AUSTRALIA-WORLD BANK GROUP STRATEGIC PARTNERSHIP IN VIETNAM

Trade and Competitiveness Theme

VIETNAM'S FUTURE JOBS

ROLE OF THE PRIVATE SECTOR

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The best jobs, defined by higher labor productivity and wages and social benefits, are largely in the registered firms. They are also inclusive of women and youth. These are the fastest growing jobs in Vietnam today and, if Vietnam prepares for the opportunities brought through the mega-trends, they have potential to grow, in quantity and quality, even more. Thus, the policy challenge is to foster the creation and growth of enterprises that are conducive to job creation, create high value jobs, and position Vietnam for even more as the mega-trends are realized. Three policy areas are proposed: (i) lower the barriers to growth of domestic small and medium enterprises, (ii) encourage enterprises to move into knowledge-intensive segments of regional and global value chains, and (iii) facilitate the development of Vietnam's agro-food system.

The private sector is fundamental in the job[1] creation process. Privately-owned enterprises are the source of most new job opportunities, which, when met by a skilled labor force, result in quality jobs. However, certain types of firms are more conducive to the creation of better jobs than others. To maximize the job creation potential of private sector-led development, it is important to understand which segments of the private sector hold the most promise and how public policy can support them to create more, better, and inclusive jobs.

Transformational mega-trends may either create better job opportunities or threaten the quality of Vietnam's jobs. *Shifting trade* and *consumption patterns* will affect what Vietnam can export and in which value chains it can, or cannot, continue to be engaged. The *rise of the global knowledge economy* may provide new high-value jobs but will require a different skill set and export model from what Vietnam currently uses. *Automation* will replace jobs if workers are not equipped to use technology to their benefit.

This note explores the role of the private sector in Vietnam's job agenda in the context of the mega-trends, based on the analysis in the World Bank's new publication *Vietnam's Future Jobs: Leveraging Megatrends for Greater Prosperity* (Box 1). The note focuses on registered firms, which largely does not include family farms, household enterprises, and most of the self-employed. It presents results derived from the Enterprise Census 2004-2014 and policy recommendations that could enhance the effectiveness of the private sector in creating good jobs.

Where are the jobs today?

As of 2015, there are more than 8 million jobs in registered firms in Vietnam. Formal wage job creation has been impressive. Over 6 million formal non-government wage jobs were created between 2004 and 2014. About 4.7 million of these jobs are in domestically-owned firms and the other 2.1 million are in foreign-owned firms. The remaining jobs are in state-owned enterprises (SOEs), which have been slowly shedding jobs through the SOE consolidation process.

1 In this note, jobs refer to "labor activities that generate income, monetary or in kind, without violating fundamental rights and principles at work. Jobs can take the form of wage employment, self-employment, and farming. They can be formal or informal" (World Bank, 2012). Good jobs have high productivity, high value added, pay well, and provide worker benefits and good working conditions.

BOX 1: Vietnam's future jobs: leveraging mega-trends for greater prosperity

Jobs have been a key part of Vietnam's rapid transformation to a modern, globally integrated, and middle-income country. The World Bank's *Vietnam's Future Jobs* report argues that Vietnam's 50 million jobs, along with its transformation toward services and manufacturing, impressive labor productivity, and wage growth have contributed to plunging poverty rates and strong economic growth over the last decades.

New transformational mega-trends may threaten, or could be an opportunity for shifting Vietnam's jobs landscape. The *rise of knowledge-intensive industries* will require new skill sets, production processes, and export models. An *aging population* will demand care services from a shrinking working age population. And, *automation* may replace some jobs and workers, and transform others.

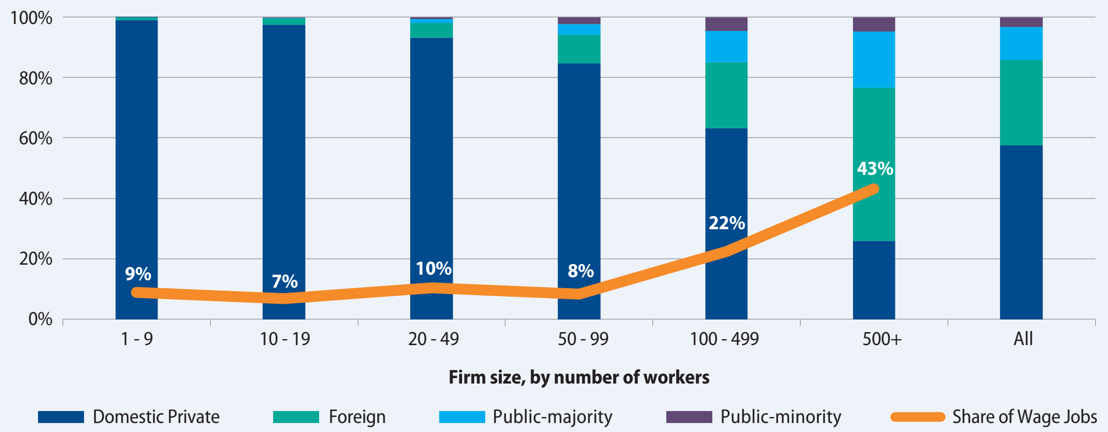
Yet Vietnam's jobs structure is not conductive to adapting to these mega-trends. Most of Vietnam's jobs are in family farming, household enterprises, or low-skilled labor who may not be able to ride these mega-trends to better jobs. Few jobs are currently positioned to embrace the mega-trends: only 2.1 million jobs are offered by foreign factories that pay above the minimum wage, while registered domestic firms provide no more than 6 million jobs.

But policy action today can support those segments of the economy that can leverage the mega-trends to create more, better, and inclusive jobs. Three reform areas are needed: 1) Create more jobs in jobs-intensive segments of the modern sector; 2) Enhance the quality of jobs in the traditional sectors such as family farming; and 3) Connect qualified workers to the right jobs, which requires a mix of skill upgrading, job-matching, and alleviating constraints to work.

Jobs in registered firms are generally better and more inclusive than those in non-registered firms. Nearly all foreign-owned and state-owned enterprises, and 70 percent of domestically-owned registered firms, pay at least the minimum wage and provide social benefits. In contrast, jobs in farming or household enterprises without a contract do not provide social benefits. Workers in these jobs earn about 30 percent less than median wage for those holding a wage job with a contract in private sector enterprises. Labor productivity is much lower in household enterprises and family farms as compared to in registered firms. Women play a significant role in foreign-owned firms operating primarily in textiles, apparel, and electronics. Youth are found to have higher rates of entry to jobs in registered firms as compared to older workers.

Today's jobs are concentrated in a small number of very large firms. More than 40 percent of employees in registered firms work in the largest enterprises, namely those employing more than 500 employees (Figure 1) while another 25 percent work in large firms (100-499 workers). However, the largest firms only comprise less than one percent of all registered firms, while large firms are only 3 percent of all firms. The high concentration of employment among the largest firms underscores difficulties in the growth of smaller firms.

FIGURE 1: Share of Jobs in Registered Firms by Size and Share of Ownership Type, Total and by Size (2014)



Source: Author's calculations based on Vietnam Firm Survey, 2014.

Most jobs, and firms, are in the domestic private sector. Approximately 57 percent of jobs are in the domestic private sector (Figure 1). While a little over half of jobs in the largest firms are in foreign-owned firms, jobs in domestically-owned firms dominate across all other firm sizes. State-owned enterprises are also barely present amongst SMEs.

Different ownership categories, and the related jobs, dominate certain sectors. State-owned firms tend to dominate markets like oleaginous crops (80 percent), real estate (38 percent), and construction buildings (30 percent). Foreign firms, on the other hand, dominate manufacturing, especially in communications equipment (69 percent), footwear (24 percent), plastics (13 percent), apparel (13 percent), and manufacture animal feeds (12 percent). Overall market concentration is expected to evolve, with FDIs continuing to dominate in manufacturing and private domestic sector increasing its share in services.

Where are the new jobs coming from?

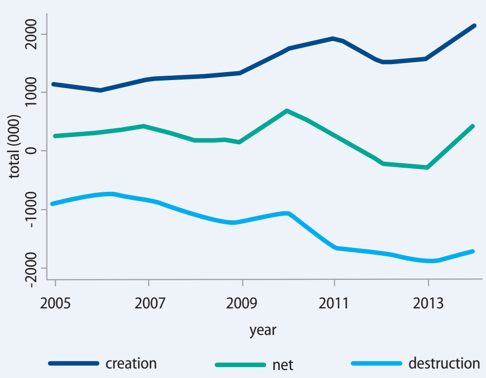
The rates of job creation and destruction have been increasing over time, signaling a dynamic jobs market. Since 2004, net job creation has increased (Figure 2). 62 percent of jobs have been created from the expansion of existing firms while 38 percent have been created from the entry of new firms. In addition, 8.9 million have jobs have been lost due to downsizing of firms and 13 million jobs are destroyed because of exit. This turnover is the sign of a healthy economy and may improve the quality of jobs as those in less viable firms disappear and are reallocated to new, potentially better, enterprises.

Small and Medium Enterprises

Most of the net job creation has been generated by domestically-owned small and medium enterprises (SMEs). Since 2004, small firms show consistent net job gains; most of these are domestically owned (Figure 3). Medium-sized firms also show net job gains, though this has slowed down in recent years. In contrast, net job creation by large firms is more volatile, even being negative in some years.

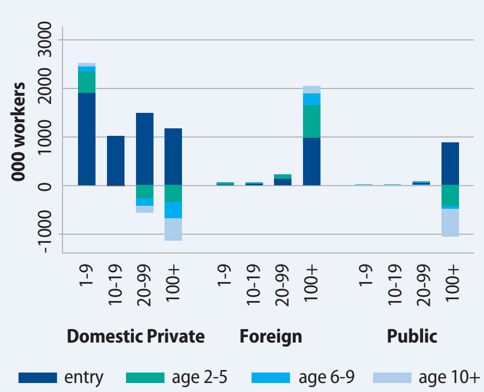
Young SMEs play a very important role in Vietnam, but older SMEs contribute little, meaning that SMEs are not growing. Most net job gains among SMEs are attributable to new firms rather the expansion of existing firms (Figure 3). Many Vietnamese micro-firms are 10 years or older, having one of the largest shares of micro-firms among a 15-country random sample. This signals that while firms enter, they do not grow. In fact, following firms after entry, only 6 percent of micro-firms were able to expand to over 10 employees after five years of operation.

FIGURE 2: Job Flows in Vietnam, 2005-2014



Source: Vietnam Firm Census, 2005-2014.

FIGURE 3: Net Job Creation by Firm Age, Ownership Type, and Size (2004-2014)



Source: Vietnam Firm Census, 2005-2014.

Export Sector Has, and May Continue to Be, a Source of New, Better, and Inclusive Jobs

The export sector affects nearly 20 million jobs in Vietnam. About half of those are jobs in foreign and domestic firms that export while the other half are in firms that provide inputs or services to exporting firms (this includes non-registered firms, such as family agriculture) The overall number of jobs from exports has increased over the past two decades (Figure 4). Exporting firms are more productive than domestic private or public firms in terms of value added per workers (Figure 4). Moreover, foreign firms (who are exporters) offer 5.5 percent higher wages for their workers, and as productivity increases, they share their profits more generously with workers through higher wages than do SOEs, for example.

Certain industries are more conducive to job growth than others

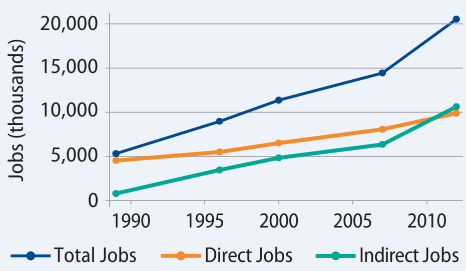
While the manufacturing sector will continue to create more jobs, the agro-food sector and services have the potential to offer more and higher quality jobs. Over the period 2004-2014, almost 3 million workers were absorbed into the manufacturing sector, mostly in textiles and apparel and, more recently, through electronics and transportation equipment. Employment in services has grown, as well – by almost 2 million – with export-oriented services producing particularly high-value jobs. The agro-value chain is one of the few complete value chains in Vietnam, dense in jobs, and (low-scale agriculture) feeding into the growing agro-processing industry. This sector has potential to grow, especially as Vietnam and its neighbors (China) continue to urbanize and spend their growing wealth on higher-value agricultural products.

Vietnam is in a good position right now since jobs growth and productivity increases are positively correlated. However, Vietnam's most productive firms, and its SOEs, show a trade-off between labor and capital. Thus, Vietnam's firms have a window of opportunity for firm productivity and employment to be mutually reinforcing.

Policy recommendations

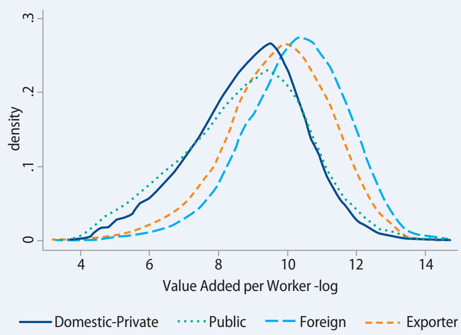
1. **Reduce the barriers to SME start-up and growth** for more and better jobs. A dynamic role for domestic SMEs in high-value activities will be crucial in the development of better jobs for Vietnam. First, reform laws and practices so firms have equal access to land, capital, electricity, and other inputs, regardless of ownership type. Second, simplify the processes of firm entry and exit to allow for efficient and transparent labor (and other input) flows. Third, encourage FDI-SME linkages, i.e. SMEs to produce for, connect to, and do business with foreign-owned firms. This could extend to matchmaking services between foreign buyers and domestic suppliers.

FIGURE 4: Number of Jobs from Exports



Source: Author's calculations using Vietnam's IO tables and employment data from Vietnam's Statistical Yearbook.

FIGURE 5: Value Added per Workers



Source: Author's calculations based on Vietnam Firm Survey, 2014.

2. **Encourage enterprises to move into knowledge-intensive segments of regional and global value chains** for better jobs. In the short run, it will be important to streamline the logistics regulatory environment, upgrading domestic infrastructure to improve connectivity, and relaxing emigration regulations for foreign professional. Medium term policy directions should focus on building new products and skilled workers to drive a knowledge-based service economy through: legislation and incentives to foster research and development and innovation, lifting formal restrictions on service trade, and development of service professionals who can compete to the highest international standards.
3. **Facilitate the development of the agro-food system** for better paid and safer jobs. First, reduce the cost of inputs and facilitate information and trade flows to SMEs to ease their integration into the domestic and international agro-food system. Second, through PPPs and public oversight, increase food safety and food system management. Third, for domestic markets, upgrade food market infrastructure – sanitation, logistics, hygiene standards – to enhance the value-added of wholesale and urban wet markets. Fourth, provide incentives for the food industries to invest in cities close to the agricultural production base, which can also generate more jobs for Vietnam's ethnic minorities.

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