



Vietnam's Skilled Workforce Shortage

Skills for Industry Policy Brief Vietnam #1 (2019)

At a glance

The majority of Vietnam's manufacturing companies have experienced transformation and growth in the last 5 years. While companies are indeed developing, the lack of skilled employees remains a pressing issue – especially at the occupational level of operators and technicians. Companies, which found it difficult to recruit skilled employees, reported negative effects of this skilled workforce shortage on business operations and growth. At the same time, the majority of companies agreed that vocational skills development (VSD) programmes were at least somewhat helpful in addressing the company's skill needs. However, a pronounced difference between the contribution of pre-employment and in-employment programs exists. In order to address the skilled workforce shortage, companies might retrain their employees in the short term, but in the mid to long term a better cooperation and fit between the VSD system and industries' skill demands is needed

Introduction

Vietnam has experienced a rapid development of its economy since 1986. GDP has increased nearly ten-fold, from 28.68 billion USD in 1999 to 240.5 billion USD in 2017, resulting in increased attention from international organizations, policymakers and researchers. The surge in GDP can be largely attributed to two strategies: the transformation from a centrally managed to a market economy and the shift from a primarily agricultural to a predominantly industrial

and service sector based economic system. As a result, Vietnam's international economic status has risen from low to middle-income. However, the country is currently experiencing an economy-wide shortage of skilled human resources in all sectors, particularly in manufacturing.

Trying to address the skills shortage and its negative effects the Vietnamese government passed a series of laws aimed at strengthening vocational skills development (VSD), such as the Education Law, the Higher Education Law, and the Law on Vocational Education Training (VET). Strategies for the development of the labour-force have been designed and a National Qualification Framework was developed. These legislative changes have provided the structure for the creation of a successful regulatory framework to support companies in accessing workers with the appropriate knowledge, skills and attitudes.

In developing countries, such as Vietnam, there is minimal evidence or research available on the relationship between VSD programs and the sustainable development and transformation of the manufacturing industries. To help closing this gap, the research project titled "Skills for Industry" is currently being conducted. Funded by the Swiss National Science Foundation and the Swiss Agency for Development and Cooperation, its aim is to identify methods to improve the VSD programs catering to the manufacturing sector.

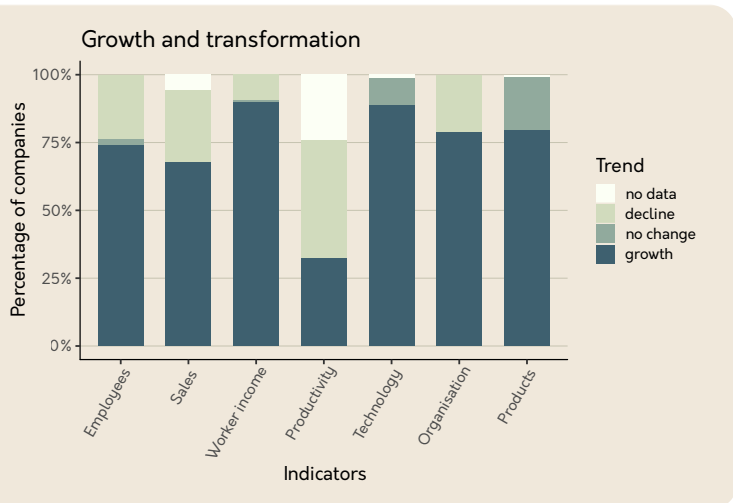
Three industries at a glance

To examine how VSD can most effectively contribute to the development of successful manufacturing companies, a survey was conducted, collecting information on the relationship between vocational skills

and company transformation and growth. The survey focused on 162 companies in three industries, namely the garment (56), electronics (40) and fish processing (66) industry. Previous research by the ILO (2018) has indicated that (1) over 68% of the workforce in the three industries is unskilled; (2) exports of all three industries increased steadily between 2012 and 2017; and (3) the number of employees in these three industries is steadily increasing. However, companies in these industries continue to experience difficulties in recruiting or developing a skilled workforce.

Growth and transformation

The survey shows that most of the companies are experiencing a positive change in the following six (of seven) transformation and growth categories:



- Employment: Number of workers in the company
- Sales: Total annual revenue
- Income: Average salary across all employees
- Technology: Changes in production equipment
- Organization: Changes in work organization
- Products: Introduction of new products

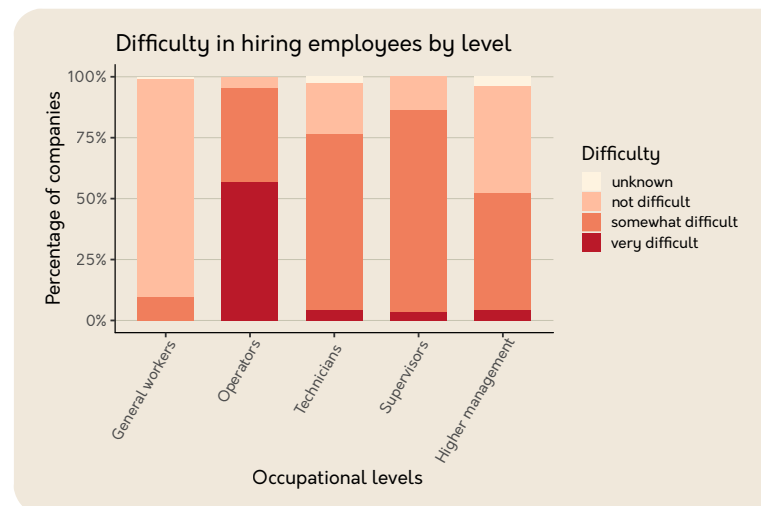
More than 70% of the companies increased their workforce over the five year period ranging from 2012 to 2017 for various reasons that may include production expansion, addition of new products, expansion into new business fields and the formation of associations with companies producing similar products. Similarly, the growth of sales (around 70% of the companies experienced positive growth) may be due to market expansion, improved value of products, or

transition to a new line of goods.

Some enterprises experienced difficulties in acquiring skilled staff, while upgrading their production processes. Labour productivity decreased in almost 50% of the companies. Consequently, a portion of the enterprises invested in machinery and equipment, but failed to simultaneously upgrade the required worker skills. In about 90% of companies the average salaries of employees increased. This high rate of income growth may be attributable to the expansion of sales or to generally rising salary levels.

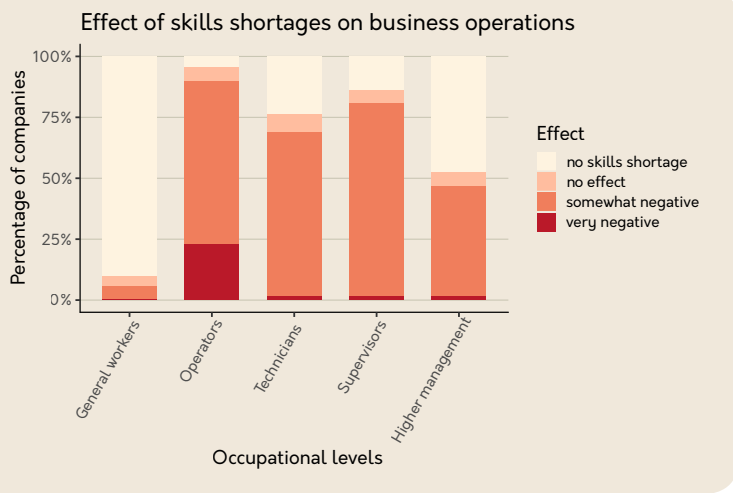
The skilled workforce shortage

The survey also shows that – with the exception of general workers – positions at all occupational levels were at least somewhat difficult to fill. More than 85% of the companies stated that it was “somewhat difficult” or that they had “significant difficulty” filling operator and supervisor positions (Figure: *Difficulty in hiring employees by level*). This characteristic is indicative of a skilled workforce shortage.

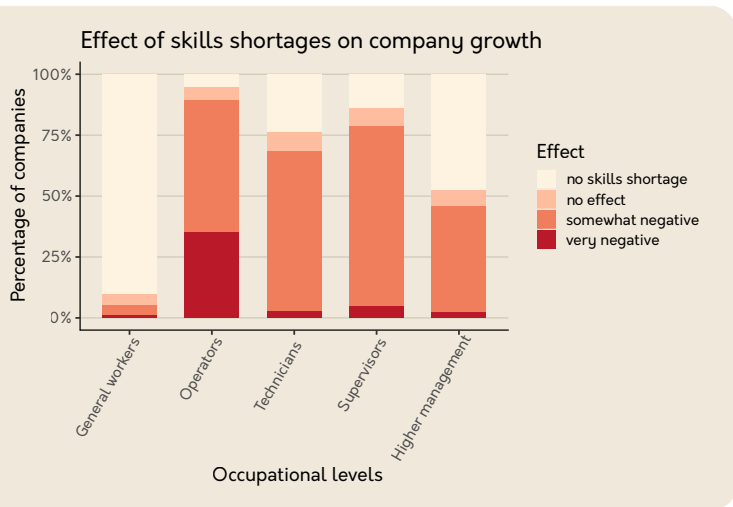


The two figures below illustrate that the skilled workforce shortage affected companies’ business operations and general growth patterns. The most pronounced negative impact is evident for missing personal at the operator position: 67.3% of companies with a skills shortage at the operator level indicated a “somewhat negative” effect on business operations and 22.8% even a “significant” one (Figure: *Effect of skills shortages on business operations*).

The skilled workforce shortage also has a negative



impact on the growth trajectory of companies (Figure: *Effect of skills shortages on growth*). For example, for the supervisor position 79% of respondents indicated a “somewhat negative” or “significantly negative” effect on growth of the company. The same picture shows for operators and technicians: “somewhat negative” was by far the most common response.



Vocational Skills Development programs

When surveying the companies’ on their assessment of VSD programs, two main themes emerged: (1) the VSD programs (both pre-employment and in-employment) did help to fulfil the skill needs of companies; (2) the level of contribution between the pre-employment VSD programs and in-employment VSD programs differed (see table below). In total, the companies gave 1599 assessments of different VSD programs. 68% of these assessments stated that the VSD program was “somewhat” useful in addressing the companies skill needs. A further 31% of the assessments indicated a “significant” contribution. Only 1 %

of the assessments did not recognize any contribution at all.

Among pre-employment programs the proportion of “significant” ratings was only 17%, while for in-employment programs this percentage was with 66% significantly higher. Based on these numbers it is obvious that in-employment programs are considered to be much more effective than pre-employment programs. The apparent superiority of in-employment training may indicate a poor relationship and ineffective communication between VET providers and companies. This gap between pre-employment VSD programmes and company needs is likely to contribute to the skilled workforce shortage.

Conclusions

Vietnamese companies are indeed transforming. The high level of transformation across the surveyed companies indicates that they are adapting to global economic change, which should in turn create a foundation for economically sound development.

The difficulties in filling open positions, as manifested in the skilled workforce shortage, is a major on-going concern for manufacturing companies. The skills shortage may well be leading to reduced productivity, thus diminishing company profits and in turn the likelihood of better salaries for workers. The skilled workforce shortage also highlights the circumstance that the programs of VET providers and universities are not sufficiently aligned with the skill needs of industry. This – as has been shown – has a negative impact on company operations, growth, and business expansion.

To solve the immediate skilled workforce shortage, companies may retrain their current workers to address their own skill requirements and needs. In-house training at the company level is likely to play an important role in this. Prospectively, companies need to establish closer links with VET providers to create a common understanding about the essential skills needed in industry and covered by VSD programs, in order to improve the competencies of the students and trainees, who will constitute the future workforce.

Sector/position	Pre-employment programmes			In-employment programmes		
	No contribution	Small contribution	Significant contribution	No contribution	Small contribution	Significant contribution
Garment	1.66 %	85.36 %	12.98 %	-	25.70 %	74.30 %
General worker	-	-	-	-	-	1.12 %
Operator	1.38 %	24.59 %	1.38 %	-	3.35 %	8.94 %
Supervisor	0.28 %	24.59 %	2.76 %	-	10.61 %	23.46 %
Technician	-	19.34 %	3.87 %	-	8.94 %	22.91 %
Higher management	-	16.85 %	4.97 %	-	2.79 %	17.88 %
Electronics	-	85.81 %	14.19 %	-	48.20 %	51.80 %
General worker	-	-	-	-	-	-
Operator	-	26.30 %	1.38 %	-	3.60 %	8.63 %
Supervisor	-	24.91 %	2.42 %	-	17.99 %	10.07 %
Technician	-	19.72 %	4.84 %	-	16.55 %	18.71 %
Higher management	-	14.88 %	5.54 %	-	10.07 %	14.39 %
Food processing	0.40 %	77.82 %	21.77 %	-	29.10 %	70.90 %
General worker	-	-	-	-	-	-
Operator	0.40 %	20.97 %	3.43 %	-	3.73 %	7.46 %
Supervisor	-	20.16 %	6.85 %	-	6.72 %	7.46 %
Technician	-	18.35 %	6.05 %	-	14.18 %	20.90 %
Higher management	-	18.35 %	5.44 %	-	4.48 %	35.07 %
Total	0.69 %	82.21 %	17.08 %	0 %	33.62 %	66.37 %

Table 1: Most frequent VSD programmes and their contributions to meeting company skill needs

The VET system shares the responsibility of solving the skilled workforce shortage. Stakeholders in this field should be working closely and actively with companies. Company representatives should also be involved in the co-design of VSD programs. Finally, the government has a responsibility to standardize and update VSD programs based on regional and international standards and to create legal frameworks and

policies to support the relationship between VET providers and companies.

Sources

- (1) ILO (2018): Labour and Social Trends in Viet Nam 2012 - 2017, Bern: ILO.
- (2) Own survey of 162 companies

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