



## Reform wage for employees to earn just enough to live in Vietnam

T S Phuong Huu Tung

Hanoi University of Home Affairs, Vietnam

### Abstract

Currently, Vietnam implements wage policy making through the important tool of minimum wage. However, the reality shows that the use of the minimum wage to pay workers is still inadequate and far from reality. Instead of using the minimum wage, a number of developed countries have recently used a new concept in wage policy making, which is a "living wage" with high efficiency. In line with the trend of the world, the living wage needs to be recognized and researched and applied in practice in Vietnam to bring about more positive effects, ensuring the life of workers and the whole family. Sustainable development of agencies, organizations and enterprises.

**Keywords:** wages, living wages, wage reform, workers, Vietnam

### Introduction

#### Minimum wage

According to the International Labor Organization (ILO) view: "Minimum wages are the lowest wages for workers who perform the simplest jobs, sufficient to guarantee them a minimum standard of living as workers. The head of the family suitable to the socio-economic conditions". In Vietnam, the Labor Code 2012 stipulates: "The minimum wage is the lowest level paid to employees who perform the simplest jobs, under normal working conditions and must ensure the minimum living needs of the employee's workers and their families." It can be understood that the minimum wage used for workers doing jobs that require the most superficial level of labour, the lightest labour intensity, takes place in normal working conditions and is used to determine the minimum wage. Determine salary levels, allowances and other additional payments for employees.

#### Subsistence wages

According to the Global Living Wage Coalition, a *living wage* is defined as the lowest wage paid to a full-time employee to cover basic expenses. Necessities - including nutritious food, suitable housing, utilities, health care, clothing, transportation and education, social relations, plus savings for the future and force majeure happens. According to the Anker method, the living wage is the average cost of quality of life for an average person, including cheap but nutritious food; affordable standard housing costs; and other essential expenses such as health, culture, sports.

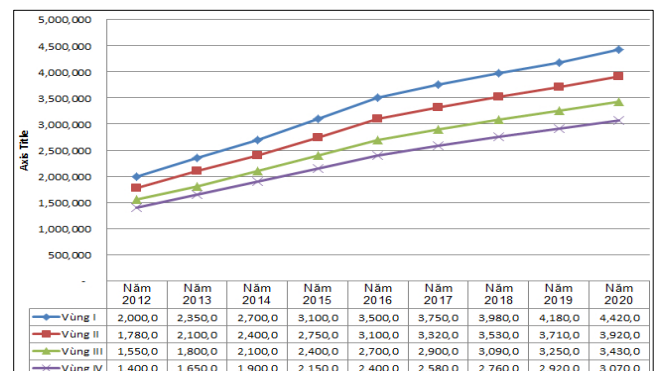
#### Salary policy status

Salary is the most important factor and also causes the most conflicts in labor relations, and is always a factor of mutual concern for employers, employees and the Government.

#### The process of adjusting salary policy in Vietnam

According to Article 90 of the Labor Code (amended), 2012 clearly states: "Wage is the amount of money that the employer pays the employee to perform the work as agreed. Salary includes salary according to job or title, salary allowance and other

supplements". The basic salary applied to cadres, civil servants, public employees, and the armed forces are determined to gradually approach the minimum standard of living, constantly adjusting to offset the salary according to the cost of living index and the increased economic chief. Wages in the public sector have been adjusted 12 times from 2004 - 2019 from VND 290,000 to VND 1,490,000. Currently, the basic salary is applied to about 4.2 million employees who receive a salary from the state budget. Minimum wage is the lowest salary paid to employees who do the most straightforward jobs in normal working conditions to ensure a minimum standard of living for workers and their families, in line with development conditions. Socio-economic development. Under the provisions of the labour law, the Government annually considers adjusting the regional minimum wage. Accordingly, the current minimum wage is divided into four regions; from 2013 to 2020, the minimum wage increases by 10.4% on average. According to the provisions of the Labor Code 2012, the subject of the application of the Labor Code only includes about 10 million employees with labour contracts (accounting for 18% of the labour force).



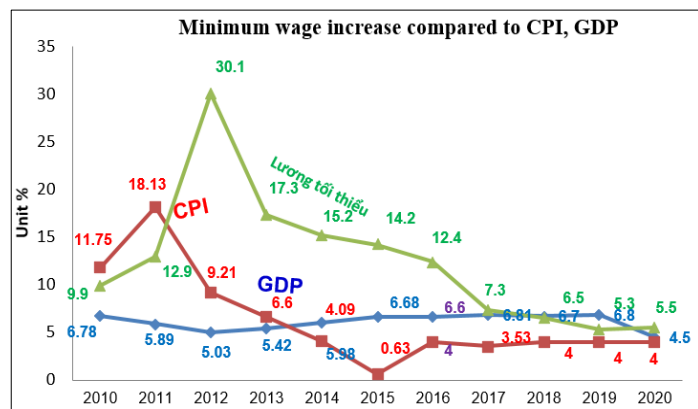
(Source: VCCI general)

**Fig 1:** The process of adjusting regional minimum wages from 2012-2020

**Minimum wage meets minimum needs**

**Regional minimum wages are adjusted over the years compared to CPI and GDP**

In Vietnam, the monthly regional minimum wage is regularly adjusted to meet the minimum needs of workers. After eight years of establishment and operation, the Council has recommended the regional minimum wage plan eight times to the Government; The Government agreed with the plan recommended by the Council. The minimum wage has been gradually adjusted year by year, stabilizing enterprises' labour market and labour relations. Meanwhile, the regional minimum wage growth rate from 2013 to 2020 averaged over 10.4% per year in the last eight years. However, the CPI in previous regional minimum wage increases is usually higher in the past eight years. In fact, in particular, in 2014, the expected increase in CPI is 7%, the reality is only 4%, in 2015 it is expected to be 5%, the reality is only 0.63%, in 2016 it is expected to increase the CPI by 5%. It is only 4.74%, CPI in 2017 and 2018 is expected to increase by 4%, but it is only 3.53% and 3.54% in reality. CPI in 2019 was expected to increase by 4%, but it was only 2.79% in reality. The minimum wage in recent years has gradually approached GDP growth but is still more than double the CPI.



(Source: VCCI general)

**Fig 2:** Comparison of regional minimum wage adjustments with CPI and GDP

**Subsistence wages of worker**

According to estimates from the report on determining the minimum standard of living of the Technical Department reporting to the National Wage Council in 2018, the minimum standard of living in all regions by 2020 is expected to be as follows:

**Table 1:** Summary of minimum living needs in 2016 – 2020

Unit: 1000 VND

Area	2016	2017	2018	2019	2020
Area 4	2588	2680	2787	2897	3012
Area 3	2968	3073	3194	3320	3451
Area 2	3369	3486	3622	3763	3909
Area 1	3769	3899	4049	4205	4367

(Source: Data from the joint report of the National Wage Council technical department)

**Table 2:** Average income and minimum living needs of workers

Content	Base salary/Regional minimum wage I	Average income (Precious IV/2019)	Minimum living needs 2020 (Area I)
Government Area	1.490.000 * salary coefficient by rank, grade, position, title		4.205.000
Private area	4.420.000 * 7% * 5%	7.520.000	4.205.000
FDI sector	4.420.000 * 7% * 5%	7.380.000	4.205.000

(Source: Newsletter of TTLĐ quarter 4/2019 Molisa)

The average income in 2019 was nearly twice as high as the minimum standard of living of workers (average of all four regions in 2020). The CPI in the previous regional minimum wage increases was often expected to be higher than in reality, so when reassessed according to the actual CPI in 2019, the regional minimum wage in 2020 was already 1 000 higher than the minimum standard of living. 51% and beyond the ability of some businesses to pay at the moment.

**Wage reform towards a living wage**

**Domestic and international context**

The Covid-19 pandemic has significantly impacted labour and employment issues, with up to 85.7% of businesses nationwide being affected by the Covid-19 epidemic. When re-evaluated according to the actual CPI in 2019, the minimum wage in 2020 was 1.51% higher than the minimum living standard. The Prime Minister has just asked the National Assembly to consider increasing the base salary in 2020 as planned from July 1, 2020, to have more resources for urgent and agreed-upon goals by Politburo. Implement the base salary adjustment for cadres, civil servants, public employees, armed forces, and pensions from July 1, 2020. It will affect the implementation of "Section 3.1.c, Part II of Resolution 27-NQ/TW, from 2021 will abolish the base salary and apply a specific salary to cadres, civil servants and employees position; This specific salary will be calculated based on the employment position of each subject. Thus, the salary of cadres, civil servants and public employees in 2021 will no longer be based on the current base salary, which will be calculated based on many factors, including the lowest average salary of all employees area of the business sector. According to the provisions of the Labor Code 2019, the subjects of application of the Labor Code include employees, apprentices, apprentices and employees who do not have an employment relationship. There have not been any official studies from state management agencies or social partners. Not even the International Labor Organization (ILO) has come up with a transparent methodology or criteria for calculating a living wage or bringing this concept to life due to methodological difficulties. Moreover, there are considerable differences in conditions at the national and local levels. The law stipulates that payment of wages to employees must be based on the position of work the employee undertakes, labour productivity, and work efficiency of the employee; Employers have the right to decide for themselves how to distribute wages, to ensure that wages are paid following the quantity and quality of labour and the level of contributions of employees.

Enterprises paying wages to employees must ensure fairness and equality. In addition, the law also stipulates that every year based on production and business performance, enterprises reward employees according to their contribution to the enterprise's overall performance, thus aiming for a higher salary. Sufficient living needs the attention of both state management agencies, businesses and social partners.

#### ***Some opinions on wage reform towards a living wage***

##### ▪ ***For state management agencies***

Improve the effectiveness and efficiency of the State management of wages, complete the legal policies related to the wage policy, such as narrowing the wage gap between the administrative and non-business sectors and the business sector., the law on social insurance. To improve the mechanism to support salary agreements in enterprises by establishing a mechanism for dialogue, negotiation and agreement between the subjects in the labour relations.

##### ▪ ***For enterprises and employers' representative organizations:***

For the employer, wages constitute a large part of the costs that the employer has to spend (namely, most of the labour costs, so the employer is interested in the cost of labour). Labour costs more than wages in general, and therefore all the elements that makeup wages are also essential to employers, such as monetary or in-kind benefits or other factors. Both monetary and non-monetary factors affect the standard of living of workers), so when it comes to living wages, the following points should be taken into account:

- Enhance responsibility in paying salary sufficiently and adequately.
- Ensure compliance with minimum wage regulations.
- Pay salary on time and entirely on agreed salary.
- Ensure fair salary lương
- Perspectives on living wages of workers and managers.
- Knowledge of workers and managers about ordinary wages in the same manufacturing industry and the same area.
- Fair salary adjustment
- Real wages will be adjusted based on the inflation rate and the cost of living through the consumer price index.
- Based on production and business efficiency, labour productivity.
- Based on training level, application of technology, change of production process or method.

##### ▪ ***For employees and representative workers' organizations***

For employees, salary is the primary source of income, so salary is the basis for workers' living standards, but other sources of income other than basic salaries, such as bonuses or other benefits, are the primary source of income. Other artifacts also play an essential role in improving the living standards of workers.

The agreement mechanism in labour relations, including the agreement on salary as stipulated in the labour law, has initially been implemented but has not yet been brought into full play. Disputes over wages often do not go through negotiation and agreement but go straight to a strike. Therefore, it is necessary to promote a mechanism for dialogue and information on wages and improve the capacity to negotiate and agree on wages through

contracts with employees, payslips and information channels available at enterprises.

##### ▪ ***For brands***

Follow good, responsible ordering practices.

Share benefits with factories to help factories have enough capacity to implement good working conditions, including increasing wages for workers.

#### **References**

1. Anker R, Anker M. *Living Wages around the World Manual for Measurement*, Publisher Edward Elgar, England, 2017.
2. Oxfam cooperates with the Labor Union Research Institute. "Insufficient living wages and consequences - A study of some garment export enterprises in Vietnam", 2019.
3. National Assembly, Law No. 10/2012/QH13, dated June 18, 2012, Labor Code 2012. National Assembly (2019), Code No. 45/2019/QH14, November 20, 2019, Labor Code, 2012.