

# WAGES — AND AMBITIONS — RISE AS MEKONG WORKFORCE ENTERS A NEW ERA

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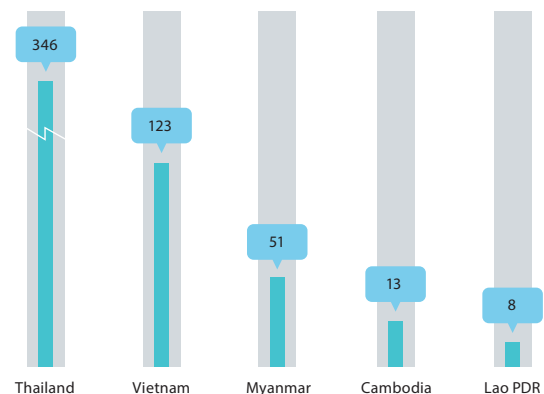
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## CAN MEKONG COUNTRIES FOSTER SKILLED LABOUR WHILE RETAINING COMPETITIVENESS?

The nature of labour in the Greater Mekong Region (GMR) is changing, as the special economic zones (SEZs) that have emerged throughout the frontier GMR economies – Cambodia, Laos, Myanmar and Vietnam – equip workers with new skills and also new expectations. Managing this transformation of the workforce is one of the key challenges these markets will face in the years ahead.

Investors are drawn to GMR SEZs for many reasons, such as tax incentives, logistics advantages and stable infrastructure. But access to relatively young, low-cost workers is key to their appeal compared to other manufacturing destinations. The median age in Laos for example, is 21.4, versus 34.7 in Thailand; International Labour Organisation (ILO) data shows the average monthly wage in Cambodia in 2013 was USD121, compared to USD613 in China.

FIGURE 1:  
SURVEYING A DISPARATE REGION  
2011 GDP (USDbn)



Country	Population (millions)	GDP per Capita (USD)	Median Age
Thailand	67.1	5,156	34.7
Vietnam	91.5	1,344	28.2
Myanmar	54.6	934	27.2
Cambodia	15.0	867	23.3
Lao PDR	6.6	1,212	21.4

Source: ANZ

This has encouraged some investors to shift low value-added production to Laos, Cambodia and Myanmar to support existing manufacturing operations in nearby Thailand or Vietnam, in what's called a 'plus 1' strategy.

As regional infrastructure and transport connections improve, this strategy becomes easier to adopt. But for how long? [ANZ research based on extensive surveys of SEZ-resident companies](#) indicates the GMR may already be approaching a labour turning point.

There is no doubt that by exposing workers to modern production lines and — as they are typically foreign-owned and managed — English and other languages, SEZ companies are helping build the skills of the GMR workforce. However, with the development of skills, wage inflation has rapidly emerged as an issue, particularly for firms operating at the higher end of the value chain.

This 'tipping point' is especially evident in Cambodia, where companies are already citing both labour costs and turnover as problems, suggesting more are offering higher wages in an attempt to retain staff. Labour costs in Laos remain competitive, but the emergence of skilled labour there will inevitably lead to wage hikes that will make the country less cost-competitive unless they are accompanied by productivity gains.

Unfortunately, wages and productivity do not necessarily rise in tandem. In Vietnam, the most established FDI destination among the GMR frontier economies, high turnover and low skills were cited as the biggest labour issues among the firms ANZ surveyed.

Some companies are attempting to address these gaps by investing heavily in training. In Myanmar's Thilawa SEZ, for example, one firm surveyed by ANZ habitually sends local workers to Vietnam for month-long periods to study things like welding, customs procedures and human resources. One potential issue with such an approach is that the investment becomes a sunk cost should newly skilled workers leave to pursue other opportunities.

The GMR markets thus face a conundrum: rising investment and the journey up the manufacturing value chain will require more skilled labour, but developing this labour will erode these markets' cost advantages, and may exacerbate rather than resolve the issue of high employee turnover.

In ANZ's view the SEZs could play a role in helping the GMR reach a state where the supply and demand of skilled labour is more evenly balanced. First, more SEZ resident companies could forge links with universities or vocational institutions to offer students workplace experience and embed skills at a younger age. Less than half the companies surveyed in Vietnam reported these kinds of links.

We also see significant potential in 'train the trainer' initiatives that are already emerging in places like Myanmar and Cambodia, where local SEZ workers are increasingly learning from their Vietnamese counterparts. The transfer of skills from Vietnam to other Mekong economies is a clear regional dynamic and points to the region addressing its own capacity issues. At the workplace level, these programs can also act as incentives for talented workers and contribute to employee retention.