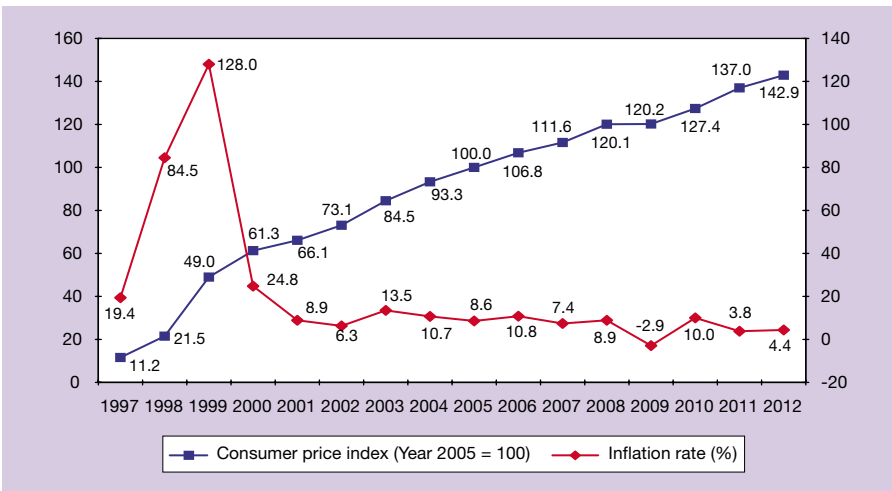
Figure 7. Real minimum wages and poverty incidence, 1991–2013

Source: Luebker, M., 2015, ILO Bangkok.

6.2 Consumer price index, inflation rates and minimum wage adjustments

Rapid economic growth has also led to a surge in the price of goods and services. Figure 8 illustrates that the yearly average inflation rate (measured by the annual GDP implicit deflator) reached more than 7.4 per cent, from 2001 to 2012. During the Asian economic crisis that began in 1997, the price of imported goods skyrocketed due to extraordinarily high inflation rates, at 19.4 per cent in 1997, 84.5 per cent in 1998, 128 per cent in 1999 and 24.8 per cent in 2000.¹¹¹ From late 1997 to late 1999, the Lao kip sharply depreciated against the US dollar. The exchange rate of \$1 to LAK920 in September 1997 reached \$1 to LAK7,700 in January 2000.

Figure 8. Consumer price index and inflation rates, based on the GDP deflator, 1997–2012



Source: For inflation rates by World Bank, 2014f; for the consumer price indexes (2005 = 100), <http://search.worldbank.org/data?qterm=consumer%20price%20index%20laos&language=EN> [accessed 29 Aug. 2014].

The weak economy caused a sharp surge of inflation, posting a yearly average of 64.2 per cent between 1997 and 2000. The high inflation likely forced households to spend more and thus lowered workers' real income in this period. Before the crisis, the Lao economy was centred on forest and agriculture products and was heavily dependent on the import and export of manufactured goods to and from neighbouring countries, particularly Thailand and China (the Lao People's Democratic Republic exported 44 per cent of its goods to Thailand and 34 per cent to China in 2010 and relied heavily on imports from Thailand (64 per cent of its imports) and China

(23 per cent) in the same year).¹¹² Such a reliance on external markets rendered the Lao economy and the workers' livelihood highly vulnerable. So the minimum wage was adjusted five times between 1991 and 2011, at increasingly shorter intervals to respond to inflationary pressure.

Between 2001 and 2008, the average inflation rate per annum was 9.4 per cent. It suddenly declined to -2.9 per cent in 2009, soon after the global financial crisis, but then sharply escalated to more than 10 per cent in 2010, before dropping by 3.8 per cent in 2011 and going up slightly 4.4 per cent in 2012. The consumer price index (CPI), which reflects the annual cost of a basket of goods and services required by the average consumer, is normally affected by workers' income. A low increase of the CPI can bring in an increase of workers' real income because the value of a currency becomes high and workers can exert stronger purchasing power for goods and services. The Lao CPI more than doubled from 61.3 points in 2000 to 142.9 points in 2012. Except for the abnormal spikes in 1997–99, it has increased steadily.

In considering the argument that an increase in the minimum wage tends to lead to a rise of household consumption and trigger inflation,¹¹³ the analysis for this paper looked at the inflation rate for each year following the minimum wage adjustment (in 1997, 2000, 2005, 2009 and 2011). The inflation rate in 1998 and 2010 was unusually high, but reflected a normal increase in 2001, 2006 and 2012 when a new minimum wage took effect. Although the minimum wage adjustments have strongly correlated with inflation, this paper claims that the minimum wage increases have not triggered any upsurge of inflation since 2001.

6.3 National and international poverty lines

The poverty line is a common measure to gauge the living standards of workers. The minimum wage is an efficient instrument for influencing income distribution and poverty reduction in the least developed countries, such as the Lao People's Democratic Republic. Income inequality can be reduced if the minimum wage can be enforced, especially among all low-wage earners. There are three statistical indicators to measure the degree of poverty and inequality in income and consumption: (i) the national poverty line; (ii) the international poverty line; and (iii) the Gini coefficient.

Since 1992, the Lao Statistics Bureau has calculated the national poverty line on the basis of expenditure for enough food to satisfy a requirement of 2,100 calories per adult per day and the cost of non-food items.¹¹⁴ Since 1997, the national poverty line has been determined through analysis of both quantitative and qualitative data.¹¹⁵ As of 2008, people

spending less than LAK159,911 (\$19.90) per month for food and non-food consumption are recognized as living below the national poverty line.¹¹⁶ The percentage of the employed people living on less than \$1.25 a day was about 20 per cent in 2008.¹¹⁷ The high rate of the working poor is mainly attributed to the high rate of the informal employment.

Poverty in the Lao People's Democratic Republic is more common among particular ethnic groups and in certain geographical areas. Inequalities exist across and within ethnic groups. In 2009, the Mon-Khmer had the highest rate of poverty, at 57 per cent, followed by the Hmong-Mien, at 46 per cent; the Tibeto-Burman, at 40 per cent; and the Lao-Tai, at 25 per cent. Poverty among ethnic groups is closely associated with poorer housing and sanitary conditions, less access to roads and markets and limited access to education and training opportunities. The Government categorizes 47 of its 142 districts (33 per cent) in the 18 provinces as the country's poorest. Most of them are located in rural and mountainous areas where ethnic groups reside, with limited access to education and health services, as well as limited job opportunities. Ethnic minorities in these remote areas are much more exposed to severe poverty, compared with residents in the urban and industrialized areas.

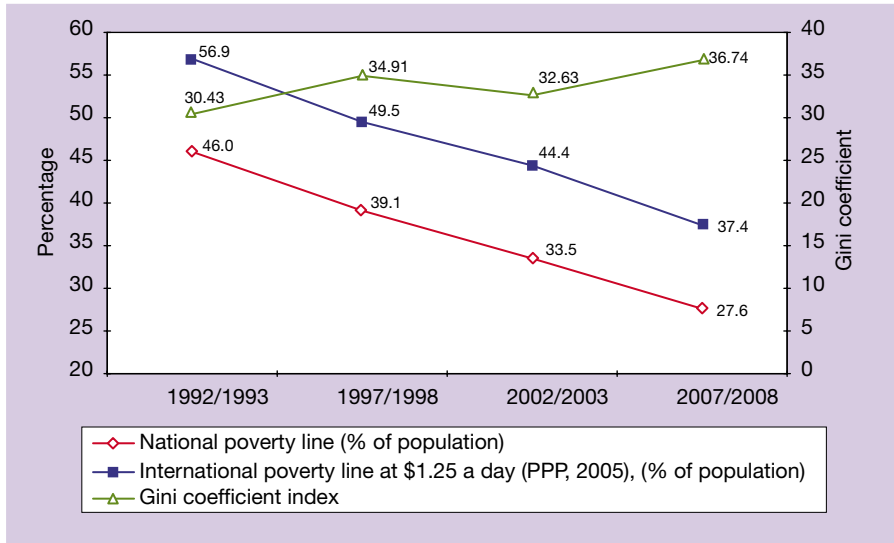
The seventh NSEDP set a goal of reducing the number of poor households from 116,800 to fewer than 99,000, or 9.4 per cent of all households.¹¹⁸ The Government also aims to reduce the number of poor villages, from 2,291 to 960, or 11 per cent.¹¹⁹

The ILO considers people living on less than \$1.25 a day as in "severe" poverty and those living on less than \$2 per day as in "moderate" poverty. In 2007–08, 33.9 per cent of the total Lao population lived below the severe poverty line, while 66 per cent lived below the moderate poverty line.¹²⁰ The international poverty line determined by the World Bank categorizes those living on a daily income of less than \$1.25, based on the purchasing power parity (PPP) rate of 2005.¹²¹ The Lao population living below the international poverty line was 37.4 per cent, above the average of 21.9 per cent (with a poverty headcount of 753.5 million people) for South-East Asia.¹²² Considering that poverty is often related to income inequality associated with unemployment or underemployment, the large majority of the informal workers are likely to be living in or close to either severe or moderate poverty. The working poor typically lack labour rights, with little access to social security benefits, education and vocational training opportunities.¹²³

As illustrated in figure 9, the portion of the country's population living below the national poverty line dropped by 18.4 percentage points, from 46 per cent in 1992–93 to 27.6 per cent in 2007–08, while the portion living

below the international poverty line decreased by 19.5 percentage points, from 56.9 per cent to 37.4 per cent during the same period. This progress is attributed to high economic growth, which normally leads to material changes in society like the improvement of living standards.

Figure 9. Population living below the poverty lines and the Gini coefficient index



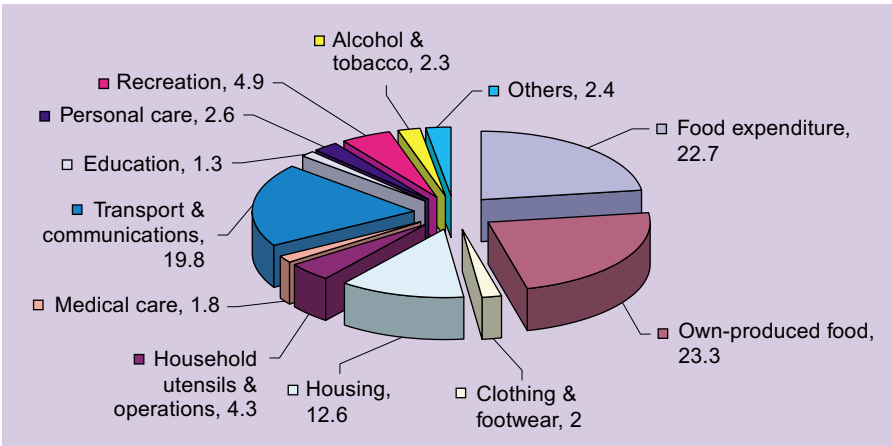
Sources: Poverty lines: Lao Statistics Bureau, www.nsc.gov.la/index.php?option=com_content&view=article&id=55&Itemid=80 [accessed 19 Feb. 2014]; Gini coefficient: Indexmundi, www.indexmundi.com/facts/lao-pdr/gini-index [accessed 19 Feb. 2014]; MPI, 2011, p. 59.

A World Bank study in 2008 found that the economic gradient in the national poverty line is driven more by the gradient in the non-food component of the poverty line (accounting for about 60 per cent of the overall elasticity) than the food component.¹²⁴ The results of the World Bank study were reiterated by the findings of the fourth Lao Expenditure and Consumption Survey (LECS IV), 2007–08, which discovered a similar pattern of household expenditure. According to the survey, the monthly average consumption of a household with an average of 5.7 family members was LAK217,000.¹²⁵

An interesting trend in the analysis of the expenditure for total food indicates a gradual reduction, from 64.3 per cent in 1992–93 to 60.9 per cent in 1997–98 to 55 per cent in 2002–03 and then to 46 per cent in 2007–08. However, the expenditure for total non-food items, such as education and recreation activities, substantially increased in the same period, from 35.7 per cent in 1992–93, to 39.1 per cent in 1997–98, to 45 per cent in 2002–03 and

then to 54 per cent in 2007–08.¹²⁶ The population changed its consumption pattern more towards goods and services than food. This explicitly demonstrates that the living standards have been constantly improving since 1992, and Lao are better off with improved living standards.

Figure 10. Household consumption of goods and services, 2007–08 (%)



Source: MPI, 2009, p. 15.

The data presented in figure 10 explain the distribution of household consumption of goods and services in 2007–08. During that year, the average household spent 46 per cent of its income for food and 54 per cent for non-food items.

Table 9. Gini coefficient index, 1992–2012

Year	1992	1997	2002	2008	2009–12
Gini coefficient	30.43	34.91	32.63	36.74	36.70

Source: Estudillo, Mano and Seng-Arloun, 2012, p. 26; UNDP, 2014, p. 170.

The Gini coefficient (based on consumption) is a national indicator measuring inequality of income among households (with a high Gini coefficient indicating greater inequality). As shown in table 9, the Gini coefficient of the Lao People's Democratic Republic increased by 6.27 points over the last two decades, from 30.43 points in 1992 to 36.7 points in 2012; it sharply surged to 34.91 in 1997 during the Asian economic crisis and then dropped to 32.63 points in 2002 before rising up to 36.7 during the 2009–12 period. These data demonstrate that the poverty headcount has declined, but the income gap between the rich and the poor has widened over the

last two decades. Since 2008, the income disparity has been stagnant. The widened income disparity reflects uneven economic growth between rural and urban areas and the large share of the population (83 per cent) who depend on agriculture for their livelihoods.

The country's economic growth shifted 20 per cent of the population out of poverty between 1992 and 2008, but the benefits to the rich and the poor have not been proportional. In all 17 provinces, the rural poverty rate was at the range of 21–53 per cent, which was generally higher than the urban poverty rate at less than 30 per cent.¹²⁷ Because an increase in real wages would lead to increased household expenditure for consumption and services like health care and education, an increase in the minimum wage would be fundamental for increasing such expenditure.

The UNDP Human Development Index is based on three measures – health (life expectancy), education and income. The Lao People's Democratic Republic has made impressive progress according to that index, from 0.389 in 1990 to 0.502 in 2005 and further to 0.569 in 2013.¹²⁸ The index also points out that the well-being of individuals has overall improved over the past two decades, including a reduction in the living standard disparity between the urban and rural areas and between populations in the uplands and lowlands. Nevertheless, the country's ranking of the Human Development Index, at 0.569 points in 2013, was far lower than the ranking for East Asia and the Pacific, at 0.703 points, and the global average, at 0.702 points.¹²⁹ The country ranked 139th of 187 countries surveyed on the Human Development Index in 2013.¹³⁰



The minimum wage and labour productivity

7

This chapter scrutinizes the changes in labour productivity and its correlation with the minimum wage. Labour productivity is one of the determinants for increasing the minimum wage. Compared to other countries, Lao labour productivity and labour costs are low, and its minimum wage is the second lowest among the ASEAN Member States. In terms of US dollar value, labour productivity performance by GDP per worker grew more than 42 per cent for each decade between 1991 and 2013. Interestingly, the yearly added value per worker in a small firm (employing 5–19 workers) is higher than a worker's value-added output in foreign-owned or large-sized firms. Despite workers' higher performance of productivity in Lao-owned firms and small firms, they are paid less than workers in foreign-owned firms and large firms.

7.1 Labour productivity

Labour productivity, which is one of the main determinants of living standards, is measured as GDP (on the basis of PPP) per person employed. Labour productivity is also the value of the (corporate) output produced by a worker within a specified timeframe. The level of labour productivity can differ according to inputs based on health and skills of workers, technologies, infrastructure and so on. In a comparison of the annual value of labour productivity in agriculture, industry and services in 1995 and 2005 (with the value calculated according to 1990 prices),¹³¹ the yearly value of labour productivity in agriculture increased by 50 per cent, from LAK200,000 per person in 1995 to LAK300,000 per person in 2005. During that period, the share of the workforce in the sector declined from 85.4 per cent in 1995 to 78.5 per cent in 2005. The slow growth of labour productivity was most likely due to low value-added production in agriculture.

The annual value of labour productivity in industry increased by 62 per cent from LAK2.1 million per person in 1995 to LAK3.4 million per person in 2005, while the workforce in the sector expanded from 3.5 per cent in 1995 to 4.8 per cent in 2005. The annual value of labour productivity in the service sector remained unchanged, at LAK900,000 per person in 1995 and 2005, while the workforce in the sector expanded from 11.1 per cent in 1995 to 16.7 per cent in 2005. Labour productivity is low in the Lao People's Democratic Republic because agriculture and forestry, sharing around 34 per cent of GDP (2006–10), rely mostly on unskilled manual workers, and because much of the country's economy is fuelled by low-tech micro and small enterprises (which are largely family businesses).

Table 10 shows that the yearly added value per worker in 2009 was \$1,775 in a foreign-owned firm and \$2,190 in a small firm (employing 5–19 workers), which was much higher than a worker's value-added output of \$1,516 in a Lao-owned firm and \$1,246 in a large firm. This demonstrates that the small firms have been more competitive than the large firms. Despite workers' yearly high output in Lao-owned firms and small-sized firms, the labour costs in these firms were relatively low. Even though workers hired in the more competitive Lao-owned and small-sized firms performed at higher productivity, they were paid \$355, relatively less than workers paid \$710 and \$631 in foreign-owned and large firms, respectively.

Table 10. A worker's yearly value-added output by size of firms surveyed in 2009

Type of firms		Value added per worker, US\$	Labour costs per worker, US\$	Unit labour costs, %
Ownership	Foreign-owned	1 775	710	40.0
	Lao-owned	1 516	432	28.5
Size of firm	Small (5–19 workers)	2 190	355	16.2
	Medium (20–99)	1 606	666	41.5
	Large (100 or more)	1 246	631	50.6
Sector	Garment	1 009	601	59.6
	Furniture and wood	451	333	73.8

Note: Due to the defaults of the original source, unit labour costs are recalculated as labour costs per worker over value added per worker.

Source: World Bank, 2011a, p. 9.

Value-added per worker was as low as \$1,009 in the garment sector and \$451 in the furniture and wood processing industry in 2009. But the share of labour cost amounted to 59.6 per cent in the garment sector and 73.8 per cent in furniture and wood processing industry. The labour costs in the garment sector and the furniture and wood industry nearly doubled in

2009, compared with labour costs that ranged from 28.5 to 40 per cent in Lao-owned or foreign-owned firms in the same year. The garment sector's low labour productivity is attributed to its high turnover rate, led by workers' discontent with poor working conditions and accommodations, excessive overtime and harsh supervision.

A World Bank survey conducted in July 2012 found that large and medium-sized firms lose around 3.5 per cent of their workforce every month (accumulated 40–60 per cent per year), while small firms lose more than 6 per cent per month.¹³² There is an ample supply of unskilled workers in the garment sector, in contrast with both Lao-owned and foreign-owned companies struggling to find skilled, experienced and knowledgeable workers.

Table 11 shows labour productivity performance by GDP per worker between 1991 and 2013, which has remarkably increased from \$3,700 in 1991 to \$5,252 in 2000 and further to \$9,367 in 2013. Lao workers have achieved high labour productivity over the years, starting at 4.2 per cent of annual average growth during 1991–95. It remained at 4.1 per cent during 1995–2005 and then increased to an average of 5.4 per cent per year during the 2005–10 period. It declined to 3.2 per cent during 2010–13. In terms of US dollar value, labour productivity by GDP per worker grew more than 42 per cent for each decade between 1991 and 2013.

Table 11. Labour productivity performance measured as GDP per worker, 1991–2013

	1991	1995	2000	2005	2010	2013
US\$	3 700	4 351	5 252	6 348	8 066	9 367
% of annual average growth each interval		4.2	4.1	4.1	5.4	3.2

Note: GDP at constant 2011 international dollars.

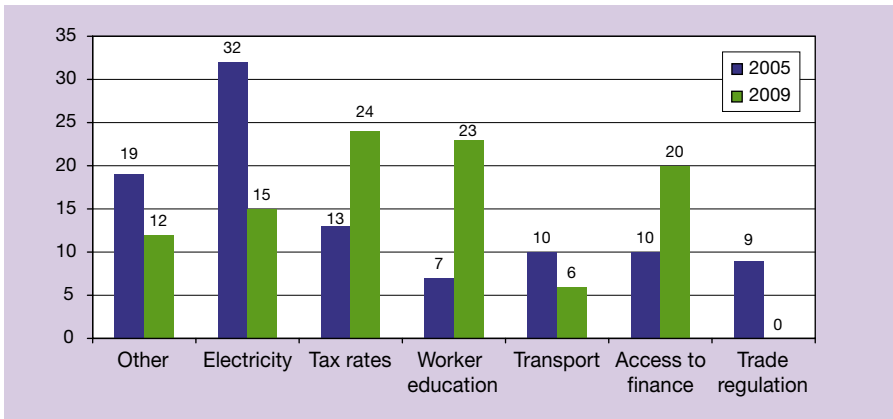
Source: ILO, 2015.

The 4th National Human Development Report claimed the national income grew as much as 6.3 per cent between 1992 and 2007.¹³³ In comparison, the minimum wage increased sharply in terms of kip value, from LAK26,000 in 1995 to LAK290,000 in 2005 and to LAK626,400 in 2011. Taking into account the dollar/kip exchange rate, the minimum wage value in US dollars actually declined from \$39.56 in 1995 to \$38.87 in 2005 due to the sharp depreciation of the kip value during the period and surged to \$78.87 in 2011.

Figure 11 depicts the results of a World Bank survey conducted among 360 companies (including 143 manufacturers and 217 trade and service

companies) regarding the investment climate in 2005 and 2009 in the Lao People's Democratic Republic. The corporate managers surveyed responded that the high tax rate, workers' low education levels and difficulty in accessing financial resources were significant constraints to their investment expansion. In particular, 50 per cent of the surveyed managers of large firms cited poorly educated and unskilled workers as a bottleneck for potential productivity growth.¹³⁴ Coupled with the low literacy rate and low skills of workers, poor working conditions and non-compliance with labour standards would be the main factors contributing to the low labour productivity. A 2012 World Bank survey identified skills deficits as a major contributor to low labour productivity and low production skills (cutting, stitching and sewing) and basic literacy and numeracy as priority training needs for garment workers.¹³⁵

Figure 11. World Bank assessment of investment constraints for non-resource sectors in 2005 and 2009 (%)



Source: World Bank, 2011a, pp. 18–20.

As table 12 shows, the enrolment rate of primary schools dramatically increased from 78.1 per cent in 2000 to 97.4 per cent in 2011. The enrolment rate in secondary schools also increased from 26.3 per cent in 1999 to 40.7 per cent in 2011, while the enrolments in tertiary schools rose from 2.4 per cent in 1999 to 17.7 per cent in 2011. These trends demonstrate that nearly all children now complete primary school, and the number of children in higher education is steadily increasing.

Table 12. Enrolment of primary, secondary and tertiary education, 1999–2011 (%)

	Primary			Secondary			Tertiary		
	2000	2005	2011	1999	2005	2011	1999	2005	2011
%	78.1	82.6	97.4	26.3	36.2	40.7	2.4	7.9	17.7

Source: UNESCAP, 2013, p. 85.

As table 13 demonstrates distribution of the employed workforce by completed education level in 2010: 21.7 per cent of the 3.02 million employed workers did not have any formal education; around 38.1 per cent had completed only pre-school or primary school; around 19.2 per cent had finished secondary school; about 9.6 per cent had passed through a tertiary education programme; some 9.8 per cent had gained one of the following higher education diplomas (first technical school, second technical school, college or university and post-graduate); and the remaining 1.6 per cent had exposure to a non-standard curriculum or other forms of education. In comparison, in 1995, 44 per cent of the nearly 2.2 million employees did not have any formal education; 39 per cent had completed only primary school; 10 per cent had finished lower secondary school; 4 per cent had made it through upper secondary school; and only 3 per cent had achieved a higher education.¹³⁶ The illiteracy rate of the employed has been halved from 44 per cent in 1995 to 21 per cent in 2010. The percentage of workers who

Table 13. Distribution of the employed workforce by completed education level, 2010

Education level	No. of the employed	Percentage of workers by sex		Percentage of total employment
		Male	Female	
No school	654 942	16.35	27.06	21.7
Pre-school	19 718	0.71	0.59	0.65
Primary	1 133 158	36.52	38.5	37.51
Secondary	579 238	21.42	16.91	19.16
Tertiary	289 245	11.27	7.87	9.57
Non-standard curriculum	11 630	0.23	0.54	0.38
First technical school	45 264	1.67	1.33	1.5
Second technical school	122 717	5.05	3.06	4.06
College/university	115 351	4.9	2.73	3.82
Post-graduate	13 514	0.65	0.24	0.45
Other	36 435	1.23	1.18	1.2
Total	3 021 212			100

Source: ILO, MOLSW and MPI, 2012, pp. 81–82.

have completed their primary, secondary or tertiary education has increased from 56 per cent in 1995 to 66.3 per cent in 2010.

Upgrading workers' education and skill levels is a prerequisite for enhancing labour productivity. In terms of education, the Government has made commitment to improvement: public expenditure of GDP for education increased from 1.5 per cent in 2000 to 2.4 per cent in 2005 and then to 3 per cent in 2007. However, it reduced to 2.3 per cent in 2008 due to diminished international grants as a negative consequence of the global financial crisis. During the sixth NSEDP, the Government planned to invest LAK2.6 trillion, or 3.5 per cent of the total LAK73.9 trillion budget, for education and human resource development over the five-year period.¹³⁷ The Government indeed increased its investment in education, from 11.6 per cent of its public budget in 2005 to 13.2 per cent in 2009, which, among other positive results, increased the primary school enrolment rate from 82.6 per cent in 2005 to 97.4 per cent in 2011.¹³⁸

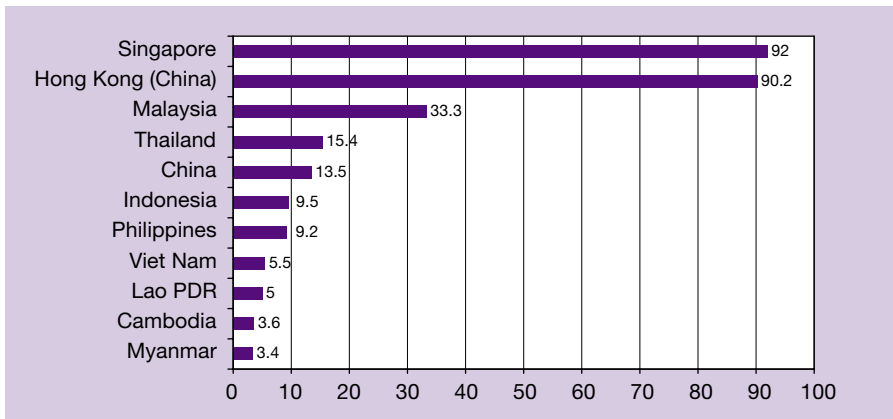
In terms of skills improvement, during the sixth NSEDP, a total of 74,069 people received skills training, including 16,152 in the agriculture–forest sector, 27,856 in construction and 30,061 in services. Between January 2011 and June 2013, the MOLSW provided various skills training to more than 91,500 jobseekers, including 24,000 people working in the agriculture sector, 28,000 in the industry or manufacturing sector and 39,500 in services.¹³⁹ The current vocational training capacity of the existing institutions is limited to a maximum of 29,000 jobseekers each year, including 10,000 slots in the public technical vocational education and training schools, 10,000 slots in 22 private vocational schools (mostly in the fields of information technology, business management and tourism) and 9,000 slots in short-term occupational training and skills development centres run separately by the MOLSW, the Lao Women's Union, the Lao Youth Organization and the LFTU.¹⁴⁰

7.2 Comparison of labour productivity in the ASEAN Member States

Figure 12 reflects a comparison of labour productivity performance rates among the ASEAN Member States, plus China and Hong Kong (China) in 2011, which were measured as GDP per worker in US dollars. On the basis of GDP per worker using PPP for 2005, a Lao worker's annual output of \$5,000 was higher than a worker's output in Cambodia, at \$3,600, and in Myanmar, at \$3,400. The country's labour productivity is slightly lower than Viet Nam's, but significantly lags behind that of China, Hong Kong (China), Malaysia, Singapore and Thailand. Labour productivity per worker was at the

highest in Singapore, at \$92,000, followed by Hong Kong (China), at \$90,200; Malaysia, at \$33,300; Thailand, at \$15,400; China, at \$13,500; Indonesia, at \$9,500; the Philippines, at \$9,200; and Viet Nam, at \$5,500.

Figure 12. Cross-country comparison of labour productivity performance, measured as GDP per worker, 2011 (US\$ '000s)



Source: APO, 2013, p. 58.

Among the ASEAN Member States, the Lao People's Democratic Republic has one of the lowest labour costs, but it also has low labour productivity. Improvement in labour productivity is a common and vital criterion for fixing a minimum wage or determining general wage increases. However, labour productivity performance did not factor into the country's formula for adjusting the minimum wage in 2011 because the country did not have comprehensive data on labour productivity ratios (which it still lacks).

7.3 Comparison of minimum wages among the ASEAN Member States

Table 14 depicts a comparison of the minimum wage in the Lao People's Democratic Republic with the minimum wages in other ASEAN Member States, which have different layers of labour productivity performance. Within the ASEAN region, the Lao People's Democratic Republic has the second-lowest minimum wage (after Myanmar with no minimum wage until June 2015).¹⁴¹

Table 14. Comparison of monthly minimum wages among the ASEAN Member States

Country	Lowest minimum wage (US\$)	Highest minimum wage (US\$)	Effective date
Brunei Darussalam	No minimum wage		
Singapore	A progressive wage model, based on skills, labour productivity and career		Sep. 2014
Myanmar	The tripartite discussion on the minimum wage setting is in progress		June 2015
Cambodia	\$128	\$128	1 Jan. 2015
Lao PDR	\$78.87 (LAK626 000)	\$78.87	1 Jan. 2012
Viet Nam	\$90 (1.9 million dong for region 4)	\$128 (2.7 million dong for region 1)	1 Jan. 2014
Indonesia	\$74.33 (910 000 rupiah for Jawa Tengah)	\$199.42 (2 441 300 rupiah for DKI Jakarta)	1 Jan. 2014
Malaysia	\$263.40 (800 ringgit for Sabah and Sarawak)	\$296.30 (900 ringgit for peninsula)	1 Jan. 2013
Thailand	\$254.90 based on a daily minimum wage of 300 baht	\$254.90	1 Jan. 2013
Philippines	\$131.10	\$297.83	Late 2012

Note: The minimum wages in US dollar values are approximate figures based on the exchange rate to the local currencies at the beginning of their effectiveness. The minimum wages of Thailand and the Philippines are calculated based on 26 working days.

Source: Based on various sources; ILO and ADB, 2014, p. 78.

In Cambodia, Articles 104–112 of the Labour Law (1992 and amended in 2006) stipulate the notion, fixing mechanism and criteria of the minimum wage.¹⁴² The law requires that every worker receive a minimum wage guaranteeing “a decent standard of living compatible with human dignity”. The monthly minimum wage applicable to workers in the textile, garment and shoe industries only was introduced in 2000 at \$45, followed by an increase to \$50 in 2007, \$61 in 2010, \$80 in 2013 and \$100 in 2014. The non-standing Labour Advisory Committee composed of 28 members (14 from the Government, seven from trade unions and seven from employers) is a consultative body that adjusts the minimum wage periodically. In December 2013, the Committee agreed on \$95 as a new monthly minimum wage, effective from February 2014. Later, the Prime Minister added \$5 in an attempt to placate rising workers’ agitation for a higher increase.

From late December 2013, garment workers went on nationwide strike, with a demand for \$160 as a monthly minimum wage. In early January 2014 in Phnom Penh, a deadly crackdown of the strike by military police resulted in the death of at least four workers, 37 serious injuries and detention of

23 strikers (the detainees were released in late May 2014). In response to mounting domestic and global pressures, in mid-November 2014, the Government raised the minimum wage to \$128 (which was effective from 1 January 2015). Since then, the tripartite partners have reached a consensus to adjust the minimum wage once a year according to the survey results on the cost of living, which will be determined by common social and economic criteria decided by the social partners.

In Indonesia, Act No. 13/2003 concerning Manpower and Ministerial Decree No. 236/2000 concerning Minimum Wage stipulate the determination of minimum wages at province and district levels.¹⁴³ The tripartite, provincial “Wage Councils” set the minimum wage for their respective provinces, and the Governor of each province decides the provincial minimum wage rates based on a recommendation from the Wage Council. The provincial Wage Councils conduct a survey on prices of goods for a worker’s basic needs, determined by 60 commodity items, categorized into six yardsticks: (i) minimum subsistence requirement of workers; (ii) consumer price index; (iii) company capacity to pay; (iv) level of wages and incomes in the country; (v) economic development; and (vi) level of employment.

Negotiation in the Wage Councils normally takes place in November and December, and the minimum wages are effective from January each year. Within three months, management can request the municipal representative of the Manpower Ministry (or DISNAKER) to dispense with some requirements. Currently, 33 provincial minimum wages are implemented. Effective in January 2014, the lowest minimum wage is at 910,000 rupiah (IDR, or \$74.33) and applies to workers in a district of Jawa Tengah, while the highest provincial minimum wage is IDR2.4 million (\$199.42) and applies to workers in Daerah Khusus Ibukota Jakarta (DKI or Special Capital Region of Jakarta). Article 77 of Act No. 13/2003 applies the minimum wages on the basis of seven hours a day and 40 hours a week for six workdays a week, or eight hours a day and 40 hours a week for five workdays a week.

In Malaysia, the National Wages Consultative Council Act (2011) guides the National Wages Consultative Council, composed of 23 members (a chair, a deputy chair, a secretary, five members each from the Government, trade unions and employers, and five experts), as well as the adjusting of a minimum wage once every two years.¹⁴⁴ The Council set up two minimum wage baskets – 800 ringgit (MYR, or \$263.40) for Sabah and Sarawak states and MYR900 (\$290.30) for the peninsula. Its application started with enterprises employing more than five workers in January 2013 and has been extended to all enterprises employing more than one worker since January 2014. Migrant workers are covered by the minimum wage, but they must pay a levy to the Government, the use of which is rather cryptic.

In Myanmar, the Government passed the Minimum Wage Act (2013) and the Ministry of Labour, Employment and Social Security issued the Minimum Wage Rules (Regulations) in July 2013.¹⁴⁵ They guide the formation of national and regional Minimum Wage Committees and multiple minimum wage fixing at the national, regional and sector levels. The national Minimum Wage Committee's 27 members met in October 2013 for the first time to discuss the formula for setting the first national minimum wage. By June 2014, the Myanmar Development Resource Institute (assigned by the Government and backstopped by the ILO) conducted a survey on the cost of living in Yangon, Bago and Mandalay to assist the Minimum Wage Committee in setting a minimum wage floor.¹⁴⁶ The National Minimum Wage Committee investigated the prospect of monthly, weekly and daily rates.

On 29 May 2015, the National Minimum Wage Committee released Notification No.1/2015 on a daily minimum wage of 3,600 kyats (\$3.20) based on eight working hours (450 kyats per hour), which will be applicable to all sectors nationwide, with the exception of small businesses that have fewer than 15 workers or family businesses.¹⁴⁷ The proposal will be subject to public comments or objections for a period of 60 days, and the National Committee will discuss the recommendations and make a final decision.

In the Philippines, Republic Act No. 6727 on Wage Rationalization (1989) stipulates the establishment of the National Wages and Productivity Commission and the Regional Tripartite Wages and Productivity Boards. The Commission is composed of seven members, including the Secretary of Labour and Employment as ex-officio chairman, the Director General of the National Economic and Development Authority as ex-officio vice-chairman, a representative of trade unions, a representative of employers' organizations and the Executive Director of the Commission. The Commission acts as a consultative advisory body to the country's President, while the Boards are mandated to fix minimum wage rates in their regions.

The Act prescribes ten relevant factors for determining regional minimum wages. Those factors feed into three broad categories: (i) basic needs of workers and their families; (ii) employers' capacity to pay; and (iii) the requirements of socio-economic development. In 2012, the two-tiered wage system was adopted. The first tier, or the mandatory minimum wage, is embodied in wage orders, and it is set slightly above the poverty threshold to meet the basic needs of workers and their families, contribute to poverty reduction and improve income distribution, particularly for those earning low wages. It should, however, not exceed the average wage, in order for bipartite approaches to broaden the negotiation space in setting the terms and conditions of employment beyond the minimum standards.

The second tier is a voluntary productivity-based pay scheme, which encourages workers and managers to adopt productivity improvements and to realize the fair, reasonable gain-sharing. As of August 2014, there were 106 daily minimum wage rates nationwide, ranging from 205 pesos (PHP, or \$4.61) for establishments employing fewer than ten workers in Region IV-B (MIMAROPA) to PHP466 (\$10.49) in the non-agriculture sector in the National Capital Region (Metro Manila). An exemption from the minimum wages may be granted by the Regional Tripartite Wages and Productivity Boards, upon application, to the following enterprises: (i) distressed establishments; (ii) new business enterprises; (iii) retail/service establishments employing fewer than ten workers; and (iv) establishments affected by natural calamities.

In Singapore, there is no minimum wage. The National Wages Council, which consists of representatives from the National Trades Union Congress (NTUC), the National Employers Federation and the Ministry of Manpower, meets annually to deliberate on a guideline for wage-related issues. A progressive wage model was first introduced by the NTUC in June 2012 to improve the job prospects and income of workers in various industries.¹⁴⁸ The model is a four-ladder progression approach, which enhances workers' skills, labour productivity, career and wages. It links skills, career and productivity to wage increases.

In May 2013, the National Wages Council recommended that all companies adopt their own appropriate progressive wage model and provide a clear progression path for their workers. From 1 September 2014, the progressive wage model was mandated in the cleaning sector through a licensing framework under the Environmental Public Health Act. So all cleaning companies have to pay their resident cleaners basic wages in line with the progressive wage levels recommended by the Tripartite Cluster for Cleaners. In case of violation, the company will be penalized, including the revocation of its license. Cleaners receive a minimum of 1,000 Singaporean dollars (SGD) a month and can step up on a ladder-like wage scale, i.e., SGD1,200, SGD1,400, SGD1,600 and so on, according to skills, productivity and job design. A similar approach will be taken for the security and landscape sectors. For the other sectors, the NTUC has set up 12 industrial clusters to drive the adoption of progressive wage models. The 12 clusters include: (i) aerospace and aviation; (ii) building and facility management; (iii) education; (iv) electronics, precision and machinery engineering; (v) financial and business services; (vi) health care; (vii) hospitality and consumer business; (viii) information and media; (ix) marine engineering; (x) petroleum; (xi) transport and logistics; and (xii) public services.

In Thailand, a Wage Committee consisting of a total of 21 representatives of the tripartite partners introduced the first minimum wage on 1 April 1973.

During the Asian economic crisis in 1997, the Government decentralized the minimum wage-fixing mechanism to provincial wage subcommittees. Then, the Labour Protection Act, B.E. 2541 (1988) embedded the fixing and application of the minimum wage.¹⁴⁹ Each Provincial Wage Subcommittee set its minimum wage rate based on the following criteria: cost of living index inflation rates, standard of living, production cost, price of goods, business competitiveness, labour productivity, gross national product and economic and social conditions. The agreed minimum wage rate must be submitted to the Labour Minister for final approval.

The minimum wage has been adjusted irregularly, on a yearly, biannual or occasional basis, in response to workers' demands and as a result of economic performances. By December 2012, 28 provincial minimum wages were implemented, at a range of the lowest rate of 222 baht (THB) in Payao Province to the highest rate of THB273 in Chonburi Province. After the Pheu Thai party won the general election in July 2011, a national minimum wage, at THB300 per day, was piloted in seven provinces from 1 May 2012, and it was effective nationwide from January 2013. Increasing the minimum wage to that level was included in the election campaign platform of the Pheu Thai party (but it is no longer in power). Civil servants, workers in public enterprises and agriculture workers are excluded from the minimum wage coverage.

It is, however, alleged that in December 2014, the Wage Committee decided to reinstate the old system for 2016 where multiple floating wages will be applied by the level of the cost of living and the economic strength of each province.¹⁵⁰ Since March 2015, the Thai Labour Solidarity Committee has called on the Government to increase the minimum wage to THB360, while the Board of Trade and the Thai Chamber of Commerce has called for the freezing of the minimum wage at THB300.

In Viet Nam, Articles 91 and 92 of the Labor Code (2012) regulates the definition and determinant criteria of the minimum wage rate and the formation of a National Wage Council.¹⁵¹ The Government announces the regional minimum wages on the basis of a recommendation of the Council, while sectoral minimum wages are determined through sectoral collective negotiation and agreements. The National Wage Council set up in May 2013 is composed of 15 members (five representatives each from the Ministry of Labour, Invalids and Social Affairs, the Vietnam General Confederation of Labour and the employers' organizations). The employers' representatives are nominated by the Vietnam Chamber of Commerce and Industry, the Vietnam Textile and Apparel Association, the Small and Medium Enterprise in Vietnam, the Vietnam Leather, Footwear and Handbag Association, and the Vietnam Cooperative Alliance. As an experts group, the Institute of Labour Science

and Social Affairs offers advisory services, data and information to the National Wage Council.

The country has three types of minimum wage systems: a common minimum wage, regional minimum wages and sectoral minimum wages. Strictly speaking, the common minimum wage is not a minimum wage, but it is used as a basis for calculating wages for public servants and the payment of their social benefits. The regional minimum wages, which cover four regional zones, are based on the level of socio-economic development in each region. The latest regional minimum wage was promulgated in November 2013 and became effective from 1 January 2014. For region I, covering urban Hanoi and Ho Chi Minh City, the monthly minimum wage is 2.7 million Vietnamese dong (VND, or \$128); for region II, covering rural Hanoi and Ho Chi Minh City along with urban Can Tho, Da Nang and Hai Phong, it is VND2.4 million (\$114); for region III, covering provincial cities and the districts of Bac Ninh, Bac Giang, Hai Duong and Vinh Phuc, it is VND2.1 million (\$100); and for region IV, covering the remaining localities, it is VND1.9 million (\$90). It is applicable to labourers working for enterprises, cooperatives, farms, households, individuals and organizations.



The minimum wage and social security benefits

8

This chapter looks at the coverage of social security schemes available in the Lao People's Democratic Republic to measure whether their benefits supplement the minimum wage. Comprehensive social security can bring an indirect financial incentive to workers by reducing their expenditures for health care and other welfare needs. The government's budget growth helps enhance the beneficiaries' access to public health care. More workers benefit when government policies mandate all public and private enterprises employing more than one worker to subscribe the Social Security Organization (SSO).

8.1 The four social security schemes

There are two statutory social security schemes in the country – the State Authority for Social Security (SASS) for civil servants and the SSO for employees in the private and public sectors. The two schemes were merged into the National Social Security Fund in late 2014. Workers employed in the informal economy and their dependants can access health care protection through the voluntary Community-Based Health Insurance (CBHI), and poor people can access free medical care through the Health Equity Fund.

8.1.1 State Authority for Social Security

The SASS was established for civil servants under the MOLSW in 2006. It originated from the Civil Servants Scheme that was set up in 1975, but then reformed in 2006 under Prime Minister's Decree No. 70, which mandated the establishment of health insurance for civil servants, the police and army personnel, and which also allowed the police and the military to manage their

own funds separately. The total contribution rate is fixed at 16.5 per cent of a worker's total salary: 8 per cent from a government employee's monthly gross salary and a matching premium of 8.5 per cent of the employee's monthly wage that the Government pays as the employer. The scheme provides benefits related to old age pension, death (for survivors), disability, maternity, health care and work-related injuries. Civil servants also receive a family allowance paid as a monthly salary allowance. Around 355,000 people (employees and dependants) were insured by the scheme in 2012.¹⁵²

8.1.2 Social Security Organization

The SSO was introduced in 2001, following the adoption of the 1999 Prime Minister's Decree No. 207 on social security for enterprise employees, which mandates social security coverage for private sector and state-owned enterprises with more than ten employees. Before the adoption of the Law on Social Security in July 2013, workers who were employed in small and medium-sized enterprises with fewer than ten workers could register with the scheme voluntarily through their employer. The scheme does not cover self-employed workers (or workers in the informal sectors). The total contribution rate is fixed at 11.5 per cent of a worker's insurable (or gross) earnings (with a ceiling of a worker's wage up to LAK2 million), with 5.5 per cent paid by the worker and 6 per cent paid by the employer.¹⁵³ It covers the unemployment benefit scheme – all enterprises employing more than one worker are obliged to contribute 1 per cent of a worker's salary. Those who have paid into the scheme for more than three months are entitled to benefits for illness, pension, maternity, work injury, disability and death (survivors).¹⁵⁴

Around 350,000 people were targeted for the scheme, but only 126,000 people (workers and dependants) were participating in 2012.¹⁵⁵ The enrolment of private sector employees in the SSO is relatively low to date, which was attributed to the reluctance of employers to register workers and pay contributions, the weak governance system and enforcement measures and the lack of workers' awareness.

8.1.3 Community-Based Health Insurance

The CBHI was launched by the Ministry of Health in 2002 to provide the informal and non-salaried sectors with better access to health services through health insurance, which involves a minimum prepayment. It targets 3.5 million people throughout the country. The number of the insured increased from around 16,000 people (more than 3,000 families) in 2006 to about 60,000 people as of July 2012.¹⁵⁶

8.1.4 Health Equity Fund

The Health Equity Fund was initiated by the Ministry of Health as a mechanism to provide subsidized care to the poor, with funding mostly from bilateral donors and with the Lao Red Cross administering the scheme in selected districts. The scheme reimburses health service providers directly through a combination of capitation and case-based reimbursement. In addition, beneficiaries receive transport and food allowances. In principle, informal workers are eligible for benefits if they prove income below a certain threshold set by the Ministry of Planning and Investment. As of August 2012, around 700,000 people were enrolled in the Fund.

8.2 Implications of the social security schemes on workers' income and living standards

As of 2012, despite limited facilities and a shortage of professional medical service staff and health care centres,¹⁵⁷ about 19 per cent (or 1,241,000 subscribers) of the estimated population (6,514,000 people) was covered by a health care benefit available through one of the four social security schemes.¹⁵⁸ Among the subscribers, around 481,000 people were covered by other benefits of the SASS and the SSO. Even though the figure does not include the army and police who are covered by a separate social security scheme, the number of subscribers has increased steadily. The Government is also gradually increasing the public budget to help more people access medical care, especially critical vaccinations.¹⁵⁹ The Government invested LAK2.2 trillion for health care, or 3 per cent of the total five-year accumulated national budget of LAK73.9 trillion (2006–10).¹⁶⁰ Public expenditure on health care increased from 0.7 per cent of GDP in 2005–06 to 0.8 per cent in 2007 and 2009 and further to nearly 1.37 per cent in 2013.¹⁶¹

The two statutory social security schemes exclude many informal workers, who are casual, unpaid family members and self-employed workers. In March 2011, the ninth National Congress of the Lao People's Revolutionary Party adopted a policy for universal coverage of social security to all working men and women. In 2013, the Social Security Law was passed, stipulating that domestic and foreign firms employing more than one worker must enrol all employees in the SSO scheme. The Government merged the SASS and the SSO into a single National Social Security Fund in 2014, which is managed by a tripartite Social Security Board. National health care is kept as a separate scheme. The Law seeks to improve the governance of the schemes and to increase the coverage and number of beneficiaries, which will improve the living standard of workers in the public and private sectors substantially.



Conclusions

9

9.1 Findings

This paper discusses the relevance of the minimum wage to socio-economic progress in the Lao People's Democratic Republic. The national minimum wage has risen dramatically, and the real wage has also surged since 2004. The total salaried workforce who can benefit from the minimum wage reached 16.2 per cent in 2010. At the same time, the share of the population below the national and international poverty lines has gone down significantly. The minimum wage increases are assessed to have had a side-effect on poverty reduction and improved living standards. The analysis offered in this paper can help social partners, policy-makers and other readers in rethinking the current minimum wage system, especially in the context of the unfolding development scenarios and with the forthcoming impact of ASEAN economic integration. The Lao Government should consider establishing a mechanism to regularly adjust the minimum wage, in order to timely and effectively respond to emerging economic conditions and changing industrial relations, as well as to reduce poverty, especially from the working poor. The main points of the study's analysis are summarized below.

- The national minimum wage was first introduced in 1991 to increase income for industrial workers who migrated from rural areas and to improve their living standards. It was periodically adjusted in 1997, 2000, 2005, 2009 and 2011 in response to inflationary pressures and increasing living costs. Article 46 of the Labour Law (2006) states the role of the Government in minimum wage fixing. The 2005 Prime Minister's Decree No. 64 on the Improvement of the Minimum Wage

for Workers in Enterprises and the 2011 Ministerial Notification on the Adjustment of the Minimum Wage for Workers in the Business Sector (issued by the MOLSW) detail the terms and coverage of the minimum wage. The 18-member Tripartite Committee on Industrial Relations functions as an institution reviewing the minimum wage through consultations. The Committee is an ad-hoc body functioning without administrative services, data collection and analysis, and the constant monitoring of minimum wage implementation. Due to inflationary pressure, the intervals between the minimum wage adjustments grew shorter.

- In 2011, the Tripartite Committee on Industrial Relations agreed to a minimum wage proposal of LAK689,000 and submitted the recommendation to the Cabinet. The Prime Minister's Office promulgated the wage after reducing it to LAK626,000 while taking into account its potential negativity on FDI. The Prime Minister's Office makes the final decision on the rate of the minimum wage increase, based on the recommendation by the Tripartite Committee on Industrial Relations. The Labour Law (2013) redefined the role of the Government as the promulgator of the agreed minimum wage rate rather than as the final decision-maker of its amount.
- Interestingly, various reports and findings from the interviews indicate that workers in the organized private and public sectors, skilled and semi-skilled construction workers, salesclerks and experienced restaurant workers are paid more than the statutory minimum wage, while newly recruited workers in micro and small enterprises and informal workers are unlikely to be fully covered by the minimum wage. A daily wage in rural areas is either slightly lower or slightly higher than the daily minimum wage of LAK24,076 (\$3.02). Around 472,000 salaried workers are predicted to receive the minimum wage. Civil servants are not legally eligible for the minimum wage, but it was used as an important barometer for readjusting civil servants' salary scale in 2012 because the 2011 national minimum wage adjustment exceeded most of the low-grade civil servants' salary.
- As of December 2013, 350 enterprises had a collective bargaining agreement covering a total of 44,536 workers. The agreements involved only 4.1 per cent of the 8,491 local unions and 22.8 per cent of the 195,015 union members. Wage negotiation is neither coordinated industry-wide nor powerful enough to influence wage

increases nationwide. In comparison with collective bargaining power, the minimum wage adjustments have more impact on scaling up the wage floor.

- The population living below the international poverty line of \$1.25 per day was reduced by 19.5 percentage points, from 56.9 per cent in 1992–93 to 37.4 per cent in 2007–08, while the population living below the national poverty line dropped by 18.4 percentage points in the same period, from 46 per cent to 27.6 per cent. The country's economic growth lifted almost 20 per cent of the population out of poverty between 1992 and 2008. The Gini coefficient of the country increased by 6.27 points, from 30.43 in 1992 to 36.7 in 2012. Also, the household expenditure for food items steadily reduced from 64.3 per cent in 1992 to 46 per cent in 2008. The substantial increase of household expenditure in non-food items indicates that living standards have improved since 1992. The country has also made impressive progress on the UNDP Human Development Index, from 0.389 in 1990 to 0.569 in 2013, indicating the improvement in the well-being of individuals over the past two decades. The nominal minimum wage adjustments have been impressive, increasing more than 24 times from LAK26,000 in 1991 to LAK626,000 in 2011. The dollar value of the minimum wage increased from \$28.26 in 1991 to \$78.87 in 2011.
- The sharp surge of the minimum wage over the two decades most likely had great impact on the living standards of working people and their families, especially considering that the salaried workforce, including civil servants, rose from 9.7 per cent of the total workforce in 1997 to 16.2 per cent in 2010. The minimum wage was used as a crucial barometer in adjusting civil servants' salary scale in 2013. A year after the minimum wage was adjusted in 1997 and 2009, the inflation rate spiked unusually while rising normally in the year after the minimum wage adjustment in 2001, 2006 and 2012. This trend suggests a clear link between increasing inflation and the minimum wage increases. What is not clear is whether the minimum wage increase triggered the ensuing inflation.
- Labour productivity performance appears to have no influence on the minimum wage adjustment. Labour productivity performance by GDP per worker dramatically increased over the past two decades from \$3,700 in 1991 to \$9,367 in 2013. Labour productivity by GDP per worker grew over 42 per cent in each decade between 1991

and 2013. Among the ASEAN Member States, the Lao People's Democratic Republic has one of the lowest labour productivity rates and of the lowest labour costs.

- As of 2012, around 19 per cent of the population (some 1.2 million people out of a population of some 6.51 million) received health care benefits from one of the four social security schemes (SASS, SSO, CBHI and the Health Equity Fund). The public expenditure on health care amounted to 0.7 per cent of GDP in 2005–06 and 1.37 per cent in 2013. The Government invested LAK2.2 trillion for health care, or 3 per cent of the total five-year accumulated national budget of LAK73.9 trillion (2006–10) and, to a certain extent, to improve health care facilities and professional medical services. Around 481,000 civil servants, formal workers and their dependants were covered by the SASS and the SSO in 2012. The Government's policy, which mandates all public and private enterprises employing more than one worker to insure their workers with the SSO, further benefits more workers with a supplementary income effect.
- With the opening of the ASEAN economic community by 2015, the Lao Government envisions inclusive economic growth, with better jobs and shared prosperity. In the coming decade, the population growth and speedy urbanization will create challenges in employment, especially for youth, women and rural migrants. The tripartite partners should be able to manage these challenges. The adequate adjustment of the minimum wage, which serves as a basis for reducing poverty, would be key to achieving the goal of advancing the economy and society of the country.

9.2 Recommendations

Based on the analysis of the minimum wage practice in the Lao People's Democratic Republic, this study concludes with several recommendations, which may be effective tools to protect low-wage workers in both formal and informal economies and enhance corporate competitiveness.

- Establishing a statutory minimum wage fixing institution with a public budget would be useful for providing administrative services, including the collection of supporting data, the organization of tripartite forums and the monitoring of the minimum wage implementation in workplaces.

- A single survey on cost of living should be conducted by a competent research institution, which would improve transparency in the collection of data and analysis of living costs for workers. The results would help the tripartite partners in amicably reaching an agreement on minimum wage increases. In adjusting the minimum wage, each tripartite partner prefers a different methodology. The LFTU wants to adjust the minimum wage based on the cost of living, while the LNCCI prefers to review it based on labour productivity. The Government wants to base it on GDP growth rates.
- Education and vocational training facilities should be upgraded and expanded to meet increasing demands for skilled workers and to improve the employability of workers in high-wage jobs. The informal workforce, which remains the backbone of the Lao economy, needs to be better trained to improve their skills and knowledge and hence increase the value of their toil.
- Collective bargaining agreements, which could be complementary to the minimum wage, should be served as a mechanism to uplift the wage floor and eventually to improve workers' income and living standards.
- Along with the effective implementation of the minimum wage, the social security schemes should be extended to the informal sectors to reduce the numbers of working poor people and ultimately to achieve the Government's goal of poverty reduction.

The Lao People's Democratic Republic is experiencing a rapid transformation of its society and economy along with unprecedented challenges emerging from matters of employment, poverty and welfare. As the minimum wage becomes a central element, able to affect all those issues, the development of a visionary minimum wage policy that aligns with the National Socio-Economic Development Plan will be essential to facilitate not only a smoother social transition but greater economic advancement.

Endnotes

¹ Author's interview with Phetsavang Sounnalath, Deputy Director, Labour Management Department of the MOLSW on 10 July 2013 during the "ILO workshop for senior LFTU leaders on ILO Convention No. 87, Convention No. 98 and supervisory mechanisms", which was held in Thalad, Vientiane Province on 9–10 July 2013.

² The Lao People's Democratic Republic joined ASEAN in 1997 and the World Trade Organization in 2011.

³ ILO, 2013a, pp. 35–36.

⁴ *Vientiane Times*, 20 May 2013a.

⁵ MOLSW, 2009, pp. 30–31.

⁶ National Assembly, 2013, p. 28.

⁷ *Ibid*, p. 27.

⁸ MOLSW, 2011, pp. 1–4.

⁹ MOLSW, 2009, pp. 4–5.

¹⁰ National Assembly, 2005.

¹¹ ILO, 1970.

¹² Anker, 2011, pp. 5–6.

¹³ Herr and Kazandziska, 2011, pp. 7–8; Olpost, 2013; Belser and Sobeck, 2012, pp. 121–122.

¹⁴ Author's interview with Samanxay Khanhthanousay, then Deputy Director, Labour Protection Department, LFTU, on 21 May 2013 during the ILO/LFTU Workshop on Protection of the Rights of Migrant Workers.

¹⁵ The basic salary is a fixed amount of money paid to a worker by an employer in return for work performed on the basis of the statutory work hours. The basic salary does not include benefits, bonuses or any other potential compensation from the employer. A wage is paid to a worker based on an hourly, daily or piecework for the work performed, which does not normally include any allowances. However, in the Lao People's Democratic Republic, the calculation of the basic salary included the amount paid as bonuses and allowances because some enterprises avoided paying them.

¹⁶ Gocurrency.com.

¹⁷ Author's interview with Phongxaysack Inthalath in the Ministry on 11 July 2014.

¹⁸ Author's interview with Sengdavone Bangonesengdet in the LNCCI on 11 July 2014.

¹⁹ *Vientiane Times*, 5 June 2012.

²⁰ MOLSW, 2011, p. 3.

²¹ Coleman, 2013, pp. 49–50.

²² Data provided by the Labour Management Department, MOLSW, on 11 July 2014.

²³ National Assembly, 2013, p. 43.

²⁴ Ibid.

²⁵ MOLSW, 2008, pp. 8–10.

²⁶ According to the LFTU, negotiation and collective bargaining takes the following steps in the country: (i) the employer assists workers to form a temporary union committee and even appoints its members; (ii) the committee prepares a charter of demands, collecting the common demands and interests of workers; (iii) the committee submits the charter of demands to the director of the company; (v) the committee members divide roles for the negotiation among themselves; (vi) once both sides reach an agreement, the committee convenes a workers' general congress to obtain at least 50 per cent of the participants' approval; and (vi) once the congress endorses it, the committee signs the collective bargaining agreement.

²⁷ Aidt and Tzannatos, 2002, pp. 23–38.

²⁸ Herr and Kazandziska, 2011, p. 1.

²⁹ Schulten, 2012, pp. 85–103.

³⁰ BBC, 2014.

³¹ ITUC, 2010; ITUC, 2014. The International Trade Union Confederation published the Global Rights Index covering violations of labour rights in 139 countries recorded from April 2013 to March 2014. The countries surveyed are recoded in clusters from 1–5, depending on the level of compliance with labour rights defined by ILO convention No. 87 and No. 98. A higher rated cluster in a country means a lower level of compliance with the ILO conventions, while a lower rated cluster in a country explains a higher level of compliance with the international labour standards. The Index is qualitative information like national legislation and its ratings are resulted from an analysis on compliance of national legislation regulating freedom of association, collective bargaining and the right to strike, as well as a survey conducted with national unions and global union federations concerning violation of labour rights.

³² Cover page of the Lao Statistics Bureau website, 2014. The figures are estimated from the Population and Housing Census 2005. Life expectancy is 65 years; around 5 per cent of the population lives beyond that age.

³³ Lao Statistics Bureau, 2013, p. 23.

³⁴ UNESCAP, 2013, p. 7.

³⁵ World Bank, 2014b.

³⁶ Committee for Planning and Investment, 2006, p. 66.

³⁷ MPI, 2011, pp. 18–19.

³⁸ World Bank, 2011a, p. 25.

³⁹ Wordpress.org, 2011; ILO, MOLSW and MPI, 2012, p. iii.

⁴⁰ MPI, 2011, p. 199.

⁴¹ World Bank, 2014c.

⁴² World Bank, 2014d. The 2005 Population and Housing Census found that the urban population aged 10 years or older had grown dramatically, at 113 per cent, from 577,000 in 1995 to 1.2 million in 2005. The population aged 10 years or older in Vientiane rose by 47 per cent, from 394,000 to 578,000 over the same period.

⁴³ UNESCAP, 2013, p. 17.

⁴⁴ MPI, 2011.

⁴⁵ Committee for Planning and Investment, 2006.

⁴⁶ An own-account worker is a self-employed person who works mainly in agriculture and an unpaid family worker engages in one's family enterprise who is not the principal decision-maker or owner.

⁴⁷ An "informal sector" means a segment of the entire informal economy, while the informal economy is a macro concept covering the whole unorganized/informal sectors. For more information on the definition and nature of the informal economy, see Ahn, 2007, pp. 18–21; Ahn and Ahn, 2012, pp. 574–577.

⁴⁸ ILO, 2002, pp. 1–25.

⁴⁹ MPI and UNDP, 2009, p. 106. The self-employed represented 64.9 per cent of the total informal workforce (70.1 per cent of the males and 59.6 per cent of the females). The unpaid family workers amounted to 25.4 per cent of the informal workforce (15.7 per cent males and 35 per cent females). And the casual wage workers constituted 4.4 per cent of the informal workforce (with 6.3 per cent male and 2.5 per cent female).

⁵⁰ Ibid, p. 106.

⁵¹ Ibid, p. 24.

⁵² Hussmanns, 2002, pp. 6–7. The informal employment is classified as: (i) own-account workers engaged in the production of goods exclusively for own final use by their household, or working with one or more partners; (ii) employers employed in their own informal sector enterprises or holding informal jobs whether employed by formal sector enterprises, informal sector enterprises, or as paid domestic workers by households; (iii) contributing family workers, irrespective of whether they work in formal or informal sector enterprises; and (iv) members of informal producers' cooperatives holding self-employment jobs in a cooperative producing goods and services.

⁵³ Walsh and Southiseng, 2011, pp. 12–18.

⁵⁴ NSC, 2006.

⁵⁵ Ibid. The Economic Census collected information in December 2006 from all business entities across the country: public, private, foreign investment and joint venture production units of all sizes; formal and informal units; and entities involved with management work, associations and non-profit organizations, regardless of the registration status. The census excluded household agricultural entities, household businesses with no permanent location, international organizations, representative offices, military camps, schools and hospitals located in military camps or police offices and other business entities that are temporarily closed for more than three months. The census did not cover self-employment or businesses that operate at the owner's residence or do not have permanent office. The survey also excluded units located in villages with no road access and those with no permanent address (mobile shops, street vendors, lottery sellers, tuk tuk drivers, taxi drivers, mobile fruit carts and other temporary retail shops in schools and the like) and other production units with only one type of labour, such as handicraft, weaving, agriculture, forestry and animal breeding.

⁵⁶ Phimmavong and Chanthavong, 2009, p. 3.

⁵⁷ Davies and Record, 2010.

⁵⁸ Rattavong, undated, p. 1.

⁵⁹ Singhalath, 2012.

⁶⁰ MPI, 2011, p. 33.

⁶¹ *Vientiane Times*, 9 July 2013b.

⁶² Data provided from Tourism Development Department, Ministry of Industry and Commerce, August 2013.

⁶³ *Vientiane Times*, 20 May 2013c.

⁶⁴ Onwuka, 2011, p. 135.

⁶⁵ ILO, 2010a.

⁶⁶ United Nations, undated, p. 7.

⁶⁷ MPI, 2011, p. 254.

⁶⁸ Author's interview with Sengdavone Bangonesengdet, Deputy Secretary General, LNCCI at the Ministry of Commerce in Luang Prabang on 6 Feb. 2013.

⁶⁹ World Bank, 2011b. For more information on Lao migrant workers' remittances from Thailand, see also Deelen and Vasuprasat, 2010.

⁷⁰ Lao Statistics Bureau, 2013, p. 26.

⁷¹ Data provided by the Labour Management Department, MOLSW, on 11 July 2014.

⁷² ILO, MOLSW and MPI, 2012, p. 97.

⁷³ MPI, 2011, p. 34.

⁷⁴ GSC Garment Skills Development Centre, 2012, pp. 1–3.

- ⁷⁵ World Bank, 2012, p. 30.
- ⁷⁶ *The Nation*, 22 Feb. 2013.
- ⁷⁷ Author's interview with Borivon Phafong, Director, GSC Garment Skills Development Centre, on 10 July 2013 in her office.
- ⁷⁸ ECCIL, 2014, p. 19.
- ⁷⁹ Author's interview with the president of the Teak Company Union in Luang Prabang on 6 Feb. 2013.
- ⁸⁰ ILO and MOLSW, 2013, p. 69.
- ⁸¹ Lao Statistics Bureau, 2013, pp. 78–79.
- ⁸² ADB, 2009, p. 6.
- ⁸³ Author's interview with the staff of L'Elephant Restaurant in Luang Prabang on 6 Feb. 2013.
- ⁸⁴ Author's interview with the staff at Napakuang Resort in Thalad, Vientiane Province on 11 July 2013.
- ⁸⁵ Author's interview with Phudtha Sithammalath, President of the Water Supply Enterprises Union, in Luang Prabang on 16 Mar. 2012.
- ⁸⁶ MOLSW, 2009, pp. 34–35. The calculation of overtime payment is as follows: (i) in the daytime on a regular working day on the basis of 150 per cent of the hourly wages of a regular working day for each hour worked; (ii) at night on a regular working day on the basis of 200 per cent of the hourly wages; (iii) in the daytime on a day of weekly rest or holiday on the basis of 250 per cent of the hourly wages; (iv) on a day of weekly rest or holiday on the basis of 300 per cent of the hourly wages; and (v) if a worker is assigned on a night shift, he/she shall be paid an additional bonus of not less than 15 per cent of the regular hourly wages from 8 p.m. to 5 a.m. the next morning.
- ⁸⁷ World Bank, 2011a, p. 27.
- ⁸⁸ MPI, 2011, pp. 34–35.
- ⁸⁹ World Bank, 2011a, p. 27.
- ⁹⁰ ILO and MOLSW, 2013, p. 69.
- ⁹¹ ECCIL, 2014, p. 6. Meal and accommodation are not included in the daily wage rates.
- ⁹² *Ibid*, pp. 19, 25 and 30.
- ⁹³ NSC and UNDP, 2006, pp. 51–52.
- ⁹⁴ *Ibid*, p. 56.
- ⁹⁵ ECCIL, 2014, p. 19.
- ⁹⁶ Author's interview in Luang Prabang on 5 Feb. 2013.
- ⁹⁷ Author's interviews in Luang Prabang on 6 Feb. 2013 and in Paksan, Bolikhamxay Province on 10 July 2014.
- ⁹⁸ ECCIL, 2014, p. 6. Meal and accommodation are not included in the daily wage rates.
- ⁹⁹ World Bank, 2014e.
- ¹⁰⁰ UNDP, 2007, p. 12.
- ¹⁰¹ FAO, 2009.
- ¹⁰² Social Watch, 2009.
- ¹⁰³ ILO, MOLSW and MPI, 2012, p. 87.
- ¹⁰⁴ Social Watch, 2013.
- ¹⁰⁵ UNDP, 2014, pp. 170–175.
- ¹⁰⁶ Prime Minister's Office, 2003.
- ¹⁰⁷ ILO, 2014a, p. 111.
- ¹⁰⁸ ILO and ADB, 2014, p. 77.
- ¹⁰⁹ Rasiah, R., Nolintha, V. and Songvilay, L. 2011, p. 204.
- ¹¹⁰ In the Lao People's Democratic Republic, "industry" refers to manufacturing of garments, textiles, wood products, food and beverages and construction materials.
- ¹¹¹ World Bank, 2014f.
- ¹¹² CID, 2010.
- ¹¹³ Herr and Kazandziska, 2011, p. 6.

¹¹⁴ MPI, 2010, p. 6. Eight regional poverty lines (urban and rural areas in Vientiane municipality, in the north, central and south of the country) are used in the Lao Expenditure and Consumption Survey. The cost of the poverty basket is then calculated separately by region and by urban or rural status and is used to construct price indices for comparing the cost of living in those regions to the cost of living in Vientiane. The indices are used to adjust the urban Vientiane poverty line to an appropriate level for each region.

¹¹⁵ IMF, 2004, pp. 20–21. (i) The data of the Lao Expenditure and Consumption Surveys (LECS I, II, III and IV conducted in 1992–93, 1997–98, 2002–03 and 2007–08, respectively); (ii) an absolute definition of poverty; (iii) an income-based approach (cost of basic needs); (iv) consumption as the measure of individual income; (v) two poverty lines – a lower (moderate) poverty line, based on minimum food needs, and a higher (absolute) poverty line, including provision for non-food necessities; and (vi) the assessment of the causation and perceptions of poverty throughout the multi-ethnic population.

¹¹⁶ Annim and Gaiha, 2012, p. 9.

¹¹⁷ OECD, 2013, p. 4.

¹¹⁸ *Vientiane Times*, 11 July 2014, p. 3.

¹¹⁹ *Ibid.*

¹²⁰ ILO, 2012, p. 10.

¹²¹ GDP (based on PPP) is gross domestic product converted to international dollars using PPP rates. An international dollar has the same purchasing power over GDP as a dollar has in the United States.

¹²² Wan and Sebastian, 2011, p. 6.

¹²³ United Nations Country Team in Lao PDR, 2002, p. 6.

¹²⁴ Chen and Ravallion, 2008, pp. 8–14.

¹²⁵ MPI, 2009, p. 14. The LECS IV was conducted from April 2007 to March 2008, with the participation of 8,296 households from 518 villages; the average household size was 5.7 people (5.4 in urban areas and 5.8 in rural areas).

¹²⁶ *Ibid.*, p. 15.

¹²⁷ Epprecht, Minot, Dewina and Messerli, 2008, p. 25.

¹²⁸ UNDP, 2012; UNDP, 2014, p. 162.

¹²⁹ UNDP, 2014, pp. 166–167.

¹³⁰ *Ibid.*, pp. 164–167.

¹³¹ *Ibid.*, p. 40.

¹³² De Coster, 2013.

¹³³ MPI and UNDP, 2009, p. 39.

¹³⁴ World Bank, 2011a, p. 24.

¹³⁵ World Bank, 2012, p. 24.

¹³⁶ Phetsiriseng, 2003, p. 6.

¹³⁷ Committee for Planning and Investment, 2006, pp. 66–71.

¹³⁸ UNESCAP, 2013, p. 85; MPI, 2011b, pp. 64–65.

¹³⁹ *Vientiane Times*, 9 July 2013d, p. 3.

¹⁴⁰ World Bank, 2011a, p. 25.

¹⁴¹ Until June 2013, the ILO had also sanctioned Myanmar concerning the violation of the Forced Labour Convention, 1930 (No. 29) that the Government of Myanmar had ratified.

¹⁴² Government of Cambodia, 2006, pp. 47–50.

¹⁴³ WageIndicator Foundation, 2014.

¹⁴⁴ Government of Malaysia, 2011.

¹⁴⁵ Government of Myanmar, 2013.

¹⁴⁶ ILO, 2014b, pp. 11–12.

¹⁴⁷ Irrawaddy, 30 June 2015.

¹⁴⁸ NTUC, 2014, pp. 1–17.

¹⁴⁹ Government of Thailand, 1988, p. 2.

¹⁵⁰ Bangkok Post, 6 June 2015.

¹⁵¹ National Assembly (Hanoi), 2012, pp. 26–27. The criteria include the minimal living needs of the employees and their families, social and economic conditions and wage levels in the labour market.

¹⁵² Data provided by SASS, June 2013.

¹⁵³ The SSO fund is managed by a tripartite governance system, consisting of four workers' representatives, four employers' representatives and three government members.

¹⁵⁴ SSA and ISSA, 2013, pp. 127–130.

¹⁵⁵ Data provided by SSO, June 2013.

¹⁵⁶ Data provided by Ministry of Health in June 2013.

¹⁵⁷ The health-care facilities available as of 2009 included five central hospitals, four regional hospitals, 12 provincial hospitals, 126 district hospitals, 835 health centres and national institutes and research centres, health prevention and promotion units, food and drug quality-control units. The average density of the health workers (doctors, nurses and midwives) was 13 per 10,000 population, which is far lower than the critical threshold set by the World Health Organization, at 23 per 10,000 population. The health sector employed nine professors, 31 associate professors, 31 PhD graduates, 12 post-graduates, 410 master's degree holders, 134 first-level residents, 23 second-level residents, 131 specialists and 2,145 bachelor's degree graduates, 262 high diploma holders, 4,725 diploma holders, 5,004 health workers with certificate and 109 health workers without professional qualifications.

¹⁵⁸ Presentation on national health insurance in the Lao People's Democratic Republic by Bouphat Phonevixay, Deputy Director, National Health Insurance Bureau; Workshop on health insurance governance, 29–30 Oct. 2013, Vientiane.

¹⁵⁹ ILO and WHO, 2012, pp. 3–5.

¹⁶⁰ MPI, 2006, pp. 66–71.

¹⁶¹ UNDP, 2012; ILO, 2013b.

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The minimum wage and its relevance to socio-economic progress in the Lao People's Democratic Republic: A workers' perspective

A minimum wage is central to decent jobs, improved living standards and poverty reduction. This paper analyses the process of adjusting the minimum wage in the Lao People's Democratic Republic, its relevance to the country's socio-economic development and its implementation in various sectors. The paper also stresses the significance of collective bargaining power, which is a negotiating tool to improve the wage floor, corporate benefits and working conditions. The Lao People's Democratic Republic is undergoing rapid demographic growth and urbanization, which is simultaneously creating challenges in employment expansion, poverty reduction and welfare improvements. The development of a visionary minimum wage policy that aligns with the National Socio-Economic Development Plan is essential to facilitate not only a smoother social transition but greater economic advancement. This country case study seeks to foster deeper discussions on minimum wage fixing in the Lao People's Democratic Republic and abroad.

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