

Minimum Wages: Evidence-Based Methodology, Consultation with Social Partners and Regular Adjustment in Vietnam

Introduction:

Implementing minimum wages is widely adopted method to address the issue of low wages. However, for the minimum wages to be effective, relevant and complied to, it is critical that it follows a balanced methodology, involves consultation with social partners, and is periodically adjusted to account for changes in economic conditions.

In Vietnam, Minimum Wage was conceptualised in the year 1946 and officially defined in 1995 with the introduction of the Labour Code. The Minimum Wage policy evolved over the year. Post 2012 some changes were introduced, such as, fixing the two- tier system, setting up of tripartite National Wage Council in 2013 etc. that contributed to transforming the minimum wage system.

Intervention:

The current minimum wage setting process entails the following components:

- a. **Methodology or criteria for setting the Minimum Wage:** The components taken into considerations include, for workers need's perspective "the most important element considered are the cost of living in relation to minimum basic needs and the component of economic factor include GDP, labour productivity, the enterprises' ability to pay and the ratio of minimum to median and mean wages." This same criterion is used for all four regions, the country has an NMW and region-wise.
- b. **Consultative Procedure:** The regional minimum wages are adjusted based on the recommendation of the National Wages Council (NWC) that follows a consultative method and has an assistant technical board with 20 representatives. The technical board collects data and conducts analysis and arrive at the Minimum Wage and Minimum Wage impact.
- c. **Regular Adjustment:** The Minimum Wage adjustment is carried out on a regular basis, there is annual adjustment

Impact/ Learning:

These components of the minimum wage policy has helped in successful implementation and compliance. According to a study by the International Labour Organisation (ILO), the minimum wages have led to a reduction in wage inequality in the formal sectors. It has increased the wages at the lower end of the distribution. Overall, there has been a significant decrease in wage inequality.

The wage level at the bottom has also shown an improvement. While in 2012- 13, the wage level at the bottom 10 per cent was around 56 per cent of the median wage, the study estimates that the ratios would have fallen to as low as 50 per cent, had there been no change in the minimum wages.

Sources:

Ministry of Labour and Employment, Government of India, 2019. Report of the Expert Committee on Determining the Methodology for Fixing the National Minimum Wage . International Labour Organization, (2016). The impact of minimum wage adjustments on Vietnamese wage inequality, ILO Country Office for Viet Nam. – Hanoi