

ABSTRACT

Various attempts were made to solve the problem of wage inequality. Economic integration makes trade between countries is increasing. According to the Factor Price Equalization theorem, a massive trade can lead to wage convergence phenomenon which causes the price of labor from countries that mutual trade to be identical. This study aimed to analyze the wages convergence of the manufacturing industry sector in ASEAN-5.

Unit root analysis is used to determine whether the time series data is stationary or not. The unstationary data as likely to have long-term linear relationship which can be determined by using cointegration test. Cointegration test is used to see wages convergence of the manufacturing industry sector in ASEAN-5, with the time series of the years 1979-2014.

The results indicate that there will be a convergence of wages, but not in its entirety. The wages convergence only occurs between Indonesia, Malaysia, Philippines, and Thailand, while in Singapore non-convergence. Singapore wage levels that are too high may be affected by trade with other countries outside of ASEAN-5. In addition, Singapore is suspected implement economic liberalization were able to delay and separated from the steady state, so that low-income countries are not able to catch.

Keywords: *Cointegration, Convergence, Wages, Unit Root, FPE (Factor Price Equalization).*