



Country Brief - November 2014

As Viet Nam continues to integrate more deeply into the regional and global economy, wage adjustment policies and practices need to be further improved to make sure a good balance is met between promoting enterprise development and also providing workers with a fair share of enterprise productivity gains. It is also important that wage setting is based on solid empirical evidence so that decisions reflect the needs of workers and their families, the needs of enterprises and the labour market as a whole.

The growing role of wages in Viet Nam

In Viet Nam, about one-third of the employed people depend on wages for their livelihoods, compared to the world's average of over 50 per cent. However, Viet Nam is expected to narrow this gap as the share of wage earners in total employment is projected to grow rapidly in the coming decades. In 2013, wage workers represented 34.8 per cent of total employment, up from only 16.8 per cent in 1996.

Figure 1: Share of wage employees in total employment, 1993-2013 in ASEAN

	Share of wage and salaried workers in total employment (per cent)			Percentage point change, 1993-2003	Percentage point change, 2003-13
	1993	2003	2013		
Brunei Darussalam	94.9
Cambodia	10.3	22.9	40.6	+12.6	+17.7
Indonesia	31.0	34.9	46.5	+3.9	+11.6
Lao PDR	9.7	11.7	15.6	+2.1	+3.9
Malaysia	71.4	76.2	73.9	+4.8	-2.4
Myanmar	36.5
Philippines	...	50.1	58.2	...	+8.1
Singapore	85.4	85.1	85.1	-0.3	±0.0
Thailand	34.3	40.5	41.4	+6.2	+0.9
Viet Nam	16.8	21.9	34.8	+5.1	+12.9

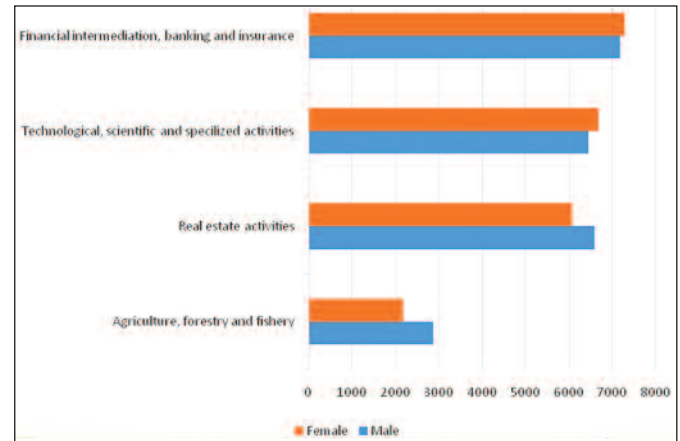
Source: ADB and ILO (2014), *Report on ASEAN Community 2015: Managing integration for better jobs and shared prosperity*, ILO: Bangkok

While agriculture is home to about half of the workforce, it only accounts for a little more than one tenth of the total wage workers. It also has one of the lowest average monthly wages (VND2.63 million or US\$125), compared to that of workers in “financial intermediation, banking and insurance” sector who earned VND7.23 million (\$344) a month, according to the Labour Force Survey 2013.

“Technologies and sciences” and “real estate” industries are also among those with highest average monthly wages (VND6.53 million or \$311, and VND6.4 million or \$305 respectively).

Although the overall gender pay gap in Viet Nam is only a bit less than 10 per cent, it is extensive in the low-wage sector of agriculture where women earn 32 per cent less than men (the widest gap). However, in the top two high-wage sectors (“financial intermediation, banking and insurance” and “technologies and sciences”), female workers are paid slightly more than their male colleagues (3.4 and 1.4 per cent, respectively).

Figure 2: Average monthly earnings, 2013 of selected economic sectors in Viet Nam (Thousand VND)



Source: GSO: Labour Force Survey 2013

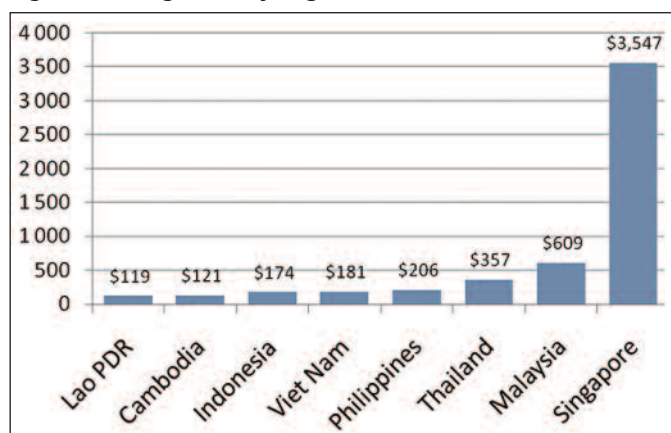
Wages and economic integration

The level of wages has great implications for living standards. Since 2005, across ASEAN countries, there has been modest growth in real wages (after allowing for inflation). In the past two years, driven partly by substantial increases in minimum wages, real wage growth has accelerated in Indonesia, Thailand and Viet Nam.

In Viet Nam in 2012, average monthly wages reached VND 3.8 million (\$181). This places Viet Nam ahead of Lao PDR (\$119), Cambodia (\$121) and Indonesia (\$174). By comparison, average monthly wages were

\$357 in Thailand, \$609 in Malaysia, and \$3,547 in Singapore.

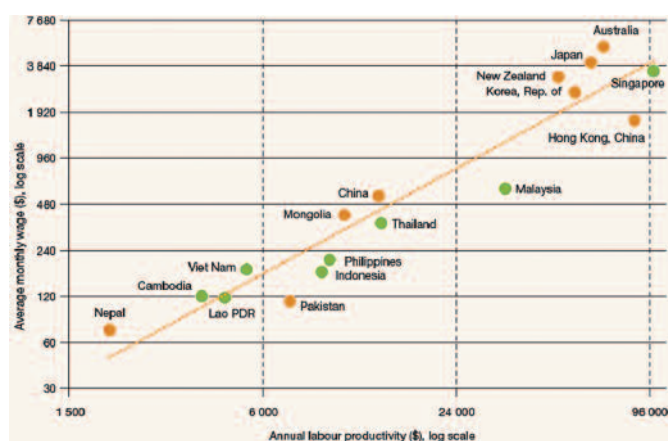
Figure 3: Average monthly wages, 2012 in ASEAN (\$)



Source: ADB and ILO (2014), Report on ASEAN Community 2015: Managing integration for better jobs and shared prosperity, ILO: Bangkok

These large wage differences between ASEAN Member States reflect substantial differences in a number of factors including labour productivity. As countries adopt new technology, invest in infrastructure, encourage structural reforms and improve the skills of their workforce, they lay the foundations for enterprises to become more efficient – and to move into activities with a higher value added.

Figure 4: Labour productivity and average monthly wages, 2012 or most recent year (\$)



Note: Only broadly comparable figures based on national labour force surveys have been included. All data are for 2012, with the exception of Lao PDR (2010), Nepal (2008) and Pakistan (2011)

Source: ADB and ILO (2014), Report on ASEAN Community 2015: Managing integration for better jobs and shared prosperity, ILO: Bangkok

As a member of the ASEAN and increasingly entering broader trade relationships, Viet Nam could see a boom in growth and prosperity in the coming decade. In 2015, the ASEAN Economic Community (AEC), envisioned as a single common market and production base, will become a reality. Trade and investment liberalization will have significant impacts on the economy and labour market in the following decade.

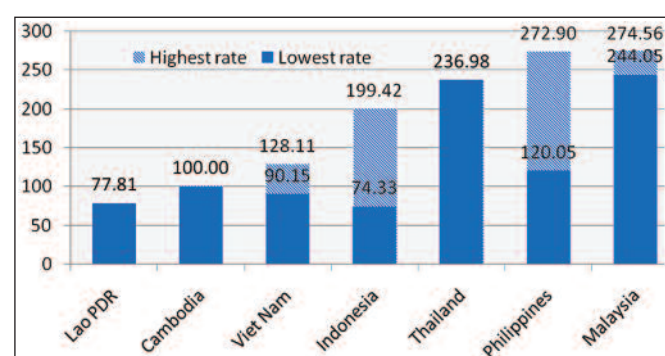
With accelerated structural change under the AEC, supported by the right policies, Viet Nam could increasingly compete in global markets based on higher productivity and better working conditions. Wage setting institutions and policies play an important role in facilitating structural change, industrial modernization and economic integration.

Minimum wages and vulnerable workers

The minimum wage rate constitutes a key policy instrument aimed at securing adequate incomes for the poorest workers. In the 2012 Labour Code, it is defined as “the lowest rate paid to the employee who performs the simplest work in the normal working conditions and that must ensure the minimal living needs of the employees and their families”. Viet Nam is committed to gradually raise minimum wages to meet workers’ minimum living needs.

The minimum wage level in Viet Nam is higher than Cambodia, Laos and Myanmar, but lower when compared to most developed ASEAN countries.

Figure 5: Monthly minimum wages, 2014 in ASEAN



Source: ADB and ILO (2014), Report on ASEAN Community 2015: Managing integration for better jobs and shared prosperity, ILO: Bangkok

With the establishment of the National Wage Council in 2013, Viet Nam significantly strengthened its minimum

wage setting mechanism. The council gives trade unions' representatives and employers' representatives a direct stake in minimum wage negotiations and recommendations. Currently, minimum wages are set by region (from 1 January 2015 ranging from VND2.15 million–3.1 million (\$101-146), across the 4 regions).

Minimum wage adjustment needs to take into consideration a range of social and economic factors and strike a balance between the interest of workers and businesses. Review of methods for determining minimum living needs of workers in Viet Nam reveals major shortcomings of current estimates¹. Meanwhile, other research evidence² shows that minimum wage increases over the period of 2001-12 have led to an increase in real average wages within both low and high wage firms, albeit at the cost of a moderate decrease in employment. The minimum wage increases, however, have limited long run effects on company revenues and profits.

While the primary objective of minimum wages is to protect low-paid workers, wages of skilled workers in Viet Nam often rise in line with minimum wage increments as collective bargaining on wage is rare. Thus, minimum wage increases in Viet Nam have a larger impact on the wage cost of enterprises than in countries that rely more on collective bargaining to determine wages for higher-paid workers.

The value of collective bargaining

Minimum wage setting and collective bargaining complement each other in a market economy. Collective bargaining offers opportunities for wage adjustments for workers earning above the minimum wage – a key issue to the development of sound industrial relations in Viet Nam.

Dialogue and collective bargaining give workers and employers a mechanism to resolve disputes constructively, and to find win-win solutions that maximize benefits of both parties. It also gives them flexibility to adapt to changing circumstances. Therefore, countries with strong dialogue and collective bargaining institutions have found creative solutions to deal with the impacts of the rapidly changing economic situations.

Strong wage setting institutions are also a prerequisite to maximize the benefits from regional and global economic integrations and ensure that these benefits will also trans-

late into higher wages and better working conditions.

Building on international labour standards

So far, both collective wage bargaining and regular enterprise-level dialogue remains rare in Viet Nam. The lack of dialogue and negotiation often results in wildcat strikes through which workers try to achieve improvements in wages and working conditions.

As the share of wage earners in total employment increases and the economy integrates more deeply into global markets, there is an urgent need to improve and expand collective bargaining on wages to foster constructive and predictable industrial relations climate and maximise the benefits of economic integration to all.

To this end, improving the legal and institutional framework for collective bargaining and the democratic representation for workers, and strengthening the capacity of employers' and workers' organizations to engage in effective collective agreements are all critical, as is improving dialogue and dispute resolution systems. International labour standards offer useful frameworks and tools to do this. Viet Nam can benefit by joining the more than 150 other countries in ratifying the key remaining relevant international conventions.

¹ Richard Anker (2014), "Review of methods for determining minimum living needs of workers in Viet Nam"

² Henrik Hansen, John Rand and Nina Torm (2014), "Minimum wages and firm level outcomes in Viet Nam"



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