

## Jobs for the future – Vietnam case study

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### Key messages

- Current excess supply of staff trained in banking, finance, accounting. High demand for sales and marketing, IT and for unskilled factory labour.
- Trade agreements and investment shift from China create growth in manufacturing jobs, particularly garments and electronics assembly.
- Shift to higher-tech production creates demand for more skilled workforce, as labour costs rise.
- Continued structural shift of employment out of agriculture, but trade agreements create opportunities for export crops (rice, fruit & vegetables). Agriculture is an employment buffer against downturns in industrial employment.
- Despite obstacles to SOE reform, shift from state to private employment likely, particularly foreign invested sectors as domestic firms struggle.
- Greater international mobility likely due to ASEAN freedom of movement.
- Information technology job growth constrained by skills shortage. High hopes for e-commerce potential, particularly business to business.

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# Acknowledgements

The authors would like to thank colleagues at the Development Policies and Research Centre in Hanoi who carried out a literature review to inform this paper. Thanks also to the Quality of Life Promotion Centre in Ho Chi Minh City who carried out research at the Regional Job Placement Centre in Ho Chi Minh City and collated figures from the centre's activities for this research. Thanks to Ms. Đỗ Quỳnh Chi for support in arranging and attending most of the interviews. We are particularly appreciative of all the respondents who participated in interviews for this research that are listed in the back of this report. The report constitutes a case study on Vietnam for a wider ODI project called 'Jobs for the Future'. Funding for this report was provided by the UK Department for International Development under its accountable grant to the Overseas Development Institute.

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# Abbreviations

ASEAN	Association of Southeast Asian Nations
EPC	Engineering, procurement and construction
FDI	Foreign direct investment
FMCG	Fast moving consumer goods
ICT	Information and communications technology
ILO	International Labour Organisation
ILSSA	Institute of Labour Science and Social Affairs
MOLISA	Ministry of Labour, Invalids and Social Affairs
MPI	Ministry of Planning and Investment
ROO	Rules of origin
SOE	State owned enterprise
TPP	Trans Pacific Partnership

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# Introduction

What will be the jobs of the future? Economic integration and the information technology revolution have created major changes and significant uncertainty in the global job market, with unemployment, particularly youth unemployment, an increasing economic and social problem. The aim of this study is to examine potential trends in employment in Vietnam over the next five to ten years. The study has a development perspective, seeking to look particularly at trends effecting lower income households. The study is qualitative and necessarily speculative in nature but, rather than approaching the issue as a grand visioning exercise, the report aims to ground this investigation in the specific realities of a lower middle income country like Vietnam. Ultimately, the aim is practical: to sketch out some potential factors effecting the employment market and contribute to the discussion on how Vietnam and similar countries can help its workforce become better prepared for the job market of the future.

The report starts by setting out the main features of the current employment situation: sectors, occupations and imbalances in demand and supply. The report then identifies some of the main factors, economic, social and technological, that may impact on employment trends in the medium term. A third section comments on changes in labour force supply, particularly young workforce entrants. The last section aims to identify implications from these trends in terms of skills development in Vietnam, reflecting some of the views expressed on how businesses and the education and training system can react to better meet the challenges of future employment.

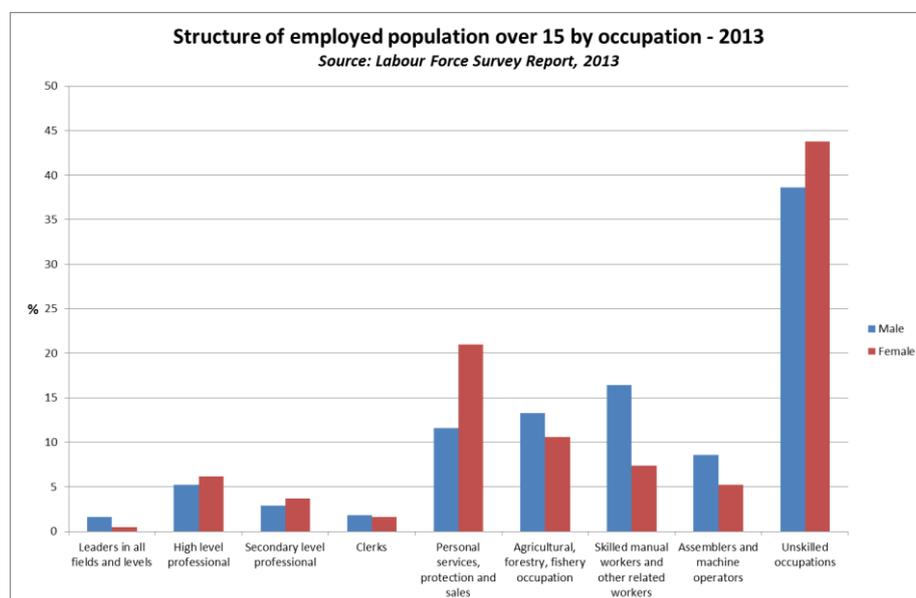
The research is based primarily on a review of grey literature and recent newspaper coverage, with sources listed in the appendix. It also involved a series of interviews with labour market experts, government officials, human resource companies and other businesses and business associations, again listed in the appendix. Most of these interviews were carried out in Hanoi, with a number in Ho Chi Minh City. As part of the research, a small study was commissioned on the Ho Chi Minh City Job Placement Centre and data collected by the centre on job advertisements and job seeker registration during the past three years.

It forms part of a wider study of 'Jobs for the Future' carried out by the Overseas Development Institute. Along with a study on Ghana, the report constitutes one of two country case studies informing this report.

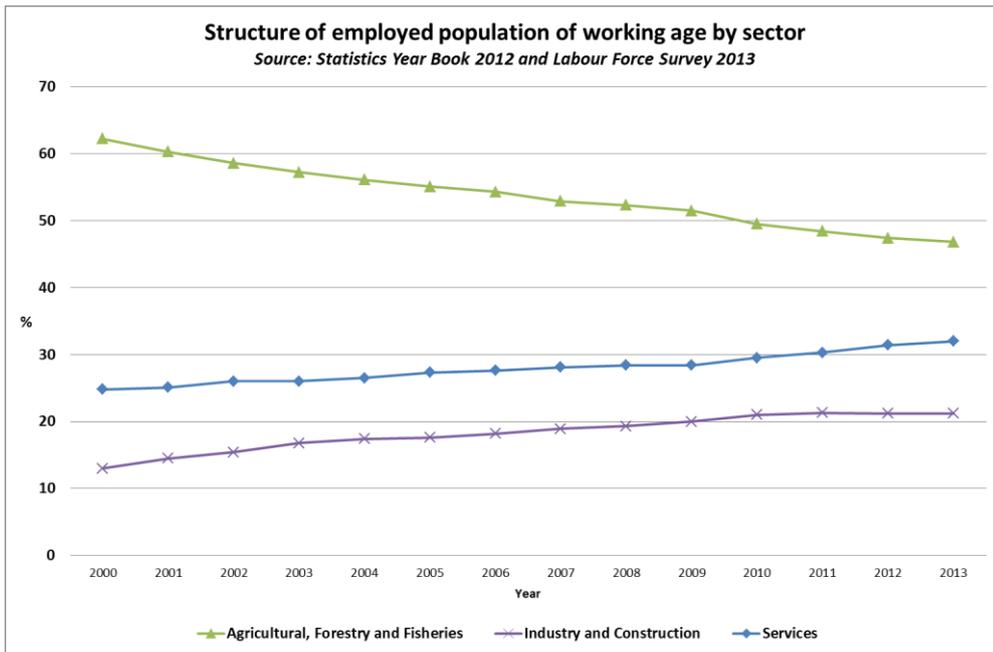
# 1 Current employment in Vietnam

Vietnam's population of working age (15 or above) totalled 52.2 million people in 2013, of which 30% were rural inhabitants and 70% urban. The actual workforce is estimated at 47.5 million in 2013. About half of the labour force (49.5%) are young, between the ages of 15 and 39. Growth in the size of the working population, however, is slowing and the population is now aging fast. The ILO estimates labour force growth between 2015 and 2020 at 0.86% per year (compared with 1.56% per year between 2010 and 2014): the second lowest growth rate in ASEAN.

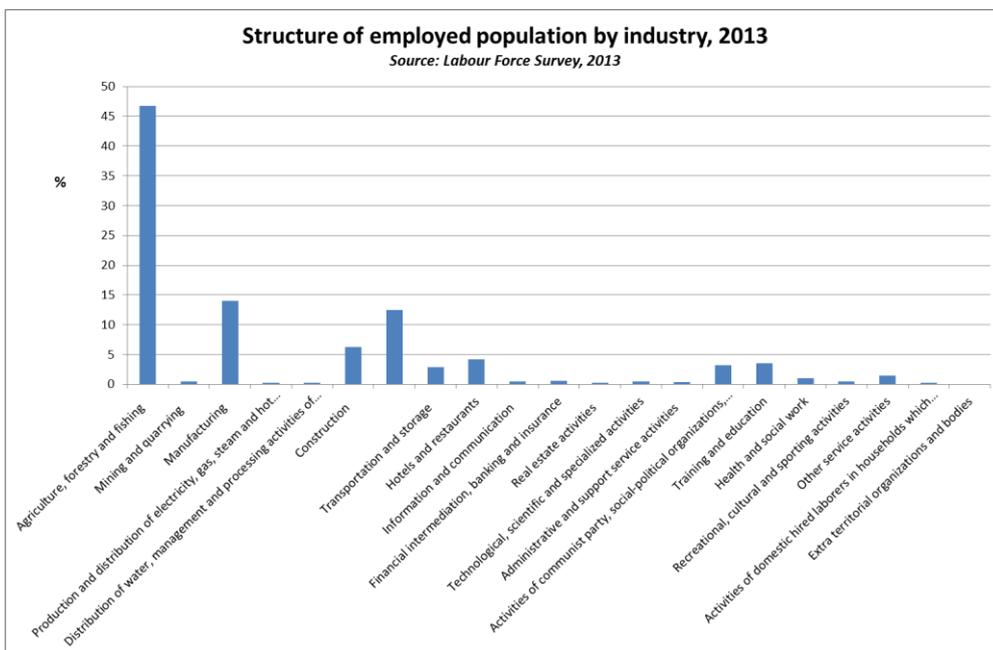
Of the total working age population, 9% are college or university graduates, a further 9% are graduates from secondary vocational or vocational training institutions and 81% are deemed to have no professional or technical qualifications. However, significant differences exist in the definition of 'professional or technical qualification' between the General Statistical Office and the Ministry of Labour, Invalids and Social Affairs. Data on the structure of the workforce shows that 41% are engaged in unskilled occupations.



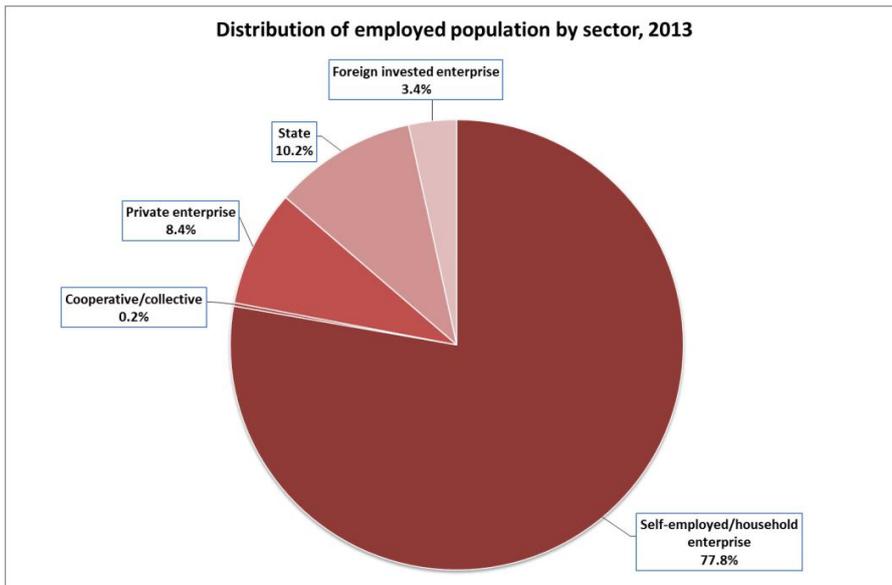
The share of the workforce engaged in agriculture, forestry and fisheries has been reducing steadily, from 62% in 2000 to 47% in 2013.



However, the agriculture sector remains by far the most significant source of employment and livelihoods in the country. In terms of scale, other significant sectors include manufacturing (14% in 2013), retail and wholesale trade (12%), construction (6.2%) and hotels and restaurants (4.2%). The next largest employment sectors are largely public service related: education and training (3.5%) and Party/socio-political organisations (3.2%).



Partly reflecting the predominance of agricultural employment, the vast majority of the workforce are self-employed or engaged in household enterprises (78%), demonstrating high levels of informality in the economy and in employment.



The garments sector is a major employer of unskilled labour in Vietnam – it is labour intensive, requiring low skills and low education levels. Most garments workers have received no vocational training and have had no exposure to an industrial working environment before employment. Factories generally train workers internally after recruitment.

## 1.1 Unemployment

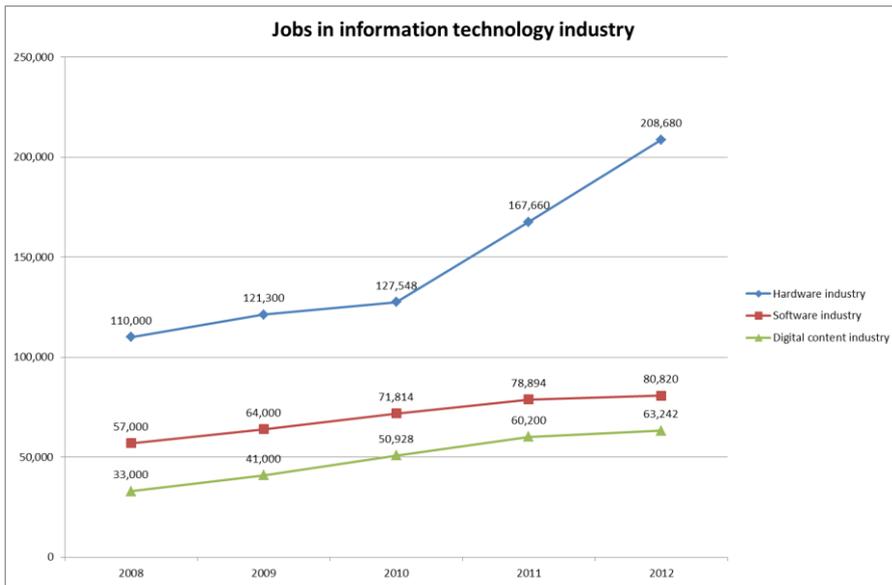
The formal unemployment rate in Vietnam is low: 2.2% of the working age population in 2013 (3.6% in urban areas compared with 1.6% in rural areas). Underemployment is estimated at 2.7%. However, these figures reflect the high levels of informality in the economy and limited access to unemployment insurance, which has only recently been introduced.

Rates of unemployment amongst youth are higher than amongst older working age group: 6.4% for the 15-24 age group in 2013 compared with 1.2% for those aged 25 and over.

Recent survey data also shows that for young people (in the 15-24 age group), unemployment rates are highest amongst those who have earned a college or university degree. This is not the case for the labour force over 24 but does highlight potential problems in transition to employment caused by lack of suitable jobs opportunities, unsuitable or non-job relevant training, or unrealistic youth expectations.

## 1.2 Information and communications technology

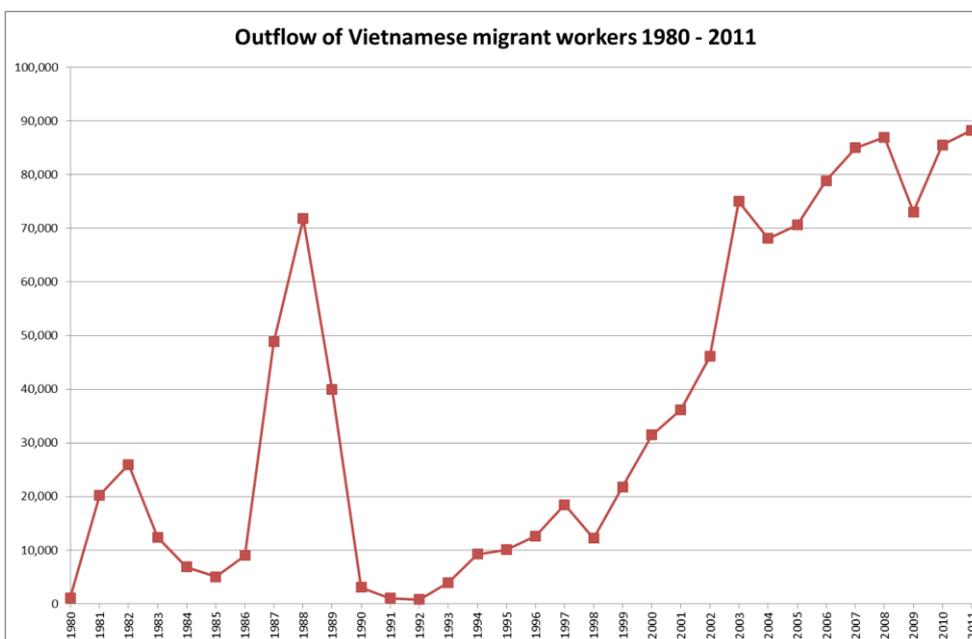
In terms of overall employment, the information technology sector is not a very large source of employment, accounting for less than 1% of the total workforce. However, it has been growing, even throughout the economic downturn since 2008.



Over the period 2010 to 2012, 55,000-58,000 students enrolled on ICT related courses per year – with between 34,000 and 42,000 students graduating annually.

### 1.3 Labour migration

Over the last decade, official statistics have recorded 70,000 to 90,000 labourers leaving Vietnam each year to work overseas. The graph below shows the trend since 1980. The collapse of the Soviet bloc in 1989 had a major impact on labour export to Eastern Europe, with a steady increase in numbers evident since then. Now the main destination countries are Taiwan (44% in 2011), South Korea (17%), Malaysia (11%) and Japan (8%).



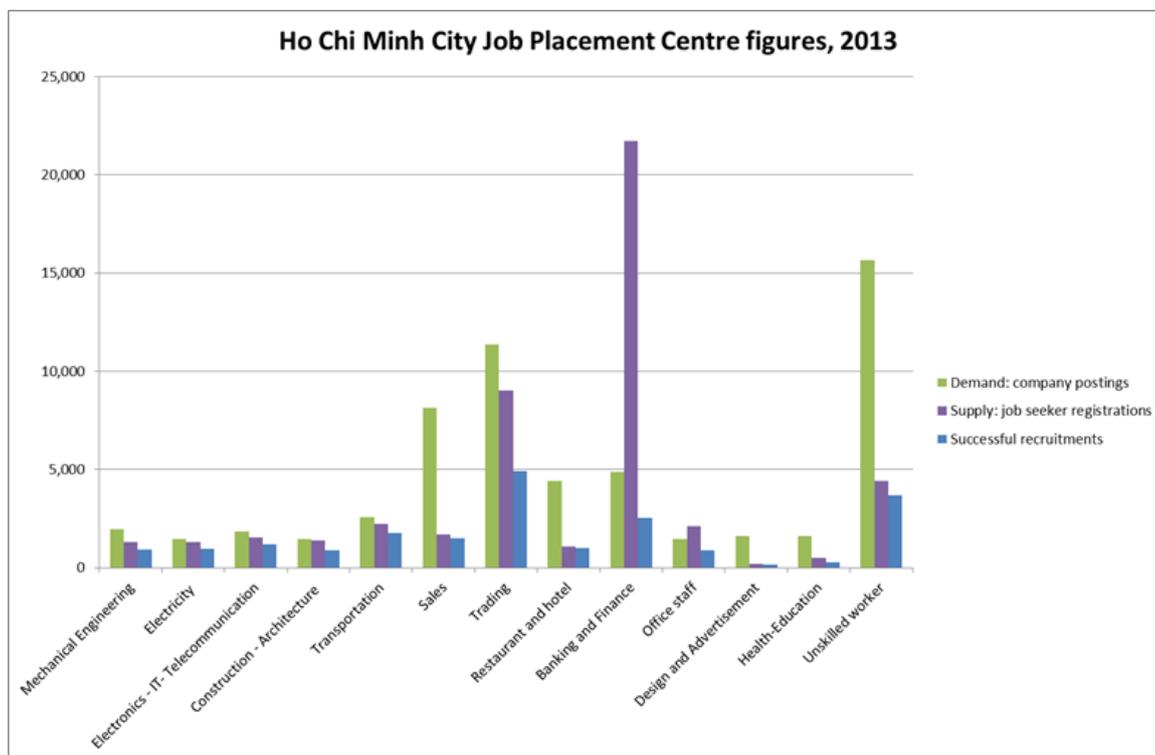
### 1.4 Demand and supply mismatch

According to the Director of the Labour Market Division of the Ministry of Labour, Invalids and Social Affairs, a number of imbalances continue to exist in the labour market. In addition to high levels of informality and underemployment, there are

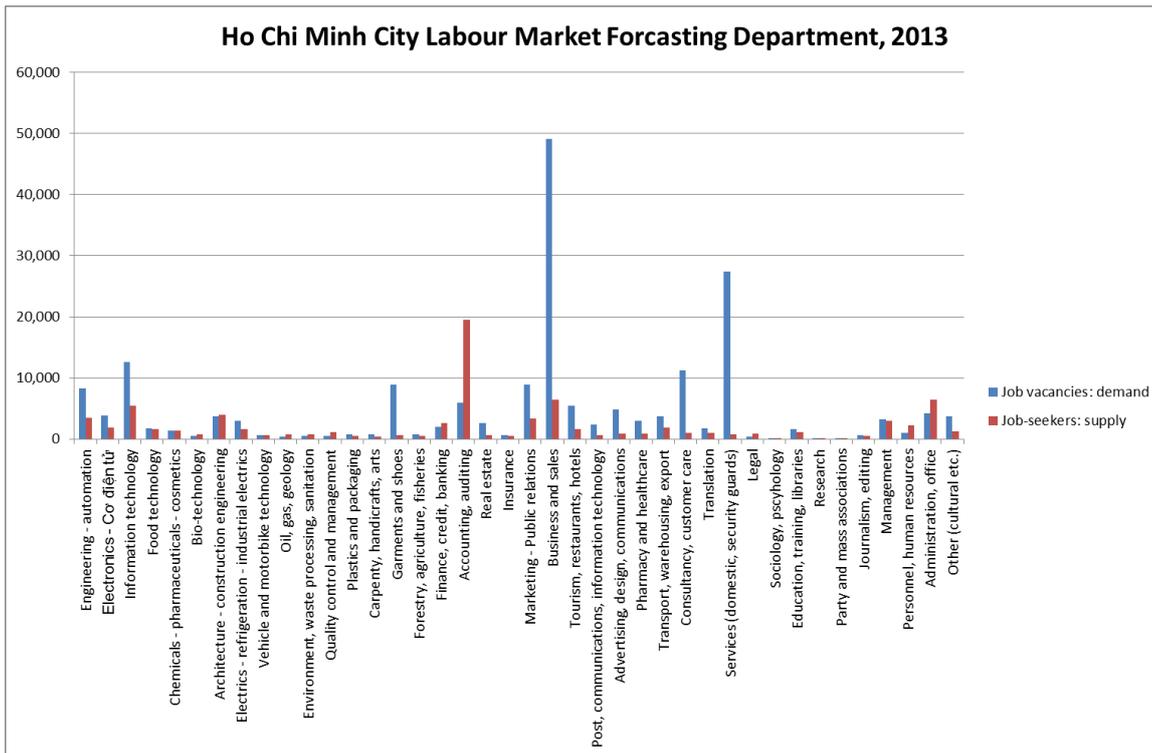
technical skills gaps and also unskilled labour surpluses and shortages in different geographical areas.

The Ho Chi Minh City Job Placement Centre is a state run centre providing employment services to employers and job seekers. It also co-ordinates the government’s unemployment insurance scheme. In 2013, 117,000 job seekers registered with the Centre and 80,000 jobs were advertised by employers. The graph below illustrates the extent to which supply and demand for certain categories of skills are matched. Clearly, there is an overabundance of jobseekers looking for work in the banking and finance sectors, evident also in 2011 and 2012. This reflects the continuing retrenchment of the sector after the financial crisis and continued popularity of banking and finance as a subject of study. There is also a persistent, if smaller, oversupply of jobseekers seeking ‘office’ jobs.

Also striking is the undersupply of unskilled labour, also evident in figures for 2011 and 2012. In terms of skilled employment, the starkest gap is in the sales, trading, restaurant and hotel, design and advertising and health-education sectors.



Though job categorisation criteria are slightly different, composite figures published by the Ho Chi Minh City Labour Market Forecasting Department for 2013 would appear to confirm these observations. Oversupply of job-seekers is clearest in the accounting and auditing, banking and finance and office work categories. Labour shortage is evident in less skilled areas such as domestic service/security guards and garments, but also in more commercially oriented roles such as business and sales, consultancy and customer care, in addition to specific gaps in IT and engineering.



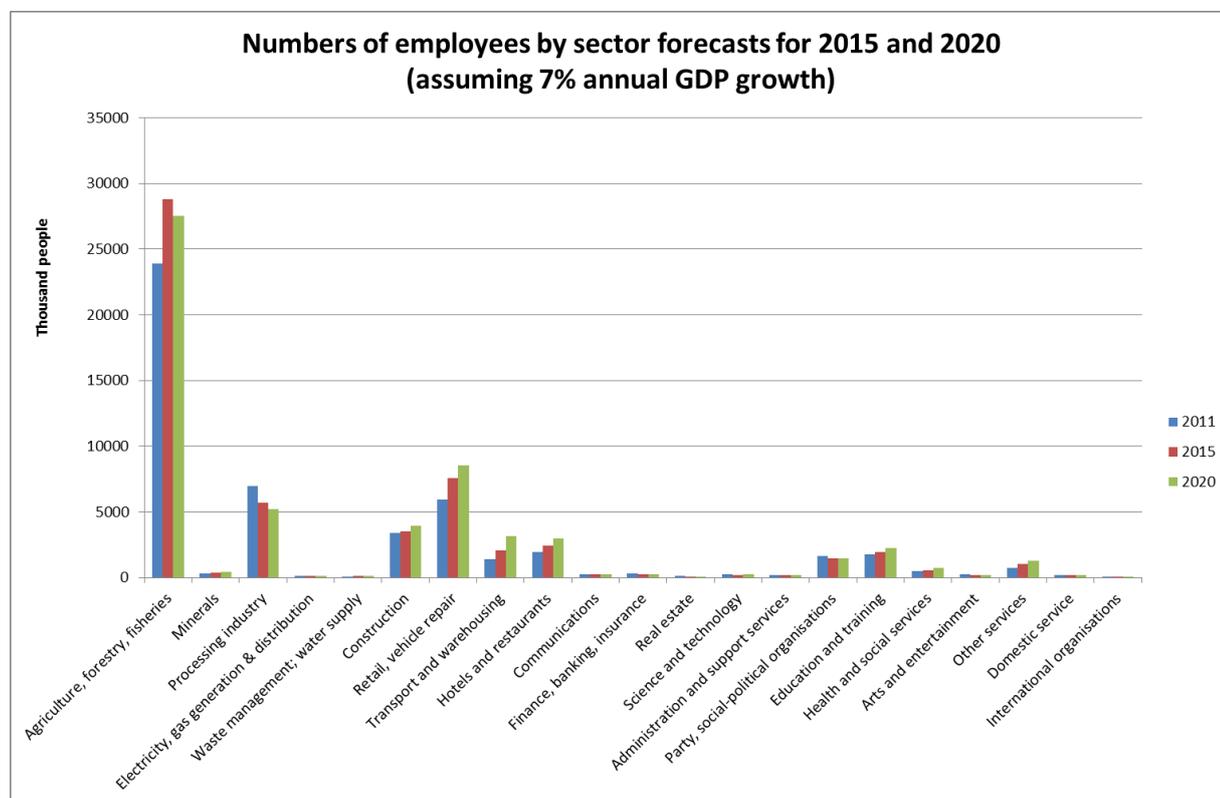
Interviews were carried out with two human resource companies in Hanoi and Ho Chi Minh City –companies which primarily serve foreign invested companies and, to a lesser extent, the domestic banking sector. Within this category of employment, the following job types were mentioned as in particularly short supply:

- Human resource professionals, particularly those with sectoral experience.
- Marketing skills, particularly digital marketing skills.
- Support for e-commerce functions within the banking sector.
- English language skills – particularly in technical disciplines where technical training needs to be provided in English.

Sometimes, specific large projects can create surges in demand for unavailable skills. A large oil refinery project in Thanh Hóa province, northern Vietnam, requiring to recruit 1000 technical staff over the next two years, for example, found particular difficulty in recruiting fire fighters.

# 2 Factors effecting jobs for the future

The National Labour Market Forecasting and Information Centre (Employment Department, Ministry of Labour, Invalids and Social Affairs) models employment trends by sector based on a variety of economic indicators. ‘Vietnam Job Trends 2012’ presents forecasts under three scenarios of employment in 2015 and 2020 given annual GDP growth rate assumptions of 5%, 6% and 7%. The results under a 7% annual growth scenario are presented below:



Based on the 7% estimate, the largest absolute increase in jobs between 2011 and 2010 is in agriculture, forestry and fisheries (3.7 million), retail and vehicle repair (2.6 million), transport and warehousing (1.7 million) and hotels and restaurants (1 million). The largest fall in employment in absolute terms is forecast to be in processing industries (1.8 million), party and social political organisations (136,000), real estate (56,000) and finance, banking and insurance (52,000).

Apart from annual GDP growth, it is not clear what assumptions have been used to make these predictions. It is interesting, however, that the share of agriculture, forestry and fisheries is expected to remain steady or increase as a proportion of total employment until 2020 under all three scenarios, and that processing industry will decline under all three. Estimates of increases in retail, transport and hotels and

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restaurants demonstrate perhaps the strong employment creation potential of the services sector, while the fall of employment in finance, banking, insurance and real estate reflects continued impact of the burst bubble of growth in these sectors prior to 2008.

This research does not aim to comment on such quantitative employment forecasts but will examine rather some of the qualitative factors likely to impact on employment trends that have been highlighted in literature, interviews and newspapers.

## 2.1 Trade agreements and economic integration

The continued process of global economic integration is likely to have a significant impact on job trends in Vietnam. Specific trade agreements include establishment of the ASEAN Economic Community with effect from the end of 2015, current negotiation of the Trans Pacific Partnership between 12 Pacific rim countries and a potential free trade agreement with the European Union from 2018. Potential job impacts are likely to be felt through three avenues:

### 2.1.1 Free movement of labour

Establishment of the ASEAN Economic Community, which takes with effect from the end of 2015, will allow for the free movement of labour between ASEAN countries. This includes provisions for mutual recognition of qualifications in 8 key occupations<sup>1</sup>, aimed at facilitating mobility, particularly of skilled labour.

Free movement may lead to an influx of skilled labour from other ASEAN countries in sectors where there is a skills shortage in Vietnam. However, different languages and other barriers such as local regulation, lack of information etc. may limit the impact of these agreements (Rynhart and Chang). Perhaps a more likely impact is brain drain of skilled Vietnamese labour seeking higher wage employment in other ASEAN countries. This may be accentuated by government policies in other ASEAN countries such as Singapore to attract skilled labour.

### 2.1.2 Export opportunities.

If signed, the Trans Pacific Partnership is expected to create significant opportunities for Vietnam in certain export fields where Vietnam enjoys a comparative advantage. The most prominent of these are the garments and shoes sectors which are believed to be well placed to benefit significantly from the agreement. Currently, the 11 other TPP countries account for 60% of Vietnam's garment and textile exports. The TPP is expected to allow import of garments and textiles to TPP countries with 0% tariffs. However, there are also details to be negotiated which will seriously affect the impact of the agreement on Vietnam's garment sector – particularly the Rules of Origin (ROO), as 70% of threads and other raw materials for Vietnam's garment industry are currently imported, primarily from China and South Korea. Already, however, it appears, that foreign investment in the garments sector in Vietnam is increasing, partly in preparation for the TPP and partly due to increased costs in China (see section 3.2.1 below). The Đồng Nai Industrial Zone Management Board reported that 54 foreign investors decided to increase production scale in 2013, including many garment factories such as Texhong Nhon Trach and the Korean company Hyosung (VietnamNet, 7<sup>th</sup> November 2013). Similar surges in investment have been reported by Ho Chi Minh City, Nam Định and Quảng Ninh provinces.

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<sup>1</sup> Accounting, architecture, dentistry, engineering, medical practice, nursing, surveying and tourism.

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Electronics is another sector which may benefit, creating large numbers of relatively low skilled assembly jobs. Some agricultural crops, such as rice, fruit, flowers and vegetable exports may benefit from greater export opportunities to countries such as Japan.

### **2.1.3 Intensified competition for some domestic oriented industries.**

Potential tariff reductions under the Trans Pacific Partnership may increase import competition in some less regionally competitive sectors. In agriculture, for example, livestock rearing and poultry are expected to be impacted adversely from overseas competition.

A number of commentators have highlighted recent expansion of foreign firms in the retail sector. Metro supermarkets, Vietnam's second largest wholesale supermarket chain, has been purchased by Thai consumer goods giant BJC. Metro currently stocks up to 80% Vietnamese goods but it is expected that the chain may now start to source more Thai goods, impacting indirectly on sales of less competitive Vietnamese goods – e.g. beef and chicken. Central Group is another large Thai retail firm that runs Big C supermarkets in Vietnam. This trend of expanded foreign ownership in the retail sector will not only change employment trends in the sector itself, with greater concentration of jobs in large scale supermarkets, but also impact on sectors which supply the supermarkets.

One recruitment agency in Ho Chi Minh City, which focuses primarily on foreign invested companies, commented that fast moving consumer goods (FMCG) and retail were prominent areas of economic and employment growth, with related strong growth in the consumer finance sector. This may again reflect the trend towards greater direct involvement of international firms in retail and marketing.

## **2.2 Foreign investment**

Since the financial crisis began in 2008, the foreign invested sector has grown to become the most dynamic force in economic growth and employment. Company interviews carried out as part of a Manpower/Institute of Labour Science and Social Affairs (ILSSA) survey of 100 foreign invested companies in the automobile, fast moving consumer goods and electronics sectors in 2013 identified a number of factors that are currently contributing to Vietnam's attractiveness as a destination for foreign investment. These included: political stability, a large domestic market and declining competition from the domestic private sector due to problems with access to credit. Indeed in addition to growth in foreign investment there appears to be a shift in balance from the domestic private sector to the foreign invested sector as the domestic sector suffers from problems in accessing finance from local banks, greater foreign competition and relative difficulties in accessing technology and markets.

A total of US\$20.3 billion in foreign direct investment was registered in 2014, including 1558 new projects. Disbursement of foreign investment increased by 7.4% to reach US\$12.3 billion by mid-December. Manufacturing and processing accounted for 72% of this investment, followed by real estate (13%) and construction (5%). South Korea is the largest foreign investor (36%), followed by Hong Kong (15%), Singapore (14%) and Japan (10%).

### **2.2.1 Trends in multinational investment in China.**

A trend has also started to develop of multinational manufacturing companies shifting investment away from China to other nearby markets to avoid various risks and costs associated with over-dependence on China. The Vietnam Leather, Footwear and Handbag Association reported a clear shift in orders from China to

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Vietnam in the first half of 2014, citing companies such as Nike, Adidas and Puma as examples (Đất Việt; 28.7.14). Part of the reason for this are tax incentives offered by Vietnam and preferential trade terms offered to Vietnam by the EU, but a key factor also is higher labour costs and increasing environmental charges in China, as well as a perceived risk of overdependence on production in one country.

Electronics is the other important sector in which investment has been shifting from China to Vietnam on a large scale. Samsung, increased its initial 2009 investment in a Bắc Ninh province smart phone production facility to US\$1.5 billion in 2013 and in March 2014 opened a US\$2 billion factory in Thái Nguyên province. A second factory in Thái Nguyên, approved in November 2014, will increase total employment locally to 100,000 people. One South Korean analyst estimates that Samsung may soon be making 80% of its handsets in Vietnam (Bloomberg December 12<sup>th</sup> 2013). Lower labour costs than China are a key factor behind this trend: “The base monthly salary for a factory worker in Beijing was \$466, compared with \$145 in Hanoi, according to a 2012 survey of pay by the Japan External Trade Organisation” (Bloomberg December 12<sup>th</sup> 2013). Other electronics companies shifting investment from China to Vietnam include Nokia, LG and Intel.

A representative of a human resource company in Ho Chi Minh City mentioned a shift in multi-national investment from China to Vietnam as a result of both higher labour costs and fear of intellectual property theft. The trend is noticeable in electronics and other high tech industries, consumer goods and packaging.

### **2.2.2 Trends in Chinese investment.**

Investment by Hong Kong and Chinese firms has increased significantly in 2014, particularly in the textile and garments sectors (Thanh Nien news June 11<sup>th</sup> 2014). Some commentators believe this is also related to the TPP negotiations, with Chinese companies also seeking to benefit from the reduced tariffs that Vietnam based exporters may enjoy.

Many Chinese investment projects, particularly EPC – Engineering, procurement and construction contracts - however, have involved recruitment of large numbers of Chinese labourers in seeming contravention of Vietnamese immigration regulations. Examples include the Nhân Cơ and Tân Rai Bauxite projects in the Central Highlands, some forestry projects on the border and a number of large Taiwanese projects that have also hired Chinese labourers, such as the Formosa steel plant project in Hà Tĩnh where it is reported that up to 5000 Chinese labourers are employed. The Chengda Engineering Company in Trà Vinh province employed 2100 Chinese workers despite offers from the local labour department to assist with recruitment.

## **2.3 Rising labour costs**

Vietnam’s industrial growth has to date been based on comparatively abundant, low cost labour supply. This is still basically the case, with companies like Samsung using the low wage cost argument to justify investment in Vietnam rather than in South Korea despite lower skills and a more poorly disciplined workforce.

The Manpower Vietnam/Institute of Labour Sciences and Social Affairs survey showed that, while 70% of companies interviewed plan to upgrade production technology in the next five years, in terms of generic work skills, most still place greatest priority on work attitude (quality consciousness and dependability/promptness etc.) rather than technical skills, indicating that they are still focusing on low cost–low skills model. Likewise, in terms of industry specific skills, companies place higher value on awareness of health and safety

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requirements and machine operation, rather than adaptability, innovation and technical skills.

Nevertheless, the supply of labour in many areas is now increasingly constrained and labour costs are starting to rise. It will be difficult for Vietnam to continue to rely upon an advantage in terms of cheap labour costs. This is evident in the fact that companies seeking lower cost labour are increasingly relocating to more distant and remote provinces. This trend is clearest amongst smaller garments companies, but is also evident in the electronics and footwear sectors. The trend is encouraged by policy incentives offered by provincial governments in provinces such as Thai Binh in the north and Long An in the south, seeking to attract investment away from the more traditionally industrialised provinces. Cost of living in these provinces is also lower than in metropolitan areas which also attracts workers. Garment companies in industrial zones outside Ho Chi Minh City in provinces such as Bình Dương and Đồng Nai are increasingly looking to distant provinces to recruit workers.

In some cases, rising labour costs are contributing towards greater investment in higher technology production. For example, one respondent reported that investment by Minh Long Ceramics, one of the largest ceramics companies in Vietnam, in high technology production was driven primarily by human resource issues, namely cost of labour which was also often unreliable, ill-disciplined and demanding.

In the garments sector too, companies are starting to redesign production lines and focus on higher skilled labour partly in response to rising labour costs and labour shortage. An informant from the garments sector mentioned introduction of the 'Five S' quality management system from Japan as a clear trend in Vietnam's garment factories – which is placing higher requirements on staff in terms of skills and efficiency. Workers in the garment sector increasingly have to be competent in multiple tasks, acting as floating operators in the workplace, with requirements to operate more advanced machinery.

Workforce and skills shortage have also increased company attention to staff retention and the costs of high-turnover. A representative of the ILO/IFC Better Work programme focusing on the garment sector in Vietnam reported that companies have become much more interested and active in terms of compliance with national and international labour standards, partly as a means of reducing the costs of labour turnover.

Some large manufacturing companies have found it difficult to recruit technical staff as potential recruits compare salaries offered unfavourably with potential income from self-employment or small business. Nokia sought to recruit 10,000 staff for its feature phone factory in Bắc Ninh in 2013. Market research carried out in preparation for the recruitment showed that an electrician installing or repairing air-conditioning could earn VND 7-8 million per month in a small business – a level which Nokia found it hard to match.

Companies therefore have needed to focus on slightly higher end products enabling them to pay high salaries and offer other benefits to employees such as housing and medical facilities. An often highlighted example of this is Samsung, which increased its initial 2009 investment in a Bắc Ninh smart phone production facility to US\$1.5 billion in 2013. The Samsung 'technology town' employs 38,256 staff, including 8,300 men and over 29,900 women – and provides transport to work, generous maternity facilities etc. Large scale, more comprehensive investments of this type constitute a trend in employment opportunities, with large Samsung

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investments also in Thái Nguyên province and in Ho Chi Minh City (Thời báo kinh tế Sài Gòn, 22<sup>nd</sup> March 2014).

## 2.4 Equitisation of state owned enterprises

State owned enterprises are typically thought to suffer from low productivity and poor management, often overstaffed with underemployed people. Recruitment is believed to be influenced by nepotism and corruption.

Overall, the government has set a target to reduce the number of state owned enterprises (SOEs) from 1200 (in February 2014) to 300 in 2020. Severe problems at a number of large, state owned enterprises have resulted in restructuring plans under which large numbers of underutilised staff and workers will need to be released. The state owned ship building company Vinashin (now renamed SBIC) estimates that it will need to shed 14,000 jobs. Vietnam Post and Telecommunications foresees redundancy for 5000 staff.

Equitisation in principle is expected to result in initial lay-offs of superfluous or inefficient staff, with an initially negative impact on overall employment. Entry of private capital, technology and management, however, is then expected to increase efficiency, productivity and growth, resulting in the generation of new, more sustainable jobs. In practice, the impact of equitisation on jobs is influenced by a variety of factors:

- The degree of equitisation. If only a minority share in ownership is offered to private investors, the likelihood of efficiency improvements is reduced. Deeper equitisation may result in new board representation, new management, staff retrenchment, changes in business practice, and increased investment. In practice, one expert respondent asserted that this type of deeper equitisation had been very rare in practice.
- The transparency of equitisation. A number of equitisation cases carried out without sufficient transparency have led to deep internal divisions and infighting, in turn leading to the demise of the whole enterprise. Cases include the Hữu Nghị and Dân Chủ hotels in Hanoi.

However, some examples of deeper equitisation exist which show much more positive results. The Rạng Đông Light Source and Vacuum Flask company, for example, was initially equitised in 2004 leaving a 16% government share but has now been fully sold. The company has invested in new technology for example to manufacture LED light bulbs, enabling the company to compete with China and enter new export markets. Rạng Đông has expanded its workforce.

## 2.5 Minimum wage regulation

In general, Vietnam's employment protection legislation is not deemed to be highly restrictive or to have a highly distortive impact on the job market, partly because of high levels of informality (World Bank, November 2013). However, amongst the factors effecting increasing wage levels in Vietnam is the role of government minimum wage regulation. Under the revised Labour Code of 2012, a National Wages Council, comprising government, employers (represented by Vietnam Chamber of Commerce and Industry) and employees (represented by the General Confederation of Labour) recommends changes to minimum wage levels. Rising incidence of labour disputes over salaries, particularly in the foreign invested sector and during the crisis of 2008, has increased pressure in this negotiation process. In 2014, the Council recommended a minimum wage increase of 15% - lower than the

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2013 increase of 17.5% but higher than the rate of inflation, which stood at 6%. The impact of this regulation is particularly significant in Vietnam for a number of reasons:

- The minimum wage rate is commonly used as a base or reference rate for all salaries in a company. The rate of increase therefore tends to effect all salaries rather than just those of the lowest paid workers.
- The minimum wage increase comes into effect immediately, which can create significant problems for employers who have accepted orders based on existing cost structures. While the increase may be reasonable to employers, the timing can result in losses for companies working on tight profit margins.

## 2.6 International Relations

Political stability is often cited as an important factor underlying Vietnam's strong economic growth and related job creation. However, particularly given the importance of global trade to Vietnam's economy, international political events do have the potential to impact on economic relations and employment. In Vietnam, the relationship with China is economically vital but sensitive politically, due partly to disputes over the South China Sea Spratly and Paracel Island groups. The deployment of a Chinese oil rig in waters claimed by Vietnam near to the Paracel Islands in May 2014 led to protests and indeed violent attacks on Chinese and other Asian businesses in Vietnam, with loss of life reported in the Formosa Steel plant in Hà Tĩnh province and an exodus of Chinese nationals en masse fearing reprisals.

There were a number of immediate economic repercussions: international tourist cancellations rose from 10% in May-June to 30% by June-July. Export of agriculture and seafood products was suspended and the supply of thread from China for the textile industry in Vietnam was reportedly cut. Foreign invested businesses in the environs of Ho Chi Minh City suspended operations. The incident was calculated by Dr. Nguyễn Đức Thành of the National Economics University to have cost the Vietnamese economy about US\$1.5 billion (or 0.7% of GDP). However, the impact has been short term and most believe that tensions surrounding Vietnam's relationship with China do not pose a long term threat due to the diversity of Vietnam's global trade and investment relations. However, the South China Sea will remain a source of tension and instability in the long term with clear potential to disrupt economic growth and job creation in a number of important sectors.

## 2.7 Agriculture as an employment buffer

The long term trend of reduction of agricultural jobs is likely to continue because of low overall labour productivity and low incomes from agriculture. Attempts to increase productivity through horizontal linkages between small farmers and vertical linkages with input suppliers and output markets (for example the 'large fields programme') have achieved some limited success but appear still to depend on state subsidies. Reduction in the percentage of agricultural employment is a long term trend difficult to reverse. One interview respondent also mentioned that investment in more capital intensive production methods is reducing employment demand in some agricultural sub-sectors such as aquaculture.

The agriculture sector does, however, continue to play a buffer role for employment in periods of economic downturn or uncertainty. When employment opportunities in manufacturing and services tighten, migrant workers return to their home area and farming occupation. The Vietnam Labour Market Bulletin for the second

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quarter of 2014 reported a reduction in the number of people in work by 25,000 (0.5%) between quarter 4, 2013 and quarter 1 2014. The reduction was clearest in the construction, processing industries, retail and personal services sector. This was balanced by an increase of 814,000 workers in agriculture, forestry and fisheries as a result of “reduction in economic growth and reverse labour migration”. As discussed above, free trade agreements such as the Trans Pacific Partnership may also increase export opportunities for agricultural products in which Vietnam has a comparative advantage, such as rice and fruit and vegetables, with consequent impacts on employment demand.

## 2.8 The information technology revolution

As discussed above, the IT sector itself constitutes a very small proportion of total employment. Vietnam is currently prominent in the electronic sector but primarily in terms of assembly of electronics products. Research and development in electronics and information technology is limited – primarily because of human resources limitations.

Intel’s US\$1 billion investment in a chip testing and assembly plant in Ho Chi Minh City in 2010 became a well-known case where skills shortages appeared initially to jeopardise the project. Intel is reported to have spent \$7 million sending 73 students on a study abroad programme for staff at Oregon State University. Now, however, the company claims that it will be producing 80% of its chips in Vietnam by 2015, in a factory which currently employs 1000 staff. Overall, there is a severe shortage of skilled IT professionals in Vietnam. Job categories in strong demand include programmer, hardware engineer, network engineer, web designer and internet security officer (Vietnam News; June 7<sup>th</sup> 2013). Conversely, university admissions in the IT field have been dropping due to the perception of low salary prospects in the sector compared with the hoped for high salaries in finance and banking.

The integrated circuit industry provides a case in point. Mr. Ngô Đức Hoàng, General Secretary of the Ho Chi Minh City Semi-conductor Integrated Circuit Association, reported that member companies were currently looking for large numbers of staff (Renesas 200 people per year, eSilicon 100 people per year, Applied Micro 100 per year) while the Integrated Circuit Design Research and Education Centre (ICDREC) at Vietnam National University was only training 100 graduate technicians and 5 managers per year (Diễn Đàn Doanh Nhân, 18<sup>th</sup> November 2013).

There have been some successful cases in the IT sector which are developing new overseas markets and creating jobs. MK Group, for example, is Vietnam’s leading digital card manufacturer, developing cards for the banking and telecommunications sectors, as well as for other commercial users like hotels and government clients, such as for driving licences. MK is also developing markets in Southeast Asia and Africa. The company employs 450 staff, including 300 workers in a factory in Hanoi, but finds difficulty in recruiting sufficiently qualified and experienced software engineers and senior sales staff.

Human resource staff at IBM in Hanoi commented that Vietnam was still a small market for the company, which is involved primarily in sales and distribution of hardware and software. IBM employs 200 staff in Vietnam including IT and web developers. The market in IT skills is still very limited and competitive. As a result, IBM sponsors a programme with a number of leading technical universities in

Vietnam to support curriculum development and professional development of teaching staff.

E-commerce was mentioned by some respondents as a growing sector in Vietnam, with retail sites such as [www.vatgia.com](http://www.vatgia.com) gaining popularity with higher income consumers in the main cities. There is much interest in the potential of business-to-business e-commerce: Vietnam has 200,000 companies registered with the internet trading site Alibaba.com – one of the highest numbers in the world. The government is also encouraging companies to engage in e-commerce, with the Ministry of Planning and Investment setting a target for 80% of all companies to be operating an active website by 2015.

Strong demand is also reported by companies to recruit staff who are adept at e-commerce and marketing. According to statistics from recruitment website Vietnamwork.com, 4.9% of openings currently advertised are for positions in e-commerce (compared with 17.5% for general sales, 12.5% for marketing and 7.8% for accounting and auditing). However, such positions are difficult to fill, requiring a combination of marketing and sales knowledge, foreign language skill and IT know-how.

Overall, e-commerce remains a small part of the overall economy. While internet use is widespread, depth of usage for commercial purposes remains low. Reasons for this include issues of trust in new technology and also under-developed digital and physical infrastructure. Customers want to see and handle goods before buying. Delivery systems remain weak. Levels of formal financial inclusion also remain relatively low. Mobile money systems have been slow to develop – with the launch of MoMo e-wallet only in 2013.

## 2.9 High employment elasticity in service industries

Measured in terms of jobs created per percentage increase in GDP, the employment elasticity of growth in the service sector in Vietnam has been higher than that of both agriculture, forestry and fisheries and industry and construction. During the period of economic instability between 2007 and 2011, the service sector continued to generate jobs and at a higher rate than the other two sectors:

	2007	2009	2010	2011	2012 (est.)
Agriculture, forestry and fisheries	-1.84%	-3.28%	1.77%	-0.09%	0.89%
Industry and construction	0.94%	3.02%	0.22%	0.48%	-0.18%
Services	3.29%	1.72%	0.16%	0.64%	0.62%
Total	0.54%	0.63%	0.45%	0.29%	0.52%

Some service sectors have seen significant employment growth which is likely to continue. These include tourism, pre-school education and the health sector.

An estimated 1,899,000 people were employed directly in tourism in 2013 (3.7% of total employment), or 4,071,500 including indirect employment effects (7.9%) [World Travel and Tourism Council, 2014]. The rate of growth of employment in travel and tourism in Vietnam in 2014 (5.4%) is forecast to be one of the highest in Southeast Asia – after Burma and Cambodia – though long term (2014-24), the World Travel and Tourism Council forecasts relatively low levels of growth in employment (1.5% per year), behind nearly all Southeast Asian nations.

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One modern and fast-growing service occupation of particular relevance to lower income households in Vietnam is domestic service. As employment is largely informal, the sector is somewhat invisible but is diverse in character and employs large numbers of women. Domestic work as a major sector of employment arose with the decline of the central planning system, economic reforms and growing disparity in wealth. Nguyễn Thị Nguyệt Minh has identified five categories of domestic workers: live-in maids, live-out, cleaner-cum-junk traders, hospital carers and maids working for expatriates (Minh, 2010). Because of informality, accurate numbers are hard to confirm. The fact that 600 private agencies specialising partly or wholly in recruitment of domestic staff in Hanoi alone reflects the scale of the sector. The Ministry of Culture estimated that 80,000 out of 640,000 households in central Hanoi employed live-in domestic staff alone, with another 200,000 trying to recruit. The number of live-out staff is clearly much higher. With hospitals not employing nursing staff to take care of patients, an informal cadre of hospital carers, both men and women, has sprung up, some going on to take care of patients after they have returned home.

## 2.10 Green growth

So will jobs of the future in Vietnam be ‘green jobs’? Vietnam approved a “green growth strategy for the period 2011-2020 with a vision to 2050” in September 2012. None of the employment experts and commentators interviewed for this research saw particular potential for creation of new ‘green jobs’ in Vietnam in the near future fearing either that the strategy was good on paper but hard to operationalise or believing that in reality a green growth strategy would necessarily involve accepting a lower rate of GDP growth with more limited job creation.

To give an example, the World Bank estimated huge potential for wind power generation in Vietnam in 2001: 513,000 MegaWatts. And a total of 48 wind power projects have been registered for investment, with expected maximum output of 4800 MegaWatts. However, by 2011 only 1 wind power project was connected to the grid, many off-grid projects have ceased to operate due to poor maintenance and the cost of electricity generation has been high, with grid feed-in tariffs insufficient to cover the costs of wind generation.

What is a green job? Vietnam has for decades supported a fully commercial, small scale, largely informal recycling industry with no government subsidy, with whole villages such as Triều Khúc near Hanoi, engaged in plastics recycling and manufacture of products from recycled plastics. In the current economic climate, however, it seems unlikely that a new wave of green jobs created through government or donor subsidy is likely to impact significantly on future employment trends in Vietnam.

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## 3 Changes in the workforce

The aim of this study is to examine future trends in Vietnam's job market rather than to assess in detail the features of its workforce. However, interviews with companies and experts carried out as part of the research also touched on particular trends in the workforce relevant to adaptation of the workforce to future employment trends.

Despite headline figures mentioned above that 81% of the Vietnamese workforce have no technical or professional qualifications, the country has scored major achievements in expanding and increasing educational achievement both before the Vietnam War and since the 1990s. The World Bank estimates that the percentage of people who completed primary education rose from 10% of those born in 1920 to over 70% of those born in 1960 and 85% of those born in 1988 (Vietnam Development Report 2014). However, levels of completion of secondary and tertiary level education remain low. According to the ILO School to Work Transition Survey carried out with 15 – 29 year olds in 2013, of those who completed school, only 18.6% completed university or professional secondary level, a further 20.3% completed upper secondary school, a further 29.1% completed lower secondary school, leaving 32% who only completed primary school or less (ILO, 2014).

One respondent commented that the generation born in the 1990's (corresponding to the Millennial Generation or Generation Y) were more diverse and differentiated than previous generations as they approach the labour market. The more educated want to work overseas. If not, they seek employment particularly in the foreign invested sector and in the major cities. The distinction between the Millennial and previous generations in Vietnam is perhaps even wider than in many other countries, given that their upbringing also coincided with such major changes in Vietnamese society in the 1990s: the advent of *doi moi*, new openness to the non-Communist world, rapid economic reform and growing prosperity. Urban millennials in Vietnam are not only exposed to completely different levels of technology use but also quite social and cultural attitudes to their parents brought up during the austerity of the centrally planned period. This is a hugely significant generation gap.

University enrolment levels in Vietnam have been increasing significantly in Vietnam. However, one of the most frequently mentioned labour supply issues is the lack of 'soft skills' amongst workforce entrants: leadership, initiative, teamwork etc. One respondent mentioned lack of awareness on issues such as health and safety as distinguishing the Vietnamese workforce. The lack of 'soft skills' is usually blamed on the formalism and structure of the educational system which tends to promote rote learning and discipline rather than initiative and enquiry.

According to one respondent in a Hanoi human resources company, the current generation entering the workforce have greater critical thinking skills and are able

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to show greater initiative than their predecessors. However, interpersonal skills are often an issue, with particular difficulties found in fitting into more hierarchical company structures. Some of those educated abroad with a more 'elite' background can also exhibit high expectations which may not be easily met in real work situations. Companies with a lot of customer interface may prefer to recruit well-educated graduates from domestic universities.

The more flexible and less hierarchical working style of new recruits is an attribute more highly valued by multi-national companies, particularly those involved in technology or sectors strongly valuing innovation. Companies such as Unilever or Proctor and Gamble prefer to build staff skills through training and development programmes rather than buy in skills and place emphasis on more generic aptitudes and attitudes.

Another trend commented on by the representatives of a human resources company in Ho Chi Minh City was the potential bifurcation between science graduates and social science/humanities graduates with the former tending to be channelled into research institutions, government bodies and state owned enterprises and the latter embracing more commercial, private sector opportunities.

One respondent in the garments sector reported that companies prefer to recruit fresh staff that have not undergone vocational training in state run training centres – partly because they have trained on obsolete equipment but also because they develop poor work habits: bad time-keeping, poor attitude and resting during work time. Garments factories, employing a relatively low-skilled workforce often new to industrial employment, usually train their staff internally and on the job. Workers that have migrated from rural areas and agricultural employment face many challenges in getting used to the requirements of industrial employment.

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# 4 Conclusions: implications for skills development

It is not possible to draw firm conclusions from analysis of future trends which is necessarily speculative. It may be concluded that dramatic change in Vietnam's job market is unlikely during the next five to ten years with employment trends in the three main sectors looking robust. The exodus from agricultural employment is slowing and agriculture remains an employment buffer during times of economic downturn. Prospects for employment growth in manufacturing, particularly garments and electronics, look strong given trends in international trade and investment. Likewise, the service sector seems to be a strong engine of job creation even during periods of weaker economic growth. Information technology has significant potential to drive efficiency and generate new jobs but overall it is still a sector employing a very small proportion of the workforce. No interview respondents would predict information technology in Vietnam radically removing or creating sectors of employment in the medium term. The pace and depth of reform of state owned enterprises remains constrained by political interests. Little faith appears to exist in the prospect of new, commercially sustainable 'green jobs'.

Who can predict the 'black swans' which might impact more dramatically on Vietnam's job market? International tension in the South China Sea reached a high level in the summer of 2014 but most observers appear to believe that the depth of economic integration and dependence on China makes it unlikely that the neighbours would allow these differences to escalate to a point which drastically effected economic stability.

Vietnam faces the challenge of middle income countries to continue to improve labour productivity, increase skills and move up towards more capital and technology intensive production, following the same path as nearby countries such as Thailand, Malaysia and South Korea. As labour costs rise, growth cannot be sustained on continued reliance on low cost and plentiful labour.

The 2014 Vietnam Development Report 'Skilling up Vietnam: preparing the workforce for a modern market economy' makes the important point that evidence of skills gaps and skills shortages within the Vietnamese market is not in itself a significant problem. Indeed, such gaps and shortages are symptomatic of a dynamic and growing economy. What is more important is the ability of the education and training system to respond quickly to changes in demand for skills. In addition to focusing on specific technical skills, this requires real emphasis on soft skills which are essential to a dynamic and flexible workforce.

The report outlines three main types of skills which the Vietnamese economy will require now and in the future: cognitive skills, social and behaviour skills and technical skills. As the economy develops, greater emphasis will be placed on the

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first two: cognitive skills, such as problem solving, critical thinking, creativity and innovation, and social and behavioural skill, such as leadership, management, teamwork and building client relationships. Indeed, interviews with recruitment agencies and companies as part of this research has confirmed that these ‘soft skills’ are increasingly in demand in addition to the technical skills needed to carry out a job.

The Vietnam Development Report stresses that each of these skill types – but particularly cognitive and social and behavioural skills – start to develop early in life. Focusing on vocational training or tertiary education is far too late an intervention to have significant impact on development of these skills. The report therefore outlines a three stage approach to supporting the development of skills for a modern workforce. The first relates to ‘promoting school readiness through early childhood development’ including quality pre-schooling, good parenting, good feeding, early stimulation and child health. The second relates to ‘building the cognitive and behavioural foundation in general education’ through: more full day schooling and expanded curriculum, updated teaching methods, curriculum and assessment, greater role for parents in schools. Though these two stages are clearly critical, the current research has not focused on these issues.

The third step is ‘building job relevant technical skills through a more connected system’. The report suggests that university enrolments need to be further expanded, as levels are lower than neighbouring countries at present. Perhaps more importantly, however, are issues of quality, relevance and applicability of education and training to the job market. The report outlines three mechanisms through which greater connections can be made between employers, students and parents and educational institutions:

*Better information.* Information on demand within the job market is essential for both training providers and students and parents, to ensure that job relevant training is provided and selected. Likewise, employers also need information about the training and experience that will be presented by job applicants. Information flow requires co-ordination mechanisms between companies, colleges and students, partnerships potentially involving business support to curriculum development, teacher training, job placements, job fairs etc.

*Right incentives.* Training institutions need to enjoy autonomy in terms of curriculum content, teacher training etc. to enable them to participate in, and contribute to, business partnerships of this type. The 2012 Higher Education Law does provide tertiary institutions with greater flexibility in terms of curriculum, but issues remain in terms of implementation, particularly for smaller and private universities, and also in terms of limited financial autonomy. Government still approves curriculum rather than setting occupational competency standards which students from all institutions would need to meet in order to practice particular occupations. Government could also use the tax system to incentivise companies to partner with colleges and universities.

*Enhanced capacity.* With greater government investment and higher capacity within educational and training institutions, companies would also be incentivised to organise training externally in partnership with specialist training institutions. Investment is needed in upgrading the skills of academic, training and managerial staff, as well as in training facilities. Scholarships and fee waiver would also help trainees from more disadvantaged backgrounds participate more fully in training opportunities.

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While interviews conducted for this research focused mainly on future job trends, many comments were also raised which support some of the conclusions and recommendations set out in the Vietnam Development Report. These include:

*Incentives:*

- Universities are assigned quotas by the Ministry of Higher Education for admission of students on particular courses, thus limiting flexibility to change admissions policies to meet market demand (MOLISA official). Government should revisit the design of this quota system to give institutions more flexibility.
- Links between business and industry and the education and training system are currently limited. Opportunities exist to develop stronger linkages if properly incentivised. Outsourcing of HR functions, payroll etc. is increasingly common in Vietnam. One HR consulting firm suggested that greater outsourcing of training facilities by large companies could similarly become an important new trend in future.
- Greater government emphasis should be placed on training outcomes rather than curriculum. Colleges should be empowered to make greater use of 'recognition of prior learning', testing capabilities of students gained independently as well as testing acquisition of taught knowledge (Montagu, 2013).
- One respondent was clear that providing colleges and universities with greater autonomy to decide courses, student quotas and curriculum would not necessarily incentivise more job relevant training on its own. Without more structured liaison and partnerships between education and industry, colleges could decide to focus on perceived money-making courses which may not necessarily link best to real jobs in industry.

*Information:*

- Parental priorities effect choice of educational route. One respondent commented that parents encourage children to choose subjects deemed to have higher status: economics, finance, law etc. and discourage subjects of a more technical nature but with higher greater employment prospects. This partly reflects cultural preferences but also a lack of good information on employment prospects. (Business association official).
- The Ministry of Labour, Invalids and Social Affairs is currently giving priority to a number of policies aimed at improving the flow of information within the labour market, including a job placement centre strategy and the assessment of technical qualifications and standards.
- Students have limited information about the job market when they apply for courses and when they are studying (HR consulting firm). Colleges and companies need to work together – for mutual benefit – to better inform students about vacancies and wider trends in the job market.

*Capacity:*

- One respondent commented that many companies have given up on the vocational training system, because of outdated equipment, poor quality staff, lax discipline and inappropriate curriculum. Incentivising companies to partner with state vocational training institutions will not work unless basic capacity and management are improved.

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Nguyễn Hải Yến, Director of Labour Market Division, Ministry of Labour, Invalids and Social affairs.

Ms. Mai Thúy Hằng, Human Resources Consulting Manager, Manpower Vietnam.

Ms. Phan Thị Quỳnh Hoa, Managing Director, MK Group, Hanoi.

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ISSN: 2052-7209

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