

Vietnam Minimum Wage Increases Spark Investor Uncertainty

The Vietnamese government has issued a decree to increase the country's minimum salary by between VND250,000-VND400,000 (US\$12-\$19) starting January 1, 2015. This will bring the wage floor to between VND2.15 million-VND3.1 million (\$101.4-\$146.2) depending on the region.

 The minimum wage will be highest in Region One, which includes urban Hanoi, Hai Phong, and Ho Chi Minh City. The lowest minimum wages will be in Region Four which includes the least developed parts of Vietnam. Regions Two and Three consist of places of intermediate development and thus have intermediate minimum wages.

These increases mean that Vietnam's minimum wage will have increased 17-fold from 15 years ago to go along with rapid economic growth in the same period. However, these increases could drive away business, and foreign investors have urged caution and deliberation from the Vietnamese government before further wage increases are made.

The supporters of the rise in minimum wage say that it will alleviate poverty and improve the quality of life for low-wage workers. Vietnam's income and social inequality have been increasing with economic growth so this may be an attempt to keep more growth in the lower classes of society.

However, the increases may not accomplish their goal if they result in price increases exceeding CPI growth. In 2011, inflation reached a 29-month high of 19.8 percent in May which led to widespread strikes across the country. These strikes dented but didn't stop Vietnam's goal of attracting foreign investors to set up manufacturing hubs as wages increase in China.

Recent surveys have indicated that up to 13 percent of workers say their salaries do not cover basic living costs, 25 percent say they have had to spend carefully and 50 percent have said their salary only affords a basic standard of living. Spending on basic needs has outgrown the minimum wage and the current rate only covers 70-74 percent of minimum living costs.

The rise in wages should give workers more leverage in wage negotiations even though many companies already pay local workers more than the minimum wage. This could affect Vietnam's thriving industries, such as the information technology and sewing sectors, which receive large orders and investments from abroad.

Many companies are looking to see if the Vietnamese government can manage inflation and wage pressures and, if Vietnam mismanages it, multinationals will have other alternatives in Southeast Asia. The increase in minimum wage reflects the drive for equitable growth but it will require the Vietnamese government to maintain the right balance to keep companies investing in Vietnam.

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