

**Comparative Survey
of the Labor Environment
in ASEAN, China, India**

October 2006

**Japan External Trade Organization(JETRO)
Overseas Research Department**

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Introduction

While foreign companies including Japanese companies continue high-level of investment in Asia, the shortage of human resources, including engineers and mid-level managers, has become more prominent. Whether or not high-quality personnel can be secured has a significant impact on subsequent company operations. Also, for companies, changes in wages and labor issues are their major concerns having direct influences on the company's daily operations.

In this study, research was conducted on the investment environment concerned with the labor force in the major ASEAN countries, China (South China) and India. The survey includes each country's demand and supply situation with regard to its labor force and human resources, wage trends as well as labor-related systems and other topics. On that basis, a cross-regional comparison was undertaken and an effort made to highlight the characteristics and issues of each country. We would be very gratified if this survey is informative for the related governments officials and business peoples.

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Summary

1. Supply and Demand Situation for Labor and its Outlook

(General Workers)

- With the exception of Malaysia which has been dependent on foreign workers, there is an overall adequate supply of general workers. The Philippines and Indonesia in particular have high rates of unemployment and the demand for general workers are not enough to absorb the supply of labors. On the other hand, in Southern China, Southern Vietnam and parts of Thailand, there has been a growing sentiment in recent years that there are too few workers. The rates of population growth in China and Thailand are especially low, and if the population structure is viewed according to age, the population of those 19 years old or younger has already fallen below 30 percent. It is highly possible that the newly labor supply will decrease in the future.

(Engineers and Other Highly Skilled Personnel)

- The difficulty in engaging engineers and mid-level managers is an issue common to all countries. China and India have overwhelmingly higher levels of engineers in their labor supplies when compared to the ASEAN countries. However, there have also been complaints from Japanese companies that China has a shortage of experienced engineers. Personnel for design and development are distinctly lacking. There have been indications that in India as well companies are having difficulty hiring experienced engineers and mid-level managers, but in India, the "rate of job-hopping" is regarded as a more serious problem.
- In this study, it was seemed that Thailand had the most severe shortage of engineers. One factor behind this is the establishment of R&D companies by Japanese automobile manufacturers, thus increasing the demand for engineers. This kind of movement, with the exception of China, has not been seen much in other countries. Although,with the effort of the government, the supply of the engineers is increasing, still, the number is not enough. And those personnels who have practical skills and who are able to speak either English or Japanese are particularly lacking and a significant factor in mismatches.

(IT Personnel)

- In response the severe shortage of technical personnel in Japan, the shift toward outsourcing Asian countries has accelerated in the IT field, especially for software development. Most of such instances have centered their work on five countries: China, Vietnam, the Philippines,India and south Korea. Of these, China, chiefly due to its close proximity with Japan and wealth of Japanese-speaking personnel, has become the principal location for outsourcing by Japanese companies. Vietnam and the Philippines have the advantage in terms of cost, but relatively speaking, fall short on technical level and Japanese-speaking personnel. Human resources in India have a high-level of technical ability, but are handicapped as far as Japanese-speaking

personnel are concerned.

(Japanese-Speaking Personnel)

- There is a great demand for Japanese-speaking personnel in all countries. In this respect, China holds the dominant position for the number of people studying Japanese (at institutions of higher education), totaling more than 3 times of the aggregate for all ASEAN countries. Moreover, its learners are at high levels. However, in China as well, there are regional disparities. In the region of South China, the shortage of Japanese-speaking personnel is conspicuous. Despite the strong need for personnel with special skills, particularly engineers and accountants, who are also able to speak Japanese, the supply is not enough and it is difficult to engage such personnel unless the companies offer high salary, benefits and other conditions.
- Comparing with China, there are few personnel who speak Japanese in the ASEAN countries as well as India. Of all the ASEAN countries, Thailand enjoys a comparatively good supply of Japanese-speaking personnel. If you consider the population size, the number of Japanese-language learners per a million people in Thailand surpasses that of China (This is also the case with Malaysia) . But even so, the country appears to be markedly deficient in Japanese-speaking personnel. Japanese companies are continuing to launch new operations in Thailand, and the demand for this sort of personnel is growing. The situation in Vietnam is also similar to Thailand.

2. Wage Trends

- Wages in all countries have steadily been rising in recent years. The minimum wage has been raised in many countries even in a short period since January 2005.
- If viewed in terms of the nominal average wage, the high rate of increase for China is particularly evident. Wages in the ASEAN countries are not rising at the rate of those in China, but an upward tendency has been observed.
- Generally speaking, wages are expected to continue to rise in the future as well, reflecting the favorable economic situation in each country and other factors. Such trends are especially strong in countries such as China and India. Particularly with regard to personnel for whom there is much demand such as engineers and mid-level managers, high wage growth is anticipated. In Thailand and Vietnam as well as other countries where new investments are continuing to be made, an increase in wages is similarly expected. In Indonesia as well due to the high inflation, the trend toward wage growth has taken root.
- In preparing for continued wage growth, improvements in productivity so as to cover such increases are inevitable. Consequently, Japanese companies are attaching paramount importance to enhancing the education and training of their staffs.

- However, the fact that wages are rising means that the purchasing power of the consumer market is expanding. There are also positive aspects in terms of sales opportunities for final goods.

3. Labor-Related Regulations and Systems

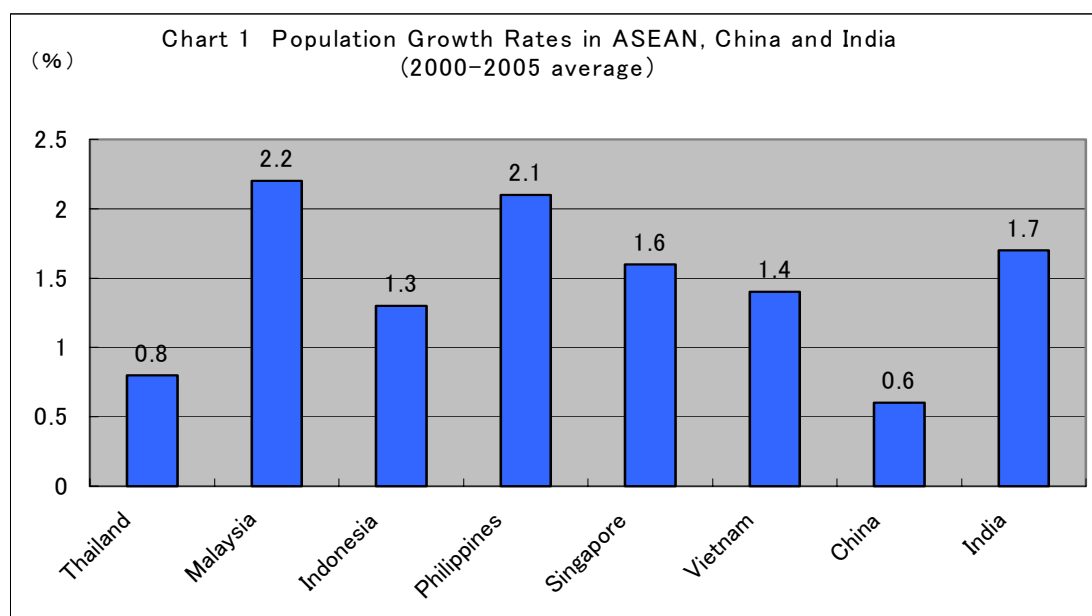
- In China and Indonesia, labor strikes, including illegal actions, have been on the increase. The number of strikes looks in the decreasing tendency in India and the Philippines, where many strikes have occurred in the past. In Thailand, more unions are being established and petitions filed, but only in a few instances have workers gone so far as to strike. Malaysia's strike is few, and labor relations are generally excellent.
- In order to protect labors, most of ASEAN countries and India have strict regulations regarding the dismissal of employees. In this regard, in China, an employee could be dismissed by not renewing the labor contract with the worker and this has been taken as an advantage of China. But now the preparation of labor contract laws is underway. According to the draft of the law, employers have to pay some amounts of compensation even in the case of the contract period expires. It is forecast that regulations concerning dismissal will become more stringent in the future.

Chapter 1 Supply and Demand of Labor Force in ASEAN, China and India

(1) Comparison of the Population and the Labor related figures

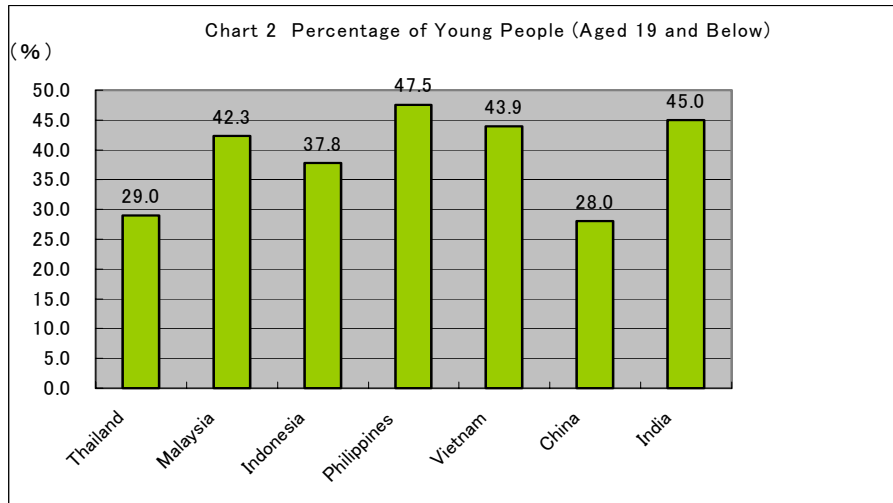
If the sizes of the populations in ASEAN, China and India are compared, the magnitude of two countries, China and India is striking. Of the ASEAN countries, Indonesia has the largest population with more than 200 million people. This is followed by the Philippines and Vietnam which are equally matched with populations of more than 80 million.

The rates for population increase are divided into three groups with the Philippines and Malaysia at more than 2%, then India, Indonesia, Vietnam and Singapore in the 1% range, followed by China and Thailand at under 1%(see Chart 1). The population of the Philippines with its high growth rate is forecast to approach the 100 million mark with a population of 94 million people by the year 2010.



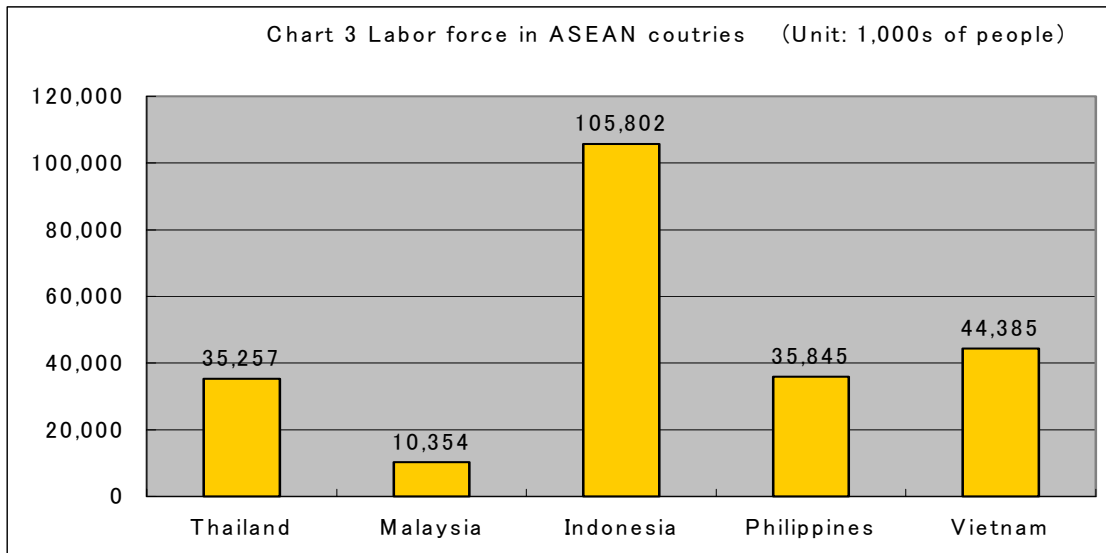
(Spurce) Asia Development Bank (ADB)

On the other hand, if these populations are viewed by age group, the population of young people, especially in the Philippines and Malaysia, is increasing as a reflection of the population growth rate. Conversely, in China and Thailand with their low growth rates, the proportion that young people account for among the total population has continued to decrease, and the populations of these countries are gradually aging. Both countries have seen the percentage of those 19 years old and younger fall below 30%(see chart 2). In case of China, this is thought to be due to the impact of the one-child policy. A comparison of men and women reveals a characteristic that there are far more men than women in China. As a result, it is anticipated that this will have an impact on the supply of new female labors over the medium and long-term.



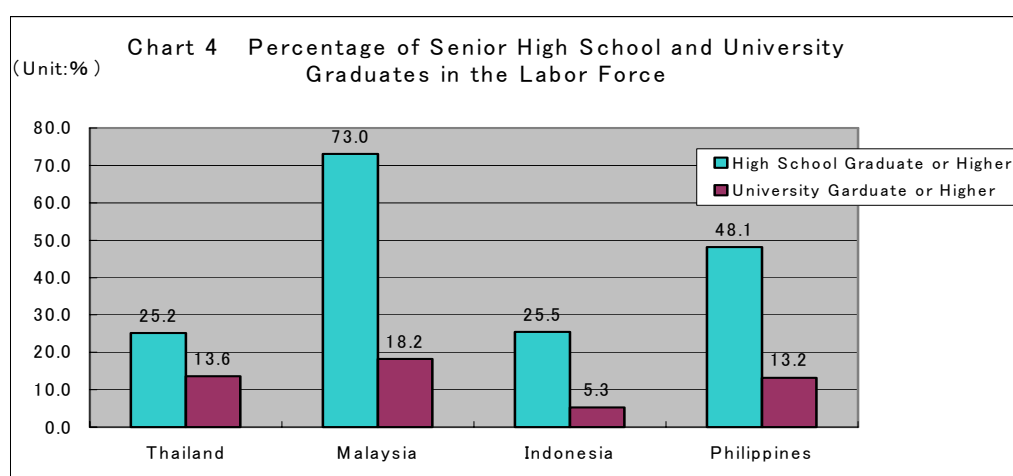
Note: Statistics are 1999 for Vietnam; 2000 for the Philippines; 2001 for India; 2004 for China; 2005 for Thailand and Malaysia
 Source: Statistics released by each country

The labor force is, for the most part, proportionate to the size of each country's population. However, if, for instance, the Philippines with its high ratio of young people is compared to Thailand, both are almost the same size in terms of their labor forces at around 35 million, even though the Philippines has roughly 20 million more people (see chart 3).



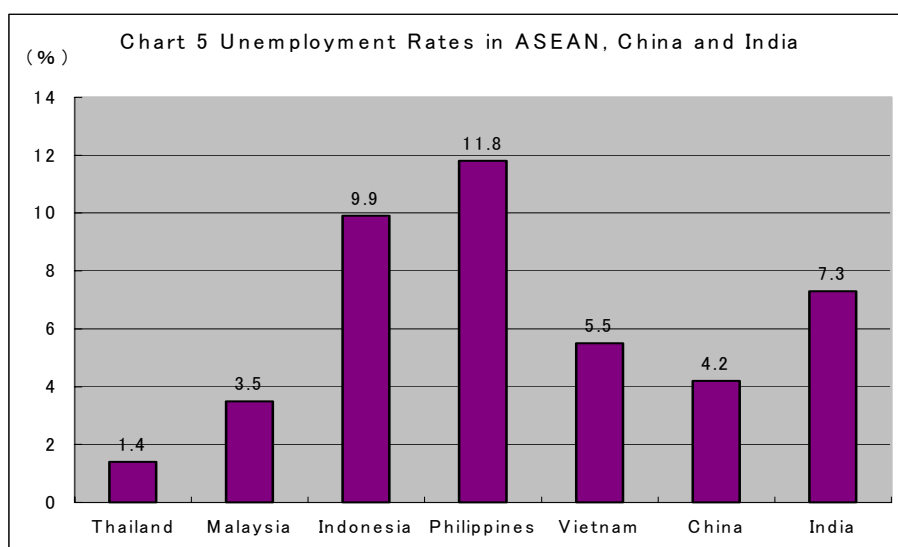
Note: Statistics are year 2004 for Malaysia and the Philippines; and 2005 for Thailand, Indonesia and Vietnam
 Source: Statistics released by each country

If the labor force is viewed by education, the percentage of those who have graduated from senior high school or a higher educational institution is between 20~30%, with the exception of Malaysia with its high level of income. In the Philippines, this ratio has extended close to 50%, but the country's educational system does not provide for junior high school, and students advance to four years of high school after completing six years of elementary school. Consequently, the country's senior high school graduates are rather similar to junior high school graduates in other countries. Malaysia accounts for close to 20% of university graduates, which become the managerial class at companies. In Thailand as well, 13.6% of the labor force, or approximately one in seven people, is a university graduate. While in Indonesia, the ratio of university graduates is extremely low at a mere 5.3%.



Note: Figures for "Senior High School Graduate or Higher" includes those for "University Graduate or Higher". Statistics are from 2004 for Malaysia and the Philippines; and 2005 for Thailand, Indonesia and Vietnam.
Source: Statistics released by each country

Next, if the unemployment rate is viewed as an indicator of labor demand, rather large disparities can be seen by country. The two countries with particularly high rates of unemployment are the Philippines and Indonesia, both reaching approximately 10%. On the other hand, the unemployment rate in Thailand is extremely low at the 1% mark. Thailand's rural areas have always provided a buffer to absorb employment. Its unemployment rate is low in comparison to other countries, and the demand and supply for labor tend to be tight(see chart 5).



Note: Statistics are from 2000 for India;
2004 for Malaysia, Indonesia, Philippines, Singapore and China;
and 2005 for Thailand and Vietnam.
Source: Statistics released by each country (except India from ADB)

(2) Changes in Employment Structure and Supply and Demand Situation for Labor

Generally speaking, the industrial structure of each country is advancing toward industrialization, and the ratio of industry represents in nominal GDP has been rising annually. However, if this is viewed in terms of employment, the ratio for the manufacturing industry has not necessarily experience high growth, and in many countries, this figure has come to a standstill at approximately the 10% mark.(see chart 6).

Chart 6 Share of Agriculture and Manufacturing in Employment

(Unit: %)

		Thailand	Malaysia	Indonesia	Philippines	Vietnam	China
Agriculture	1990	64.0	26.0	55.9	45.2	72.1	60.1
	2004	42.3	14.8	46.4	37.1	57.9	46.9
Manufacturing	1990	10.2	19.9	10.1	9.7	7.8	13.3
	2004	14.9	20.3	12.3	9.1	11.8	12.0

Note: Statistics for Agriculture and Manufacturing in Indonesia as well as Manufacturing in China are in 2003.

1) Supply and Demand Situation for General Workers

According to an interview survey of Japanese companies in Asia, which was conducted by JETRO, the issue of a shortage of workers was raised in some countries. One particularly striking instance was that of the southern region of China. The region of South China centered around Shenzhen, Dongguan and other areas, have efficiently employed an abundant and inexpensive labor force from surrounding provinces and has developed as the "world's factory" with mainly labor-intensive industries, including textiles and electronics. In the past several years, there has been

a succession of new investments into the region by assembly and parts manufacturers mainly from the automobile industry. Accompanying this kind of economic development, indications of labor shortages in South China began to surface starting around 2004. However, most of these comments were not on the level of there being an unable to secure workers, but that the margin for selection had diminished, and the quality of workers was declining. Additionally, many voiced the opinion that employee retention rates were also deteriorating.

Chart7. Problems with employment and labor (multiple answer)

above: Valid responses (number), below: Percentage

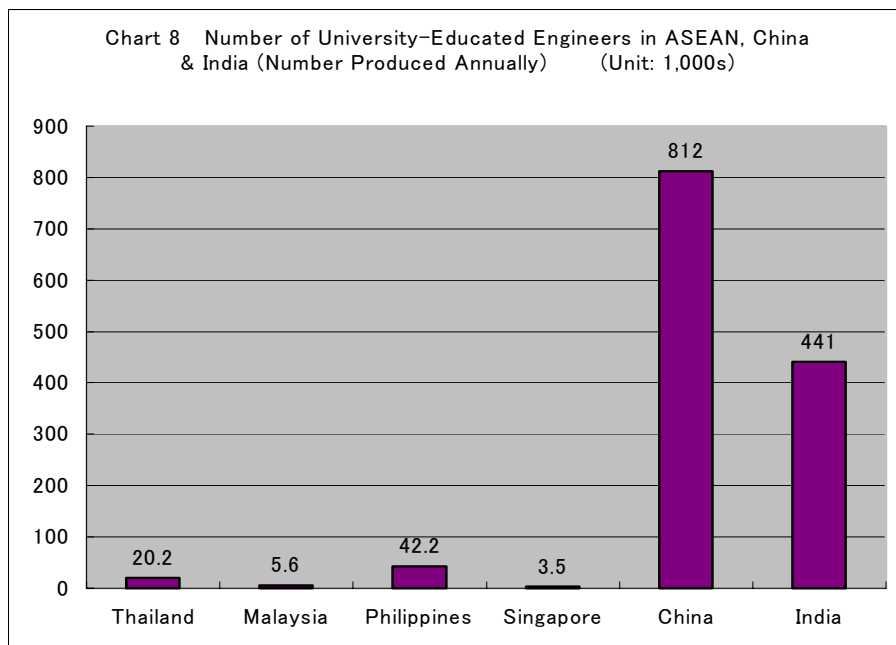
	Total	Valid	Increase of employee wages	Difficulty in recruitment of local staffs (general workers)	Difficulty in recruitment of local staffs (middle management)	Difficulty in recruitment of local staffs (engineers)	Low rate of worker retention	Personnel costs of Japanese (expatriate) officers and staffs	Restrictions on staff dismissal and reduction	Labor issues (strikes, labor unions, etc.)	Restrictions on employment of foreign workers	Localization of management-level employees and site chiefs	Heavy employer burden for pension, social insurance, etc.	Other problems	Unknown	
Country/Area	Total	966	942	615	126	367	364	248	299	262	176	72	327	67	37	24
		100.0	100.0	65.3	13.4	39.0	38.6	26.3	31.7	27.8	18.7	7.6	34.7	7.1	3.9	2.5
	ASEAN Subtotal	897	881	571	121	351	349	226	284	242	157	71	320	65	36	16
		100.0	100.0	64.8	13.7	39.8	39.6	25.7	32.2	27.5	17.8	8.1	36.3	7.4	4.1	1.8
	Thailand	201	199	123	49	86	106	82	53	26	28	9	86	3	2	2
		100.0	100.0	61.8	24.6	43.2	53.3	41.2	26.6	13.1	14.1	4.5	43.2	1.5	1.0	1.0
	Malaysia	172	169	85	30	61	64	56	47	52	9	32	45	13	8	3
		100.0	100.0	50.3	17.8	36.1	37.9	33.1	27.8	30.8	5.3	18.9	26.6	7.7	4.7	1.7
	Singapore	96	94	58	18	28	26	20	25	3	4	14	31	7	3	2
		100.0	100.0	61.7	19.1	29.8	27.7	21.3	26.6	3.2	4.3	14.9	33.0	7.4	3.2	2.1
Indonesia	158	155	133	6	58	43	10	67	72	49	9	49	26	10	3	
	100.0	100.0	85.8	3.9	37.4	27.7	6.5	43.2	46.5	31.6	5.8	31.6	16.8	6.5	1.9	
Philippines	185	181	109	6	69	68	33	59	74	61	2	79	10	9	4	
	100.0	100.0	60.2	3.3	38.1	37.6	18.2	32.6	40.9	33.7	1.1	43.6	5.5	5.0	2.2	
Vietnam	85	83	63	12	49	42	25	33	15	6	5	30	6	4	2	
	100.0	100.0	75.9	14.5	59.0	50.6	30.1	39.8	18.1	7.2	6.0	36.1	7.2	4.8	2.4	
India	69	61	44	5	16	15	22	15	20	19	1	7	2	1	8	
	100.0	100.0	72.1	8.2	26.2	24.6	36.1	24.6	32.8	31.1	1.6	11.5	3.3	1.6	11.6	

Source: JETRO report, "Actual Management Conditions of Japanese Manufacturing Industry in Asia," released March 2006

In ASEAN as well, companies have begun to comment that it is not as easy as before to secure workers particularly in the area surrounding Ho Chi Minh and parts of Hanoi in Vietnam as well as the areas surrounding Bangkok in Thailand, along with Malaysia which has been dependent on foreign workers for quite some time. The Chart 7 shows the results (966 companies responded) of questions asked concerning issues related to employment and labor during an questionnaire survey conducted by JETRO in January and February of 2006 in India and six ASEAN countries (Thailand, Malaysia, Singapore, Indonesia, Philippines and Vietnam). Of these, the percentage of companies that choose "difficulty in employing general workers" was the highest in Thailand at 24.6%. This was followed by Singapore (19.1%), Malaysia (17.8%), then Vietnam (14.5%), which all showed response rates in double-digit figures(see Chsart7). Proportionately, these numbers are not that large, but the results substantiate findings made in the above-mentioned interviews.

2) Supply and Demand Situation for Engineers and mid-level managers

If a comparison is undertaken of the number of university-educated engineers produced, China boasts of an overwhelming number, producing more than 800,000 annually. On the other hand, India with its large presence as a recipient of IT industry outsourcing falls short of China, but has more than 400,000 university-educated engineers entering the labor market each year. To be sure, because of the difference in population size, a simple comparison is not possible, but compared to these two countries, the number of engineers produced in the ASEAN countries is limited. In ASEAN, the Philippines graduates more than 40,000 engineers from universities annually, and appears to have a comparatively plentiful supply. The figure for Thailand is about half that at 20,000. This turns out to be one-fortieth of that of China, if such a comparison is made. (see chart8)



Note: Statistics are from 2002 for the Philippines; 2004 for Thailand, Singapore and China; and 2005 estimates for India. Source: Statistics released by each country (for India from NACCCOM.)

According to the aforementioned questionnaire survey, what has been more arduous than the hiring of general workers is the difficulty in employing engineers and manager-class people. If engineers are viewed, in particular in Thailand and Vietnam, over half of these companies surveyed are complaining about the difficulty in engaging such personnel at 53.3% and 50.6% respectively (see chart 7).

While as for mid-level managers, Vietnam (59.0%) has the most serious situation, followed by Thailand (43.2%). Vietnam has seen a sharp increase in new investment during the last one or two years. The history of expansion by Japanese companies into the country is short, so

behind this figure can be seen the fact that personnel with sufficient experience have not been developed. Japanese companies have been investing into Thailand for a long time, but new investment has still continued to be from automobile manufacturers and other industries, and human resources for manager-class positions are in short supply.

When asked in the same questionnaire survey about the areas of specialization required of local engineers and technical personnel, the percentage of companies located in the ASEAN countries that chose "mechanical engineering" was the highest at more than half or 54.1%. This was followed by 39.7% for "electrical and electronic engineering,"

By country, in the ASEAN countries, after the above-mentioned two areas of specialization, companies that chose "metallurgical engineering" or "material engineering" were, with the exception of some countries, around roughly 20 to 30 percent. If viewed by type of industry, in 14 of the 21 industrial categories, the most selected choice was "mechanical engineering." Consequently, such personnel of the same area of specialization are being sought over a wide variety of industries.

A shortage of engineers was common to all countries, but the comments received during the interview survey of Japanese companies provided the strongest indication that the shortage was especially prominent for Thailand. One reason for this can be seen in the continuing trend of major automobile manufactures to establish their R&D companies in Thailand, and this trend increased demand for engineers. In step with these moves by manufacturers, suppliers also are required to move their R&D functions into Thailand as well and the demand for engineers is forecast to expand in the future. Thus, because this tendency by manufacturers to relocate their R&D functions is observed principally on Thailand, it appears that the sense of shortage of engineers has come to be felt most acutely there.

However, a personnel placement agency located in Thailand commented, "With regard to engineers, it is possible to find human resources if it is personnel that can only speak Thai. We feel that overall there are probably sufficient numbers. However, the supply of engineers who can speak English, not to mention those that can speak Japanese, becomes extremely limited. Only 3% of all engineers have certification of Level 3 or higher on the Japanese Language Proficiency Test, and it is something of a scramble to get these engineers." These comments indicate that conditions for language ability, such as English or Japanese, are behind the shortage of engineers.

It is highly possible that this sort of mismatch is accelerating the shortage of personnel. Even in China which produces a great number of engineers, there were many Japanese companies (in South China) that raised the problem of an engineer shortage. It seems that the actual situation is the supply of personnel that corresponds to the demands of companies, including practical skills, language aspects, is limited.

Chart 9 Areas of Specialization Required of Engineers

(multiple responses allowed; unit: %; valid responses of 916 companies)

Country/area	1	2	3	4	5	
Thailand	Mechanical engineering	Electric and electronic engineering	Metallurgical engineering	Material engineering	Other	
	53.8	35.4	32.8	30.3	17.9	
Malaysia	Mechanical engineering	Electric and electronic engineering	Material engineering	Metallurgical engineering	Other	
	50.9	42.4	20.0	18.8		
Singapore	Electric and electronic engineering	Mechanical engineering	Other	Material engineering	Information technology	Metallurgical engineering
	44.3	43.2	31.8	14.8	13.6	
Indonesia	Mechanical engineering	Electric and electronic engineering	Other	Metallurgical engineering	Material engineering	
	49.7	34.2	26.2	25.5	20.8	
Philippines	Mechanical engineering	Electric and electronic engineering	Metallurgical engineering	Material engineering	Industrial engineering	Other
	64.5	43.6	27.9	22.7	19.8	
Vietnam	Mechanical engineering	Electric and electronic engineering	Other	Material engineering	Metallurgical engineering	
	58.5	41.5	24.4	22.0	20.7	
India	Mechanical engineering	Electric and electronic engineering	Material engineering	Metallurgical engineering	Industrial engineering	
	73.8	44.6	33.8	30.8	27.7	

Source: Same as Chart 7.

3) Supply and Demand Situation for IT Personnel

For Japanese companies, China is the largest recipient of IT outsourcing. Behind this seems to be the close proximity of the two countries and the abundant amount of human resources who are able to speak Japanese. On the other hand, IT personnel in India, which has rapidly moved into the limelight in recent years, have been accorded high marks for their technological capability, but the fact that there are few personnel with Japanese language ability is a major reason that India tends to be avoided as an outsourcing location for Japanese companies. However, the shortage of IT technicians in Japan is becoming more severe every year, and it appears that the utilization of IT technicians from India will increase further in the future. The use of Filipino and Vietnamese IT technicians is also on the rise. Many of those surveyed pointed out the cost advantages, but the limited number of Japanese-speaking personnel has become a drawback.

Chart 10 Comparison among outsourcing providing countries

	China	India	Philippines	Vietnam
Cost	△	△	○	◎ (20%~30% cheaper than China)
Skill Level	◎	◎	△	△
Japanese Ability	◎	×	×	×
Number of IT-Related University Graduates	n.a.	246,000	35,000	n.a.
Other	Many contracts from Europe	Many contracts from Europe	Many contracts from Europe	

Remarks: Symbols are in order of descending merit: ◎,○,△,×

Source: interview survey by JETRO

4) Supply and Demand Situation for Japanese-Speaking Personnel

Many Japanese companies desire to have Japanese-speaking personnel. The trend is particularly strong with regard to the needs of small and medium-sized enterprises, which have made new investments. A Japanese personnel placement agency in Thailand said, "There is a high demand for Japanese-speaking personnel by small and medium-sized companies. At many of the large firms, it is sufficient to be able to speak English."

As far as Japanese-speaking personnel are concerned, China has a great advantage. According to a survey conducted by the Japan Foundation, China boasted an overwhelming high number of people studying Japanese. Additionally, if the situation of those who have taken the Japanese Language Proficiency Test, which is given by the Foundation, is viewed, China has many candidates for Level 1 and 2 certification, which shows that the level of those studying Japanese is high. Within China itself, the region of South China has less Japanese-speaking personnel in comparison to the region of East China centered around Shanghai. Even if the number of Japanese Language Proficiency Test examinees in Guangzhou and Shenzhen are added together, the figure is still less than half that for Shanghai.

On the other hand, in ASEAN and India, the total number of Japanese language learners is small, and the percentage of those taking either Level 1 or 2 of the Japanese Language Proficiency Test is low as well. It can be seen that it is not easy to find personnel with a high-level of Japanese language ability. Of all the ASEAN countries, Thailand enjoys a comparatively good supply of Japanese-speaking personnel. If you consider the population size, the number of Japanese-language learners per a million people in Thailand surpasses that of China (This is also the case with Malaysia as well). But even so, the country appears to be markedly deficient in Japanese-speaking personnel. Japanese companies are continuing to launch new operations in Thailand, and the demand for this sort of personnel is growing. The situation in Vietnam is also

similar to this.

Chart 11 Number of People Studying Japanese (2003)

(Unit: number of people)

	Elementary and Intermediate Education	Higher Education	Other Than Formal Education	Total
China	79,661	205,481	102,782	387,924
Indonesia	61,723	13,881	9,617	85,221
Singapore	1,660	5,478	4,862	12,000
Thailand	17,516	22,273	15,095	54,884
Philippines	1,621	6,179	3,459	11,259
Vietnam	0	5,988	12,041	18,029
Malaysia	5,562	6,472	5,372	17,406
India	446	653	4,347	5,446

(source) Japan Foudation

Chart 12 Number of Examinees for the Japanese Language Proficiency Test (2005)

(Unit: People)

	Level 1	Level 2	Level 3	Level 4	Total
China	47,325	50,564	20,920	7,613	126,422
Beijing	4,916	4,875	2,296	824	12,911
Shanghai	8,175	9,261	5,889	1,605	24,930
Dalian	6,006	5,113	808	264	12,191
Guangzhou	2,379	2,717	1,246	664	7,006
Shenzhen	1,469	1,647	405	324	3,845
Other locations	24,380	26,951	10,276	3,932	65,539
Indonesia	235	1,077	2,220	2,879	6,411
Singapore	291	655	1,297	1,500	3,743
Thailand	696	1,821	2,947	4,869	10,333
Philippines	60	212	664	1,313	2,249
Vietnam	375	1,749	2,474	650	5,248
Malaysia	107	288	864	1,217	2,476
India	156	797	1,476	1,723	4,152

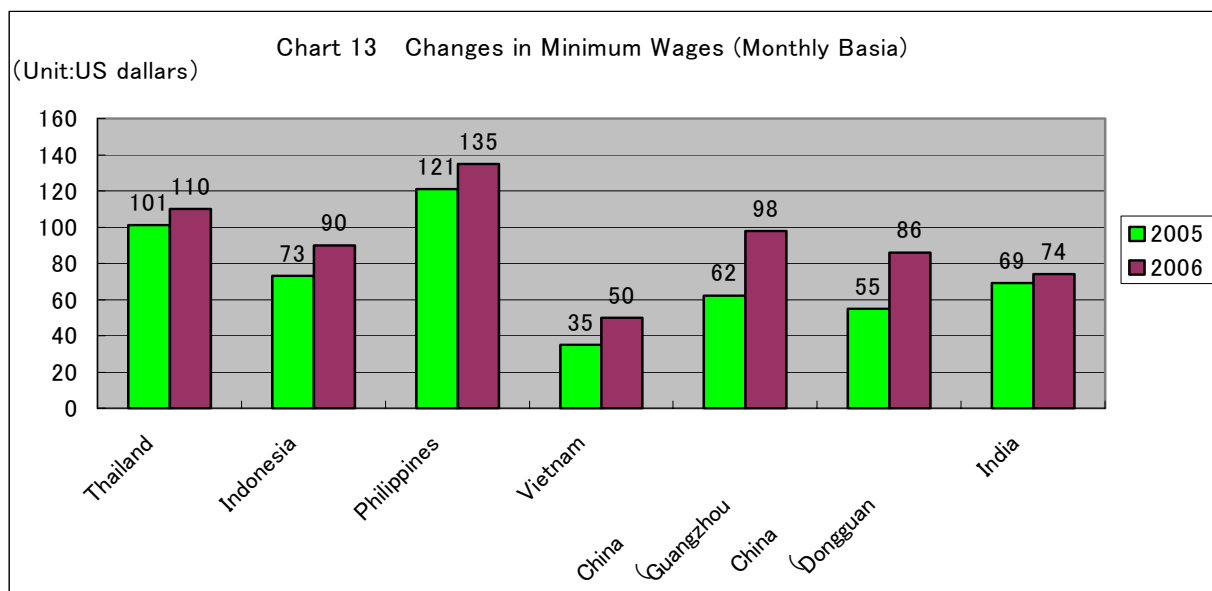
Source: Japan Foundation

Chapter 2. Wages Trend

(1) Shifts in the Minimum Wage

There is an inclination for the minimum wage to rise in all countries. Thailand and the Philippines raised their minimum wages on January 1, 2006 (the minimum wage was raised in the main district in the Philippines in August 2006 as well). On February 1, 2006, Vietnam also implemented the first hike in the minimum wage in approximately seven years. The minimum wage in China also has continued to rise every year. In Guangdong Province, the minimum wage was revised on September 1, 2006 (Guangzhou 780 yuan, Dongguan 690 yuan) The province just raised the minimum wage on July, 2005 and the result was that for the Guangzhou area, the minimum wage rose dramatically, increasing more than 50% comparing before July 2005. The minimum wage for Guangzhou is in line with Shanghai and other areas, which is at the highest level in all of China.

In any of the countries also, the minimum wage is tending to increase, but Vietnam's advantages are especially remarkable. Immediately after the currency crisis in 1997, Indonesia, whose minimum wage declined dramatically in dollar terms due to exchange rate fluctuations, subsequently raised its minimum rates annually, which continued to lower its advantage. The minimum wage in the Philippines seems to be comparatively high compared to that of the surrounding countries.



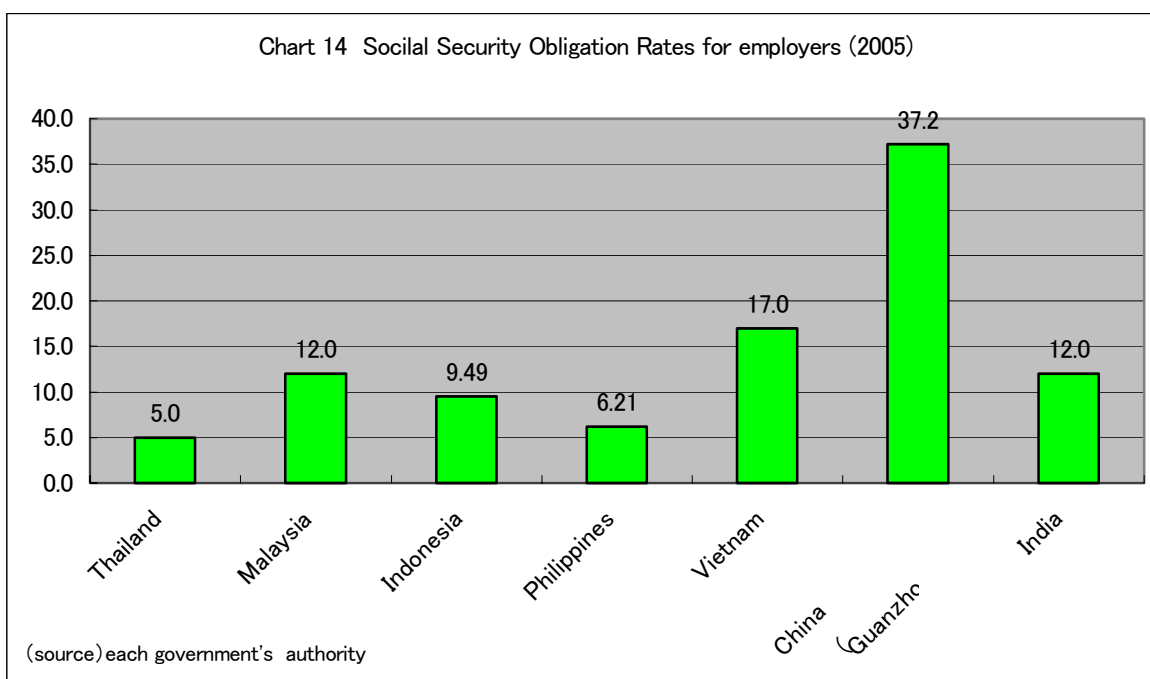
(Note) As of January 1 of each year. However, the figures of 2006 for Vietnam and India are as of February 1, the figures of 2006 for Philippines, China are as of August 7, September 1 respectively.

Minimum wage for Vietnam is based on that of the suburbs of Ho Chi Minh and Hanoi; for the Philippines, it is extended Metropolitan area (calculated at 259 Pesos (2005), 287 Pesos (2006) / day x 26 days) for Thailand, it is Chonburi (eastern Thailand) (calculated at 157 Baht (2005), 166 Baht (2006) / day x 26 days) for Indonesia, it is Jakarta Special Area, 711,843 Rupiah (2005), 819,000 Rupiah (2006) for China, Guangzhou city and Dongguan, 510 Yuan, 450 Yuan (2005), 780 Yuan, 690 Yuan (2006) for each for India, Delhi Metropolitan Area, 3,165.9 Rupee (2005), 3,271 Rupee (2006) figures (except for Vietnam) are calculated into US dollars by JETRO (Source) Statistics released by each country

(2) Allowances and Social Security Obligations

The minimum wage becomes a criterion for wages of the workers, but for the company, what is important is not only wages, but the amount it must actually shoulder in the form of various allowances, social security obligations et cetera. For examples, in Philippines, “you can employ workers with the minimum wage without problems”(Japanese Manufacturer near Manila), while in Thailand, “We cannot recruit workers with the minimum wage and have to increase allowances” (Japanese Manufacturer near Bangkok).

With regard to the various allowances, because it is necessary to arrange for dormitories particularly in the area of South China which is composed mainly of migrant workers, many comments were made about the large burden for dormitory expenses. Additionally, social security obligations have a huge impact on personnel expenditures. The chart 14 indicates the social security obligations in each country, but in China (Guangzhou) in particular, personnel expenses are higher than they appear due to the necessity of defraying an obligation that is close to approximately 40%. However, with the expansion of social securities systems, in ASEAN countries too, it is quite possible that the burden for the companies will increase in the future. (see Chart 14).



Based on this point, an interview survey was made for the cost borne by the company per worker including various allowances, social security premiums, overtime payments et cetera in three countries: China (South China), Vietnam (Hanoi, Ho Chi Minh) and Thailand. However, as this was based on the interview survey on a limited samples, the figures should be viewed as rough estimates. According to this survey, it was shown that there exists a significant disparity of approximately \$70 to \$80 between Vietnam at \$90 to \$110 and the Dongguan area of South China at \$160 to 190. If

wages are compared, the tremendous advantage of Vietnam can be seen. In Thailand, the figure is the highest among 3 countries at \$225 to \$250 (see Chart 15).

Chart 15 Comparison of Workers' Wages (Monthly)

	Thailand	Vietnam	China (Dongguan, South China)
Average Wage (see note)	\$225~250	\$90~110	\$160~190

Note: Hanoi and Ho Chi Minh suburbs in Vietnam, and provinces on the outskirts of Bangkok
 Cost born by company including all allowances, social security premiums, overtime payments, etc
 Source: Interview survey of Japanese companies (January~February 2006)

(3) Asian Countries Facing Wage Hikes

The Chart 16 indicates the nominal wage growth rate in each country (However, there is no corresponding data for Indonesia, Vietnam and India). If viewed according to nominal average wage, China particularly has a remarkably high growth rate. The rate in ASEAN countries also showed a tendency to rise with the high inflation, although not at as high a rate as China's

Chart 16. Average Nominal Wage Growth Rate

(Unit: %)

	Thailand	Malaysia	Philippines	China (Whole country)	China (Guangzhou)
2002	△ 1.1	5.9	10.3	14.3	13.4
2003	1.9	5.7	0.0	13.0	10.4
2004	3.7	5.3	3.6	14.1	9.1
2005	5.9	5.7	9.9	14.6	9.1

Note: Rates for Malaysia are for non-administrative positions

No data available for Indonesia, Vietnam, India

Sources: National Statistical Office Thailand; Malaysia Employee Federation

Philippines: Central Bank of the Philippines

China (Whole country, Guangzhou): Statistical Yearbook

In the above-mentioned questionnaire survey conducted by JETRO of Japanese companies (see chart 17), "rising wages for employees" receive the highest response rate of the issues listed under employment and labor aspects. 64.8% of companies, or the equivalent of approximately two thirds of the aggregate for ASEAN, selected this issue. Those in Indonesia and Vietnam in particular showed high percentages of 85.8% and 75.9%, respectively, with almost all companies expressing their concern. Both countries have been viewed with a great advantage in terms of wages. Similarly, in India as well, the percentage of companies that regarded the "rising wages for employees" as problems exceeded 70% to reach 72.1%. In India, wages for IT technicians

Chart17: Problems of labor and employment (Top 5 items, %, n=942)

	1	2	3	4	5
Total	Increase of employee wages	Difficulty in recruitment of local staff (middle)	Difficulty in recruitment of local staff (engineers)	Localization of management-level employees and site chiefs	Personnel costs of Japanese (expatriate) officers and staff
	65.3	39.0	38.6	34.7	31.7
ASEAN Subtotal	Increase of employee wages	Difficulty in recruitment of local staff (middle)	Difficulty in recruitment of local staff (engineers)	Localization of management-level employees and site chiefs	Personnel costs of Japanese (expatriate) officers and staff
	64.8	39.8	39.6	36.3	32.2
Thailand	Increase of employee wages	Difficulty in recruitment of local staff (engineers)	Difficulty in recruitment of local staff (middle)	Localization of management-level employees and site chiefs	Low rate of worker retention
	61.8	53.3	43.2	43.2	41.2
Malaysia	Increase of employee wages	Difficulty in recruitment of local staff (engineers)	Difficulty in recruitment of local staff (middle)	Low rate of worker retention	Restrictions on staff dismissal and reduction
	50.3	37.9	36.1	33.1	30.8
Singapore	Increase of employee wages	Localization of management-level employees and site chiefs	Difficulty in recruitment of local staff (middle)	Difficulty in recruitment of local staff (engineers)	Personnel costs of Japanese (expatriate) officers and staff
	61.7	33.0	29.8	27.7	26.6
Indonesia	Increase of employee wages	Restrictions on staff dismissal and reduction	Personnel costs of Japanese (expatriate) officers and staff	Difficulty in recruitment of local staff (middle)	Labor issues (strikes, labor unions, etc.)
	85.8	46.5	43.2	37.4	31.6
Philippines	Increase of employee wages	Localization of management-level employees and site chiefs	Restrictions on staff dismissal and reduction	Difficulty in recruitment of local staff (middle)	Difficulty in recruitment of local staff (engineers)
	60.2	43.6	40.9	38.1	37.6
Vietnam	Increase of employee wages	Difficulty in recruitment of local staff (middle)	Difficulty in recruitment of local staff (engineers)	Personnel costs of Japanese (expatriate) officers and staff	Localization of management-level employees and site chiefs
	75.9	59.0	50.6	39.8	36.1
India	Increase of employee wages	Low rate of worker retention	Restrictions on staff dismissal and reduction	Labor issues (strikes, labor unions, etc.)	Difficulty in recruitment of local staff (middle)
	72.1	36.1	32.8	31.1	26.2

(source) Same as Chart 7.

in particular have risen, and it appears that overall wages also have risen, being pulled up by that factor.

"Wages have risen across-the-board by 10-odd percent annually. About five years ago, labor costs in India were cheap, but recently, that advantage is continuing to be eliminated. There is an enormous workers, but wages are rising due to a system that makes it difficult to dismiss workers, problems such as labor disputes and other issues." (Japanese automobile manufacturer, Delhi, India)

"Particularly in the IT sector, wages have increased about 15%. Following on that, the result winds up to be something extra on top of inflation across-the-board. Wages are rising at a minimum rate of 7~8%." (Japanese home appliance manufacturer, Delhi, India)

In South China as well, rising wages are a great matter of concern. The growth rate of the average wage for all of China has continued to rise by double-digits these last few years. Due to this, comments are being heard such as: "Led by automobile manufacturers, wages are rising. If this situation continues, doing business in the future in China will become meaningless. One will be forced to hesitate when it comes to make additional investments." (Japanese electronic component manufacturer, Dongguan) and "Every year, clients asked us to reduce our costs by 10%. Wages are rising, and manufacturing costs here are more and more reaching the limit." (Japanese electronic component manufacturer, Dongguan)

This sort of trend in wage growth is something that is believed will continue on an ongoing basis in the future as well. Consequently, at each company, further effort is required than had been previously made to improve employee productivity in preparation for continuing wage increases. In the abovementioned JETRO questionnaire survey, when asked about topics concerning the improvement of competitiveness, the percentage of companies that chose "human resource development and staff enhancement" reached approximately three-fourths or 74.5% throughout all ASEAN countries, and is regarded as the most important subject. This is also the case with India as well(see Chart 18).

Chart18 Factors needed to enhance competitiveness (Top 5 items, %)

Country/area	1	2	3	4	5	
Total	Human resource development and staff enhancement	Increase of added values of products	Marketing reinforcement	Increase of local procurement rates	Appointment of local staffs for managerial positions	
	73.3	53.4	39.4	35.0	27.8	
ASEAN Subtotal (n=881)	Human resource development and staff enhancement	Increase of added values of products	Marketing reinforcement	Increase of local procurement rates	Appointment of local staffs for managerial positions	
	74.5	54.1	40.1	33.9	28.6	
Thailand (n=198)	Human resource development and staff enhancement	Increase of added values of products	Marketing reinforcement	Increase of local procurement rates	Appointment of local staffs for managerial positions	
	80.8	54.5	35.9	34.8	28.8	
Malaysia (n=170)	Human resource development and staff enhancement	Increase of added values of products	Marketing reinforcement	Increase of local procurement rates	Strengthen designing and Research and Development (R&D)	
	66.5	58.8	46.5	23.5	22.9	
Singapore (n=96)	Human resource development and staff enhancement	Increase of added values of products	Marketing reinforcement	Appointment of local staffs for managerial positions	Strengthen designing and Research and Development (R&D)	
	60.4	53.1	49.0	31.3	26	
Indonesia (n=153)	Human resource development and staff enhancement	Increase of added values of products	Marketing reinforcement	Increase of local procurement rates	Appointment of local staffs for managerial positions	
	75.2	54.2	47.1	39.9	26.1	
Philippines (n=180)	Human resource development and staff enhancement	Increase of added values of products	Increase of local procurement rates	Appointment of local staffs for managerial positions	Marketing reinforcement	
	78.9	55.6	40.6	34.4	31.7	
Vietnam (n=84)	Human resource development and staff enhancement	Increase of local procurement rates	Increase of added values of products	Appointment of local staffs for managerial positions	Marketing reinforcement	
	81.0	51.2	41.7	34.5	32.1	
India (n=68)	Human resource development and staff enhancement	Increase of local procurement rates	Increase of added values of products	Strengthen designing and Research and Development (R&D)	Marketing reinforcement	Efficient logistic system
	58.8	48.5	44.1	42.6	30.9	

(source) same as chart 7

However, the fact that wages are rising means that there is an expansion of purchasing power in the consumer market, and the expansion of marketing opportunities could be called a positive factor.

Chapter 3. Current Situation and Issues Concerning Labor-Related Systems

Labor issues, which directly impact the operations of companies, are the main themes having the highest level of interest common to all countries. Of these labor issues, those related to the dismissal of employees have in particular worried many companies. In the JETRO questionnaire survey mentioned above, the percentage of companies that raised "regulations against dismissal and personnel reductions" as an issue concerning aspects of employment and labor were particularly high in four countries: Indonesia (46.5%), Philippines (40.9%), India (32.8%) and Malaysia (30.8%)(see Chart 7 page 10).

In Indonesia and India, permission of the government is required when dismissing an employee. From the perspective of worker protection, both of these countries have mechanisms that make it impossible to undertake dismissals easily. In the Philippines, an employee who has worked continuously for six months or longer must be made a regular employee of the company. In Vietnam as well, it is necessary to make a worker a regular employee at the point in time when his or her contract has been renewed twice. In Thailand also, it is difficult to establish a period for a labor contract. As a result, it appears there is a tendency to avoid hiring regular employees if feasible. Instead, employees are not hired directly, but many are accepted as temporary employees dispatched by a personnel placement agency. However, because the job separation rate for contract employees is high, and their desire low in regard to improving their ability to do their job, problems seem to arise in many cases concerning the maintenance of product quality on the production lines.

Compared to ASEAN and India, the situation in China makes it comparatively easy to dismiss a worker, and terminate of the contract is possible using contracts for periods of one to three years and by not renewing contracts. Additionally, in China, companies are able to establish a trial period up to a maximum of six months to ascertain the quality of the employee. During the trial period, it is possible to rescind a labor contract at any time by a decision of the company.

However, also in the case of China, if an employee has been employed for 10 years, from the 11th year of the contract, if the employee desires so, a permanent contract must be entered into. For Japanese companies that moved in China during the boom years of the first half of the 1990s, instances are beginning to emerge where employees are approaching their tenth year, and the number of companies taking an interest in this issue has increased.

A trend that has drawn attention is the preparation for enactment of the labor contract law which is currently underway in China. The legislative draft includes provisions, such as 1) even in the event the labor contract period has expired and the labor contract completed, economic compensation shall be paid; and 2) the period for which temporary workers may be dispatched is less than one year, and in the event the period exceeds one year, direct employment is compelled. If the legislation is promulgated, it is believed that its impact on companies will be significant.

Additionally, related to the trend of rising wages is the inclination toward increased labor disputes. In April 2005, the area of South China saw multiple labor strikes break out coinciding with the timing of the anti-Japan demonstrations and in September, the Dalian area also saw a series of labor strikes breaking out. In Vietnam also, illegal labor strikes mainly in the South have occurred from the second half of 2005, and in the beginning of 2006, they even broke out at Japanese companies where the working conditions are believed to be more than the standard. In Thailand, for the moment, very few instances of labor disputes have proceeded so far as to develop into a labor strike, but there is an increasing tendency toward the submission of petitions and the establishment of unions. In the Philippines, the number of labor strikes occurring is tending to decline, but labor disputes guided by a radical superior body are a concern.

India is known as a country with many labor disputes. However, the number of strikes has tended to decrease. The number of labor strikes that occurred in 2004, 2005 reached 236, 243, respectively. But the number from January to May in 2006 decreased to only 76 (see Chart 19) .

Chart 19 The Number of Labor Strikes

	2003	2004	2005	2006 ^{note}
Thailand	1	1	2	0 ^{Jan-Mar}
Indonesia	161	124	96	169 ^{Jan-May}
Philippines	38	25	26	9 ^{Jan-Jun}
Malaysia	2	3	3	0 ^{Jan-Jun}
India	255	236	243	76 ^{Jan-May}

(note) no data available for Vietnam, China
(source) statistics released by each country

Many instances of labor disputes are instigated by the superior bodies of the labor union, and although there are some unavoidable aspects, on the one hand, some have also pointed out that with daily effort, many of these could be avoided. For instance, companies that have set up suggestion boxes and drawn off employee suggestions on a daily basis are likely to see it more difficult for dissatisfaction to build up.

Chart 20 Comparison of Labor-Related Systems

	Thailand	Malaysia	Indonesia	Philippines
Regulations concerning employment contracts	Contracts with fixed terms are difficult in principle.	Contracts with fixed terms are difficult in principle.	Contracts with fixed terms are prohibited except for temporary works or seasonal works	An employee who has worked continuously for 6 months or longer must be made a regular employee.
Regulations concerning dismissal	However, dismissal is possible anytime during the trial period (119 days).	It is required that the proper dismissal procedures be complied with, and documentation be prepared indicating the basis.	Under current law, the approval of the Ministry of Labor and Employment must be obtained whenever an employer dismisses an employee.	In order to dismissal, the employer have to give a warning letter to the employee and submit evidences to the lawyer at least twice.
Systems related to temporary employees	No restrictions	Even for temporary employees dispatched by an agency, the company that engages the employee has to verify whether or not the person is an illegal worker.	Dispatched employeeel are permitted only for supplementary works or not directly related to the production lines	Dispatching unskilled workers is prohibited.
Current status concerning labor disputes	Few labor strikes have occurred (1 or 2 annually over the last few years). However, there appears to be an increase in petitions being submitted and unions established.	Few labor strikes have occurred (2~4 annually over the last few years).	The number of strikes is increasing from 96 for 2005(whole year) to 169 for Jan-May 2006	Although the occurrence of labor strikes is tending to decrease, union activities led by a radical central organization are a cause for concern.
Main issues concerning labor	Rising wages. Personnel shortage (engineers, etc.), job-hopping. Prohibition on salary reductions (⇒ impediment to introduction of merit pay)	Rising wages. Restrictions on bringing in foreign workers. Personnel shortage (engineers, mid-level managers), job-hopping.	Rising wages. Radical labor movements. Overprotective labor laws.	Rising wages. Radical union activities. Unpredictable "non-work special holidays," low levels of English and education, prohibition on salary reductions.

(source) Labor law of each countries etc.

Chart 20 Comparison of Labor-Related Systems(continued)

	Vietnam	China	India
Regulations concerning employment contracts	Even with fixed period contracts, a permanent contract must be concluded with the third contract renewal.	Contracts are ordinarily for 1~3 years. However, a permanent contract must be concluded in the event employment exceeds 10 years.	When 180 days of the employment period pass, the employee will be given the right to become a formal employee.
Regulations concerning dismissal	Depending on the kind of contracts, the employer notifies the employee the discharge of a contract 45,30, 3 days before.	Dismissal is possible by not renewing the contract. Trial period may be established up to 6 months.	Other than in cases of misconduct, companies with 100 or more employees are required to receive approval in advance from the state government for instances of dismissal.
Systems related to temporary employees	No restrictions	No restrictions	The Contract Labour (Regulation and Abolition) Act requires the company who is receiving workers to register.
Current status concerning labor disputes	Labor disputes have occurred in the South since the second half of 2005 to the beginning of 2006..	Labor disputes are on the rise. Labor strikes are also increasing. In 2004, collective labor disputes, including strikes, increased 72.7% to 19,000 cases.	The number of labor strikes that occurred in 2004,2004 reached 236, 243, respectively. But the number from January to May in 2006 decreased to only 76.
Main issues concerning labor	Rising wages, personnel shortage (engineers, mid-level managers), job-hopping.	Rising wages, job-hopping.	Rising wages, rigid employee protections laws, labor disputes.

(source) Labor law of each countries etc.

Chapter 4. Issues to be improved for the related governments and authorities.

Based on the survey, two main points below could be pointed out for the related government and authorities in order to improve the environments for foreign investors.

1) To avoid the mismatch of human resources, more cooperation with business groups

Many Japanese companies have raised the matter of the difficulty in hiring technical experts, such as engineers. However, rather than there being a shortage in the absolute number of human resources, the situation is more that there are applicants if called for, but the hoped for personnel are not easy to find. In other words, mismatches are widely observed. On this point, the governments of each country should strengthen their contacts and cooperations with private companies, and this should be reflected in curriculums at universities and vocational schools. For example, a regular dialog with the industrial group including the foreign chamber of commerce and Ministry of higher education has been held in Malaysia.

For foreign companies, at the very least English ability is sought in the personnel who will become their core persons. There is also a big demand for Japanese-speaking personnel. Particularly, more than Japanese-language experts, there is a very great demand for human resources that have special knowledge, such as engineering or accounting, and are also able to speak Japanese. For this reason, serious consideration should be attached to foreign language education, including promoting study abroad.

In addition, it is necessary to expand the incentives such as tax privilege in order to promote in-house of individual firm personnel training.

2) More transparent labor related systems needed

With advances in economic integration in Asia, the degree of freedom for foreign investors in choosing their location will expand even more in the future. The occurrence of labor problems creates a far-reaching negative image with regard to foreign investment. An illegal strike to which some workers go out on strike suddenly without going through the formal procedures has been observed widely in many countries. The educational campaign to the workers by related authorities are expected.

In addition, the move of business persons in the region is expected to be activated by the progress of the economic integration as well. However, there are a lot of countries where salary system, dismissal system and foreigner's employment system etc. are too much complex, and there is a possibility of obstructing the effect of the economic integration. More transparent system and securing fairness on the implementation side are needed.