



ASEAN Community 2015: Managing integration for better jobs and shared prosperity



Driving competitiveness and prosperity in Viet Nam through better jobs and deeper ASEAN integration

Viet Nam Country Brief | August 2014

Viet Nam's \$170 billion economy is heavily reliant on close integration with regional and global markets.¹ Foreign trade accounts for 154.9 per cent of GDP (see Table 1), and the country's agriculture, garment and footwear industries are driven by consumer demand around the world. External trade has been instrumental in driving growth, while rapidly reducing extreme poverty and boosting living standards in recent decades.

As a member of the Association of Southeast Asian Nations (ASEAN), 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. With increased trade and investment flows, the pace of structural change to higher value sectors will accelerate. This could allow Viet Nam to compete in global markets based on higher productivity and skills.

However, the economic and job gains from the AEC will not be distributed evenly. If poorly managed, the AEC could be a missed opportunity to harness integration to benefit all women and men and address a number of existing labour market deficits. Despite its formidable economic progress, nearly half of Viet Nam's workers are still employed in agriculture where productivity and incomes are low. Around three in five workers are in vulnerable jobs where working conditions are typically poor. Overall, productivity and wages are relatively low compared to some ASEAN economies such as Malaysia, Singapore and Thailand.

Viet Nam accounts for one in six of ASEAN's total workforce of around 300 million, so the success of ASEAN integration in Viet Nam will have massive implications for the region as a whole. Whether or

not the AEC leads to social progress and greater prosperity in Viet Nam will depend significantly on the labour market policies adopted. To this end, Viet Nam should prioritize a number of key areas: developing a policy framework to lift agricultural productivity and diversify the industrial base; extend coverage of the social protection system; improve the quality of education and training; invest in industrial relations and collective bargaining; and strengthen protection and skills recognition of migrant workers.

Table 1: Selected economic and labour market indicators in Viet Nam

	2011	2012	2013
GDP growth rate (%)	6.2	5.2	5.4
Merchandise trade (% of GDP)	164.7	161.2	154.9
Output per employed person, PPP (constant 2005 international \$)	5 082	5 239	5 440
	Total	Male	Female
Total employment (thousand)	52 208	26 830	25 378
Labour force participation rate (%)	77.5	82.1	73.2
Unemployment rate (%)	2.2	2.1	2.2
Agriculture share of total employment (%)	46.8	45.0	48.8
Vulnerable employment rate (%)	62.7	56.7	69.1
Average monthly wages (US\$)	181	189	169

Note: All labour market indicators cover the population ages 15 and above and reflect 2013 data except average monthly wages (2012); vulnerable employment defined as own account and contributing family workers.

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

The AEC could boost employment in key sectors

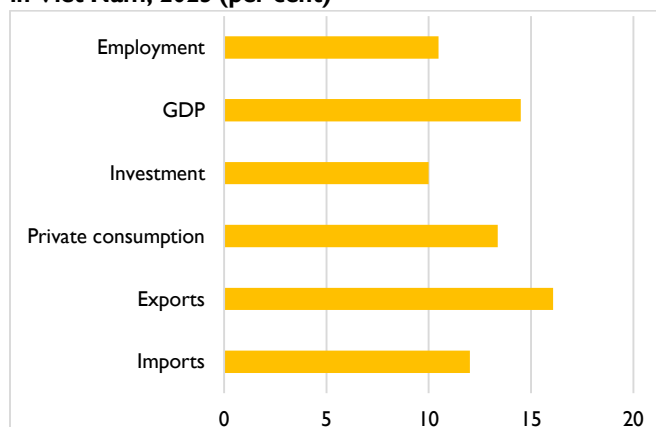
Model simulations indicate that trade policy measures under the AEC could lead to sizeable economic and job gains in Viet Nam, given the country's high reliance on external trade (see Figure 1).² Estimates indicate that Viet Nam's GDP could expand by 14.5 per cent by 2025 under the AEC, compared to a baseline scenario without deeper integration. Simulations also indicate a net increase of 10.5 per cent of employment. However, around two-thirds of these gains would be vulnerable jobs, revealing the

¹ This country brief is based on ADB and ILO: *ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO, 2014). Size of the Viet Nam economy is based on IMF: World Economic Outlook Database (Apr. 2014).

² See ADB and ILO, op. cit., chapter 3.

persistence of poor quality employment despite the overall benefits of deeper integration.

Figure 1: Change in various economic and labour market indicators under the AEC scenario relative to the baseline in Viet Nam, 2025 (per cent)



Source: ADB and ILO, op. cit.

Viet Nam's remarkable economic achievements in recent decades has been driven by rapid structural change as workers have moved out of agriculture and into higher value industry and services. From 1996 to 2013, the share of agricultural employment fell from 70 per cent to 46.8 per cent, while the share in industry increased by 10.6 percentage points to 21.2 per cent.³ Likewise, employment in services expanded by 12.6 percentage points to 32 per cent. Given higher incomes in manufacturing, Viet Nam is striving to diversify and foster its manufacturing base. However, two in three manufacturing jobs are concentrated in just three subsectors: textiles and garments, food processing and metals.

Simulations indicate that the AEC will accelerate current trends in structural change. Industrial employment would increase to 23.5 per cent in 2025, with textiles and apparel accounting for 5.7 per cent of total employment and construction contributing 8 per cent. Services would become the predominant employer (41.3 per cent under the AEC), with notable expansion of the trade and transportation subsector.

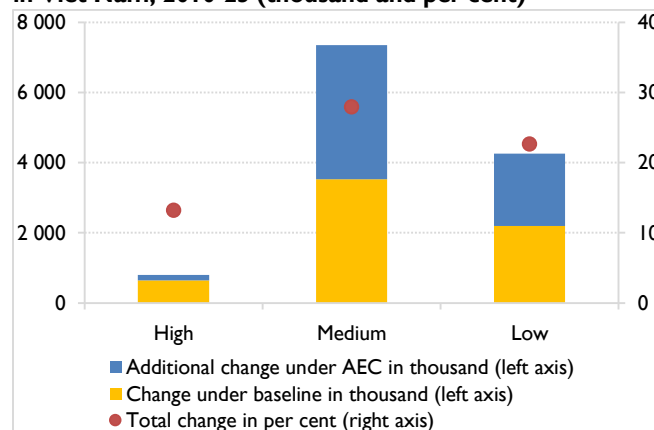
By contrast, the share of agricultural employment would decline to 35.2 per cent in 2025. Nonetheless, agriculture would still account for 22 million jobs under the AEC, a net gain of around 2 million more than under the baseline scenario. In this context, boosting agricultural productivity will be key, in addition to promoting off-farm agribusiness, to further reduce rural poverty.

The notable employment gains in construction and trade and transport under the AEC are important, given that productivity in these sectors are more than double the level in agriculture. However, jobs in these sectors can often be informal with limited legal and social protection, and this points to the need for coordinated labour market policies to enhance working conditions and improve job quality.

Shifting demand for skills calls for improving quality of secondary education and TVET

Structural change under the AEC will drive heightened demand for different skill levels (see Figure 2).⁴ Projections indicate that between 2010 and 2025, demand overall for medium-skill employment will increase the most (27.9 per cent), followed by low-skill employment (22.6 per cent). The impact of trade measures under the AEC would double the growth in low- and medium-skill jobs during that period. In comparison, the growth in high-skill employment is significantly lower at 13.2 per cent.

Figure 2: Estimated change in employment by skill level in Viet Nam, 2010-25 (thousand and per cent)



Source: ADB and ILO, op. cit.

Recent advances in primary and lower secondary education have helped Viet Nam meet the demands of its transitioning economy. These achievements are reflected in a literacy rate of 93.4 per cent and primary net enrolment rate of 98.1 per cent. Moreover, in the Programme for International Student Assessment (PISA), Vietnamese 15-year-olds scored higher than the OECD average in mathematics and science, indicating strong learning outcomes through lower secondary school. These positive trends have resulted partly from initiatives to increase access to basic education especially among ethnic minorities and girls in disadvantaged regions. This has included building new schools and teacher housing,

³ See ADB and ILO, op. cit., referencing the General Statistics Office of Viet Nam: *Labour Force Survey Report* (Hanoi, various years).

⁴ See ADB and ILO, op. cit., chapter 4.

developing classroom materials in ethnic minority languages and introducing school feeding programmes. Other ongoing efforts include reforming curriculum to prioritize group learning and problem-solving.

With sound literacy and basic education, Viet Nam is well placed to meet the looming demand for low-skilled workers in the coming decade. But in order to fill the rapid growth under the AEC in medium-skill employment, efforts to improve the quality and relevance of upper secondary education and technical and vocational education and training (TVET) are critical. With the projected expansion in the garment, construction and transportation sectors, a focus on developing specific vocational competencies along with promoting excellence in science and engineering would help Viet Nam prepare its young people for the near future. In addition, developing core skills such as teamwork and communications would help fill the skills shortages increasingly reported by employers.

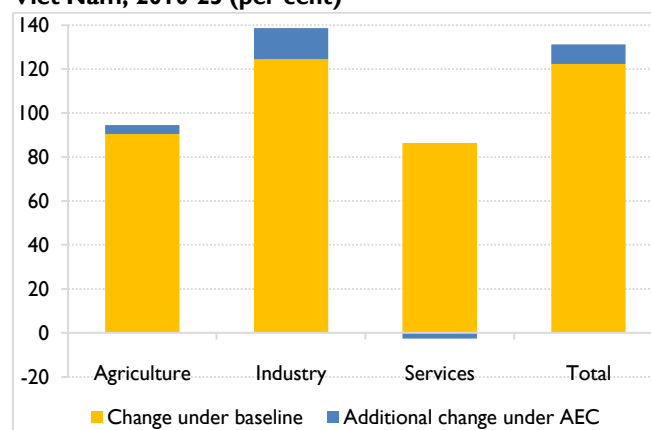
Stronger collective bargaining would help distribute gains from higher productivity

With accelerated structural change under the AEC, coupled with a more skilled workforce, Viet Nam could increasingly compete in global markets based on higher productivity and better working conditions.⁵ Model simulations indicate that labour productivity in Viet Nam could more than double from 2010 to 2025 (see Figure 3). The gains would be highest in the industrial sector (138.6 per cent), but also sizeable in agriculture (94.5 per cent) and services (83.8 per cent).

These positive trends in productivity would create tremendous potential for sustainable wage increases. This is critical for boosting living standards, given that wage workers represented 34.8 per cent of total employment in 2013, up from only 16.8 per cent in 1996. But translating productivity growth into better wages and higher living standards requires strong wage-setting institutions.

In recent years, minimum wage increases were the main driving force behind wage growth in Viet Nam. In 2012, average monthly wages reached 3.8 million dong (or US\$181), and men earned around 10 per cent more than women. This places Viet Nam ahead of Lao PDR (\$119), Cambodia (\$121) and Indonesia (\$174). By comparison, average monthly wages were \$3,547 in Singapore, \$609 in Malaysia, and \$357 in Thailand.

Figure 3: Change in labour productivity under the AEC in Viet Nam, 2010-25 (per cent)



Source: ADB and ILO, op. cit.

In 2013, Viet Nam established a National Wage Council to give trade unions and employers' representatives a direct stake in minimum wage negotiations. Currently, minimum wages are set at the regional level (ranging from \$90 to \$128). While the primary objective of minimum wages is to protect low-paid workers, wages of skilled workers often rise in line with minimum wage increments. Thus, minimum wage increases in Viet Nam have a larger impact on the wage cost faced by enterprises than in countries that rely more on collective bargaining to determine wages of higher-paid workers.

To lessen the dependence on minimum wages as the primary wage-setting mechanism, Viet Nam should strengthen institutions for collective negotiations and dispute resolution. Currently, genuine collective bargaining between representative trade unions and employers in the private sector is practically non-existent. As a result, workers have resorted to wildcat strikes to achieve improvements in wages and working conditions. To this end, balanced and effective collective bargaining based on social dialogue can reduce the potential for a downward spiral of wage competition and improve industrial harmony.

Intra-regional disparities point to continued outward migration

With low wages and poor quality jobs at home, Vietnamese workers are migrating abroad for employment.⁶ The main destinations for Vietnamese workers going abroad each year are to Japan and the Republic of Korea. Nonetheless, during the past five years the proportion going to other ASEAN Member States has generally increased and reached 26 per cent in 2012. A majority are low- and medium-skilled

⁵ See ADB and ILO, op. cit., chapter 5.

⁶ See ADB and ILO, op. cit., chapter 6.

migrant workers in agriculture, construction and manufacturing.

Current AEC policies for managing migration are limited to a few high-skill occupations such as dentists, accountants, and engineers. In total, these occupations account for around one per cent of total employment in Viet Nam. Thus, the AEC's provisions on labour mobility may have limited short-term impacts. In this regard, greater collective action at the regional level should focus on priorities to support low- and medium-skilled migrant workers.

Conclusion

The AEC presents significant opportunities for growth and prosperity in Viet Nam, and the potential to transition towards a high-productivity economy based on skills and innovation. To this end, five priority actions are critical given the expected impact of the AEC on Viet Nam's labour market.

1) Upgrade job quality in agriculture and diversify employment in manufacturing

As outlined in the National Employment Law, Viet Nam should prioritize measures that would boost job quality and productivity in agriculture. This includes investments to improve irrigation and infrastructure to help engage smaller agricultural firms in the supply chain. Also critical will be aligning industrial policies with employment policies to continue growth of the garment industry and nurture other manufacturing sectors with high potential for employment creation and productivity gains. Such measures would be more effective if coupled with initiatives to strengthen employment services and job counselling, public employment programmes for the vulnerable and support for small and medium-sized enterprises.

2) Extend coverage of social protection

In recent years, Viet Nam has made considerable strides in building its social protection system and invests more than 6 per cent of GDP on public social protection expenditures. Given that the AEC will accelerate structural change – creating demand for some jobs while decreasing demand for others – extending the coverage of the national unemployment insurance scheme would help mitigate the adjustment costs of structural transformation and facilitate the movement of workers to more productive sectors.

3) Strengthen skills development institutions

Improving the quality of upper secondary education and TVET requires building on the Government's existing policies and legislations, namely the Human

Resource Development Strategy 2011–2020, Strategy on Education Development 2011–2020, Vocational Training Development Strategy 2011–2020, Scheme on Vocational Training for Rural Labourers up to 2020, and Law on Vocational Training. Focus should also be given to investing in curriculum reform, improving the quality of instruction, and strengthening partnerships with the private sector to ensure students are developing relevant competencies. In addition, establishing a robust national qualifications framework would help recognize skills of jobseekers and provide quality assurances for prospective employers. Enhancing labour market information, analysis and forecasting would help ensure education and training institutions develop the current and future skills needed by business and industry.

4) Invest in collective bargaining to enhance the wage-productivity link and reduce industrial conflict

Realizing the potential for the AEC to upgrade Viet Nam's industrial base will require a modern collective bargaining system that can reduce industrial conflict and create a stable business environment. Collective bargaining would also help ensure the projected productivity gains under the AEC translate into higher wages and better working conditions. To this end, strengthening the capacity of employers' and workers' organizations on negotiating collective agreements is critical, as is improving the dispute resolution system.

5) Improve protection and mutual skills recognition of migrant workers

Stronger engagement from Viet Nam in ASEAN regional mechanisms would accelerate action to safeguard the rights of all migrant workers and expand mutual skills recognition, particularly for key low- and medium-skill occupations such as in construction. Viet Nam should collaborate with regional stakeholders to implement the agreements outlined in the Cebu Declaration on Migrant Workers, establish the national qualifications framework and benchmark it with the forthcoming ASEAN Qualifications Reference Framework to facilitate the cross-border recognition of skills of migrant workers.

The full report "ASEAN Community 2015: Managing integration for better jobs and shared prosperity" can be accessed at: www.ilo.org/asia.

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