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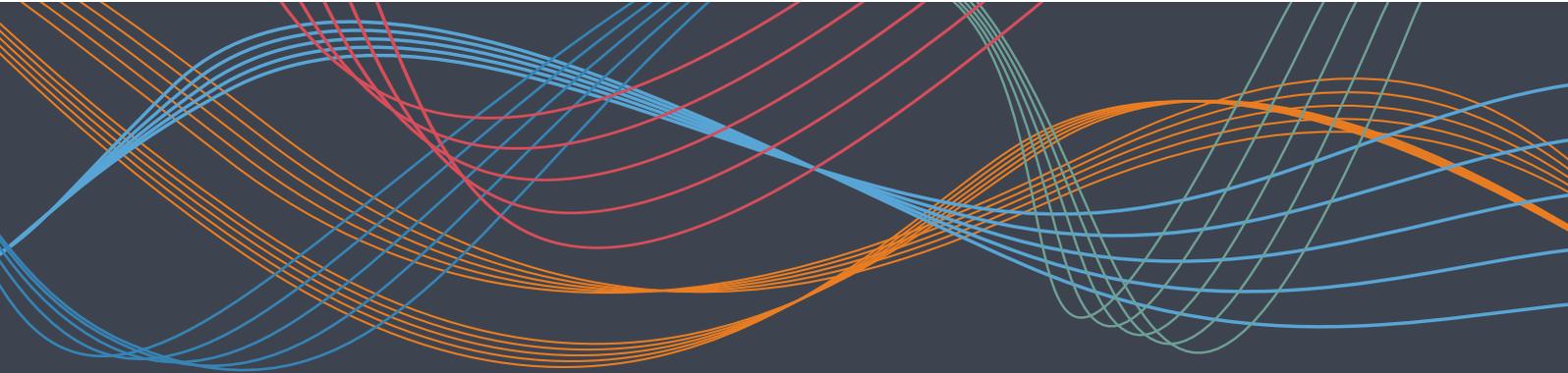
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BUILDING A *HIGH-SKILLED* ECONOMY:
THE NEW VIETNAM



ManpowerGroup™

Vietnam does not come first to mind when considering Asia’s emerging economies. Attention has focused more on India and China. Yet the country has a good story to tell of solid, consistent growth and bright promise.

At the same time, Vietnam faces a dilemma. While low cost labor has helped fuel Vietnam’s growth, it is likely to become an impediment if the country doesn’t improve its workers’ skills quickly. These skills cover basics usually acquired through formal schooling, including communication and computer skills, machine operation and other industry-specific skills often learned through vocational or corporate programming. These improved skills will allow domestic and international businesses to upgrade operations and introduce new products and services. The Vietnam labor force “is young” and has “potential,” says Than Trong Phuc, Director of Intel Office in Vietnam and Indochina, “but the company usually has to equip the new recruits with additional training before they can start working.”

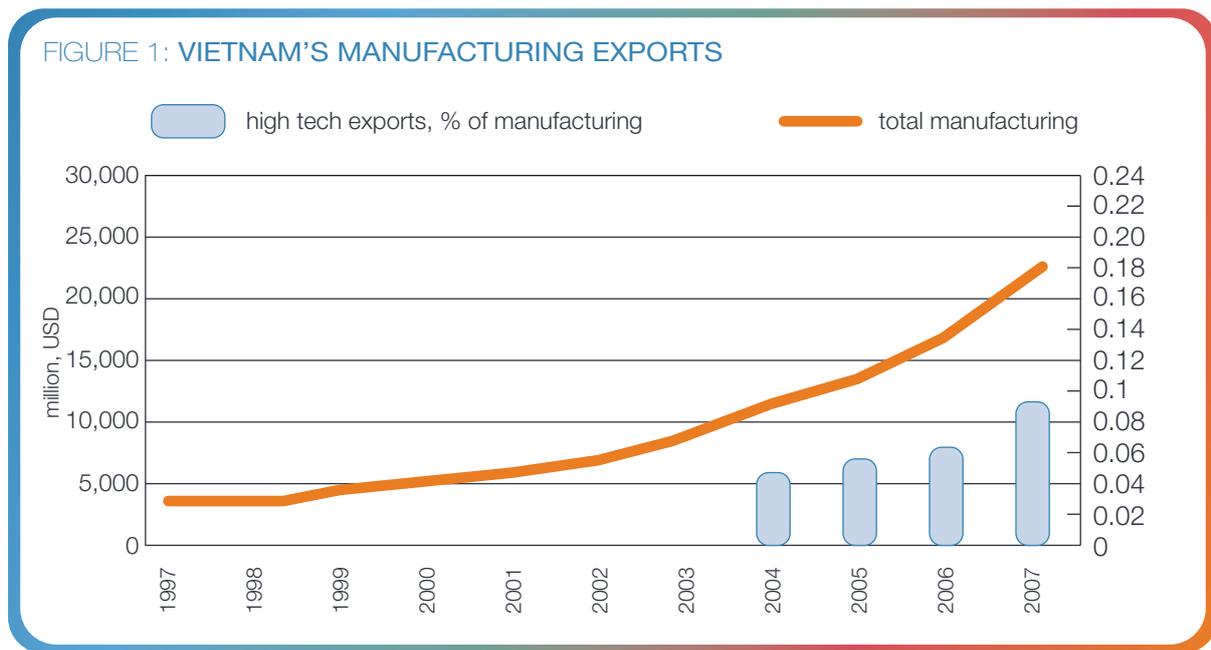
The onus will be on companies, government and educators to address these skill shortages.

Vietnam may have a window of up to five years to maintain its competitive advantage over other markets, emerging or developed. This paper offers a snapshot of the country’s labor force challenge and ways to solve it.

Present Growth, Future Potential

Vietnam’s annual 7 percent rise in gross domestic product over the past decade places it squarely among the world’s faster-growing economies. Manufacturing exports have spiked annually about 20 percent since 1997, and high tech by 50 percent as a share of the GDP since 2004. There’s also clearly a lot of growing room. The country is politically stable. The government is determined to build on Vietnam’s economic momentum and the workforce is industrious and eager to improve. This combination of factors has created a favorable climate for investment and entrepreneurship.

The recent global downturn sapped some of the country’s economic momentum. GDP fell slightly in the first quarter of 2011 and inflation remained higher than for other countries in the region, requiring the government to adopt tighter monetary controls.



SOURCE: Trading Economics

However, many experts identify Vietnam as a country that could make even greater strides in the near future. A 2005 report by the investment bank Goldman Sachs predicted that Vietnam's economy will rank 17th in the world by 2025 with a GDP of nearly \$450 billion. A paper by the consultancy PriceWaterhouseCoopers forecast a possible growth rate of about 10 percent annually. According to statistics compiled by the U.S. government, Vietnam ranked 11th among 149 countries worldwide in investment as a percentage of GDP on fixed assets, such as factories, machinery and equipment, and 13th in its industrial growth rate.

Direct investment from foreign countries has spiked yearly about 22 percent since 2001. A survey by the influential business publication, Nikkei Economic Times, found that the number of Japanese firms investing in Vietnam rose over a four-year period starting in 2006 from 200 to more than 1,000. In a separate study by the Japan Bank for International Cooperation, Vietnam ranked third in the medium term as a country with high potential for trade with Japan. Japan, Taiwan, Singapore and Korea are the largest foreign investors in Vietnam.

"Vietnam's economy will remain strong in the next two decades, supported by an expanding private sector, which will contribute to greater competition and more efficient

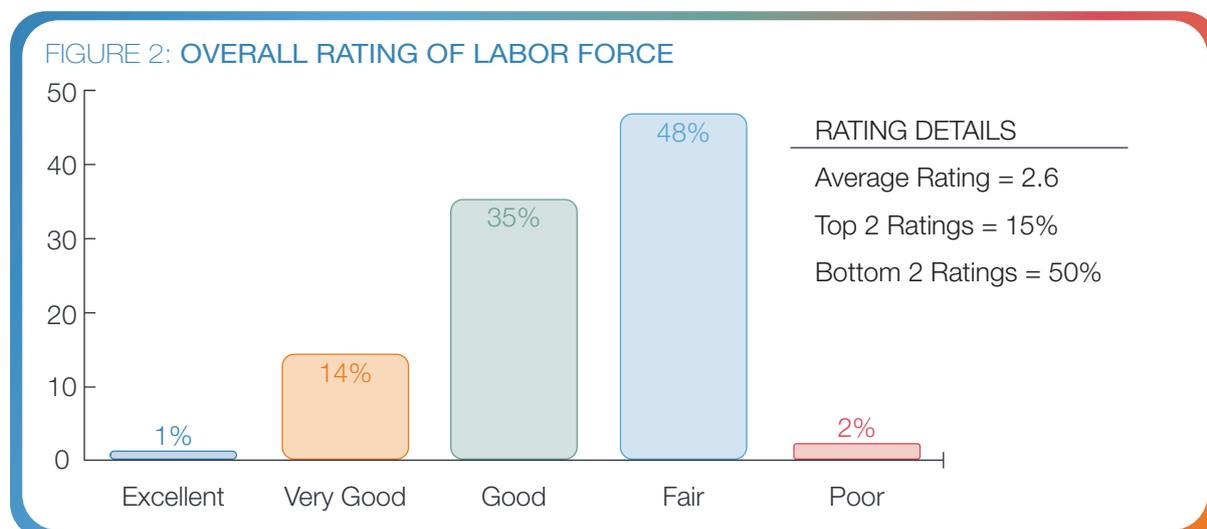
resource allocation," said a 2011 Economist Intelligence Unit report. "Wide-ranging economic reforms will bolster foreign investors' confidence and will pave the way for a sustained rise in foreign direct investment, which will contribute to the upgrading of technology and greater competitiveness."

Low Cost, Low Skill Labor: A Boon Now But Not Later

An analysis of Vietnam's labor force is a good news, bad news story.

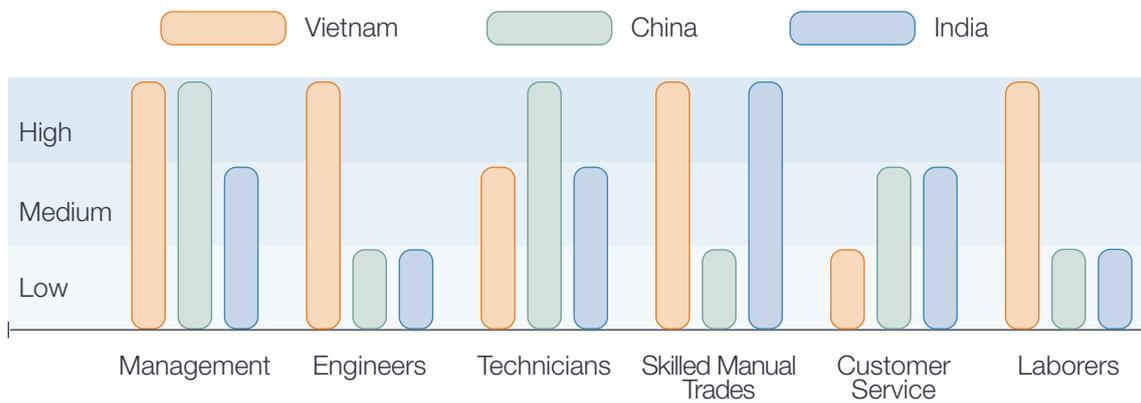
First the bad news: In a ManpowerGroup/TNS survey (see Figure 2), respondents ranked Vietnam's workers in the bottom 10 percent regionally. About one in two employers said the labor force was fair or poor and one in three said that they were not able to find the skills they need. A separate ManpowerGroup/LSSA survey found that roughly two in five Vietnam executives said they were having trouble filling jobs.

This shortage is far more severe than in the area's most prominent, emerging powerhouses, China and India. And it cuts across different levels, industries and professions. ManpowerGroup/LSSA survey respondents (Figure 3) said that Vietnam was experiencing "high shortages" in four of six



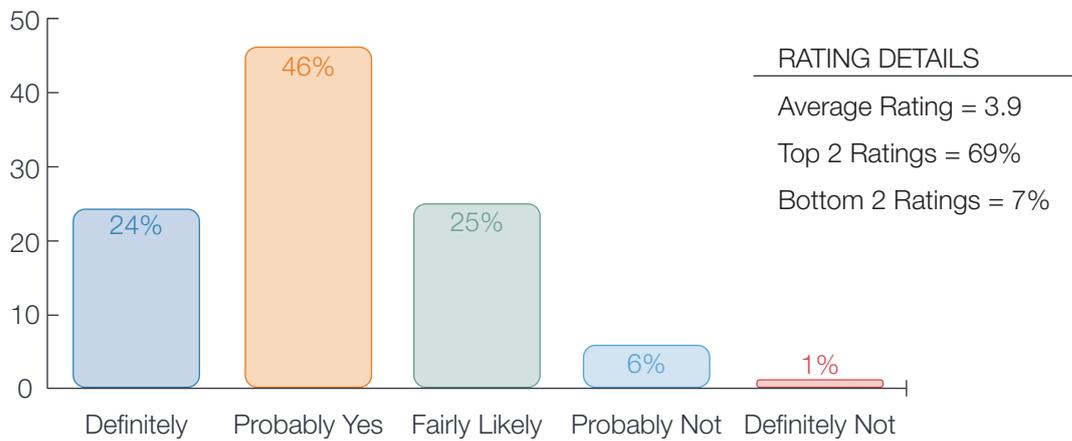
SOURCE: TNS Survey produced for ManpowerGroup, 2011

FIGURE 3: VIETNAM SKILLS SHORTAGE COMPARED TO CHINA & INDIA



SOURCE: ILSSA/ManpowerGroup Survey, 2011

FIGURE 4: RECOMMENDATION AS BUSINESS LOCATION



RATING DETAILS

Average Rating = 3.9

Top 2 Ratings = 69%

Bottom 2 Ratings = 7%

SOURCE: TNS Survey produced for ManpowerGroup, 2011

major job categories—laborers, management, engineers and skilled manual trades. It had low skill shortages among customer service professionals and medium shortages among technicians.

China had “high shortages” in only two of six categories (management and technicians), India in just one (skilled manual workers). In a separate question, Vietnam employers in six industries—mining and construction, manufacturing, transportation and utilities, wholesale and retail trade, services, finance, insurance and real estate—had more difficulty filling jobs than those in the same sectors in China.

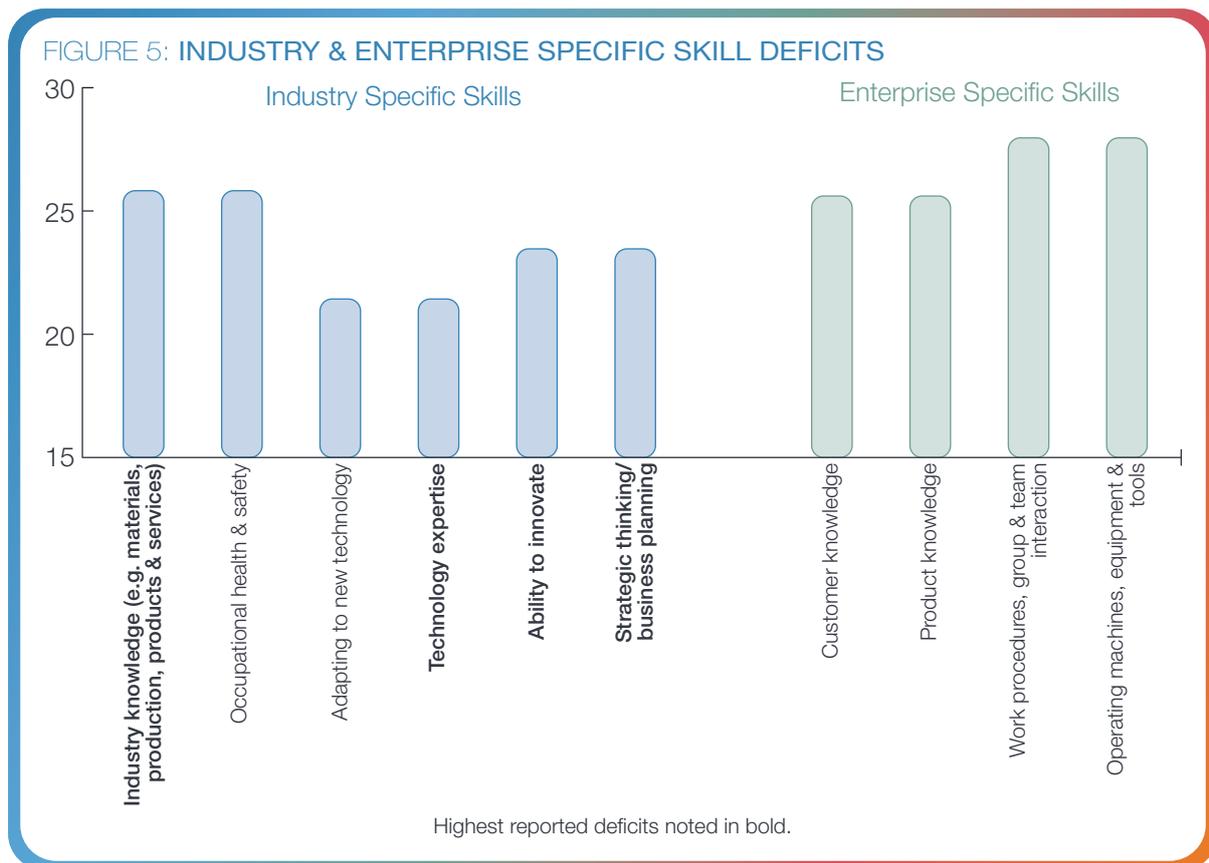
Yet despite the lack of skilled talent, the low cost of Vietnam’s labor presents an advantage in attracting investment. About seven in 10 employers surveyed by ManpowerGroup/TNS (Figure 4) said that they would recommend Vietnam as a business location and about three in four said they’d re-establish a business there. Clearly, executives believe that the country has enormous growth potential. Herb Kochan, the executive director of the American Chamber of Commerce (AmCham) in Ho Chi Minh City, said a large number of American multi-national corporations—both services and manufacturing—have moved their operations from China to Vietnam due to the latter’s lower labor cost and more favorable business climate.

Still, data also underlines how low-cost, low-skill labor may delay progress. The country has plenty of workers who can perform simple tasks, such as field or assembly line work, but it falls short in a number of areas where more education is necessary. These skills may be instrumental to a company’s success. The shortage looms particularly large in jobs that require vocational training. The country will need more blue-collar workers with the technical and computer skills to operate sophisticated machinery, train others and manage large plants, among other tasks.

About one in four respondents said that Vietnam workers lacked knowledge of materials, production, products and services. Roughly the same percentage indicated technological expertise and an ability to innovate as barriers to recruiting. Innovation often stems from in-depth industry knowledge. About one in five said that workers lacked knowledge of safety or an ability to adapt to new technology. Indeed, Lee Chon-kin, the honorary chairman of the Korean Chamber of Commerce in Ho Chi Minh City said that a shortage of skilled workers was one of the reasons some Korean companies had not been able to upgrade their factories in Vietnam: “We planned to move advanced machinery to Vietnam but we could not find enough technical workers to operate the machines,” said Mr. Chon-kin. “We need skilled labor but the skilled labor is not enough. Vietnam needs more schools to provide training to workers, even basic skill training.”

The ManpowerGroup/TNS survey revealed particularly acute shortages in certain industries. For example, high shortages in technical expertise, industry knowledge and occupational health and safety procedures afflicted food processing. A high shortage of technical expertise was present in the healthcare, construction, transportation and logistics, and chemicals and fertilizer industries. High shortages in the ability to adapt technology and occupational health and safety were a problem in the textile industry.

This is not to underestimate serious skills gaps at the management level. These include general management and motivational skills, an ability to develop and manage resources, delegate responsibility or grasp legal or financial basics. A number of respondents said that executives also lacked foreign language proficiency. This may be largely due to the scarcity of larger, long-standing, private enterprises and well-established executive talent to model the necessary backgrounds.



SOURCE: TNS Survey produced for ManpowerGroup, 2011

The ManpowerGroup/TNS survey found skills shortages that applied to both management and blue collar workers. About one in four respondents said that Vietnam's workforce was not dependable or quality conscious enough and lacked communication skills. A slightly smaller percentage said Vietnam workers fell short in ensuring a safe, clean work environment, adapting to new and changing situations, managing and completing tasks and absorbing and applying new information. Such skills have been increasingly important for companies to differentiate themselves and gain competitive advantage. There were also gaps in foreign language, computer and financial proficiency, innovation and the ability to motivate others. These latter two areas have been increasingly tied to success because they enable companies to solve problems and create new products and services faster than the competition. The former Vice Chair of the Vietnam Chamber of Commerce and Industry

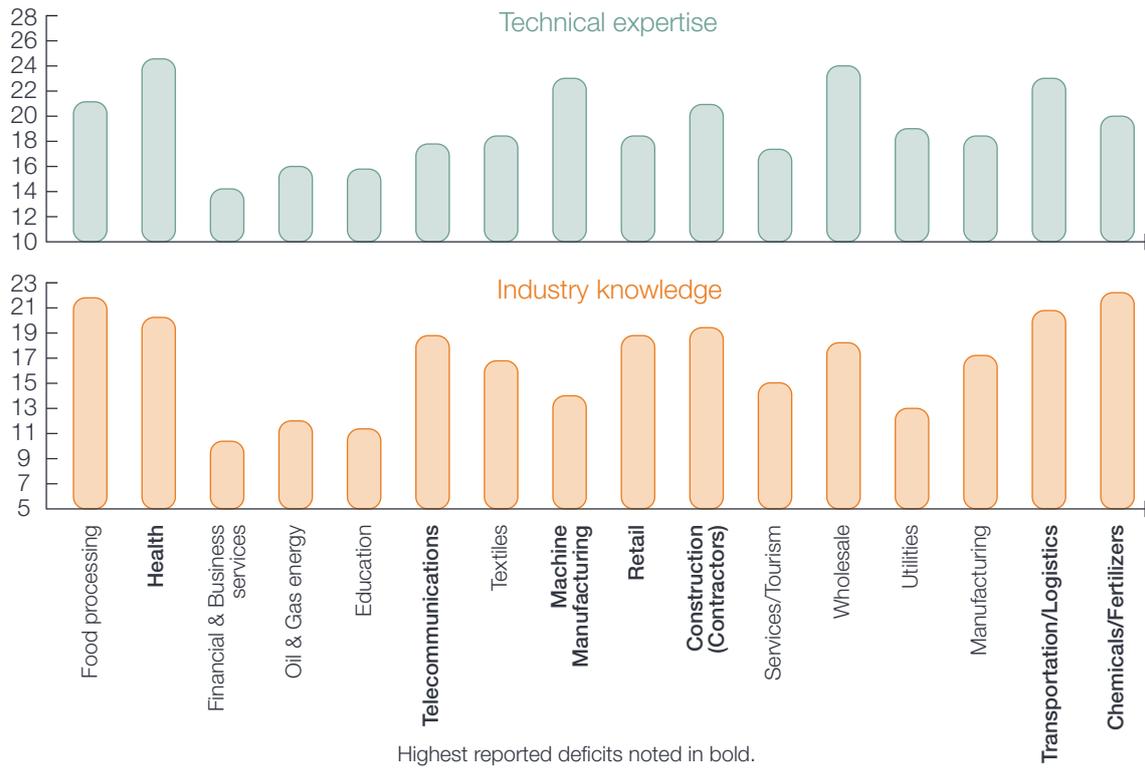
(VCCI), Pham Chi Lan, said that the shortage of basic skills was affecting Vietnam's ability to compete economically worldwide.

Vietnam In The Human Age

Vietnam's skills shortage comes as the world enters a new era, The Human Age. The Human Age rivals the Bronze and Iron Ages, the Industrial Revolution and Information Age in importance but differs in that human potential – not technology or natural resources – has become the driving force behind enterprise and economic growth.

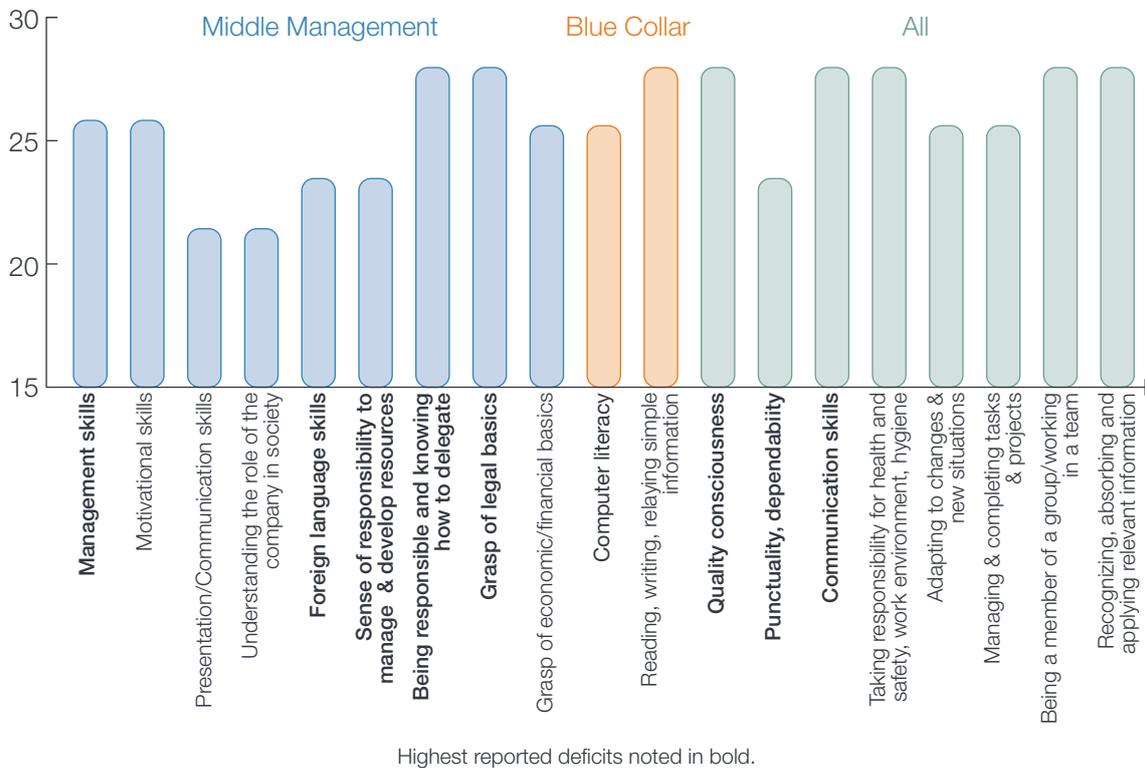
This new laser focus, prompted not only by advances in technology but by rapid economic globalization which is shifting demographics and worsening talent shortages, has already required companies to allocate more resources to ensure they have the best employees. Securing talent is especially important for emerging economies whose growth may be

FIGURE 6: SPECIFIC SKILL DEFICITS BY INDUSTRY



SOURCE: TNS Survey produced for ManpowerGroup, 2011

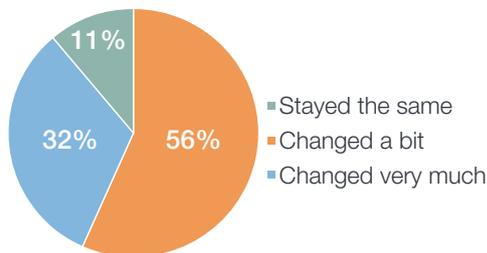
FIGURE 7: GENERIC SKILL DEFICITS



SOURCE: TNS Survey produced for ManpowerGroup, 2011

FIGURE 8: SKILL REQUIREMENTS WILL CHANGE THROUGH INVESTMENTS IN TECHNOLOGY

Required skills over time



Growth of Business

74%	Focusing on local market only
17%	Focus on local markets with interest in foreign/international markets
8%	Both locally & Internationally equally
1%	Focus on foreign/international markets with interest in local market
1%	Focus on international/foreign markets only

Investment Levels in Technology

52%	Will significantly increase
36%	Will slightly increase
11%	Stable/the same
0%	Will slightly decrease
0%	Will significantly decrease

- A third of the employers have in the past seen significant changes in their skill needs
- For most employers local markets provide enough opportunity for future growth...
- ...but with significant introduction of new technology

SOURCE: TNS Survey produced for ManpowerGroup, 2011

fragile. An inability to recruit or develop the right skills at the right moment may stymie even the most promising growth.

Companies will have to be more nimble in this fast-changing world. One in three employers in the ManpowerGroup/TNS Survey said they expected major changes in the skills they will need. About nine in 10 employers said technology usage would increase, placing a premium on technology skills. This survey also found a significant shortage of computer skills among blue collar workers. This comes as many companies are increasingly relying on software to increase the efficiency of machinery and production lines.

To compete successfully in the future Vietnam will have to improve an education system that has not been able to develop sufficient skills and is second rate compared to other countries'

systems. The country is determined to improve education, increasing the state budget in this area from 13 percent in 1998 to 20 percent in 2010 and 23 percent this year. China and India spend about 13 percent of their budgets on education.

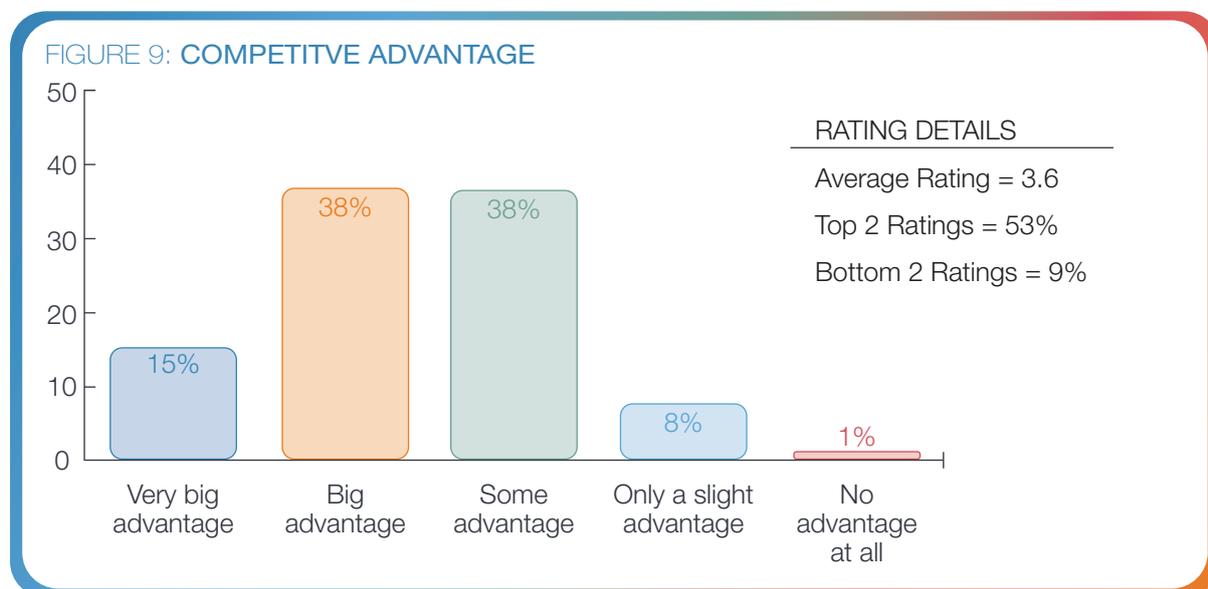
Weaknesses In Vietnam's Educational System

Vietnam has not yet funneled enough of its future workforce into the sort of secondary and vocational schools where they can learn better skills. Part of the problem has been a lack of capacity. The country has added a significant number of schools and colleges in recent decades and has increased teacher training. Yet it will have to improve in both areas if it is to meet the potential demand of its young population. Vietnam's median age is 29.

At the same time, the country is not sending enough students to colleges and universities. According to Vietnam's Ministry of Education and Training (MOET), of the 1.2 million students who annually complete their secondary school education, just 300,000 move onto higher education. The roughly 1.6 million students attending the country's nearly 400 colleges and universities represent only about 3 percent of the population. And the 30-1 teacher-student ratio is high, caused largely by shortages of PhD's and other qualified teachers. The importance of improving these numbers is

clear: The ManpowerGroup study found that companies' satisfaction with their employees increases with the level of education and that individuals holding a bachelor's degree tend to have the necessary skills.

Still, Vietnam's low cost labor and entrepreneurial spirit offsets this disadvantage. There is also a clear willingness in both the public and private sector to make improvements that will be more conducive to growth. Nearly nine in 10 ManpowerGroup/TNS survey respondents said that they saw at least some competitive advantage in the Vietnam labor force.



SOURCE: TNS Survey produced for ManpowerGroup, 2011

Recommendations

Vietnamese companies will have to play a more active role in labor force development. That will mean evaluating their needs more carefully and adapting employee training strategies, particularly at the executive level where skill shortages are crucial but not always readily apparent. The ManpowerGroup/TNS survey found a number of "blind spots," skill areas that were being largely overlooked because they were not perceived as pressing needs. These included foreign language skills, understanding

of financial basics, innovation, computer literacy and the ability to motivate employees.

The country's firms will have to work closer with government, schools, colleges and universities to create curriculums that address current conditions but can also meet new challenges. Secondary schools and colleges can address certain generic skills, including communication, computer literacy, and the ability to work in teams. Vocational programming can help workers improve technological skills, project management and develop a better

understanding of materials, production and services, work procedures and safety issues, not to mention an ability to innovate and adapt.

For example, advances in technology may require fresh expertise. Working for a foreign business might necessitate grounding in unfamiliar machinery, operations and safety protocol, or improved language skills. Companies are usually the first to determine the skills they'll need and how readily.

About 95 percent of the ManpowerGroup/TNS survey respondents (double-checking the reference on this one) said that colleges and universities had to be improved. Private enterprises might even help add to the more than 200 colleges and universities built in Vietnam over the past dozen years or contribute to teacher training.

At the same time, companies will have to focus more on engaging their employees by creating a better work environment and focusing more on career development. The ManpowerGroup/

TNS Survey found that only 15 percent of employees are "true advocates for their firms." Indeed, the majority of those whom survey respondents described as good at their jobs were not thoroughly committed to their organizations. Companies that traditionally excel at engagement listen to their employees' needs, create more development opportunities, share information about strategy and operations and repeatedly demonstrate the importance of their organization's products and services.

Executives themselves will have to play a more active role in their employees' development and wider initiatives to improve Vietnam's workforce. They will have to anticipate likely skills shortages sooner, encourage programs that address these gaps and provide opportunities through new jobs and project work. They may become more directly involved through mentoring or by bringing in outside consultants to pinpoint weaknesses and create initiatives for building skills. This combination of efforts will ensure short- and long-term success.

