

Original Paper

Developing a High-Quality, Modern Labor Market in Vietnam

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Abstract

The labor market in Vietnam has experienced significant changes due to global trends and the demand for competitiveness in the region. This study investigates the evolving Vietnamese labor market, considering the obstacles presented by the Covid-19 pandemic and the fourth industrial revolution. The paper underscores the significance of adhering to international labor laws and standards to effectively tackle these challenges. By examining the influence of these external factors and their repercussions on labor standards, this research offers valuable insights for policymakers, employers, and workers in Vietnam. The findings emphasize the need to align domestic labor policies with international standards in order to establish a just and sustainable labor market in Vietnam amidst the evolving global landscape.

Keywords

Labor market, workers, workforce, human resources, employment, labor supply-demand, labor productivity

1. Introduction

Over the past four decades, Vietnam has witnessed remarkable developments in its labor market, characterized by improvements in quality, scale, and international integration. The country's policy system has undergone significant enhancements, resulting in a more favorable environment for labor market dynamics. Supply-demand relations have strengthened, job quality has seen improvements, labor productivity has soared, and workers' incomes have witnessed notable growth.

Despite these advancements, the labor market in Vietnam still faces significant challenges and remains relatively weak. One pressing issue is the persistent imbalance between labor supply and demand, coupled with a lack of sustainable employment opportunities. This imbalance hampers the overall development of the labor market and poses obstacles to realizing its full potential.

Moreover, the recent complex progression of the Covid-19 pandemic has further exacerbated these

challenges, significantly impacting the labor market dynamics. Millions of workers have experienced a reduction in income, shortened working hours, temporary job suspensions, and even job losses. These adverse effects have consequently disrupted labor supply and demand, aggravating the existing imbalances and impeding the market's progress.

In light of these issues, it is crucial to analyze and understand the current state of the labor market in Vietnam, identify the key obstacles hindering its development, and propose strategies to address these challenges. By doing so, policymakers and stakeholders can work together to build a more robust and resilient labor market that promotes sustainable employment, ensures fair opportunities, and fosters inclusive economic growth in Vietnam.

2. The Situation of the Labor Market in Vietnam

The labor market in Vietnam has undergone significant formation and development since 1986, and in recent years, it has demonstrated consistent growth across various sectors. The legal system has been substantially enhanced and harmonized, establishing a robust framework that fosters the thriving of the labor market. Moreover, there has been a notable improvement in the quality of labor supply and demand, resulting in enhanced employment opportunities. Notably, there has been a noticeable shift in the labor structure, characterized by a decline in the proportion of agricultural labor and a concurrent rise in the share of service and industrial labor. This transformation has yielded improved wages for workers while simultaneously bolstering labor productivity and competitiveness.

Regrettably, the outbreak of the Covid-19 pandemic in 2021 severely impacted numerous workers in Vietnam. Disturbingly, the first quarter witnessed 9.1 million affected individuals, with the number surging to 12.8 million in the second quarter and a staggering 28.2 million in the third quarter. The most severe consequences were observed during the third quarter, leading to 4.7 million job losses, 14.7 million temporary suspensions of production and business activities, 12.0 million workers facing reduced working hours or compelled to take leaves, and 18.9 million experiencing income reductions. Distressingly, the age group most affected was individuals between 25 to 54 years, constituting a significant 73.3% of the impacted workforce.

While the repercussions of the pandemic have been felt across Vietnam, the Southeast and Mekong Delta regions have borne the brunt of the crisis, with impact rates reaching 59.1% and 44.7% respectively. Conversely, the Central Highlands and Northern Mountainous regions have experienced comparably lower impacts, at 17.4% and 19.7% respectively. (Note 1)

Since 2022, the labor market in Vietnam has experienced a rapid and stable recovery. The labor force, consisting of individuals aged 15 and above, has grown to 51 million people. Among them, 13.9 million individuals are engaged in the agricultural, forestry, and fisheries sector (27.5%), 16.8 million in the industrial and construction sector (33.24%), and 19.8 million in the services sector (39.18%). Notably, the average income of workers has witnessed significant improvement, surpassing 7 million Vietnamese dong, thanks to the dedicated efforts of both businesses and workers. (Note 2)

However, the development of the labor market in Vietnam remains uneven, marked by labor surplus and imbalances across regions, industries, and areas. These disparities arise from the incomplete development of the labor market information system. Furthermore, the social security system lacks sustainability, and the social security network lacks the capacity to effectively prevent and mitigate risks for workers. The management of the labor market still faces limitations in terms of methodologies and personnel, resulting in ineffective forecasting and analysis of labor market management trends.

Additionally, the advent of the Fourth Industrial Revolution raises new concerns. The transformation brought about by this revolution entails the loss of many traditional jobs, while simultaneously creating new employment opportunities. Robots and artificial intelligence are expected to play a significant role in production, potentially replacing numerous current positions. Compared to developed countries, Vietnam faces the challenge of a relatively low rate of trained labor (263.2%), which hinders efforts to improve labor productivity. Attracting foreign direct investment (FDI) contributes to economic growth and provides employment opportunities for 4.6 million workers (7%) as well as numerous indirect workers. However, FDI enterprises consistently demand a high-quality workforce capable of applying new technologies and enhancing labor productivity. In the absence of an adequate human resource pool, Vietnam risks gradually losing its attractiveness for foreign investment.

Table 1. Labor Force by Quarter from 2020-2023 (Note 3) Unit: Million People

Year	Labor force /Number of workers			
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2020	51.2	49.4	51.3	52.1
2021	51.0	51.1	49.1	50.7
2022	51.2	51.6	51.9	52.1
2023	52.2	-	-	-

Source: General Statistics Office, Quarter 1 of 2023.

According to the statistics table, the first quarter of 2023 saw a labor force aged 15 and above totaling 52.2 million individuals. This reflects an increase of 89 thousand people compared to the fourth quarter of 2022 and a significant rise of over 1 million people compared to the same period last year. Notably, the urban labor force expanded by 121 thousand individuals, while the rural labor force experienced a decrease of over 32 thousand people. The number of employed individuals reached 51.1 million, marking an increase of 113 thousand people compared to the previous quarter and a noteworthy surge of 1.1 million people compared to the same period last year. Among them, the number of employed workers in urban areas reached 18.9 million people, exhibiting a rise of nearly 121 thousand individuals compared to the previous quarter and a substantial increase of over 386 thousand people compared to the same period last year (Note 4).

Overall, the labor market in Vietnam is displaying signs of recovery. However, several shortcomings persist, preventing it from fully meeting the demands of a modern and flexible labor market. Sustainable employment opportunities remain scarce, and imbalances and uneven development continue to affect the labor market in Vietnam.

3. Causes

The labor market in Vietnam exhibits regional and urban-rural disparities in its development. The proportion of highly skilled and trained workers remains low, with only 26.2% of the labor force having received formal education, degrees, or certifications. Consequently, the current workforce lacks the necessary professional skills to meet the demands of the labor market, resulting in limited national competitiveness and an inability to fully capitalize on the opportunities presented by the golden population period for attracting foreign direct investment. Educational and skill deficiencies further exacerbate the challenges faced by workers in obtaining sustainable employment and adapting to the constantly evolving labor market.

As per a report from the Ministry of Labor, Invalids and Social Affairs, the labor force participation rate experienced a slight increase of 0.8 percentage points in 2022, reaching 68.5%. In the same year, approximately 13.5 million individuals, accounting for 26.2% of the labor force, had received training at the “elementary” level or higher.

Presently, Vietnam grapples with a shortage of competent leaders, managers, experts, and skilled labor in key economic sectors and dynamic focal economic regions. These limitations impede the workforce’s contribution to rapid and sustainable economic growth. Particularly, the lack of adequate labor skills poses significant challenges in transitioning to high-value-added industries, occupations, and processes, thereby hindering efforts to enhance labor productivity and catch up with regional and global counterparts (Note 5).

There is a growing scarcity of local labor, particularly in industries, occupations, and fields that demand high qualifications. In 2022, approximately 40.8% of businesses reported a turnover rate of employees ranging from 10-20%, while 31.5% of businesses faced a labor shortage rate of less than 10%. Additionally, over 12% of businesses encountered a turnover rate of employees actively leaving their positions, with rates ranging from 30-40%. The tourism and service sector alone witnessed a quarterly increase of around 900,000 laborers, totaling approximately 19.2 million people (Note 6). These substantial figures highlight the challenging issue businesses face as they strive to enhance production and operational activities amid the recovering and developing economy. The job market is grappling with an imbalance between supply and demand, as labor shortages in key areas of major cities continue to rise. In Ho Chi Minh City and Hanoi, the shortage rates currently stand at 22.45% and 14.87% respectively, compared to the additional 10%-20% recruitment needs of businesses (Note 7).

4. The solution for Developing a Synchronized and Modern Labor Market

The labor market assumes a dynamic role in efficiently allocating and utilizing resources, facilitating connections between the domestic labor market and nations within the region and worldwide.

In early 2023, the Vietnamese government issued a resolution focusing on “Developing a flexible, modern, efficient, sustainable, and integrated labor market to revitalize the socio-economic landscape.” The resolution presents a set of goals to be achieved by 2025, including: maintaining the proportion of agricultural labor in the total social labor force at approximately 25%; exceeding an annual average labor productivity growth rate of 6.5%; attaining a 30% share of trained labor holding degrees or certifications; providing retraining and continuous training opportunities to around 25% of the workforce; keeping the overall unemployment rate below 3%, with urban and rural youth unemployment rates below 4% and 6%, respectively; increasing the labor force’s participation in social insurance to reach 45%, encompassing voluntary social insurance for farmers and workers in the informal sector, which constitutes approximately 2.5% of the eligible labor force; extending unemployment insurance coverage to 35% of the labor force; and achieving a satisfaction index of 85% among insurance participants (Note 8).

To foster a dynamic and adaptable labor market, the state should implement the following comprehensive and cohesive measures:

Firstly, it is crucial to review and amend existing legal regulations to align with the evolving needs of the labor market. This entails revising policies to curtail unemployment and enhance labor quality, supporting vocational training programs for workers, and regulating the implementation conditions of vocational training activities within enterprises.

Secondly, the development of the labor market should be integrated with macroeconomic stability, striking a balance between labor supply and demand. It is essential to assess the demand for human resources at various levels-locality, region, sector, and field-to facilitate timely labor connections and supply. Additionally, the labor requirements of foreign investors involved in Vietnam’s investment projects should be evaluated.

Thirdly, there should be efficient utilization of resources to create more employment opportunities. This involves innovating the economic growth model in tandem with the development of a skilled and young workforce, promoting job creation, and enhancing financial resources to generate new, high-quality employment prospects. Priority should be given to vocational training and employment solutions for individuals in remote areas and ethnic minority communities, thereby contributing to the sustainable development of the labor market. To address labor shortages, businesses, particularly those in joint ventures with foreign countries, should organize training programs and supplement their workforce. Furthermore, timely communication should be strengthened to raise awareness among labor users, workers, and stakeholders participating in the labor market, ensuring its stability and growth.

From the perspective of businesses, they should concentrate on proactively implementing programs to enhance the skills and expertise of workers within long-term workforce utilization plans. Shifting away

from relying solely on cheap labor, businesses should embrace scientific and technological advancements and modern equipment in their production activities. The objective is to empower workers to become technology leaders and improve labor productivity, thereby enabling wage increases. Mechanisms should be established early on for businesses, particularly foreign-invested enterprises, to participate in certifying vocational training for workers. Currently, businesses provide training within their premises, but due to incomplete mechanisms and policies, the resulting certifications are not recognized. With appropriate mechanisms in place, businesses equipped with new technologies and techniques can actively engage in vocational training for local workers.

5. Conclusion

In conclusion, the development of a high-quality labor market in Vietnam relies on the collective efforts of the government, training institutions, and businesses working in collaboration. These entities play vital roles in providing essential services such as counseling, career guidance, and labor market information, which are instrumental in facilitating the successful integration of workers into the workforce and helping them secure sustainable employment opportunities.

One crucial aspect of fostering a robust labor market is the establishment of a timely and efficient information and data system. This system serves as a platform for connecting labor supply with demand, creating an environment where workers and employers can easily access and exchange information about available job opportunities and the required skills. By facilitating this seamless exchange of information, the labor market can function more effectively, matching job seekers with suitable positions and meeting the evolving needs of various industries.

Looking ahead to the year 2023, it is expected that the labor market in Vietnam will continue to flourish, keeping pace with neighboring countries in the region and the global landscape. With the concerted efforts of the government, training institutions, and businesses, Vietnam's labor market is poised to become more dynamic, adaptive, and responsive to the demands of a rapidly changing economy. By nurturing a high-quality labor market, Vietnam can unlock its full potential, attract investment, drive economic growth, and enhance the overall well-being of its workforce and the nation as a whole.

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