

# ► Research Brief

January 2021

## COVID-19 and rising wage inequality: Trends and challenges in Thailand and Viet Nam\*

### Key points

- ▶ Containment measures during 2020 to combat the spread of the COVID-19 pandemic had a pronounced impact on the labour market. One of the adverse consequences is heightened inequality, as evidenced by emerging trends in key wage indicators in Thailand and Viet Nam.
- ▶ The wage distribution became more concentrated among the top 10 per cent of wage earners, driven by the increasing number of employees – many at the bottom of the wage ladder – that had to work reduced hours for less pay.
- ▶ The prevalence of low-paid work trended upwards, reversing declines made in 2019, and wage disparities between subgroups in the labour market worsened during the second quarter 2020. These setbacks are concerning in particular for vulnerable women and men such as informal workers, youth and workers with limited educational qualifications.
- ▶ Robust wage support and active labour market policies for workers at the bottom of the wage scale would be critical to help counter these dynamics.

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## ► 1. Introduction

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The COVID-19 pandemic and measures to contain its spread during 2020 had devastating consequences on economies throughout Asia and the Pacific. As demand from both domestic and international consumers contracted, economic activity decelerated, leading to tremendous hardship for millions of households primarily through the labour market channel. The detrimental impacts included widespread disruption of employment in the form of reduced working hours, decreased labour income, complete job losses in many cases, and rising inactivity.<sup>1</sup> Furthermore, the crisis has also reversed years of progress in the region in raising the living standards for the most vulnerable workers, many trapped in low-paid and informal employment. For example, the ILO estimates that the crisis led to an increase in extreme working poverty of 22 million to 25.4 million workers in the Asia-Pacific region in 2020.<sup>2</sup>

Evidence is mounting of the uneven impact of the crisis on different segments of the labour market – including for example, women, youth, and informal workers – and the implications for rising income and wage inequality.<sup>3</sup> However, less attention in Asia and the Pacific has been given thus far to measure the actual magnitude of these trends. This research brief aims to help fill this knowledge gap. Based on analysis of quarterly data from national labour force surveys in Thailand and Viet Nam, the brief quantifies the scale of inequality among wage earners, who in each country account for around half of total employment.<sup>4</sup> It examines trends of various wage indicators in 2020 relative to the pre-crisis baseline in 2019 and helps identify segments of workers at the bottom of the wage ladder that have been particularly vulnerable to decreased pay during the crisis. The brief concludes with several policy considerations critical to countering these rising inequality dynamics and fostering an even and balanced recovery.

## ► 2. Recent wage trends point to heightened inequality

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**In both Thailand and Viet Nam, average nominal monthly wage levels decreased in the second quarter 2020 before rebounding in the third quarter. The magnitude of the contraction, however, was heterogeneous across different wage groups.** In Thailand, the bottom 10 per cent of wage earners (p10) suffered a year-on-year drop of 16.7 per cent in the second quarter 2020 (see Figure 1). Conversely, the average wages of the top 10 per cent (p90) remained the same and above the pre-crisis level at the end of 2019.

By comparison, in Viet Nam nominal wages fell considerably in the second quarter across different wage-earning groups. By the fourth quarter, however, wages appeared to be shifting upward overall with the exception of earnings of the bottom 10 per cent of employees (p10), which remained 16.7 per cent below the level at the end of 2019.<sup>5</sup> In both countries, varied factors shaped these dynamics, including the increasing number of employees – many at the bottom of the wage ladder – that had to work reduced hours for less pay. On the other hand, many

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<sup>1</sup> ILO, *Asia-Pacific Employment and Social Outlook 2020: Navigating the crisis towards a human-centred future of work*, 2020a.

<sup>2</sup> ILO, 2020a, op. cit. The working poverty estimates are based on the US\$1.90 international poverty line.

<sup>3</sup> For further discussion on the uneven impact of the crisis on vulnerable groups and implications for inequality, see: ILO, 2020a, op. cit.; ILO, *Global Wage Report 2020-21: Wages and minimum wages in the time of COVID-19*, 2020b; ILO, *ILO Monitor: COVID-19 and the world of work, Seventh edition, Updated estimates and analysis*, 2021; E. Jurzyk et. al., *COVID-19 and inequality in Asia: Breaking the vicious cycle*, IMF Working Paper WP/20/217, 2020.

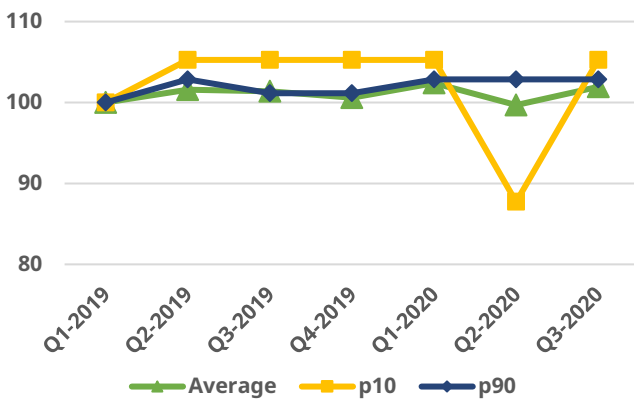
<sup>4</sup> The selection of countries was limited to only Thailand and Viet Nam based on the availability of quarterly labour force survey microdata for 2019 and 2020 required to conduct the trends analysis. The share of wage employees in total employment are author's estimates based on official labour force survey microdata.

<sup>5</sup> The sizeable downturn in the wages of the bottom 10 per cent (p10) in Viet Nam in the fourth quarter 2020 was driven heavily by the wholesale and retail trade and accommodations and food services sectors, where the average p10 wages decreased on a quarter-on-quarter basis by 60.5 per cent and 40 per cent, respectively, despite a rise in wage employment and hours of work. These dynamics exhibit a high wage elasticity of supply in the lower segments of these two labour-intensive, low-skilled sectors.

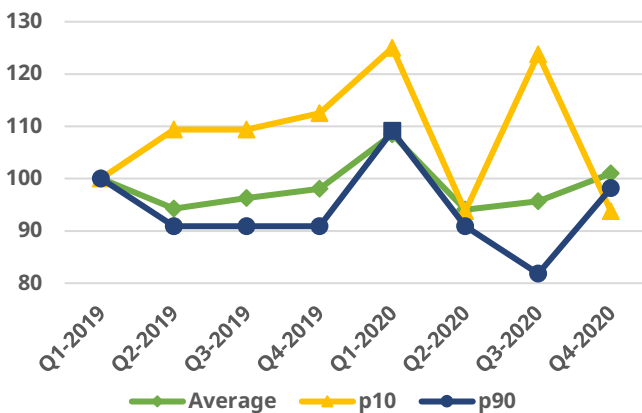
high-wage earners had the opportunity to continue to work remotely during the pandemic and still earn full wages.

► **Figure 1. Nominal monthly wage index, Q1-2019 to latest available period (Q1-2019 = 100)**

**Panel A. Thailand**



**Panel B. Viet Nam**

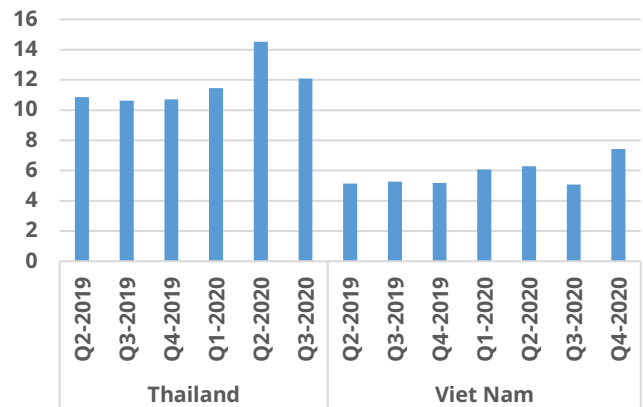


Source: Author's estimates based on official labour force survey microdata.

**Wage inequality, as measured by the p90/p10 ratio, trended upwards during the COVID-19 crisis in 2020.** In Thailand, the total wages of the top 10 per cent of paid employees was 10.7 times the aggregate earnings of the bottom 10 per cent in the fourth quarter 2019 baseline before the onset of COVID-19 (see Figure 2). By the second quarter 2020, the p90/p10 ratio had increased to 14.5 and remained above pre-crisis levels in the subsequent third quarter. Likewise, Viet Nam experienced similar dynamics. The earnings of the top 10 per cent of wage earners

relative to the bottom 10 per cent increased from 5.2 during the last quarter of 2019 to 6.3 in the second quarter 2020. Despite a short-term decline in the third quarter, the p90/p10 ratio spiked again to 7.4 by the end of 2020. Manufacturing, wholesale and retail trade, and accommodations and food services spurred the temporary third-quarter decrease as all three sectors recorded a rebound in hiring and a concomitant increase in the average wages of the bottom 10 per cent of wage earners.

► **Figure 2. Ratio of total wages of the top 10 percent to the bottom 10 percent (p90/p10), Thailand and Viet Nam, Q2-2019 to latest available period**



Source: Author's estimates based on official labour force survey microdata.

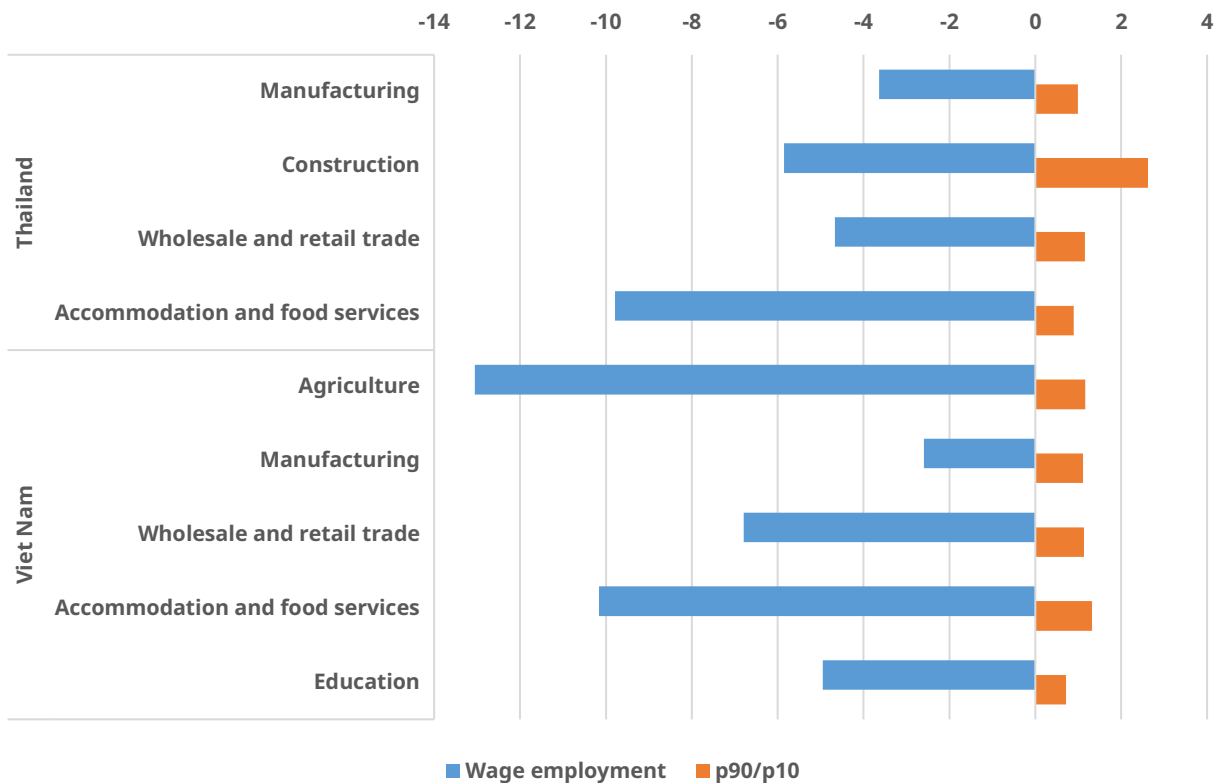
**Heightened wage inequality is striking in critical sectors particularly hard-hit during the COVID-19 crisis.** In Thailand and Viet Nam, measures to contain the spread of COVID-19, including workplace closures and extensive travel restrictions, led to a contraction in demand, heavy economic losses and widespread jobs disruption. Among wage earners in Thailand, 77 per cent of year-on-year employment losses in the second quarter 2020 were concentrated in construction, manufacturing, wholesale and retail trade, and accommodations and food service activities.<sup>6</sup> In Viet Nam, 71.7 per cent of the total contraction in wage employment was driven by five sectors: agriculture, manufacturing, wholesale and retail trade, accommodation and food services and education.

<sup>6</sup> The year-on-year change in wage employment by sector in both countries is based on author's estimates from official labour force survey microdata.

In addition, among wage earners who were able to maintain their employment during the second quarter 2020, many faced reduced working hours and wages. The distribution of pay in these hard-hit sectors consequently became increasingly more concentrated among the top 10 per cent of wage earners (see Figure 3). Evidently, the downward pressure on earnings in these sectors tended

to be partial against employees towards the bottom of the wage scale, including those forced to accept zero wages.<sup>7</sup> The rise in wage inequality, coupled with the sizeable job losses, further magnifies the challenges faced by enterprises and workers in these at-risk sectors.

► **Figure 3. Decrease in wage employment (per cent) and increase in the ratio of total wages of the top 10 percent to the bottom 10 percent (p90/p10), selected industries, Thailand and Viet Nam, Q2-2020**



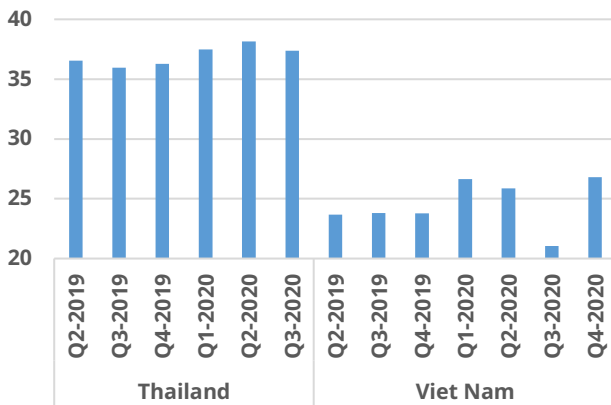
**Note:** Year-on-year change.

**Source:** Author's estimate based on official labour force survey microdata.

<sup>7</sup> For example, in the accommodations and food services sector in Thailand, 7.9 per cent of wage employees reported zero earnings during the second quarter 2020. This reflects a distinct adjustment mechanism not commonly found in the other highlighted sectors during the crisis. Source: Author's estimates from official labour force survey microdata.

**An uptick in the Gini index also points to rising wage inequality.** As another measure of wage disparity, the Gini index of wage distribution edged upwards in both Thailand and Viet Nam in 2020 (see Figure 4).<sup>8</sup> In Viet Nam, the Gini index increased from 23.8 at the pre-COVID baseline in the end of 2019 to 26.8 by the fourth quarter 2020, after a short-term decline in the third quarter.<sup>9</sup> By comparison, in Thailand, where the distribution of earnings tends to be relatively more inequitable overall, similar trends emerged. The Gini index of wages increased slightly from 36.3 in the fourth quarter 2019 to 38.1 in the second quarter 2020, or during the peak months of economic contraction.

► **Figure 4. Gini index of wages, Thailand and Viet Nam, Q2-2019 to latest available period**



Source: Author’s estimates based on official labour force survey microdata.

**The COVID-19 crisis may be reversing progress in reducing low-paid work.** In 2019, the share of low-paid employees earning less than two-thirds the median monthly wage steadily decreased in both Thailand and Viet Nam, falling in the fourth quarter to 17.3 per cent and 11.2 per cent, respectively (see Figure 5).<sup>10</sup> However, these trends reversed in 2020 coinciding with the increasing economic fallout of the pandemic. In Viet Nam, the share of low-paid employees spiked to 20.2 per cent by the end of 2020. By comparison, in Thailand, the low pay rate also

trended upward on a quarterly basis during the first and second quarters 2020, although it remained below its peak in 2019. The higher rate of low pay in Thailand before the crisis could be largely misleading, however, given that the trend may not reflect the substantial job losses among lower-paid workers during the midst of 2020.<sup>11</sup>

The prevalence of low-paid work is particularly concerning for certain groups of workers who are disproportionately and consistently more likely to be at the bottom of the pay scale, including youth and those with lower educational qualifications. Moreover, while the low pay rate in Thailand is marginally higher for men than for women, in Viet Nam women are significantly more likely to be engaged in low-paid work. The male-female gap in the low wage rate reached a two-year peak of 6.5 percentage points in the third quarter 2020. Likewise, informal workers, who are typically lower-skilled and have been highly vulnerable during the crisis due to limited social protection support, tend to be the most at-risk of also being low-paid. In Viet Nam, 30.1 per cent of all informal employees earned low wages in the fourth quarter 2020, representing a year-on-year spike of 9.4 percentage points.

<sup>8</sup> The Gini index is a measure of the distribution of wages (or income) among wage earners (or across the population). A higher Gini index of wages indicates greater inequality, with high-income earners receiving a larger percentage of the total wage bill.

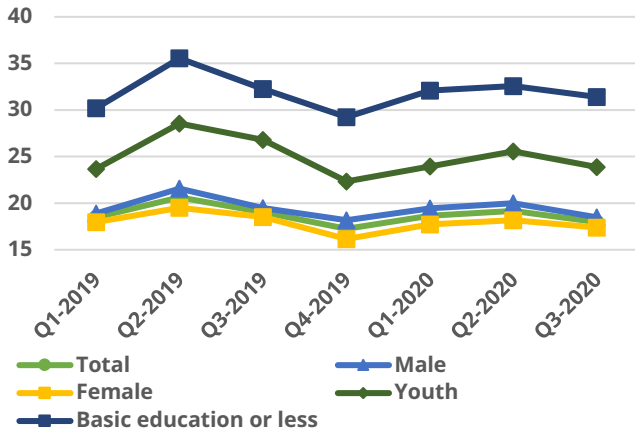
<sup>9</sup> Three sectors – namely manufacturing, construction, and wholesale and retail trade – that collectively employ 61.5 per cent of all wage employees shaped the temporary, third-quarter decline in the Gini index in Viet Nam. In all three sectors, the Gini index decreased year-on-year by 2.3 to 3.7 points.

<sup>10</sup> Low pay rate based on the hourly wage was also considered but not ultimately used in the analysis due to the substantial rise in employed workers reporting fewer (or even zero) hours of work during the COVID-19 pandemic. For further discussion on reduced working hours during the pandemic, see: ILO, 2020a, op. cit.

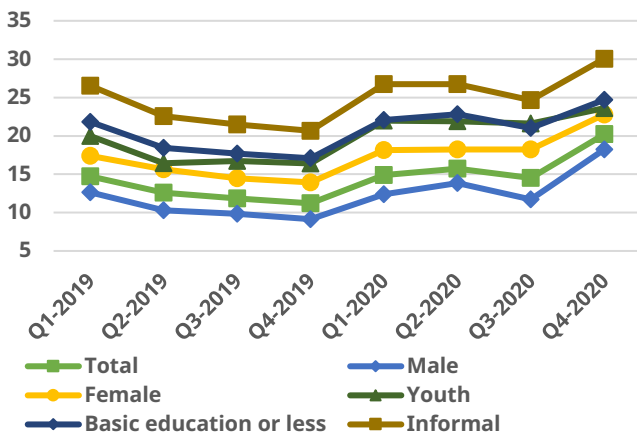
<sup>11</sup> For further discussion, see: ILO, 2020b, op. cit.

► **Figure 5. Low pay rate, Q1-2019 to latest available period (per cent)**

**Panel A. Thailand**



**Panel B. Viet Nam**

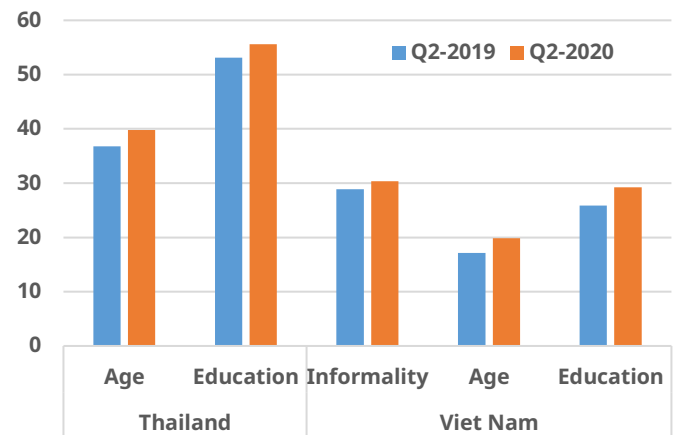


**Note:** Low pay rate is defined as the share of employees earning less than two-thirds the monthly median wage. Youth defined as persons aged 15-24 years. Informal employment is defined as lacking social security benefits and is not included in the Thailand survey data.  
**Source:** Author's estimates based on official labour force survey microdata.

**The COVID-19 pandemic has had an uneven impact on wages of informal workers, young people and workers with lower educational qualifications.** Examining wage gaps between different groups in the labour market further corroborates the disproportionate consequences of the crisis on three important vulnerable groups: informal wage earners, young people and workers with limited schooling. During the midst of the crisis in the second quarter 2020, young wage earners saw their average pay lag further beyond wages of their adult

counterparts (see Figure 6). The adult-youth wage gap in Thailand and Viet Nam increased on a year-on-year basis by 3 percentage points and 2.7 percentage points, respectively, in the second quarter 2020. Similar wage dynamics emerged among employees with no more than a basic education. The education-based pay gap, already sizeable before the onset of the COVID-19 pandemic, increased in Thailand from 53.1 per cent to a two-year peak of 55.6 per cent in the second quarter 2020. In Viet Nam, by comparison, the education wage disparity also grew by 3.4 percentage points to 29.2 per cent. Likewise, for informal wage earners in Viet Nam, the pay gap relative to formal employees edged upward in the second quarter 2020 from 28.9 per cent to 30.4 per cent. These trends are striking yet unsurprising given the concentration of informal workers, youth and workers with less schooling typically employed in jobs towards the bottom of the pay scale.

► **Figure 6. Wage gap by informality, age and education, Thailand and Viet Nam, Q2-2019 and Q2-2020 (per cent)**



**Note:** The informality-based wage gap is measured as the difference in average nominal monthly wages between formal and informal employees, represented as a percentage of the average wage of formal employees. The age-based wage gap is measured as the difference in average nominal monthly wages between adults (ages 25+ years) and youth (ages 15-24 years), represented as a percentage of the average wage of adults. The education-based wage gap is measured as the difference in average nominal monthly wages between employees with an intermediate or tertiary education and employees with a basic education or less, represented as a percentage of the average wage of the higher-educated group. Informal employment is defined as lacking social security benefits and is not included in the Thailand survey data.  
**Source:** Author's estimates based on official labour force survey microdata.

### ► 3. Conclusion and policy considerations

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As developments of COVID-19 vaccines rapidly progress and distribution plans begin to emerge in parts of the Asia-Pacific region and around the world, optimism for an economic rebound in 2021 is growing. In October 2020, the IMF forecast that GDP in Thailand would contract by 7.1 per cent in 2020 before expanding by 4 per cent in 2021.<sup>12</sup> In Viet Nam, the economy is forecast to grow by 6.7 per cent in 2021 following tepid growth of just 1.6 per cent in 2020. A robust recovery, however, remains tentative and will be shaped by the socio-economic policy response and the extent that measures are inclusive, balanced and human-centred.<sup>13</sup>

As highlighted in this note, inequality in the labour markets of Thailand and Viet Nam increased in 2020 during the COVID-19 crisis. The wage distribution became more concentrated among the top wage earners, and the prevalence of low-paid work is trending upwards, reversing declines made in 2019. Moreover, the wage gap expanded along age, education and informality lines during the peak of the crisis. In this regard, several measures can help to counter these inequality dynamics:

- First, wage subsidies targeting low-paid workers would help to protect some of the most vulnerable groups. This could include, for example, support directed to micro, small and medium enterprises to sustain wage payments in hard-hit sectors as part of broader local economic recovery strategies.
- Second, a renewed focus on minimum wage setting and ensuring compliance would help to offset the alarming expansion of low-paid work particularly in Viet Nam and assist those at the bottom of the wage ladder.
- Third, income support for informal workers and enhanced efforts towards transition to formality would also help to offset the adverse consequences of the crisis on low-paid work and expand protections in future crises.
- Finally, efforts towards a balanced recovery could focus on youth and workers with lower educational qualifications. Active labour market policies such as skills training initiatives with a focus on demand-led training in sectors with potential to absorb youth in the recovery and job search assistance for these more vulnerable population groups would help boost prospects for pathways to higher paid employment.

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<sup>12</sup> GDP growth estimates for both Thailand and Viet Nam are based on International Monetary Fund, World Economic Outlook Database, Oct. 2020.

<sup>13</sup> Both countries have recorded comparatively remarkable achievements in containing the spread of COVID-19. The public health situation, nevertheless, has fluctuated. After months of successful containment, a surge in COVID-19 cases in Thailand at the end of 2020 and in January 2021 have mandated new workplace restrictions and closures. In Viet Nam, close monitoring of incoming travellers and detection of illegal immigration along the border are key to prevent a new outbreak during the Vietnamese New Year holiday. See: World Health Organization, *Coronavirus Disease 2019 (COVID-19) Thailand Situation Report*, 10 Jan. 2021; World Health Organization, *Viet Nam Coronavirus Disease 2019 (COVID-19) Situation Report #25*, 7 Jan. 2021.

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