



SECTION II

SPECIAL FOCUS ON LABOR MARKET - Building Modern Labor Market Regulations and Institutions in Vietnam

- 1. The landscape of jobs in Vietnam has shifted dramatically over the last 25 years.** While jobs in Vietnam were once characterized entirely by family farming, collectives, and state-owned enterprises (SOEs), over time employment has shifted towards manufacturing and services, household enterprises outside agriculture, and private domestic and foreign-owned firms. In 1989, 71 percent of employed Vietnamese worked primarily in agriculture, fishing, or forestry, and private employment was almost non-existent. Today agriculture, fishing, and forestry accounts for 46 percent of jobs, and 1 in 10 Vietnamese workers—about 5 million—hold a wage job with a private firm.⁸
- 2. The expansion of private-sector wage jobs is fundamental to the improvement of living standards in Vietnam.** Family farms, household enterprises, SOEs, and the government will continue to be a source of livelihoods for many workers, but only private sector wage jobs promise the potential for the rapid productivity gains needed to boost large numbers of Vietnamese workers into the ranks of the global middle class.
- 3. Private-sector job growth is determined by many factors.** The primary driver is the business environment, which includes strong, efficient market institutions, stable macroeconomic environment, and adequate infrastructure. Enterprises also need a well-educated and skilled workforce for growth. Policies regarding these “fundamentals” are the most important policy levers for job growth.

⁸ 1989 figures are based on analysis of the Population and Housing Census. Figures for “today” are based on analysis of the 2014 Labor Force Survey.

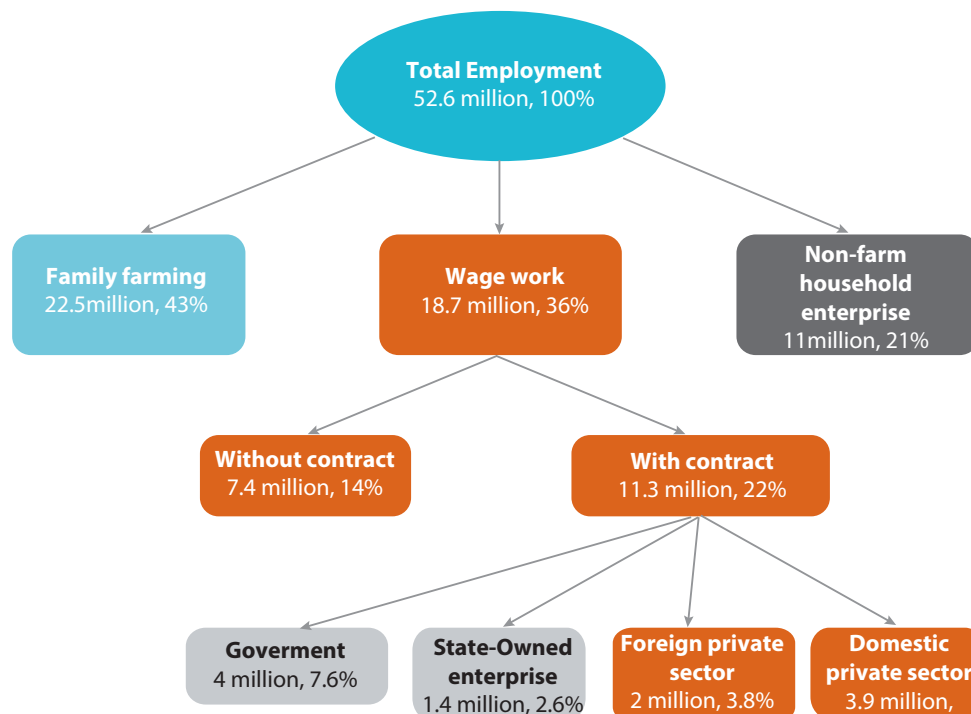
4. **Labor regulations and institutions can also be an important determinant of private sector wage growth.** Labor market policies have the potential to help people grasp economic opportunities in a risky world but need to be well calibrated to help households and society manage the risks. Labor market policies can mitigate the effects of earnings and employment losses, provide voice to workers, and facilitate the movement of labor and human capital to where they are most efficiently deployed. At the same time, inappropriate policies may increase individual and societal labor market risks. At the individual level, risks of jobs losses or sustained informality may be increased, while at a societal level they may result in slow formalization of employment, mismatches between earnings and productivity growth, or labor unrest. Poorly calibrated policies may also inhibit structural transformation by reducing movement of workers across geography, sectors, and types of work.

5. **Vietnam's labor market policies may be an emerging constraint to private wage job growth.** In the most recent data from 2009, just 1 percent of firms identified labor regulations as the chief constraint to firm growth. However, an additional 28 percent identified labor regulations as a minor or moderate constraint (World Bank, 2014a). Vietnam faces the danger that overly strict regulations today could be a future barrier to wage job growth. Regulations often benefit “insiders”—those workers who currently hold wage jobs—while smothering the creation of new jobs that would generate opportunity for “outsiders”—those who do not yet hold wage jobs. As the ranks of wage workers increase, insiders will become an increasingly powerful voice in favor of maintain policies that are to their advantage. This could make it difficult to change overly strict policies in the future.

6. **This special focus profiles key labor market issues in Vietnam.** The common theme is how to balance labor market flexibility and sustained productivity growth with policies and institutions to manage social risks in a more market-oriented economy. It begins with an outline of the structure of the labor market and continues with a look at two types of labor market regulations—the minimum wage and employment protection legislation—and then discusses the industrial relations system. It concludes with considerations for policy.

The Structure of Vietnam's Labor Market

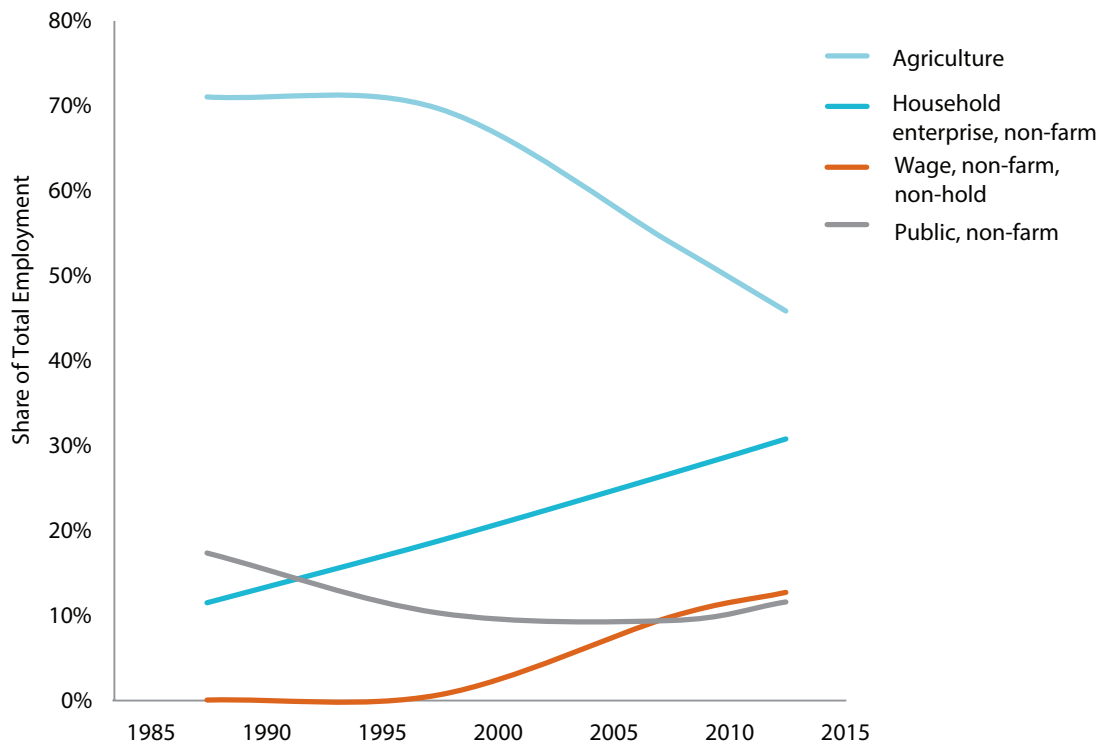
7. **Despite the rapid changes that have taken place in the last quarter-century, nearly half of Vietnamese workers still work primarily in family farming (including fishing and forestry).** Figure 1 shows a breakdown of workers in Vietnam by employer and broad type of job. Twenty-one percent of the workforce (11 million) consists of the self-employed and family workers in non-farm household enterprises. Wage workers number 18.7 million overall, but of those 7.4 million are in jobs without contracts, which would generally be classified as “informal.” Another 5.4 million wage workers work for the government or SOEs. The remaining group work in private sector wage jobs with contracts. These include 2 million in foreign-owned firms and 3.9 million in domestic private sector firms. Taking these two groups together, those working in private sector wage jobs with contracts constitute 11.3 percent of workers.

Figure 11: A Breakdown of Employment in Vietnam in 2014

Source: Analysis of 2014 Labor Force Survey data. In this breakdown, wage workers working for family farms or non-farm household enterprises are classified under “wage worker.” Nearly all such workers are without contract.

8. **Vietnam is amidst a vast transformation of its labor structure. Figure 2 shows the long-run trends by major job category.** The share of the labor force working chiefly in agriculture has dropped steadily since the start of the new millennium, at a rate of 1.6 percent point per year. At the current size of the workforce, this corresponds to a net movement of approximately 800,000 workers per year out of agriculture. These workers move into non-farm household enterprise and wage work, which have both seen their ranks swell over time. Household enterprises have generated a large boost in living standards for millions of Vietnamese but are limited in their potential for productivity growth. The future growth of Vietnam’s middle class will depend principally on the growth of wage jobs.

9. **Although the speed of the shift out of agriculture will be determined by other forces, the growth of wage jobs is influenced by labor regulations and institutions.** The following section considers three aspects of regulations and institutions in Vietnam.

Figure 12: Structural transformation*Employment Shares by Major Category, 1989-2014*

Source: Analysis of 1989, 1999, and 2009 Population Census and 2014 Labor Force Survey data. "Agriculture" includes fishing and forestry. This figure differs from Figure 12 in that here (1) the data for agriculture and non-farm household enterprise include wage employees, and (2) government and SOE employees are combined into one category: "public, non-farm".

Key Labor Market Regulations

a. Minimum Wage

10. **Vietnam's minimum wage regime has evolved over time.** The country first set a statutory minimum wage in 1992 that applied exclusively to foreign companies. The country's current minimum wage system was introduced in 2006. Under this system, minimum wages vary according to location and sector of employment. Prior to 2012, separate rates were set for government employees, domestic firms (including state-owned enterprises), and foreign companies. Since 2012, minimum wages have been aligned between foreign-owned and domestic firms. Minimum wages now vary by district; each district now has a minimum wage at one of four levels established nationally. As of January 2015, the minimum wage ranges from 2,150,000 dong to 3,100,000 dong per month. A separate and lower minimum wage-- known as the "reference wage" or "basic wage"—still applies to government workers: 1,150,000 dong.

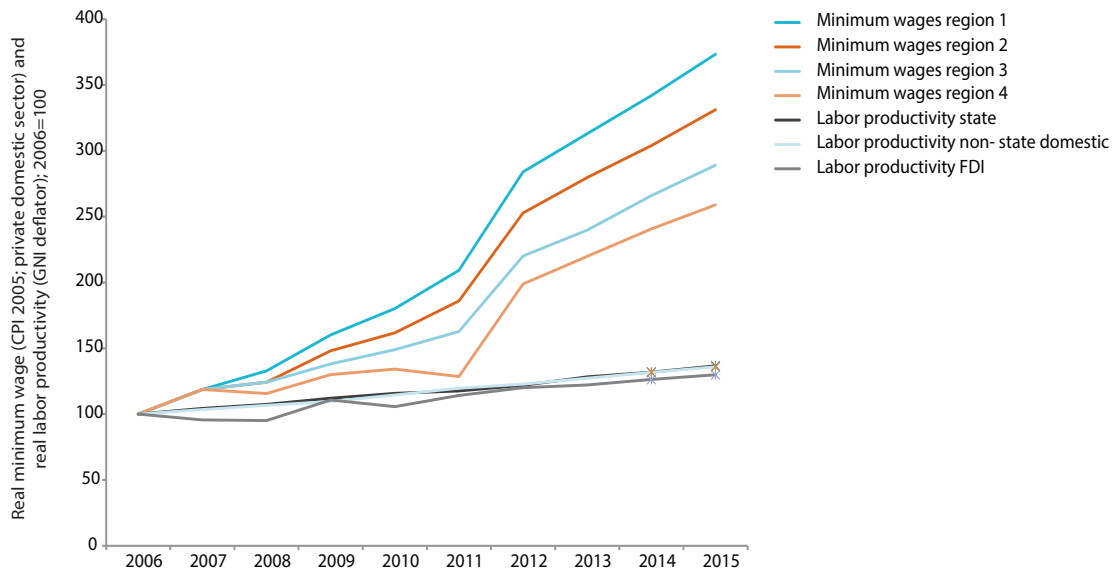
11. **The minimum wage in Vietnam is envisioned by the law as a tool to guarantee basic living standards for workers.** The 2012 Labor Code says, “The minimum wage is the lowest payment for an employee who performs the simplest job in normal working conditions and must ensure the employee’s minimum living needs and his/her family.” Minimum wage legislation has direct implications for the 22 percent of Vietnamese workers who hold “formal” wage jobs—those with the job contract required by the Labor Code. The minimum wage also forms the basis for calculating (a) wage scales for government staff/public sector workers; (b) wage scales for the payment of social insurance, unemployment insurance and health insurance for workers of state-owned enterprises (SOEs); (c) allowances for redundant workers due to the restructuring of SOEs; and (d) pensions, allowances for veterans, and some social transfers.

12. **The theoretical impact of changes in the minimum wage on employment is uncertain.** In the absence of strict enforcement, if the minimum wage exceeds worker productivity, employers may hire workers informally without contract to evade the minimum wage restrictions. Economic theory shows that in a perfectly competitive labor market with both a formal sector covered by the minimum wage laws and an uncovered informal sector, the effect of an increase in the minimum wage will be to shift employment from the formal to the informal sector. In the real world, labor markets are not perfectly competitive—large firms in particular can exert some market power—and thus the impact of the minimum wage is less clear cut. Theories of “efficiency wages” suggest that paying workers more induces higher effort, makes them more productive due to higher morale, and/or reduces worker turnover. In the presence of market power or efficiency wages, small changes in the minimum wage at low levels can have little or no effect on employment.

13. **Nonetheless it is likely that an extremely high minimum wage, if enforced, will reduce formal employment.** Increases in the minimum wage can also increase wages higher up the wage scale—and possibly reduce employment—through the “lighthouse effect” if some workers are paid multiples of the minimum wage. Given that Vietnam has attracted foreign direct investment (FDI) in part because of its low wages, there is a risk that a very high minimum wages will discourage further FDI and jobs it creates. Rising minimum wage levels have contributed to decreasing the country’s cost advantage relative to countries like Bangladesh or Cambodia where wages are still low relative to Vietnam (McKinsey Global Institute, 2012).

14. **Outside the government sector, Vietnam’s minimum wages have risen rapidly in recent years, outstripping productivity growth.** Figure 3 presents the growth of Vietnam’s minimum wages. By way of comparison, the growth of real labor productivity in the state, non-state domestic and FDI sectors are also depicted. The minimum wage increased most dramatically in 2012, when minimum wages in the domestic and foreign sectors were aligned. In real terms, the minimum wage has more than doubled since 2006, while productivity growth has been far less. It has been the Government’s stated ambition to raise minimum wages to a level that allows households to reach the “minimum monthly living standard” by 2018.⁹ This would imply further large increases.

⁹ Institute for Workers and Trade Unions (2014) study set this level.

Figure 13: Real Minimum Wages Have Risen Much Faster than Productivity

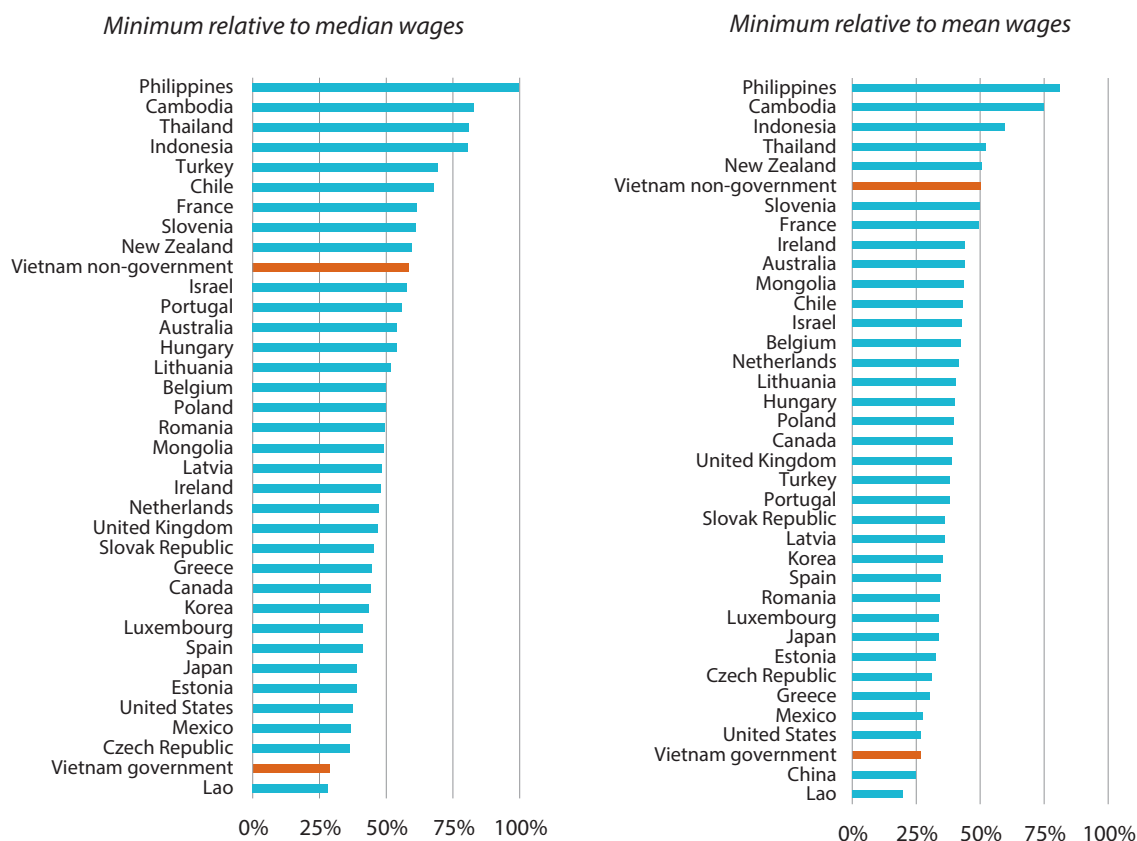
Source: Calculations based on MOLISA, VGCT, GSO, World Bank WDI and IMF WEO data.

Note: Depicted are non-government sector minimum wages. Points indicated by "*" are projections.

15. By simple measures—the ratios of the minimum to mean and median wages-- Vietnam's private sector minimum wage is somewhat high relative to other countries. A key benchmark of minimum wages is the relationship to median wages, and for Vietnam the picture differs sharply between the government and private sectors. Figure 3 depicts the ratios of minimum to average and median wages in Vietnam and selected countries in the OECD and EAP. The private sector minimum wage and the government sector reference wage are shown separately. Vietnam's reference wage is low by global and regional standards at around the 30 percent of the median wage, while the private sector minimum wage is high, with the average ratio of minimum to median wage around 58 percent.

Figure 14: Are minimum wages too high?

Minimum Wages Relative to Median and Mean Wages

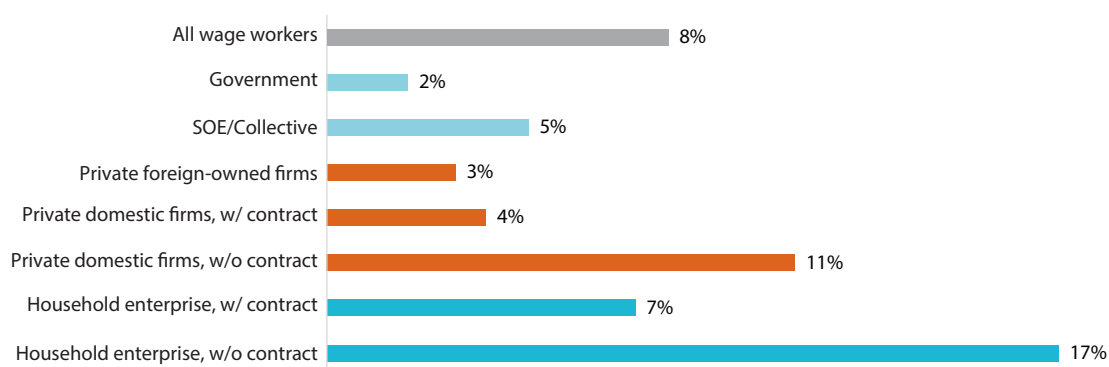


Source: OECD (2014); World Bank (2014a); Bank staff calculations based on 2013 LFS.
 Notes: Full time workers; data for 2013 (2008 for Laos; 2009 for Cambodia, Mongolia and Thailand; 2010 for China, Indonesia and Philippines); average MWs for China and Vietnam. Non-government sector includes SOEs, domestic and foreign-owned private firms.

16. **Studies that have examined the effects of recent changes in the minimum wage in Vietnam suggest that past minimum wage increases may have slightly depressed formal employment growth.** One study using 2006-2010 data found that minimum wage changes over that period were associated with slower private sector employment growth in the domestic private sector (Del Carpio, Nguyen, Nguyen and Wang, 2012). Another found that increases in the minimum wage over 2001-2012 increased average wages and moderately lowered firm employment in both private firms and state-owned enterprises (Hansen, Rand, and Torm 2015a). A third study, of the sharp increases in the minimum wage 2011-13, found that the changes substantially boosted wages at the low end of the distribution, but only in state enterprises and foreign-invested private firms, suggesting that the minimum wage is not fully enforced in the domestic private sector (Hansen, Rand, and Torm 2015b).

Figure 15: Below Minimum

Percentage of Full-Time Wage Employees Paid Less Than the Minimum Wage, by Type of Employer and Whether Employee Has Employment Contract



Source: Analysis of 2014 Labor Force Survey.

Note: Figures shown are for employees in their primary job, working at least 35 hours per week. Minimum wages are determined by district of employment. For purposes of this analysis, the applicable minimum wage for each individual was approximated based on province of residence in the LFS.

17. **The minimum wage is imperfectly enforced, particularly for workers without contracts.**

Overall, 8 percent of full-time workers are paid less than the minimum wage (see Figure 5). In government, SOEs, and private foreign-owned firms, almost all workers have employment contracts, and very few are paid less than the minimum wage. In private domestic firms, 11 percent of those without contract are paid less than the minimum wage. The number receiving less than the minimum wage is highest among those working for household enterprises without contracts (17 percent.) A 2012 audit across manufacturing firms found that 20 percent of firms falsified their records, and 33 percent had violations related to wages and benefits. Manufacturing firms that violate labor regulations (typically export-oriented firms) report fewer hours in order to appear to stay compliant with international labor standards regarding hours and to boost their reported productivity rates (Level Works, 2012). A report of garment firms participating in the Better Work Vietnam program found that 7 percent did not pay at least the minimum wage for ordinary hours of work (International Labour Organization 2014).

b. **Employment Protection Legislation**

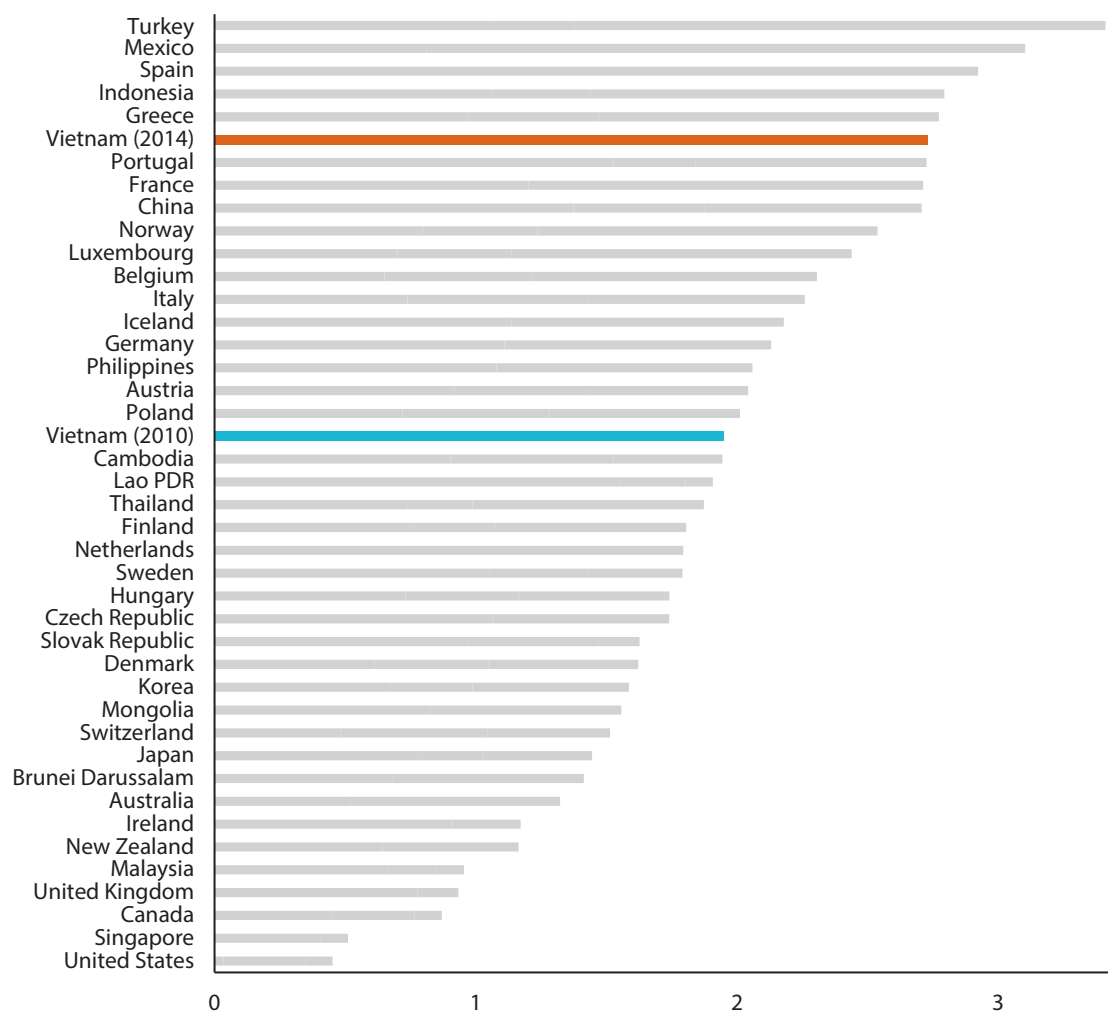
18. **Employment protection legislation (EPL) establishes terms for dismissal of workers by employers.** The intent of EPL is to provide some level of job security to those who are currently employed. Because overly restrictive EPL makes it more difficult to dismiss unproductive employees and to reduce employment during times of reduced demand, it may discourage firms from hiring workers in the first place, reducing both the overall level of formal sector employment and productivity.

19. **The OECD calculates an EPL index that compares some of the most critical EPL components and the costs they impart on employers.** The index is determined by three components: 1) protections of permanent workers against individual dismissal, 2) additional

requirements for collective dismissal, and 3) regulations and restrictions on temporary forms of employment. The value of the index ranges from zero to six, with zero being the least restrictive and six the most restrictive legislation. Figure 6 shows values of the EPL index for countries in the OECD and East Asia and the Pacific, including Vietnam's values in both 2010 and 2014.

20. Changes to the Vietnam Labor Code in 2012 have made Vietnam's employment protection legislation highly restrictive by global standards. In 2010, Vietnam's level of EPL was relatively moderate by comparison to OECD and other EAP countries. With the passage of the new Labor Code and Trade Union Law in 2012, rules on hiring and dismissals became more stringent in all three areas covered by the EPL index and, pushing Vietnam to a level of restrictiveness above that of France and Portugal.

Figure 16: Employment protection has become stricter
Index of Strictness of Employment Protection Legislation by Country



Source: Bank staff calculations based on World Bank (2014a) and OECD data for 2010; higher scores = stricter EPL.

21. **The most dramatic changes in 2012 were with respect to fixed term contract regulations.** The index became more stringent as a consequence of new regulations regarding outsourcing contracts and labor leasing enterprises. Under the new regulation, labor leasing enterprises have more restrictions, and outsourcing contracts are limited to a maximum cumulative duration of 12 months. These reforms moved Vietnam from being a country with moderately stringent restrictions on temporary forms of employment to one that is very restrictive.

22. **Evidence from other countries shows that restrictive EPL is often associated with lower formal sector employment, especially of young workers, women, new entrants to the labor market, and unskilled workers** (OECD 2004; Heckman and Pages 2004; Perry et al. 2007; Packard, Koettl, and Montenegro 2012; World Bank, 2014a). These groups tend to be among the first to be laid off when labor costs rise or to be blocked from entry altogether. Evidence suggests that more restrictive EPL raises the share of self-employment and decreases dependent employment in low- and middle-income countries (Betcherman, Luinstra, and Ogawa, 2001; Haltiwanger, Scarpetta, and Vodopivec, 2003).

23. **An important complement to more flexible EPL is active and passive labor market interventions, but both remain under-developed in Vietnam currently.** Protecting workers in flexible labor markets requires both “active” labor market programs like training and job search assistance, and “passive” benefits such as severance pay and unemployment insurance. Together with Thailand and China, Vietnam is one of only three developing countries in the EAP with a national unemployment insurance scheme, but coverage remains modest. Vietnam’s scheme was introduced in 2009, and is summarized in Table 2 in comparison with Thailand and China. Unemployment benefits in Vietnam are relatively generous. At 60 percent of average monthly earnings in the six months before unemployment, the replacement rate (the portion of income replaced by benefits) is higher than those of Thailand or China, and relatively high by global standards for middle income countries.

Table 7: Unemployment Insurance in Vietnam, China and Thailand

COUNTRY	AVERAGE UNEMPLOYMENT	UI BENEFIT DURATION (MONTHS)	QUALIFYING CONDITIONS
THAILAND	50 percent of average daily wage in highest paid 3 months during the 9 months before unemployment; the maximum daily benefit is 250 Bath	6 months in any 1 year	6-month contribution within 15 months before unemployment
CHINA	Flat benefit level set by local authorities; higher than local public assistance benefit, but lower than local minimum wage	12–24 months, depending on applicant’s years of contribution	Maximum of 1 year with less than 5 years of contributions; maximum of 1.5 years with 5 or more but less than 10 years of contributions; maximum of 2 years with 10+ years of contributions
VIETNAM	60 percent of average monthly earnings in the 6 months before unemployment	3–12 months, varying by contribution	3 months with 12–35 months of contributions; 6 months with 36–71 months of contributions; 9 months with 72–143 months of contributions; 12 months with 144 months+ contributions.

Source: World Bank (2014a).

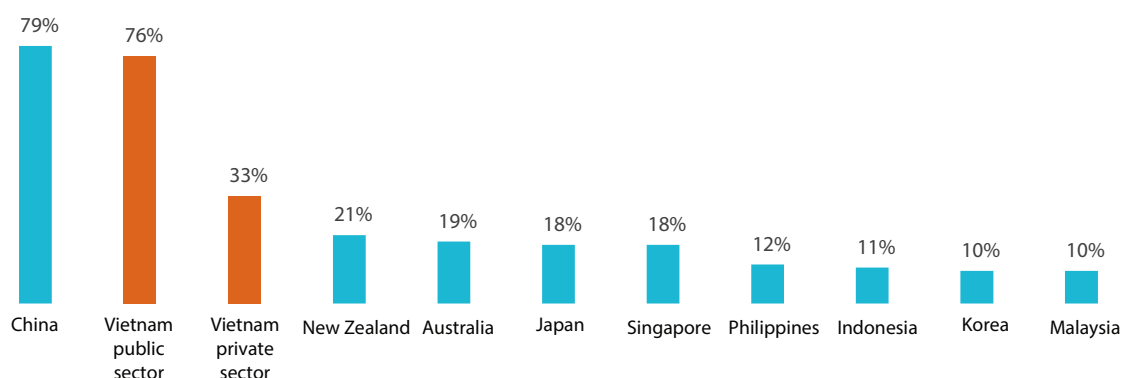
Industrial Relations

24. **Vietnam's industrial relations system exhibits the legacy of a planned economy and faces growing challenges to adapt to its central function in a market economy.** A central shortcoming is the lack of clear demarcation of the functions of unions, employers, and the state in the system, which limits the force of industrial relations as an economic and social mediator in Vietnam's economy, placing undue pressure on regulatory measures in the labor market.

25. **Vietnam has a relatively high unionization rate relative to countries in EAP, though there is a large gap between union membership in the public and private sectors.** Figure 7 shows union density rates among wage workers for Vietnam and a selection of EAP countries. For Vietnam, the figure further distinguishes between the public and the private sector. At 76 percent of wage employment, Vietnam's unionization rate in the public sector is almost on par with China's overall rate of 79 percent. Vietnam's unionization rate in the private sector is substantially lower at 33 percent. Despite this gap, even in the private sector the unionization rate in Vietnam is significantly higher than rates in most EAP countries.

Figure 17: Union membership is relatively high

Union Membership Rate (as Percent of Wage Employment) by Country



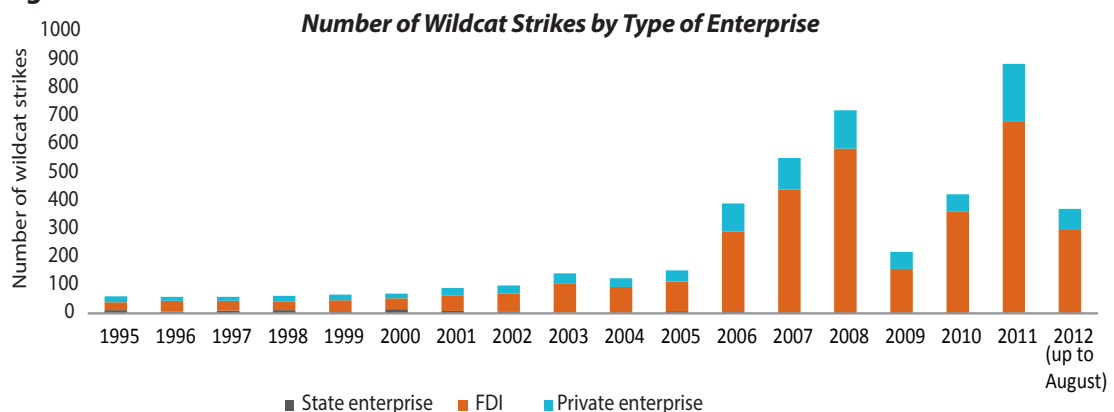
Sources: Bank staff calculations based on 2013 LFS, VGCL (2014) and World Bank (2012a).

Notes: Data for Indonesia and Philippines are for 2005, those for Vietnam for 2013, all others for 2010. Public sector includes government, public services and SOEs; private sector includes household enterprises, domestic and foreign-owned private firms.

26. **Many observers have highlighted profound weaknesses in Vietnam's industrial relations system (e.g. Clarke, Lee and Chi, 2007; Chi and van den Broek, 2013; Schweishelm, 2014).** In Vietnam all trade unions fall under the umbrella of the VGCL, which operates under the leadership of the Communist Party of Vietnam (CPV). The VGCL and its affiliated unions are tasked to fulfill a number of different roles which are not well aligned and result in conflicts of interest. First, enterprise-level unions have traditionally been close to management. Even in the foreign-owned sector, senior executives and managers are often union members and hold top union positions (Van Gramberg, Teicher and Nguyen, 2013). Second, unions act as "a transmission belt" between the CPV and working people and are supposed to represent these people in government decision making. Third, unions are tasked with representing workers' interests vis-à-vis firm management and providing welfare services to workers. This last function is at times subsidiary to other duties of union representatives. The roles for employers' associations are similarly complex.

27. **A symptom of the weaknesses in Vietnam's system of industrial relations is the country's high number of "wildcat" strikes.** While Vietnam's Labor Code explicitly regulates strikes, official procedures are so cumbersome and the role of trade unions is so unclear that apparently no strike has ever taken place that was strictly in accordance with the Labor Code. Instead, strikes have been "wildcat" strikes that have involved spontaneous work stoppages by employees and bypassed official procedures (Schweisshelm, 2014). Wildcat strikes have increased notably since the mid-2000s in Vietnam, though with considerable volatility from year to year and with the bulk of strikes in the FDI sector (Figure 8). The number of strikes has increased significantly in the 2000s, reaching a peak of over 900 in 2011, though almost no strikes occurred in SOEs (ILO, 2011). The increase in strikes is indicative of the under-developed nature of other mechanisms to resolve labor disputes. For example, the capacity of mediators and arbitrators appears particularly weak. Many of them work part-time, are overburdened with multiple and sometimes conflicting tasks or have insufficient training in collective bargaining and dispute resolution.

Figure 18: Wildcat Strikes are on the rise



Source: VGCL (2012) and World Development Indicators.

28. **The 2012 legislative reforms attempted to address long-recognized problems with Vietnam's industrial relations system.** First, formal procedures for settling industrial relations disputes were introduced. Second, the government was given a more active role in facilitating collective bargaining. Third, a National Wage Council was created as a tripartite institution involved in setting of minimum wages. Despite these measures, more fundamental issues with regard to the basic roles of trade unions and employers' associations have not been resolved. As a result, there continues to be a lack of well-functioning institutions for collective bargaining and dispute resolution.

29. **Vietnam's Labor Code appears to bear the weight of weak industrial relations institutions.** Minimum wages adjustments and more stringent EPL have been used to address insufficient power of workers to negotiate adequate wages and assure decent conditions of work. This has resulted in a "one size fits all" set of regulatory parameters that fail to respond to the varying interests and demands of workers and employers and are not necessarily adequate across all sectors or geographies or types of work. Some of the symptoms caused by the dysfunction of the industrial relations system have been treated, but real cure will only be possible if the underlying causes are addressed.

Policy Considerations

30. **Many policies can influence job creation.** The 2013 World Development Report on Jobs identified three broad areas of policy relevant to employment, which it labels fundamentals, labor policies, and priorities. “Fundamentals” include macroeconomic stability, an enabling business environment, human capital accumulation, and the rule of law. “Labor policies” include those regarding regulations and industrial relations. “Priorities” refers to initiatives to promote particular types of job creation. As noted at the beginning of this Special Focus, fundamentals are the most important determinants of job creation, with priorities and labor policies like those discussed here playing supporting roles.

31. **Nonetheless, whether Vietnam can realize the further transformation of its labor market will in part depend on the labor market policies that it pursues.** More specifically, it will depend on whether the country uses the current window of opportunity to address weaknesses that are already apparent before they transition from farms to factories and firms. One concept which characterizes the policy goals which Vietnam might aim for in its labor market policies is “flexicurity”. This involves striking a balance between flexible labor regulation which maximizes productivity growth and “creative destruction”, and the needs of workers for decent employment which is fairly compensated. Put another way, Vietnam should aim to “protect workers rather than jobs” as it deepens its structural transformation. The following paragraphs discuss the policy directions which could help to achieve such a balance in LM policies.

32. **The minimum wage will be most effective if it is determined primarily with reference to productivity and competitiveness factors.** To date, Vietnam has taken a “living wage” approach to minimum wage setting, with a primary focus on cost of living. As Vietnam matures as a market economy, shifting to a “wage floor” approach which puts a primary emphasis on productivity and competitiveness as the drivers of minimum wage adjustments should be considered. Factors such as price growth and relative earnings could remain factors but productivity would become a more crucial factor in minimum wage determination. Other policy instruments are more effective – possibly in combination with the minimum wage – for assuring that people who work are able to live above the poverty line. To achieve this shift in approach, in the short run, Vietnam’s private sector would benefit from moderating the rate of minimum wage adjustments. In the medium term, existing plans to anchor minimum wage adjustments to real productivity growth should be put into place. Examples of factors that are taken into account in setting minimum wages in other countries are provided in Table 2, and indicate the potential factors for Vietnam to incorporate in a minimum wage setting mechanism aligned with the practice of upper middle and high income economies.

Table 8: Criteria in Setting Minimum Wages in Various Countries

Economy	Minimum Wage approach	Key criteria in setting MWs
Australia	Wage floor	Productivity, business competitiveness, relative standards of living, workforce participation rate
Korea, Rep. of	Wage floor	Cost of living, economic growth rate, average wage level, labour productivity, unemployment rate, consumer price index, and income distribution. No fixed weight for factors and relevance of each determined within wage council debate and varies in time.
Taiwan, China	Wage floor	Conditions of national economic development, price index, national income and average individual income, labour productivity of different industries and employment situation, workers' wages in different industries, survey and statistical figures on household income and expenditures.
United States	Wage floor	Manufacturing productivity, affordability to employers, cost of living, wage levels.
United Kingdom	Wage floor	Pay differentials, inflation, business costs, competitiveness, employment, economic conditions.
France	Living wage	Overall wages and income CPI economic conditions, needs of workers and families.
Hong Kong SAR, China	Wage floor	General economic conditions, latest economic performance and forecasts, labour market conditions, labour demand, and supply, wage level and distribution, wage differentials and employment characteristics, competitiveness, productivity growth, labour costs, operating characteristics of enterprises, entrepreneurship, business sentiment and solvency, and relative economic freedom and competitiveness, standards of living, changes in employment and earnings and inflation

Source: Hong Kong SAR. China. Provisional Minimum Wage Commission.

33. **Vietnam could also benefit from streamlining existing EPL regulations to promote greater flexibility in its labor market.** First, Vietnam would benefit from loosening regulation of labor leasing enterprises and temporary and outsourcing contracts. Such reforms are likely to help foster mobility and efficient allocation of workers and make the regulated part of the labor market more attractive for firms and workers. In addition, Vietnam could look more closely at the interaction between employer-provided severance and unemployment insurance. Generally speaking, unemployment insurance schemes are more efficient than severance pay arrangements in pooling risks related to job loss. The potential substitutability of severance and unemployment insurance is apparently already recognized in Vietnam's Labor Code.

34. **To ensure that increased flexibility in the regulated labor market is accompanied by adequate security for workers, Vietnam should gradually expand coverage of unemployment insurance and active labor market programs.** Well-designed and implemented UI and ALMP such as public employment services can play a useful role in enhancing labor market efficiency and worker welfare (World Bank, 2012b).

35. **Improving Vietnam's industrial relations system will be key to addressing a number of fundamental challenges in the labor market.** In the short term, Vietnam should continue to strengthen efforts to increase the capacity of unions and employers' federations through awareness campaigns, training in collective bargaining, etc. In recent years, the VGCL has begun attempts to form enterprise unions independent from management, to increase the capacity of such grassroots unions, and to assure that unions actually represent workers' interests. These efforts should be supported and strengthened.

36. **In the medium term, Vietnam needs to consider more proactive measures to strengthen its industrial relations system and promote harmony in the labor market.** First, the VGCL and its affiliated unions could bar company executives and managers from key union positions (like being head of an enterprise union). This would follow the example of other countries – for instance Singapore – where company managers cannot hold principal union positions or sometimes even union membership. Second, Vietnam should continue to simplify regulations for resolving industrial relations disputes. Third, institutional reforms that allow the creation of firm-level works councils or labor-management councils as found in many European countries and South Korea could also be considered. Labor-management councils that bring together employer and employee representatives might help facilitate information sharing, promote employees' participation in decision-making processes, and build trust between employers and employees. Fourth, it will be beneficial to be more proactive in developing labor mediation and arbitration systems which provide channels beyond the court system for resolution of labor disputes when workplace institutions are unable to resolve matters amicably.

37. **In the long term, Vietnam needs to consider fundamental institutional reforms that could create an industrial relations system suited to the needs of a mature market economy.** One goal should be development of collective bargaining where the interests of workers, employer and the state are more properly represented in a true bargaining process. This is a process which China for example has accelerated in recent years, starting from an institutional set-up not dissimilar to Vietnam. In the long run, unions would become independent of government and the CPV and concentrate solely on representing the interests of workers. The example of Singapore is one where a single national federation of trades unions has over recent decades focused strongly on its worker presentation role independent of government, but in a non-adversarial manner which has resulted in almost no strikes or lock-outs (Box 1).

Box 1: Industrial Relations Systems in China and Singapore

During the last two decades China has experienced an increasing number of labor disputes. This led to a revised industrial relations strategy which sees trade unions as a key pillar of social management that should be able to function as a “protector” of workers and not just as a subordinate partner of the government. The institutionalization of industrial relations practices such as collective bargaining and tripartite consultation has also gained renewed importance.

Under the revised strategy, China has many initiatives by the government and social partners – the All China Federation of Trade Unions (ACFTU) and the China Enterprise Confederation (CEC) – with a view to improving the legal framework for industrial relations and to building new institutions of industrial relations such as tripartite consultation mechanisms and collective bargaining at various levels. In 2015, the Central Committee of the CPC and the State Council issued a policy document on building harmonious industrial relations with the objective of strengthening management of industrial relations, easing labor unrest by securing labor rights, implementing labor contracts and collective bargaining, and strengthening labor inspections.

As a result, China today has one of the highest trade union densities in the world, and collective bargaining coverage has also expanded at an unusually rapid pace. Nevertheless, the incidence of strikes continues to rise. Some observers argue that this is because of deficiencies in the collective bargaining system in terms of the quality of the agreements and the bargaining process itself. Trades unions are often still seen as ineffective, with enterprise-level trade unions often led by either a senior Party official or by a manager of the enterprise. Finally, some see China’s legal framework for industrial relations as problematic, as it recognizes neither the freedom of association nor the right to strike. In the absence of those rights, the government needs to intervene frequently to achieve its social policy goals.

In the 1950s and 1960s, Singapore also experienced a period of labor turmoil. But over the last five decades the incidence of strikes has declined practically to zero. Observers have acknowledged the critical role of Singapore’s industrial relations system in this process. The country’s main industrial relations actors are the Ministry of Manpower (MOM), the Singapore National Employers Federation (SNEF) as the main employers association and the Singapore National Trades Union Congress (SNTUC) as the only national federation of trade unions. Affiliation to NTUC is voluntary but the vast majority of unions are affiliated.

The work of the NTUC and the Singaporean labor movement focuses on three elements: First, workplace representation and protection of workers including collective bargaining and grievance handling. Second, improvements to workers’ quality of life through provision of a range of services such as access to recreational facilities. And third, political advocacy on behalf of workers. The NTUC’s leadership of the labor movement has been marked by pragmatism. For example, in 1969 it agreed to abandon an adversarial approach to industrial relations so as to make Singapore attractive for foreign investors. Since 1981 the NTUC has pushed for skills upgrading and productivity improvements, and has even supported wage freezes and wage cuts during periods of recession.

In terms of Singapore’s practices of industrial relations and collective bargaining, private sector collective bargaining usually takes place at the enterprise level. Generally speaking, collective bargaining covers two broad categories: matters related to salary and to other conditions of employment. Unions tend to conduct collective bargaining in a coordinated manner to achieve uniform results across different enterprises and categories of workers. Singapore’s Industrial Relations Act forbids “rank and file” unions from engaging in collective bargaining on behalf of executive and managerial staff.

Sources: Lee (2006), Lee (2009), Neo and Thiagarajan (2009) and People’s Daily (2015).

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