



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia

# Labor Market Study in Hai Phong

*August, 2021*



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# Executive Summary

- ◆ **Part One: Labor Availability**
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# Executive Summary

Hai Phong is the biggest port city of Northern Vietnam, the third-largest city after Ho Chi Minh and Hanoi, and one of the most important industrial hubs of the country. Over the past five years, Hai Phong was one of the fastest-growing cities in terms of GRDP across Vietnam. With an upgraded infrastructure system, a favorable geographical location in addition to the immense support from the government, Hai Phong carries significant potential for foreign investment opportunities.

Hai Phong City has abundant workforce with young labor structure and high labor productivity. The quality of labor in recent years has also gradually improved; the trained labor has partly met the requirements of the business and the labor market. The labor demand is expected to rise significantly as more industrial parks are likely to be inaugurated in the next few years; in particular, the demand for unskilled labor is likely to rise further. Labor cost in Hai Phong is considered to be lower compared to its peer regions, such as Bac Ninh – Bac Giang or Binh Duong – Dong Nai.

The government has been continuing to improve the investment and business environment in Hai Phong. Tax incentives have been one of the key elements in this metro area's tax policy, helping it to become an attractive investment destination for foreign direct investment. Along with tax incentives, a number of infrastructure improvement and upgrading projects have been completed and put into use, thereby gradually improving the quality and safety of the infrastructure in the city.

Strategically situated on the edge of the Red River Delta and with close proximity to the border with China, Hai Phong serves as a major trading hub. The city has many container ports that have been invested and continue to expand, contributing to the development of the logistics services, and has increased the competitiveness of this city vis-a-vis other provinces in the region.





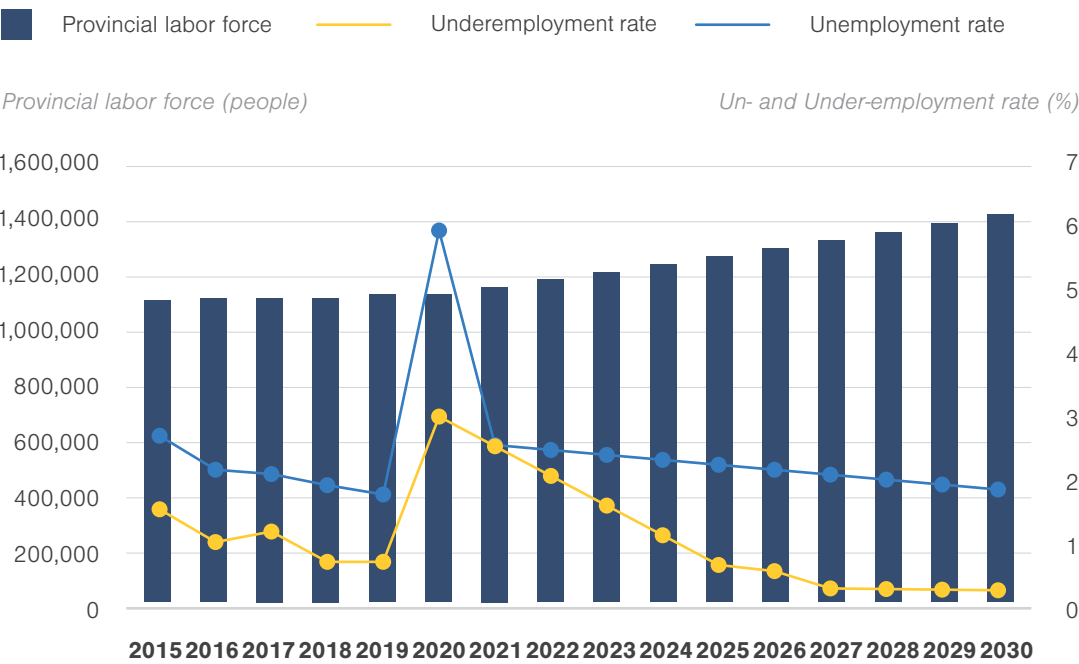
# Labor Availability

- ◆ Labor Supply
- ◆ Labor Demand
- ◆ Future Development

# Labor Supply

As an industrial port city, Hai Phong is one of the places with great potential for economic development. The number of workers choosing Hai Phong as a destination to live and work is increasing, making the job market in Hai Phong increasingly attractive and competitive.

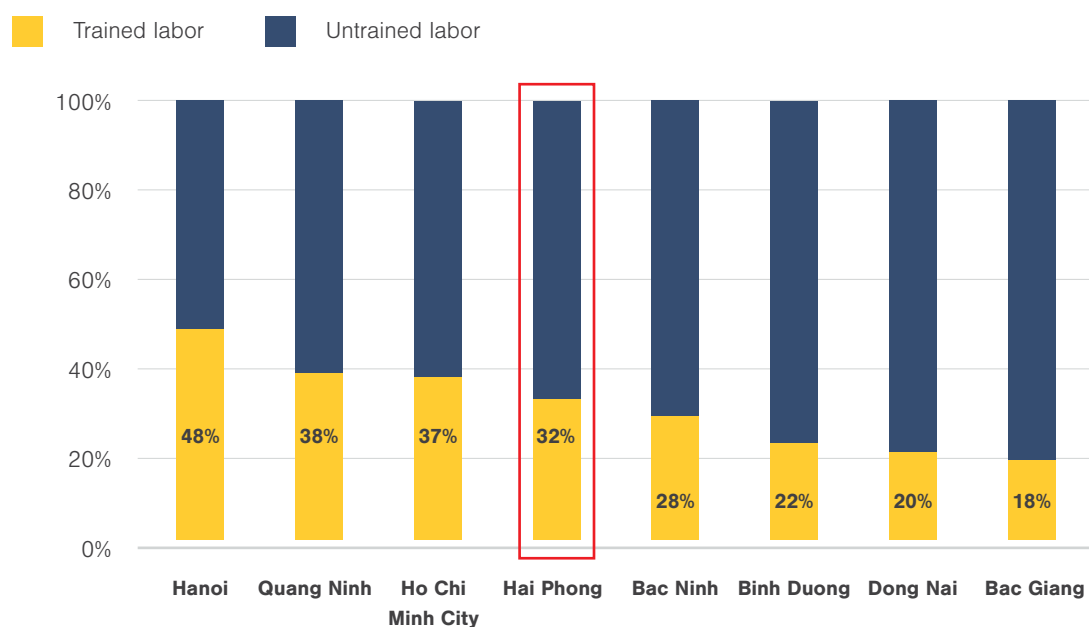
Labor Supply in Hai Phong, 2015-2030



Source: General Statistics Office of Vietnam (GSO)

Hai Phong remains as the province with high concentration of labor in Vietnam, especially of trained workers. The city is also considered as the manufacturing hub of the Northern Vietnam that has over 20 years of experience in industrial zone operation. Percentage of trained labor at 15 years of age and above in Hai Phong is 32%, which is a high percentage among other provinces in Vietnam.

### Percentage of trained labor aged 15 years and above



Source: Provincial Competitiveness Index (PCI) 2020

Education and Training indicators, 2020	
Universities and Colleges	
Number of universities	4
Number of colleges	25
Annual number of graduates from universities and colleges	15,000
Vocational Training	
Number of vocational training institutions	59
Number of occupations	100
• Number of international level occupations	21
• Number of ASEAN-regional level occupations	23
• Number of national level occupations	29

The province's labor supply comes mainly from the locality. Large companies (usually over 1,000 employees) that need a large number of labors will find employees in neighboring provinces such as Hai Duong, Quang Ninh or Thai Binh Province. A large number of unskilled labor is also sourced from nearby mountainous provinces, such as Lao Cai, Yen Bai, and Son La Province. There is also an amount of migrant workers from other distant provinces, such as from central regions (Thanh Hoa, Nghe An Province). While it is reported by industrial parks in Bac Ninh, Vinh Phuc (Northern Vietnam) or Binh Duong, Dong Nai (Southern Vietnam) to face difficulties in recruitment, Hai Phong has a good labor supply.

The number of labor choosing Hai Phong as a destination to live and work is increasing. With the growing number of investors coming to this port city, labor will have a lot of opportunities to work in large enterprises with high incomes, creating an attractive and vibrant job market. According to the National Internal Migration Survey, the Red River Delta, which covers Hai Phong, seems to be the region that is most attractive for migrants for employment. 50% of people migrated to this area with the aim of getting a job in a new place. The other reason many migrants choose to come to this area is for attending school/university (22.2%), getting married (13.5%) and to stay close to relatives (10%).

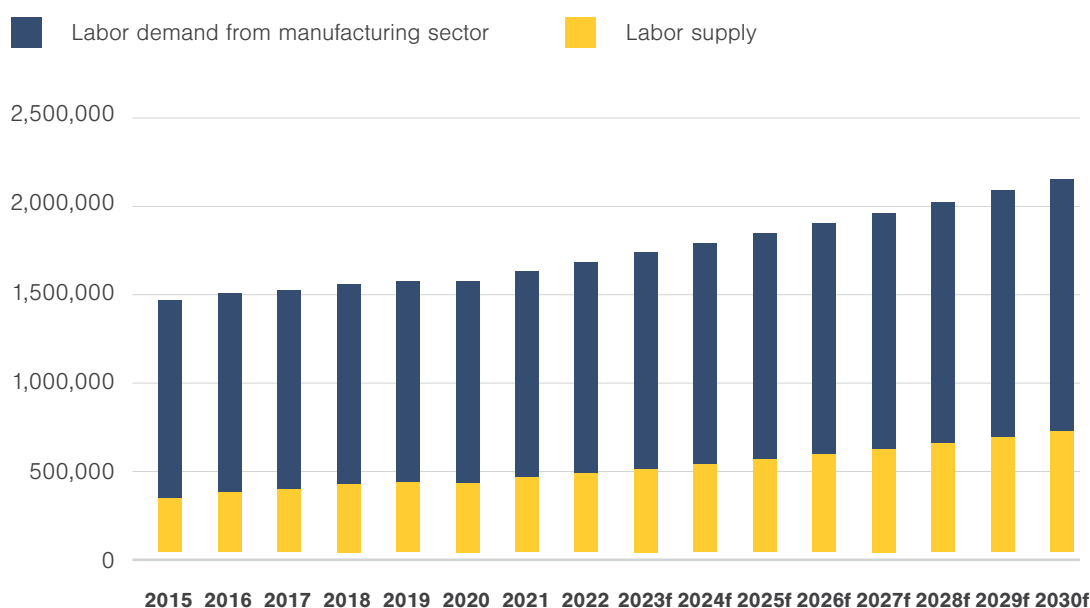
Unskilled labor tends to stay within the area or in the vicinity of the industrial clusters located there. If there is any movement of unskilled labor, then that movement is only from one province to another neighboring province within the region, particularly to areas where key manufacturing players are located. Students graduating from universities in big cities such as Hai Phong tend to find a job and stay there after graduation, as they are economic centers of the country with higher income and higher living standard.



# Labor Demand

With the advantage of being a seaport city, Hai Phong is currently one of the cities with the largest industrial investment attraction in the country. Industrial parks have been developed in large scale. The demand for personnel in all industries inside the industrial parks is therefore significant.

## Hai Phong's labor demand and supply



Source: DSA calculation based on data of General Statistics Office (GSO)

According to the Hai Phong Labor Federation, there are 177,000 people working in enterprises in economic zones and industrial parks alone. In the next 5 years, the city will continue to attract large projects of domestic and foreign investors and it is expected that the demand for labor in Hai Phong economic zones and industrial zones will increase nearly double, reaching about 280,000 employees in 2025.

# Future Development

Labor competition in DEEP C is significantly lower than that in its peer areas (IPs in Northern provinces like Bac Ninh, Bac Giang and IPs in Southern provinces like Binh Duong and Dong Nai). This lower competition is due to a more diversified manufacturers located in the zone. That said, some enterprises still have difficulty in accessing labor supply for niche positions in the city.

Nevertheless, labor competition is expected to ease in the next decade, driven by increasing labor migration to the thriving business community of Dinh Vu – Cat Hai economic zone and rising trend of automation in production processes.

The flow of labor migration is corresponding with this economic development trend. It is a matter of fact that labor shortage reported by some businesses in DEEP C have been filled by migrated workforce from neighboring provinces or even mountainous areas. In the next decade, DEEP C is expected to continue drawing stable supply of migrated labor that are not local residents. Improving infrastructure and facilities are also key conditions to attract labor to the industrial park.

Another prevailing trend reducing labor competition in the area is the automation in production processes. Even though only a small portion of businesses in DEEP C is planning to adopt automation technology, the trend is projected to gradually spread among manufacturing businesses across all industrial sectors and slow down the growth in labor demand in the next decade.



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## Labor Cost and Productivity

- ◆ Labor Cost
- ◆ Labor Productivity
- ◆ Future Development

# Labor Cost

A salary is understood as an amount the employer pays the employee under an agreement for a work performed by the latter. Salary equals base salary plus allowances and any other additional amount. The base salary must not be less than the statutory minimum wages.

## Comparison to Regional Peers

Vietnam is one of the countries whose the lowest labor costs compared to other ASEAN manufacturing hubs. The table below highlights the top two countries in terms of labor cost in each job category.

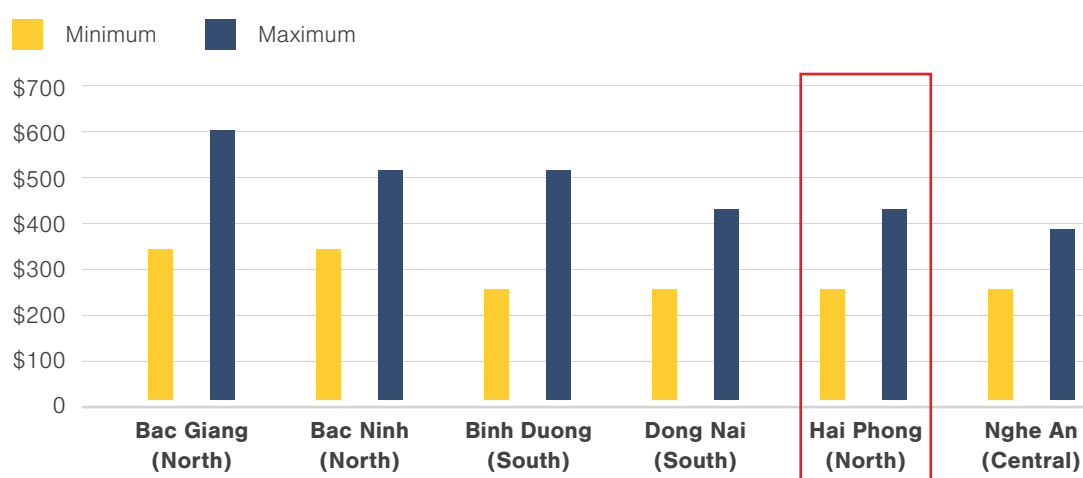
Average wages of ASEAN countries					
Country	Monthly salary (US\$) (monthly amount of real obligation fees): Total liability for an employee (the total of annual base salary, benefits, social security, overtime allowances, and bonuses, excluding severance benefits, as of FY2020)				
	Manufacturing: Worker	Manufacturing: Engineer	Manufacturing: Manager	Non-manufacturing: Staff member	Non-manufacturing: Manager
<b>Indonesia</b>	508	730	1,541	664	1,571
<b>Thailand</b>	678	1,149	2,227	1,387	2,526
<b>Vietnam</b>	344	649	1,375	794	1,688
<b>Philippines</b>	399	618	1,561	837	2,068
<b>Malaysia</b>	587	1,140	2,173	1,250	2,679

Source: DSA estimation



Hai Phong is among the industrial clusters that offer lowest salary in Vietnam. According to Navigos Search, labor cost in Hai Phong is now only higher than Nghe An, its Central competing area, while remains lower than Bac Ninh, Bac Giang, Binh Duong and similar to Dong Nai.

### Monthly salary of operators in industrial clusters in Vietnam

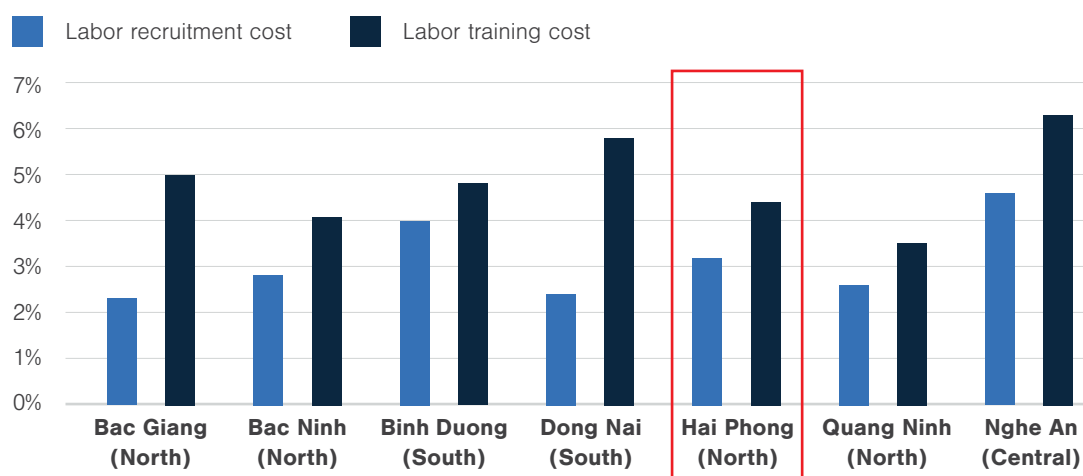


Source: Navigos Search

The variance in the upper benchmark depends largely on the number of overtime hours. In electronics clusters like Bac Ninh and Bac Giang, workers tend to do lots of overtime.

Furthermore, Hai Phong has relatively low recruitment and training cost, according to the Provincial Competitiveness Index 2020.

### Labor recruitment and training costs as percentage of business cost

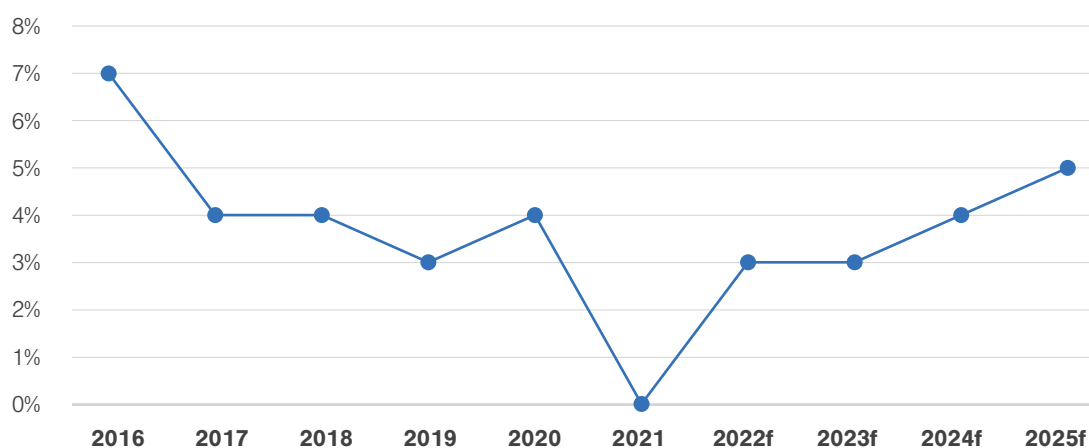


In this context, labor cost for investors in Hai Phong in general remains competitive compared to other regional peers.

## Forecasted Labor Cost Growth

**Annual labor cost growth in the manufacturing sector (direct labor),  
Hai Phong, 2016-2025**

*Growth*



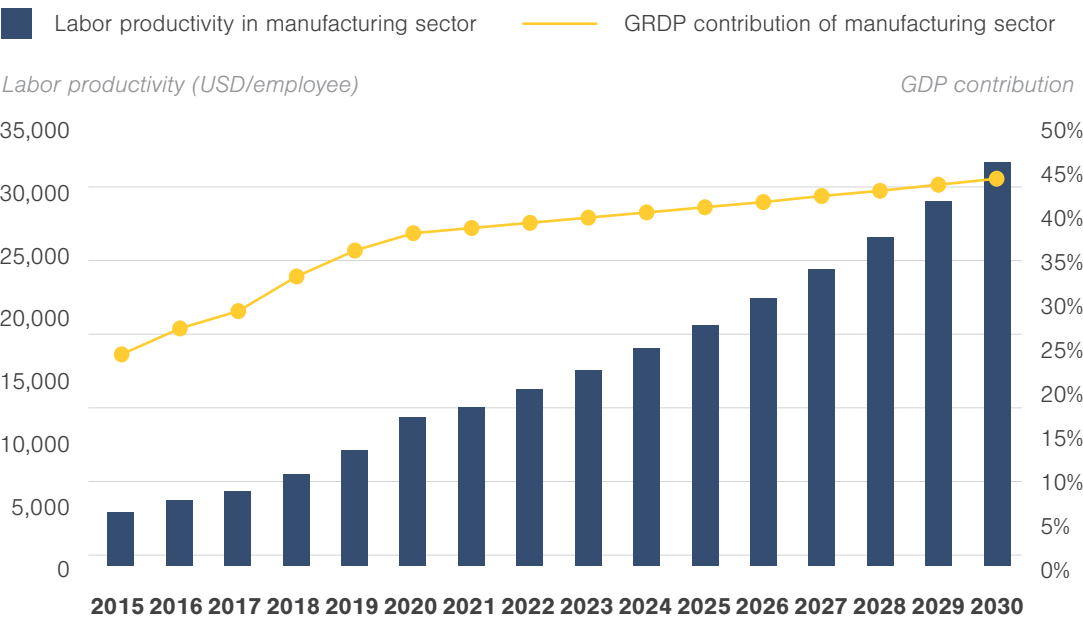
*Source: DSA estimation*

Due to economic challenges posed to businesses on account of Covid-19, the minimum wage is kept unchanged in 2021, and the labor cost is witnessed no increase this year. However, next year, with good disease control of the government, and most businesses have actively resumed operations, Labor cost is expected to gradually increase every year, but only around 5%. Skilled labor can get a higher raise between 8 -12%.

# Labor Productivity

Labor productivity is the indicator reflecting the working performance of labor, measured by Gross Domestic Product to a worker on an average in a calendar year.

## Labor Productivity in Hai Phong



Source: DSA calculation based on data of General Statistics Office (GSO)

Over the years, Hai Phong's labor productivity has continued to improve significantly by a steady increase, which has made Hai Phong to be a province with a high labor productivity growth rate in Vietnam.

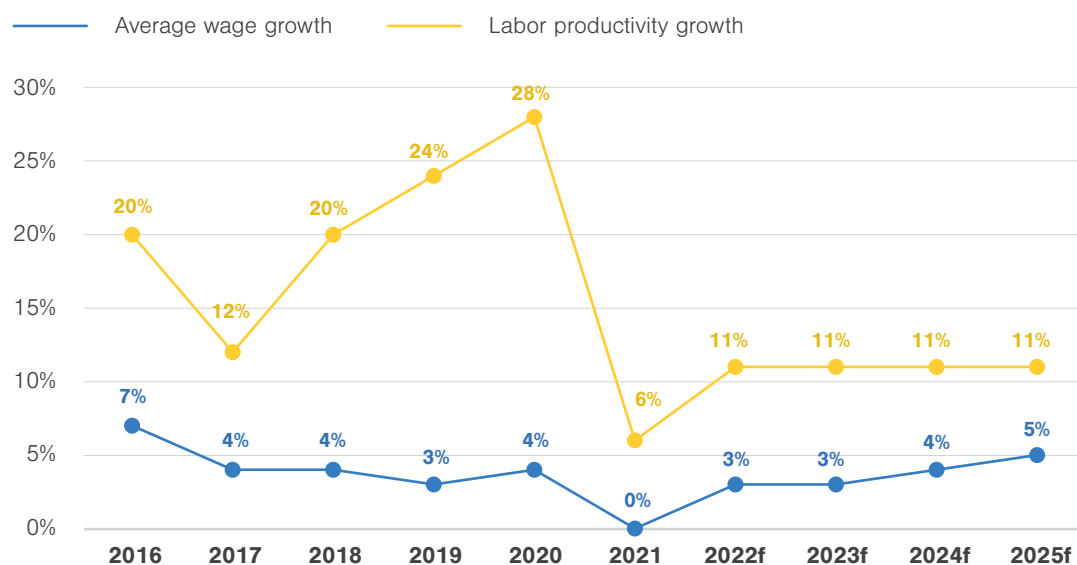
Statistics show that the majority of workers working 48 hours per week. Labor in manufacturing industries, particularly in FDI enterprises, has a rather high number of working hours, from 50-56 hours per week.

# Future Development

Currently, manufacturing labor productivity in Hai Phong is estimated at 10,000 USD per year. By 2025, labor productivity in Hai Phong's manufacturing sector is projected to reach over 17,000 USD per year. Nevertheless, there will still be productivity gaps in niche positions, especially for technical workers.


However, in comparison to average labor cost, manufacturing labor productivity in Hai Phong has a significantly higher growth rate. This trend is projected to continue in the next 5 years, driven by the increasingly qualified workforce.

## Hai Phong's manufacturing average wage growth and productivity growth



Source: DSA estimation





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## **Key Labor Issues faced by Companies in the Region**

- ◆ **Ease of Recruitment**
- ◆ **Labor Turnover**
- ◆ **Skill Shortage and Skill Mismatch**

# Ease of Recruitment

Some companies in Hai Phong have been facing certain challenges in recruiting labor. Navigos Search reported that normally 60-65% of labor is locally recruited, while around 40% are sourced from other provinces, of which the adjacent provinces account for 20-30%. Employees are seen to prefer employment in areas close to their home provinces so that they can travel back to their home provinces on a day off. Providing workers, a means of transportation such as buses act as an incentive for them.

With regard to skilled labor, companies need around 2-3 months to recruit skilled positions. Positions such as accountants, admins are easy to recruit, but the position of mechanical engineering or quality management would be challenging.

Recruitment criteria of companies in Hai Phong		
Unskilled workers	Semi-skilled workers	Skilled workers
<ul style="list-style-type: none"> <li>• Male / Female under 40 years of age</li> <li>• Secondary school degree (grade 9) or above</li> <li>• No experience required</li> <li>• Should be able to work in shifts</li> <li>• Should be available for free training after accepting job offer</li> </ul>	<ul style="list-style-type: none"> <li>• Male / Female under 40 years of age</li> <li>• High school degree (grade 12) or above</li> <li>• Basic technical skills and knowledge is required. For example, welding.</li> <li>• Should be able to work in shifts</li> <li>• Should be available for free training after accepting job offer</li> </ul>	<ul style="list-style-type: none"> <li>• Preferably male / female under 40 years of age</li> <li>• Bachelor's degree or above</li> <li>• More than 3-5 years of related working experiences</li> <li>• Professional skills and knowledge about the company's business line as well as other relevant industries are required. Leadership is also important for managerial positions</li> <li>• Proficiency of a second language (English, Chinese, Korean or Japanese)</li> </ul>

# Labor Turnover

There are two times in a year when labor often change their jobs, according to Navigos Search:

1. The highest peak occurs at the end of Q1, and at the beginning of Q2 every year, particularly in April-May after employees have received their 13th month salary, KPI bonus and expect a salary adjustment.
2. Low season from June to August, which is the season that companies deliver orders to clients.

It has also been noted by this HR firm that new businesses should recruit from July to August and commence in October. From June onwards, students graduate, and it is the suitable time to recruit young workers with no intention of engaging in tertiary education.

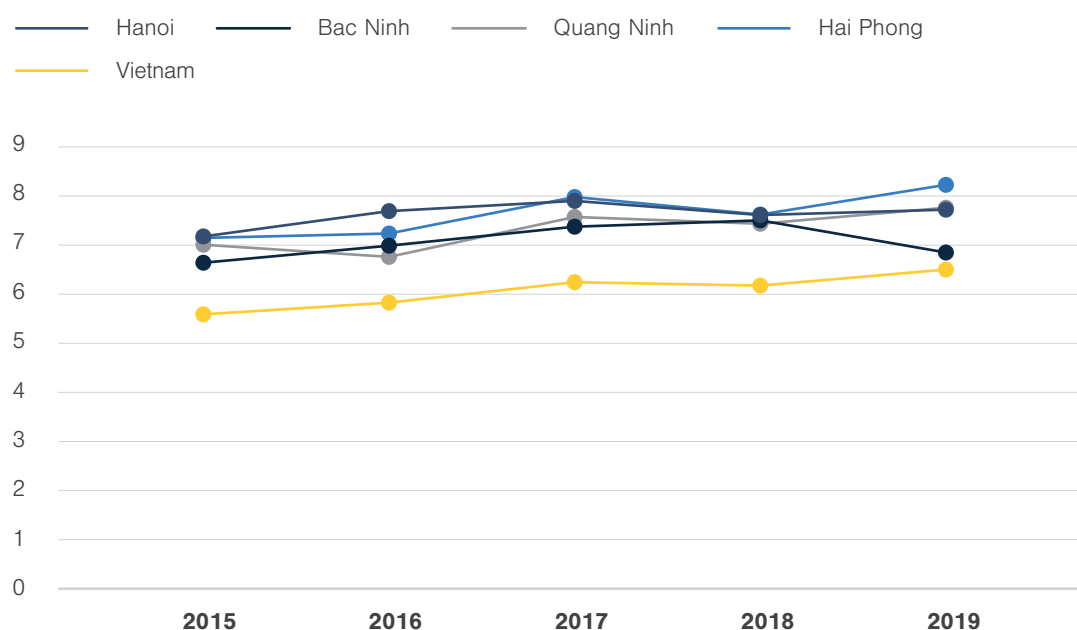
Unskilled workers change jobs for many reasons such as company management, labor relations, working environment, food, production problems, etc. Therefore, for employers, salary and other welfares are key factors for attracting labor. Several large-scale companies have built sports facilities for employees, such as soccer fields, swimming pools etc. Some other companies, in addition to the state's compulsory insurance, has also bought additional private accident insurance for its employees.

# Skill Shortage and Skill Mismatch

It can be seen that Hai Phong has a full system of vocational education and training centers, contributing to vocational training for the labor force inside and outside the province. This is also reflected in the Labor Training Index - one of the 10 component indexes of the Provincial Competitiveness Index (PCI). The Labor Training Index measures the province's efforts to promote vocational training and skills development to support local industries and help workers find jobs.

The results of PCI Vietnam's report show that the percentage of laborers in the city that can meet the needs of enterprises in Hai Phong is high, reaching over 90%.

## Labor Training Index in Quang Ninh



Source: Provincial Competitiveness Index (PCI)

However, there remain a minor share of graduates in the city that is weak in terms of foreign language skills and adaptability to the working environment. In addition, some specific positions in the manufacturing industry that current labor force is lacking include:

- Technical lab, in accordance with industry standard.
- Pattern development/ Design in the garment industry
- Technical worker, CNC operator, automation machine operator

Considering such gaps, instead of sourcing from vocational schools, many companies choose to recruit unskilled workers and train them properly from scratch. The companies normally provide training on skills used in production: production process, work safety, machine operating methods, etc. Some companies also train employees in soft skills, such as business manner and problem solving.





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# **SWOT Analysis of the Labor Market**

# SWOT Analysis of the Labor Market

Peer regions are taken into consideration:

- **Bac Ninh, Bac Giang (North)**

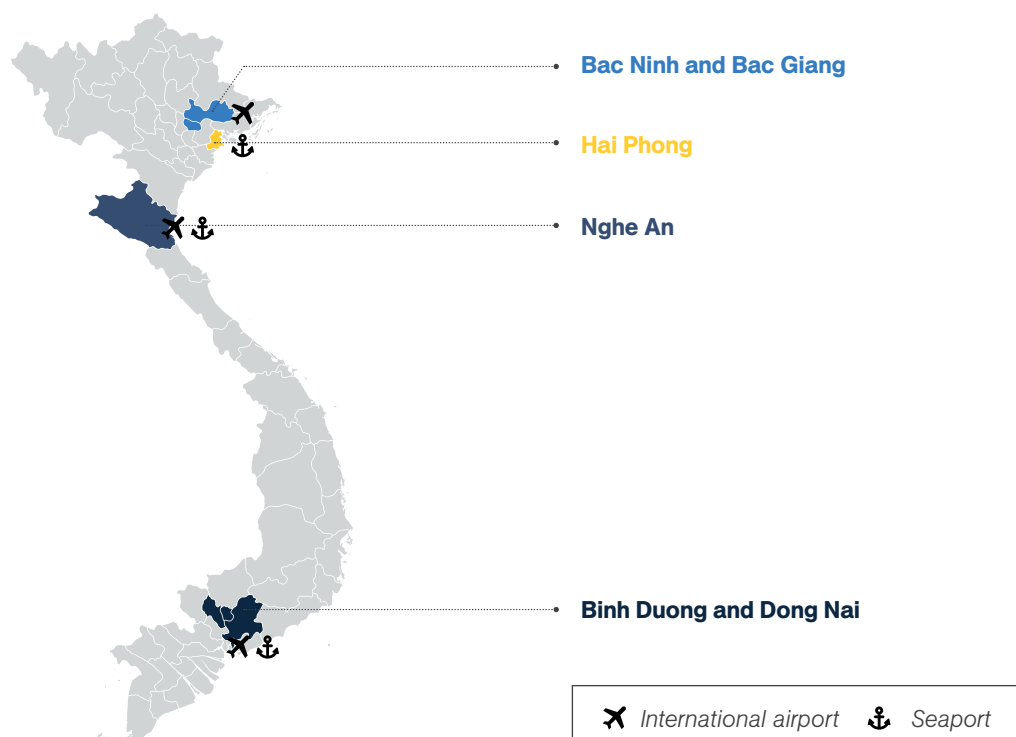
Bac Ninh and Bac Giang have been considered as the main electronics manufacturing hub of Vietnam, supported by a favorable location, well-developed infrastructure and an abundant young labor force. Thanks to production innovations and governmental incentives, this hub has attracted investments from 40 countries with advanced and modern industrial production such as Japan, Korea, EU, USA, etc.

- **Nghe An (Central)**

Located in the heart of Vietnam's Northern Central region, Nghe An province has recently emerged as a viable alternative for the Hanoi – Hai Phong Metro Area when it comes to supply chain relocation. Cross-border connectivity, strong support from local leaders, and an abundant labor supply with lower labor cost are the key drivers which are turning Nghe An into a magnet for investment.

- **Binh Duong, Dong Nai (South)**

Binh Duong and Dong Nai is considered as the industrial hub of the Southern Vietnam that has over 20 years of experience in industrial zone operation and well-developed infrastructure. Binh Duong is currently ranked third in the country in terms of attracting foreign investment, followed after Ho Chi Minh City and Hanoi Capital. It is also the cluster with the highest concentration of labor in Vietnam, especially of trained workers. Manufacturing activities are diversified, including textile and garment, footwear, food processing, electronics, mechanical engineering, etc.



## Strengths, weaknesses, opportunities and threats of the labor market in Hai Phong, with comparison to other peer regions

### STRENGTHS

- Abundant workforce and young labor structure, high labor productivity
- Large urban areas and many industrial zones, convenient for transportation and business, and therefore attract a large number of workers
- High availability and quality of education institutions and training centers, high percentage of trained labor (32%) compared to other industrial clusters (Bac Ninh 28%, Bac Giang 18%, Binh Duong 22%, Dong Nai 20%)
- Less labor competition in the same industry. Compared to Bac Ninh or Bac Giang where there are too many businesses operating in the same industry (electronics), Hai Phong has a diversity in business lines (electronics, mechanical engineering, textiles, packaging, logistics, etc...).
- Hai Phong's migration rate is the lowest compared to peer regions, proving that the labor force here is more stable and less volatile
- Relatively lower turnover rate.

### WEAKNESSES

- Mild competition for labor between companies in the industrial cluster when a new company established in the industrial park.
- Percentage of labor force aged 15 and over in the total population of the area in Hai Phong (56%) is lower than in Bac Giang (61%) and Binh Duong (67%)

### OPPORTUNITIES

- People from mountainous areas and central regions tend to migrate to Hai Phong to seek job opportunities with the desire to have a higher income and a better life.
- The contribution of manufacturing industry in the GRDP is growing every year and will reach between 41% and 43%. Labor productivity is therefore improved and expected to increase 1.7 times by 2025.

### THREATS

- Increasing FDI into the manufacturing sector of Hai Phong may intensify labor competition
- Labor demand will rise significantly as more industrial parks are expected to be inaugurated in the next few years. In particular, the demand for unskilled labor is expected to rise.



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