Vietnam’s Economic Transformation and the Role of Education

Vietnam is a global economic development success story. Since the launch of the doi moi reforms in the late 1980s, Vietnam has seen rapid economic growth, which catapulted it to middle-income country (MIC) status in 2010 and contributed to one of the fastest declines in poverty ever recorded. This economic miracle was associated with substantial productivity increases and a rapid movement of labor out of agriculture and into wage employment. In large part, this structural transformation was driven by rising levels of education and an influx of foreign and domestic capital investment. Vietnam’s focused investments over the last decades into universalizing primary education completion and expanding access at all levels have paid off and allowed larger shares of the population to take advantage of expanding economic opportunities.

Vietnam’s development story is entering a new chapter, one that will shift the focus from factor accumulation to productivity growth. Despite the success, labor productivity remains low relative to competitors in the region. Unlike in the early period of Vietnam’s transition, growth in recent years has been entirely driven by factor accumulation rather than by productivity growth. Economic growth has slowed in recent years in the wake of domestic macroeconomic and structural challenges. The slower growth had an effect on the labor market, with evidence of a bifurcation that is associated with educational attainment. Well-educated workers are taking advantage of expanding opportunities in the private sector, especially in urban areas. But less-educated workers and youth from rural areas have more difficulty transitioning into the expanding private sector and are often left in the agricultural sector or in small informal enterprises such as street vending. With relatively flexible formal labor markets and still widespread informality, even in wage employment (World Bank 2014), the main barriers to labor mobility in Vietnam today are skills gaps and shortages and the lack of information about vacancies and job opportunities.
Strengthening the skills development system is an important element of Vietnam’s restructuring needs to ensure that the structural transformation proceeds apace and Vietnam succeeds as a MIC. The experience from Vietnam’s more advanced neighbors shows that a continued structural transformation over the coming decade and beyond will trigger a skills-biased occupational transition with growing importance of the types of jobs that require strong cognitive and behavioral skills. The pace of this change will depend on many things, most prominently on the scope of economic restructuring and on the soundness of macroeconomic policy. Taking decisive steps to modernize skills development now can help to accelerate the structural transformation, to improve productivity and growth, to boost living standards, and to ensure that skills will not become a bottleneck.

Trends in Vietnam’s Labor Market since Đổi Mới

The đổi mới reforms and the transition from central planning to a market economy with a socialist orientation triggered a period of remarkable growth in the 1990s and throughout much of the first decade of the 21st century. As shown in figure 1.1, real gross domestic product (GDP) growth averaged 7.5 percent from 1995 to 2007, slightly below China’s average of 10 percent. Compared to other countries in the region, Vietnam’s economic growth has been remarkably robust in spite of the 1998 Asian financial crisis and the 2008–09 global economic crisis. Growth dipped to about 5 percent in 1998, but then quickly rebounded to 7 percent in 2000. Since 2008 Vietnam has experienced a growth
Slowdown, which, in most recent years, has been driven by domestic macroeconomic and structural challenges. Real GDP growth fell to 5 percent in 2008, temporarily rebounded to 7 percent in 2010, and fell again to 6 percent in 2011 and to 5.2 percent in 2012.

Fast economic growth has helped millions of Vietnamese to escape poverty. Rising incomes have helped to boost living standards in urban and rural Vietnam alike. Poverty has fallen from 58 percent (1993) to 14.5 percent (2008) to under 10 percent (2010), using comparable series of Vietnam Household Living Standards Surveys (VHLSS), consumption aggregates, and the poverty line (World Bank 2012c). Changes in employment, including improvements in human capital and increases in the employment share of the export sector, accounted for more than 60 percent of the probability of households escaping poverty in rural Vietnam in the 1990s (Inchauste 2012).

Fast increases in labor productivity have been the key to Vietnam’s impressive growth performance. Figure 1.2 indicates that Vietnam has seen the second-fastest growth in labor productivity in the region since 1990 after China, albeit from a very low base. The reallocation of labor across sectors, most notably from low-productivity agriculture into nonagricultural wage employment, has been a particularly important component, accounting for 2.6 percent of the 4.2 percent of labor productivity growth. Despite this fast growth, labor productivity remains low relative to Vietnam’s peers, with GDP per person (at constant 1990 GDP) at 10 percent of the U.S. level.

Although productivity growth was the main driver of GDP growth in the early years of Vietnam’s transition, capital investment has become more important in recent years. In the early period after the doi moi reforms, much of the fast GDP growth was driven by increases in total factor productivity (TFP), largely in the wake of liberalization in the agricultural sector and improvements in education, which triggered the reallocation of labor across sectors. Over the years, productivity gradually gave way to factor accumulation, in particular to increases in the capital stock, as the main driver of economic growth (figure 1.3). The contribution of TFP to GDP growth since 2007 appears to have declined to nearly zero. This trend is concerning because relying on factor accumulation as the sole source of economic growth is not a sustainable strategy for Vietnam if it wants to succeed as a MIC. Rather, a return to sustained strong economic growth will require productivity improvements through structural reforms and investments in human capital (World Bank 2012b). This is why it is appropriate that Vietnam’s “Socio-Economic Development Strategy 2011–2020” places the strengthening of human resources as one of the key breakthrough objectives.

Productivity growth was intrinsically linked with a transformation in the structure of the labor market. Reforms under doi moi have had far-reaching effects on the labor market, pulling large numbers of workers out of less productive agriculture and into more productive wage jobs. In developing countries, jobs in the agricultural sector tend to be the least productive and worst paid. As countries develop, workers first shift into nonfarm self-employment and then into wage work. In Vietnam the strong growth during the 1990s was associated with
a substantial reduction in agricultural employment, driven by the dramatic decline in collective farming and a jump in the share of workers in salaried jobs (figure 1.4). More than half of Vietnam’s workforce is now working outside of agriculture and is increasingly focused on wage employment. Vietnam’s economy is modernizing, but the path from agriculture to wage employment is not without bumps.
Figure 1.3  Decomposition of GDP Growth in Contributions from Capital, Labor, and TFP, 1990–2010

Note: GDP = gross domestic product; TFP = total factor productivity.

Figure 1.4  Share of Vietnam’s Workforce in Agricultural and Nonagricultural Wage Employment, 1993–2010

Note: The 2010 VHLSS used a new sample frame based on the 2009 census. The new sampling frame and 2010 VHLSS are more likely to include peri-urban areas and areas with migrant populations than the sampling frame used for the 2008 survey.
The reallocation of labor out of agriculture and into wage employment appears to have slowed down in recent years as economic growth has decelerated. The initial rapid fall in agriculture from 1998 to 2006 was followed by a slowdown between 2006 and 2008. This has been followed by what, at first glance, appears to be a remarkable shift out of agriculture between 2008 and 2010. Likewise, the share of workers in wage employment appears to have significantly declined between 2008 and 2010, but because of differences in the sample frame, the 2008 and 2010 results of the VHLSS are not fully comparable (figure 1.4). As will be shown, many less well-educated workers, especially in rural areas, appear to have retained a foot in the agricultural sector during the recent economically difficult years.

While the share of employment in agriculture appears to have stagnated in rural areas and slightly expanded in urban areas, wage employment in the urban private sector has been expanding rapidly even during the recent period of economic slowdown. Wage employment in the private sector rose from 6 percent to over 8 percent between 2007 and 2010. This growth in the private sector has been more than enough to absorb a slight decline in public sector employment, which fell from 12 percent to just under 11 percent of the population. In urban areas, the share of private sector wage jobs outside of agriculture rose five percentage points in four years, reflecting a remarkable shift from public to private employment in a relatively brief period (see figure 1.5). In rural areas, the growth in private sector employment was much smaller. Meanwhile, consistent with a slowdown in the overall economy, more workers pursued agriculture. Growth in agriculture was particularly noticeable in urban areas, as workers moved out of nonagricultural self-employment.

Most nonagricultural jobs in Vietnam today are in blue-collar occupations and service and sales. Jobs as craftsmen, machine operators, or in elementary

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**Figure 1.5** Share of Workers in Urban and Rural Areas, 2007–10

![Chart showing the share of workers in urban and rural areas from 2007 to 2010. The chart demonstrates the percentage distribution of workers in agriculture, own account and unpaid, nonagricultural private wageworkers, and employers.](chart_image)

occupations jointly make up 40 percent of nonagricultural employment—much more than technicians. Another 30 percent of nonfarm workers have service or sales jobs. Professionals make up 16 percent of the nonagricultural workforce (figure 1.6). Jobs across all these occupations are divided almost equally between rural and urban areas, suggesting that rural areas remain an important part of the nonagricultural economy.

Despite the rapid structural change since the mid-1990s, Vietnam’s labor market development still trails that of many of its neighbors. Vietnam’s share of workers in agriculture remains higher than that in China, Indonesia, and the Philippines (see figure 1.7). Similarly, despite the rapid progress in creating wage jobs that has seen it catch up to Indonesia, Vietnam still lags behind Thailand, the Philippines, and especially the Republic of Korea in terms of the share of the workforce in a salaried job. What will Vietnam need to do to catch up? What will be drivers of Vietnam’s continued structural transformation in the labor market?

The pace of Vietnam’s continued economic modernization will depend on the success of its economic restructuring efforts. The skills of the workforce are a critical part of that. Continued economic growth, expansion of the nonagricultural sector, and its move up along the value chain will be contingent on sound macroeconomic policy, well-planned and executed public investment, and reforms in the enterprise and banking sectors (World Bank 2012b). But worker skills matter, too. This book shows that equipping Vietnamese workers with the
right skills will enable them to continue to take advantage of expanding opportunities in a growing, nonagricultural private sector. The remainder of this chapter first examines the role of education in the urban and rural labor market since the economic slowdown and then looks ahead to its likely evolution of labor demand over the coming decade.

The Role of Education in Vietnam’s Labor Market

Expanding educational attainment of Vietnam’s workforce has contributed to the shifts in the labor market. Over the last few decades, the share of Vietnamese without primary education has declined significantly, and many workers, especially in professional and technical occupations, now have secondary and higher degrees. Figure 1.8 presents educational attainment by birth year for those born between 1920 and 1988. Educational attainment increased rapidly for those born before the 1960s: the share of the population with primary education or higher rose from 10 percent to over 70 percent for those born after 1960. This rapid rise in educational attainment stalled, and even reversed in the case of lower secondary attainment, for the generation born during the turbulent war period. But the rapid rise in educational attainment continued for those born after 1980 with a particularly sharp increase for those with upper secondary education or higher.
The education profile of today’s workforce varies considerably across occupations. Basic general education at a primary level and below or at a lower secondary level continues to dominate the education profile of the bulk of Vietnam’s workforce today—workers in agriculture, in elementary occupations, sales and services, and among craftsmen (figure 1.9). In fact, few craftsmen have even basic vocational training, and only 30 percent of machine operators have completed any level of vocational training. Vocational education and training is predominant among technicians: almost half of technicians hold a professional vocational education and training degree and another 30 percent a higher education degree. Apart from technicians, the best educated are professionals, with almost 80 percent holding a university degree and another 10 percent a college degree. There is an important demographic aspect to this: younger workers are not only better educated than older workers, but they are also significantly more likely to work in professional and technical occupations.

Despite the large increase in educational attainment in recent years, demand for well-educated workers remains high, and the economy continues to reward them. The rapid increase in educational attainment shown in figure 1.8 is partly...
a response to expanding demand for workers with higher degrees, which has been growing even faster than the supply. This is particularly noticeable at the top end of the education distribution, where the number of college graduates has not kept up with demand. Among wageworkers, the returns to college and university education surged to 80 percent in 2008 (figure 1.10). The large increase in the number of lower and upper secondary graduates has helped moderate the increase in returns at these lower levels, but upper secondary graduates in wage work could still expect to earn more than 30 percent more than primary school graduates.

Strong demand for secondary and higher education graduates has remained robust during the recent years of economic slowdown, but the demand for poorly educated workers has been declining. As shown in figure 1.11, poorly educated workers in wage jobs were earning much less in 2010 than they were in 2007, suggesting a decline in the demand for workers with primary education or less. Meanwhile, returns appear to have hardly changed for graduates from secondary education and above during this period. Graduates with vocational education and training degrees are particularly attractive: earnings premiums for workers with elementary and secondary vocational education were higher than for workers with general lower and upper secondary degrees, respectively. The high rate of return for tertiary education can help to explain...
Figure 1.10 Estimated Education Earnings Premium among Wageworkers, 1993–2008

Source: Coxhead and Phan 2012.

Figure 1.11 Estimated Returns to Education among Wageworkers Relative to Lower Secondary Education, 2007 and 2010


Note: The returns are estimated using a Mincerian wage regression in which the logarithm of hourly wages is regressed against education, sex, and experience. Various robustness checks were performed to examine whether the relative returns profile is robust to controlling for sector and occupation.
the substantial rise in the share of youth acquiring a tertiary education but also signals the need to continue to expand the fraction of workers with these sought-after qualifications.

The urban private sector is a strong source of good jobs in Vietnam, and a secondary or tertiary education degree is increasingly a predictor of employment chances. Vietnam’s labor market appears to have become more bifurcated as public sector employment is declining and the structural transformation has slowed. Many well-educated workers in urban areas, in particular the young, are able to obtain wage work in the growing private sector. But many urban workers with primary or secondary education appear not to be attractive to private sector employers and are forced to take less productive jobs in agriculture (figure 1.12). The situation is starker still in rural areas, where even tertiary-educated workers struggle to obtain employment in the private sector and have to rely on agricultural employment. In short, the demand for well-educated workers in Vietnam is high and has remained robust during the recent economic slowdown.

**Figure 1.12 Change in Share of Employment by Education Group and Urban/Rural, 2007–10**

*a. Change in share of urban workers*

*b. Change in share of rural workers*

*Source:* World Bank staff calculations using Vietnam labor force survey data.
Education and skills are a predictor of labor market success more than ever before (see also box 1.1). How can the demand be expected to evolve over the coming decade and beyond?

**Looking Ahead: Skill Needs for an Industrializing Vietnam**

The transformation in the structure of Vietnam’s economy since doi moi has changed the type of work in Vietnam. The labor market that young Vietnamese job seekers face in 2014 is quite different from the labor market they would have entered in the early 1990s. The differences are evident not just in the employment patterns we described, but also in the sources of household income: in 1998 the majority of household income came from agricultural production; by 2010 the majority of household income came from household enterprises and wage employment. Through the eyes of recent labor market entrants, the expansion of the nonagricultural sector has changed the type of jobs they pursue, the careers they can aspire to, and the education and skills they need for these careers.

**Box 1.1 What Are the Barriers to Labor Mobility in Vietnam?**

Labor market regulations set the legal parameters for employment through, for example, a minimum wage or hiring and firing restrictions. These regulations are often considered protective in nature and are designed to address labor market imperfections, such as unequal power between job seekers and providers. However, they may come at an efficiency cost by affecting employment, unemployment, and earnings.

Employment protection legislation (EPL) does not appear to be particularly severe in Vietnam compared to other countries. The EPL index displayed in figure B1.1.1 compares some of the most critical EPL costs faced by employers across Organisation for Economic Co-operation and Development (OECD) and East Asia and Pacific countries. In de jure terms, Vietnam’s EPL is not particularly stringent for dismissals or regulation on temporary employment. Moreover, in de facto terms the impacts of regulations are likely to be relatively small because informal employment remains widespread, even among the wage employed.

This book argues that skills gaps, skills shortages, and information barriers represent the main barriers to labor mobility in Vietnam today and that labor market regulations play a subsidiary role compared with these other issues. Employers surveyed for this book stated that they consider workforce skills and experience bigger obstacles to their business operation and growth than EPL, (minimum) wage levels, or payroll taxes (figure B1.1.2).

Meanwhile, workers report that their main avenue for finding a job is their social network consisting of friends and family and not other, more formal, sources of vacancy and labor market information. People with limited networks—for example those living in rural areas far away from centers of economic agglomeration—have fewer chances to make good labor market (and education) choices. (See chapter 5 for further discussion of information barriers.)
Box 1.1  What Are the Barriers to Labor Mobility in Vietnam? (continued)

Figure B1.1.1  Employment Protection Legislation in Vietnam Compared with Other Countries, 2008–10

Note: Scores range from 0 (least stringent) to 6 (most restrictive). OECD (Organisation for Economic Co-operation and Development) and ASEAN (Association of Southeast Asian Nations) unweighted average. OECD average includes a sample of 30 countries. OECD figures are for 2010. ECA (Europe and Central Asia) figures are for 2007 and only reflect a total (with no breakdown by category). *** = ASEAN+ countries.

box continues next page
What will Vietnam’s future labor market look like, and what are the implications for skill needs? A look at Vietnam’s neighbors is suggestive of the direction that Vietnam might take in the coming decades and of the transformations in the type of work that will be conducted in the next stage of Vietnam’s development. The share of the workforce employed in agriculture in Korea, Thailand, Malaysia, and Vietnam has seen a long-term decline (figure 1.13, panel a). While approximately 50 percent of Korea’s workforce was employed in the agricultural sector in 1970, this figure had halved to 25 percent by the mid-1980s. Likewise, in Thailand the share of agricultural employment dropped from nearly 80 percent in 1970 to approximately 40 percent in 2008. The decline in agricultural employment was accompanied by an increase in employment in the manufacturing sector, from 13 percent of employment in Korea in 1971 to approximately 25 percent by the mid-1980s.

The sectoral transformation that occurred in more industrialized countries has been accompanied by a shift to more skill-intensive jobs. In Korea, Malaysia, and Thailand, the share of white-collar workers expanded over time. Figure 1.13, panel b, shows the fraction of professional and technical workers in the labor force between 1971 and 2008. Professional and technical occupations include chemists, doctors, lawyers, technicians in information technology and science, teachers, accountants, and mechanical, civil, and other engineers. Similar, but less pronounced, increases were seen in the fraction of clerical (pink-collar) workers, such as receptionists and librarians.
Skilled white- and blue-collar occupations dominate the manufacturing sector employment in these more developed East Asian economies today. In Thailand in 2010, approximately 10 percent of workers in manufacturing conducted elementary unskilled work, while 27 percent were machinery operators, and 45 percent were craftsmen.3

Placing Vietnam’s economic transformation in the context of its neighbors’ development paths suggests that its economy is at a transitional juncture. In Vietnam the labor force employed in agriculture has declined from more than 60 percent in 1993 to 45 percent in 2010, and the share of the workforce in manufacturing has risen by 50 percent from 10 percent to 15 percent of the labor force. These numbers put Vietnam in a comparable moment to Korea’s economic transformation in 1975, a point at which the economy was transitioning away from low value-added manufacturing activities toward heavy manufacturing (Kim and Hong 1997).

The skill-biased occupational transition that has taken place in more advanced economies in East and Southeast Asia is already under way in Vietnam. The demand for analytical and interpersonal skills has been growing in urban Vietnam since the early 1990s, while the demand for manual skills has been declining. Jobs that are nonrepetitive or nonroutine in nature—in other words, jobs that involve conducting different tasks on a regular basis—expanded between 1998 and 2010. At the same time, the jobs that require the worker to do the same tasks or movements all the time have been contracting (figure 1.14). Box 1.2 explains in greater detail how the measure of the skill content of the urban workforce has been constructed.
Box 1.2 Vietnam’s Occupational Changes through the Lens of Skills

The occupational changes that have occurred in Vietnam since the đổi mới reforms have changed the type of work that people do and the skills they use in the workplace. The analysis presented here uses the framework of Autor, Levy, and Murnane (2003) to examine the changes in the skills content of jobs. Jobs can be thought of as a series of tasks or activities, such as moving an object, presenting information, or conducting a calculation. A worker conducting a job needs to make overarching decisions on what tasks and activities to do next, through prioritizing tasks and making trade-offs in the face of unknown or partial information. For example, an engineer may be required to conduct and choose between multiple tasks, including complex analysis, to solve problems, to supervise members of a team, and to make presentations about their work. Classifying jobs into the skills they require allows researchers to consider the types of skills that are needed to conduct different types of work and to examine how the skills used in the workforce in Vietnam have evolved over time.

The Skills Toward Employment and Productivity (STEP) household survey conducted in 2012 and covering Vietnam’s urban working-age population asks individuals about the tasks that they conduct in their jobs. For example, workers are asked how often they have to think for at least 30 minutes about a problem or how often they learn new things in their workplace. Activities or tasks conducted in different occupations are separated into four main categories: routine or nonroutine activities, analytical work, interactive work, and manual work. Routine and nonroutine is used as a primary classification because it allows a separation of jobs into those that are predictable and repetitive (routine tasks, such as those conducted by assembly-line workers in factories) and those that require workers to be adaptive to changes in their...
environment and not repeat the same processes on a regular basis (nonroutine tasks, such as those conducted by architects, engineers, and salespersons) (table B1.2.1).

Using the information in the STEP household survey on the task content of jobs and data from the VHLSS, it is possible to estimate the fraction of the urban workforce that are in jobs using analytical, interpersonal, and manual skills between 1998 and 2010. The average skill used in occupations (at a one-digit level) can be calculated using the STEP survey, and then the average skill usage can be applied to the fraction of the urban population in that one-digit occupation, as captured in the VHLSS. An increase in the fraction of the population with, for example, nonroutine analytical skills implies that occupations that are relatively intensive in the use of these skills are expanding over time.

Figure 1.14 shows the evolution of these skills in the workforce over time, using the fraction of the workforce using those skills in 1998 as the benchmark. In absolute terms, the fraction of the population doing routine tasks and using manual skills continues to be high. However, the fraction of the population in jobs that use analytical and interpersonal skill sets has increased over time in urban Vietnam, while the fraction of the population in jobs that use manual skills has declined over time. Therefore, although work using manual skills continues to be in demand, there has been a gradual shift in the fraction of jobs that use analytical and interpersonal skill sets.

Analytical and interpersonal skills are in high demand and highly valued, as signaled by high wage returns to these skills relative to manual skills. It is not just that the use of analytical and interactive tasks has expanded over the last decade. These tasks also carry high wage returns. Figure 1.15 shows the return to conducting analytical, interactive, and manual skills, broken down by whether these skills are used in repetitive or nonrepetitive tasks.

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**Box 1.2 Vietnam’s Occupational Changes through the Lens of Skills (continued)**

**Table B1.2.1 Tasks and Types of Occupations Conducted in Different Skill Brackets**

<table>
<thead>
<tr>
<th></th>
<th>Analytical</th>
<th>Interpersonal</th>
<th>Manual</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Routine:</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Conducting short</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>repetitive tasks all the time</td>
<td>thinking for at least 30 minutes at least once a week</td>
<td>making contact with people other than coworkers</td>
<td>driving a car</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Nonroutine:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conducting short</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>repetitive tasks less than half the time</td>
<td>learning new things every day</td>
<td>making formal presentations to clients/colleagues to persuade them on a topic</td>
<td>operating heavy machines or equipment</td>
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<td></td>
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<tr>
<td><strong>Examples of jobs</strong></td>
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<tr>
<td><strong>Routine:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Armed forces officers, shop sales persons, machinery mechanics</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Nonroutine:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Architects, marketing professionals, finance professionals, teachers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Routine:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shop assistants, hairdressers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Nonroutine:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engineers, sales and marketing assistants and professionals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Routine:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Truck operators, food preparation workers, craftspeople</td>
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<td></td>
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</tr>
<tr>
<td><strong>Nonroutine:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shop sales persons, transport clerks, repairpeople</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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Analytical and interpersonal skills are in high demand and highly valued, as signaled by high wage returns to these skills relative to manual skills. It is not just that the use of analytical and interactive tasks has expanded over the last decade. These tasks also carry high wage returns. Figure 1.15 shows the return to conducting analytical, interactive, and manual skills, broken down by whether these skills are used in repetitive or nonrepetitive tasks.
The transition into jobs requiring more advanced cognitive and behavioral skills has already begun with the youngest generation of labor market entrants. Figure 1.16, panel a, shows the fraction of workers employed in professional and technical occupations, by location and age cohort. Among labor market participants aged 25–34, there appears to have been a sharp increase in the fraction employed in professional and technical occupations in urban areas. These occupations have also been on the rise among other age cohorts in urban areas, albeit less rapidly, and have also expanded to account for 7 percent of jobs among younger rural workers. In rural areas, as shown in panel b of figure 1.16, the expansion of the manufacturing sector has increased the demand for craftsmen and machine operators. The fraction of 25- to 34-year-olds working in skilled blue-collar occupations in manufacturing has more than doubled, from 7 percent of the rural workforce in 1998 to 18 percent in 2010.

Summary and Conclusion

The expanding educational attainment of its workforce has been an important driver of the rapid modernization of the Vietnamese economy since the launch of the đổi mới reforms. Universal primary education and expanding secondary education have helped workers make the transition out of agriculture into...
nonagricultural wage employment and from the rural sector to the urban sector. Education has become an ever more important predictor of success in finding a good job in the expanding occupations and in the urban private sector. While the majority of jobs are in skilled blue-collar occupations, employment in professional and technical occupations has grown rapidly in urban areas and with it the demand for workers with a secondary general and vocational or higher education degree.

The experience of Vietnam’s neighbors suggests that the sectoral and occupational transformations witnessed over the last 20 years are likely to continue.

**Figure 1.16 Growth of Employment in Technical and Professional Occupations among Different Age Cohorts**

(a. Employment in professional and technical occupations)

(b. Employment in manufacturing by occupations)

This transformation is not automatic, however, and the question to be answered is how fast its pace will be. Structural reforms and sound macroeconomic policies will matter in ensuring continued fast change, but so will the quality of Vietnam’s workforce. With changes in education and training taking a generation to result in a workforce equipped with the right skills, now is the right time to modernize skills development to ensure worker skills do not become a bottleneck.

Jobs that are likely to grow in Vietnam—in professional and technical occupations—require workers to have more advanced skills than those working in jobs that are likely to decline in demand over the next 20 years. Traditional jobs in agricultural and elementary occupations require routine and manual work. The jobs of the future involve performing increasingly complex tasks that require workers to be able to solve problems, learn on the job, and be responsive to shifting needs. The jobs of the future also require workers to have strong social and behavioral skills because they will require workers to conduct tasks such as working in teams and supervising others. These more complex tasks command higher wages, commensurate with the more advanced skill sets they demand. The next chapter will review the demand for skills by Vietnamese employers today and assess to what extent the education system is providing graduates with these skills.

Notes

1. Factor accumulation is an increase in the basic factors used to produce goods and services in the economy: labor and capital.
2. In 1993, 60 percent of rural household income came from agriculture and sideline activities (McCaig, Benjamin, and Brandt 2009). In 2010 approximately 34 percent of rural household income came from these activities (Badiani and Brandt 2013).
3. Due to changes in occupational codes over time, it is difficult to examine the change in the share of skilled blue-collar occupations in the manufacturing sector over time.

References


