

# ANALYSIS THE MINIMUM WAGE IN VIET NAM AND POLICY IMPLICATIONS

*Hoang Nguyen Huu*

## **ABSTRACT**

*This paper aims to highlight the minimum wage system in Viet Nam and to analyze the problems of this system which affect the growth rate of productivity and the living of the laborers. Based on this analysis, the author will give some policy implications that should be implemented to resolve the problems shown. This paper is a review and descriptive, based on the analysis of related literature, periodicals, and last statistical studies. The main finding in this study that the government of Viet Nam should pay more attention to the following points: Supplementing more economics scientist, in the National Wages Council, balancing the general and regional minimum wages, providing a better social welfare system and forcing the enterprises to comply with the minimum wage policy.*

## **KEYWORDS:**

*Minimum wage. Viet Nam. Minimum wage policy in Viet Nam.*

## **JEL CLASSIFICATION:**

*J08, J31.*

## **INTRODUCTION**

The concept of "minimum wage" was mentioned the first time in Viet Nam in the Decree No. 29-SL (March 12, 1947). Accordingly, the minimum wage, which was defined as "the amount determined by the government for a non-professional worker who lives alone to cover their daily cost of living in a given area," was considered a base from which wage levels for different workers would be constructed. This concept has the fundamental characteristics and properties of the minimum wage as understood today.

The current minimum wage system was introduced at the first time in 2006. Initially, minimum wages were defined by region and economic sector (namely general government employees, domestic enterprises, and foreign enterprises) before moving to a new system from the end of 2011. Accordingly, the minimum wage is only distinguishable by four regions. This is a natural consequence of the implementation of WTO accession rules, where the wage gap between domestic and FDI firms needs to be narrowed down (Schmillen and

Packard, 2016). However, a separate minimum wage regime applies to the public sector as a general minimum wage.

The general minimum wage (the base salary) is applied to government officials and public servants, people who receive salaries, allowances, and employees working in the government bodies, public service organizations of the Communist Party and agencies at the central, provincial, district, and the State, state-budget funded social-political organizations and commune levels, and the armed forces.

Table 1. General Minimum Wage (The base Salary), 1995-2017

<i>Decree</i>	<i>In-force Date</i>	<i>Base Salary</i>	<i>Growth Rate (%)</i>
05/CP	01/01/1995	120.000	
06/CP	01/01/1997	144.000	20,0
175/1999/NB-CP	01/01/2000	180.000	25,0
77/2000/NB-CP	01/01/2001	210.000	16,7
03/2003/NB-CP	01/01/2003	290.000	38,1
118/2005/NB-CP	01/10/2005	350.000	20,7
94/2006/NB-CP	01/10/2006	450.000	28,6
166/2007/NB-CP	01/01/2008	540.000	20,0
33/2009/NB-CP	01/05/2009	650.000	20,4
28/2010/NB-CP	01/05/2010	730.000	12,3
22/2011/NB-CP	01/05/2011	830.000	13,7
31/2012/NB-CP	01/05/2012	1.050.000	26,5
66/2013/NB-CP	01/07/2013	1.150.000	9,5
47/2016/NB-CP	01/05/2016	1.210.000	5,2
27/2016/QH14	01/07/2017	1.300.000	7,4

Source: Thanh, N. D., et al.(2017).

Regional minimum wage is applied to employees working in enterprises, cooperatives, farms, households, individuals and institutions and organizations that use employees under labor contract by the provisions of the Labor Code.

Table 2. Regional Minimum Wage, 2009-2017

<i>Decree</i>	<i>Sign Date</i>	<i>In-force Date</i>	<i>Region I</i>	<i>Region II</i>	<i>Region III</i>	<i>Region IV</i>
<i>110/2008/NB-CP</i>	<i>10/10/2008</i>		<i>800,000</i>	<i>740,000</i>	<i>690,000</i>	<i>650,000</i>
<i>111/2008/NB-CP</i>	<i>10/10/2008</i>	<i>01/01/2009</i>	<i>1,200,000<sup>a</sup></i>	<i>1,080,000<sup>a</sup></i>	<i>950,000<sup>a</sup></i>	<i>920,000<sup>a</sup></i>
<i>97/2009/NB-CP</i>	<i>30/10/2009</i>		<i>980,000</i>	<i>880,000</i>	<i>810,000</i>	<i>730,000</i>
<i>98/2009/NB-CP</i>	<i>30/10/2009</i>	<i>01/01/2010</i>	<i>1,340,000<sup>a</sup></i>	<i>1,190,000<sup>a</sup></i>	<i>1,040,000<sup>a</sup></i>	<i>1,000,000<sup>a</sup></i>
<i>108/2010/NB-CP</i>	<i>29/10/2010</i>		<i>1,350,000</i>	<i>1,200,000</i>	<i>1,050,000</i>	<i>830,000</i>
<i>107/2010/NB-CP</i>	<i>29/10/2010</i>	<i>01/01/2011</i>	<i>1,550,000<sup>a</sup></i>	<i>1,350,000<sup>a</sup></i>	<i>1,170,000<sup>a</sup></i>	<i>1,100,000<sup>a</sup></i>
<i>70/2011/NB-CP</i>	<i>22/08/2011</i>	<i>01/10/2011<sup>b</sup></i>	<i>2,000,000</i>	<i>1,780,000</i>	<i>1,550,000</i>	<i>1,400,000</i>
<i>103/2012/NB-CP</i>	<i>04/12/2012</i>	<i>01/01/2013</i>	<i>2,350,000</i>	<i>2,100,000</i>	<i>1.800,000</i>	<i>1,650,000</i>
<i>182/2013/NB-CP</i>	<i>14/11/2013</i>	<i>31/12/2013</i>	<i>2,700,000</i>	<i>2,400,000</i>	<i>2,100,000</i>	<i>1,900,000</i>
<i>103/2014/NB-CP</i>	<i>11/11/2014</i>	<i>01/01/2015</i>	<i>3,100,000</i>	<i>2,750,000</i>	<i>2,400,000</i>	<i>2,150,000</i>
<i>122/2015/NB-CP</i>	<i>14/11/2015</i>	<i>01/01/2016</i>	<i>3,500,000</i>	<i>3,100,000</i>	<i>2,700,000</i>	<i>2,400,000</i>
<i>153/2016/NB-CP</i>	<i>14/11/2016</i>	<i>01/01/2017</i>	<i>3,750,000</i>	<i>3,320,000</i>	<i>2,900,000</i>	<i>2,580,000</i>

*Note:* <sup>a</sup> Minimum wage is applied to foreign-invested enterprises in each region.

<sup>b</sup> Since October 1, 2011, minimum wage has been only differentiated by region. In each region, the minimum wage is the same for both domestic and foreign-invested enterprises.

Source: Thanh, N. D., et al.(2017)

According to Article 91 of Labor Code 2012, the minimum wage is defined for the month, day or hour. In practice, however, the monthly minimum wage has been almost exclusively focused.

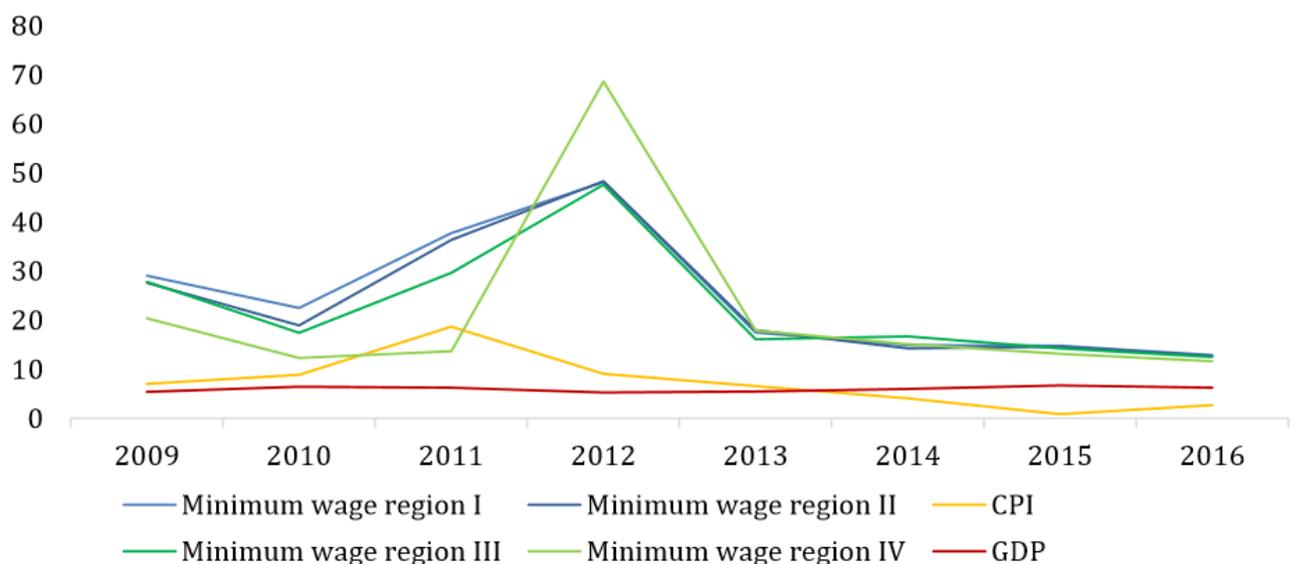
The government makes the necessary adjustment to the minimum wages when the economic growth, consumer price index, and labor supply and demand change. The improvement, however, also depends on the payment capacity of the state budget as well as of the companies. As of now, the adjustment of general minimum wage is quite different from the regional minimum wage. On the one hand, the general minimum wage adjustment depends on the national budget since the wage of laborers in the general government sector is set based on the general minimum salaries. On the other hand, the improvement of regional minimum wage is based on the recommendation of the National Wages Council, which implements negotiation and agreement of three parties: (1) the Ministry of Labor, Invalids and Social Affairs, (2) the employee representative at the central level (Viet Nam General Confederation of Labor), and (3) representatives of the employers in the central level (Viet Nam Chamber of Commerce and Industry, Viet Nam Cooperative Alliance, etc.). This paper will next focus on analyzing the problems of the current minimum wage in Vietnam.

## 1 THEORETICAL BACKGROUND

### 1.1 The growth rate of general and regional minimum wage has been moderately high

Over the past two decades, the general minimum salary grew at an average rate of nearly 19%. This figure, however, has been slow down in recent years to the level of less than 10% (See Table 1). Regarding regional minimum wage, the growth rate of the minimum wage over the period of 2009-2016 was much higher than that of consumer price index and economic growth. Consequently, minimum salary grew at the level of 20% in four regions (Region I: 24.69%; Region II: 23.85%; Region III: 22.75%; Region IV: 21.61%). The growth rate of regional minimum wage was, on average, 4 and three times higher than that of GDP and CPI, respectively.

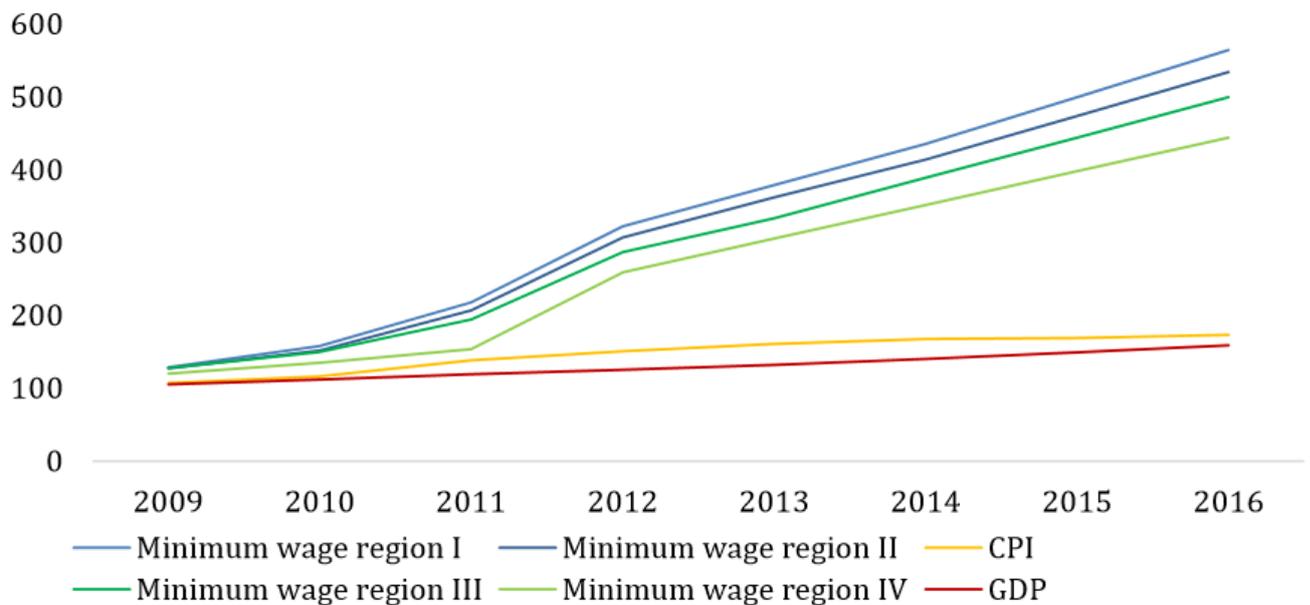
Figure 1. Growth Rate of Regional Minimum Wage, CPI, and GDP (%)



Notes: GDP data was compiled from General Statistics of Viet Nam. CPI data was compiled from International Monetary Fund (except for 2016, General Statistics Office of Viet Nam). Before October 2011, the regional minimum wage was applied to domestic enterprises.

Source: Source: Thanh, N. D., et al. (2017).

Figure 2. Growth Pattern of Regional Minimum Wage, CPI, and GDP (2008=100)



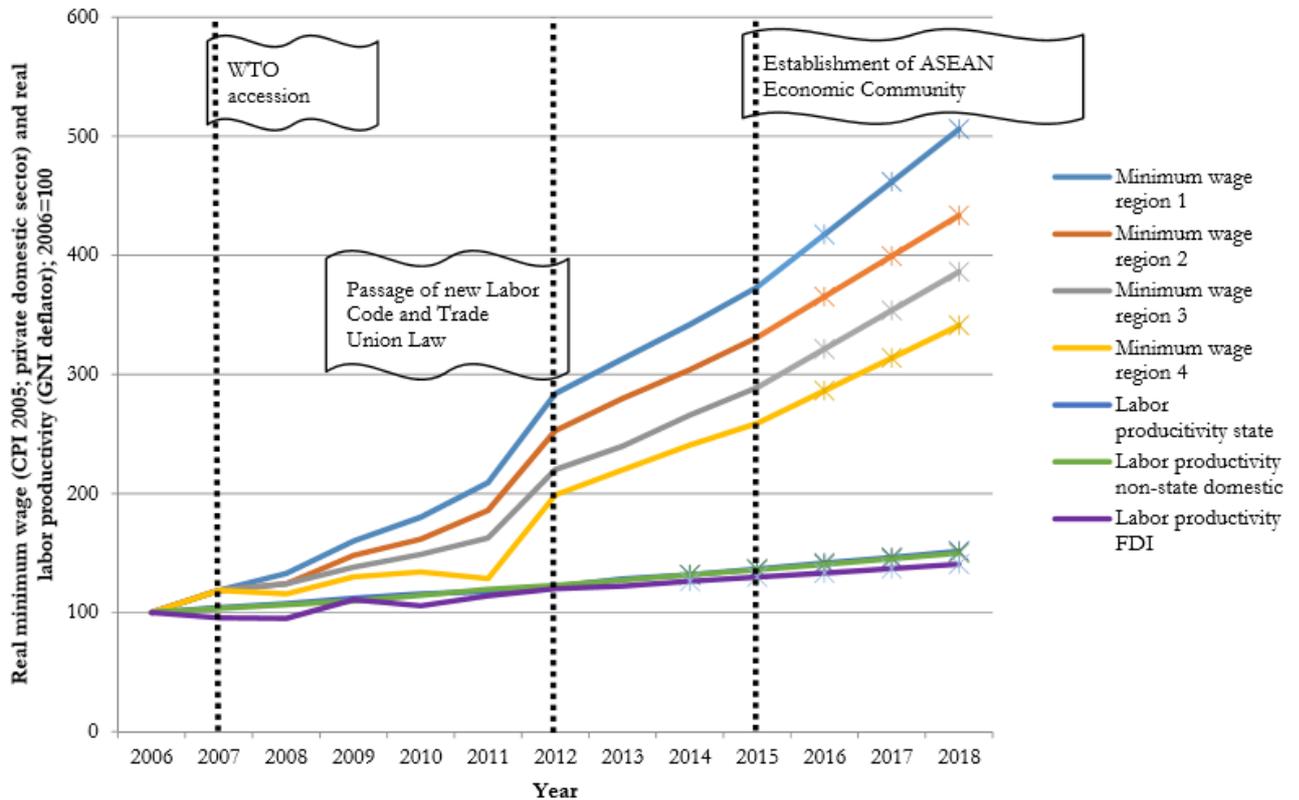
*Notes:* GDP data was compiled from General Statistics of Viet Nam. CPI data was compiled from International Monetary Fund (except for 2016, General Statistics Office of Viet Nam). Before October 2011, the regional minimum wage was applied to domestic enterprises.

Source: Thanh, N. D., et al. (2017).

## 1.2. The growth rate of the minimum wage has been higher than that of productivity

Before 2011, although the growth rate of regional minimum wage was higher than that of labor productivity, regional minimum wage grew abreast of productivity. However, since 2012, the gap between the growth rate of regional minimum wage and labor productivity of state-owned companies, domestic enterprises, and foreign direct investment companies has extended over time. According to Schmillen and Packard (2016), unless there is a plentiful increase in labor productivity, this gap will be increasing in the next years. The asynchronous progress between minimum wage and labor productivity is a threat not only to the increase of employment but also to the competitiveness of companies, especially for those in such labor-intensive (i.e., being sensitive to labor costs) and economically significant enterprises as the garment, footwear, manufacturing, electronics.

Figure 3 Labor Productivity and Regional Minimum Wage Growth, 2006-2018



### 1.3. The minimum wage has not met the basic needs for the living of workers

In specific term, the general minimum wage in Viet Nam has been much lower than the regional minimum salary, average and median salary. In 2013, the proportion of general minimum wage to the mean and median salary was roughly 25 percent, while this figure for the mean and median wage was 50 and 58 percent, respectively across the four regions (Schmillen and Packard, 2016).

Also, although minimum wage is expected to be a tool for assuring living standard, research has shown that, despite a fast-paced growth, the minimum wage has not grown to such a level that allows households to reach the minimum monthly living standard. In the 2010-2011 period, when CPI witnessed a significant increase, the regional minimum wage could afford only 47 percent of the minimum living standard of a laborer. In 2015, thanks to the rapid minimum wage growth rate, this figure increased to 80 percent (Institute of Labor Science and Social Affairs, 2015). A comparable conclusion was also reached by the research conducted by Institute for Workers and Trade Unions (2014), part of the Viet Nam General

Confederation of Labor: the current minimum payment levels outside the general government sector drop far short of the minimum monthly living standard of a laborer.

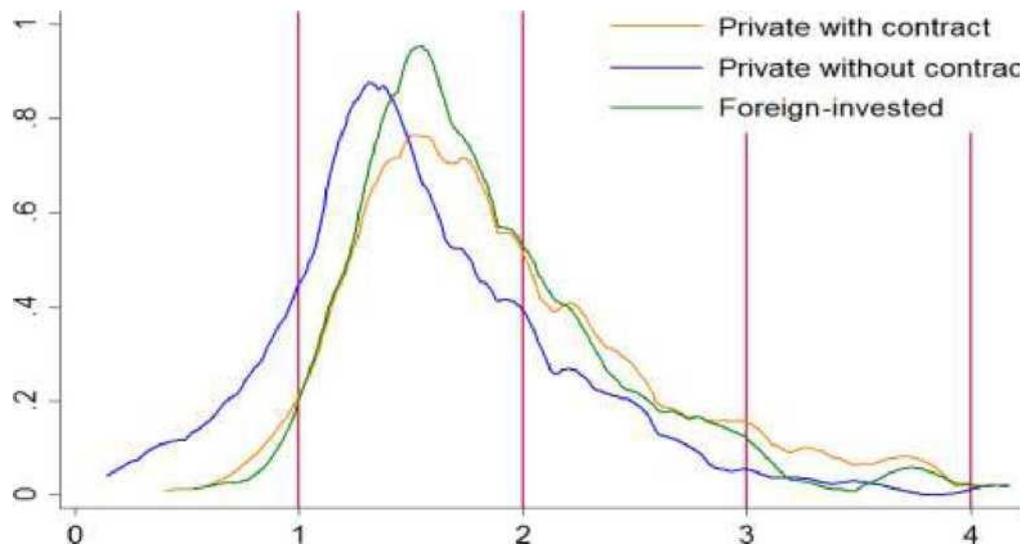
This result, however, does not certainly imply that a family with minimum wage worker falls below the poverty standard, or in other words, belong to the group of underprivileged families. According to Schmillen and Packard (2016), while families with one minimum salary earner and at least three additional orphans will be below the poverty standard, houses with at least two minimum wage earners or families with one minimum wage earner and less than three other family members who spend all their labor earnings, can afford a level of expenditure above the poverty line. The authors also conclude that an average or representative household in Viet Nam (a family with two working people, and two dependents) belong to the group of households with minimum labor earnings above the poverty line.

#### **1.4. There exists evidence of minimum wage non-binding and non-compliance**

To analyze the binding and enforcement of minimum wage, we illustrate the monthly wage distribution for the primary job of workers, using the Epanechnikov kernel Density with bandwidth=0.1, and the Viet Nam Household Living Standards Survey 2014 data.

Figure 4 suggests that the minimum wage might be binding at least among workers with an employment contract the private sector and in the FDI sector. In both cases, there is something like a spike in the distribution of monthly earnings around the level of the minimum wage. Also for both areas, few workers earn salaries below the minimum payment, so enforcement also looks high. There is not much data for a lighthouse effect of minimum payments on laborers in the private domestic sector without a contract. A moderately significant portion of these workers report salaries that are lower than the minimum wage, and there is no visible spike in their wage distribution at the minimum wage level.

Figure 4. Monthly earnings distribution



*Notes:* Wage for workers in working age (from 15 to 55 years old for women, from 15 to 60 years old for men). Data from the Viet Nam Household Living Standards Survey 2014. For the foreign-invested sector, only workers with labor contract are included. All monthly earnings are expressed relative to regional minimum wages. Vertical red lines depict multiples of the minimum wage.

Source: Thanh, N. D., et al. 2017.

Also, a large number of workers in Viet Nam are working in informal sectors and do not have the labor contract. This means minimum wages could not fully play its key role in ensuring a minimum standard of living of all workers.

## 2. OBJECTIVE AND METHODOLOGY

This paper aims to highlight the minimum wage system in Viet Nam and to analyze the problems of this system which affect the growth rate of productivity and the living of the laborers. Based on this analysis, the author will give some policy implications that should be implemented to resolve the problems shown.

This research based on reviewing the literature that are related to wage policy in Viet Nam and highlights on the main problems that face Vietnamese government to cope with it.

## 3. RESULTS AND DISCUSSION

The minimum wage has been widely applied as a tool to correct labor market shortcomings that can result in an inequitable distribution of gains in productivity. At the same time, the minimum wage is the legal guarantee of the government for laborers in all industries and sectors where there exist labor relations, ensuring the basic needs for the daily

life of workers. However, when set incorrectly, the provisions on minimum payments can lead to unemployment, especially for laborers with low capacities and professions, and decrease the competitiveness of companies. In this sense, we believe that the Vietnamese Government should pay more attention to the following points.

*First*, concerning the determination and adjustment of regional minimum wages, besides the participation of three parties in the National Wages Council, it is crucial to have academia, who have strong knowledge of macroeconomics and can examine the influence of minimum wages on employment, salaries and income before/after the adjustment, joined in the negotiation. Besides, as the minimum payments are currently regulated on a monthly basis, it is essential to set up a system in which minimum salaries are set up on daily, and even hourly basis. This is to assure that those people working on hourly or daily basis can thoroughly enjoy their benefits.

*Second*, to ensure minimum wages can afford the minimum standard of living, the general and regional minimum salaries should be similar to each other. In other words, there must not be any differences between the minimum wage applied to the governmental sector and the one applied to enterprises. Regarding administrative area, the main reason why such discrepancies in the two minimum wage levels exist is the limited national budget and the cumbersome, inefficient apparatus. It is, thus, essential to have the state apparatus streamlined and to cut the unnecessary spending.

*Third*, while minimum wages have not fully met the minimum consumption demand of workers, the growth rate of the minimum wage was much higher than that of CPI and GDP over the past years. In this sense, a new and feasible approach for labor policy is to provide a better social welfare system. Instead of increasing the minimum wage, such other types of assistance as social houses, education, and health care facilities near the industrial parks and zones will not only reduce the consumption burden of workers but also help them relieve stress, focus on working, indirectly increase the labor productivity. This will help enterprises survive and even strengthen their competitiveness in the context of globalization.

*Fourth*, there exist enterprises which have not been in strict compliance with minimum wage. A large number of waged employees, especially those without labor contracts could only receive the amount of salary/wage below the corresponding regional minimum wage. If the minimum wage policy is not strictly enforced, in the long term, it will be less likely to play its crucial role in ensuring a minimum standard of living for the entire labor force.

Despite the relatively high economic growth achieved over the last two decades, the labor productivity growth has been relatively low in Vietnam. According to Vietnam Productivity

Institute (2015), the labor productivity grew at the annual rate of 3.5% during the 2006-2015 period. Furthermore, the productivity growth was lower in the manufacturing and service sectors compared to agriculture (Institute of Labor Science and Social Affairs, 2016). Further study on the relationship between minimum wages, wages and labor productivity is needed for the policy recommendations.

## CONCLUSION

According to the information contained in this paper, many problems of the minimum wage policy in Viet Nam require specific attention. The growth rate of general and regional minimum wage has been moderately high, which was, on average, 4 and three times higher than that of GDP and CPI, respectively. Besides, the growth rate of the minimum wage has been higher than that of productivity, which is a threat not only to the increase of employment but also to the competitiveness of companies, especially for those in such labor-intensive (i.e., being sensitive to labor costs) and economically significant enterprises. The minimum wage has not met the basic needs for the living of workers and many workers in Viet Nam are working in informal sectors and do not have the labor contract which are other problems that the government need to adjust their policy. Based on this analysis, the government of Viet Nam should pay more attention to the following points: Supplementing more economics scientist, in the National Wages Council, balancing the general and regional minimum wages, providing a better social welfare system and forcing the enterprises to comply with the minimum wage policy.

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## CONTACT

*Hoang Nguyen Huu*

*Szent István University in Gödöllő*

*Faculty of Economic and Social Sciences*

*Páter Károly u. 1., H-2100 Gödöllő, Hungary*

[nhhoangmta@gmail.com](mailto:nhhoangmta@gmail.com), +36301864086