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Productivity Ecosystems
for Decent Work

▶ New drivers of productivity growth in Viet Nam

The role of labour market institutions
and policies

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▶ Foreword

Viet Nam has experienced remarkable productivity growth over the past three decades, leading to a significant increase in per capita GDP and lifting millions out of poverty. The shift of labour from agriculture to non-agricultural sectors has been a major driver of this growth. However, the potential for further growth based on labour reallocation is diminishing, as the supply of low-cost labour from agriculture declines and demographic changes occur.

To maintain momentum, new drivers for productivity growth are needed, which are discussed in this paper. The quality of the labour force and the functioning of the labour market will be pivotal for future growth, and sustained economic growth will depend on increasing productivity through innovation, skills development, technology and higher value-added production. At the same time, this economic transformation must be inclusive, job-rich, and translate productivity gains into broad-based increases in labour income.

This paper provides a framework for understanding the systemic changes in Viet Nam's economy and the challenges to which labour market institutions and policies need to respond. It serves as a background document and "theory of change" for the evolution of Viet Nam's economic model and the reform of its Employment Law which will take place from 2023 to 2025.

We invite you to explore the insights presented in this paper, shedding light on the interconnectedness of labour market institutions, policies, and broader national policy areas. By understanding and harnessing these connections, we can achieve inclusive, productive, and sustainable economic growth in Viet Nam.

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Introduction

Viet Nam is entering a development phase, where new drivers of productivity growth will need to replace the earlier ones. Skills, technology and a shift to production of goods with higher value added will be the main drivers of productivity growth in the years to come. The quality of labour and the functioning of the labour market will be crucial for enabling this fundamental transformation of the economy. Labour market institutions and policies will need to assume a much more active and challenging role than they have in the past. Yet, the implications of this new development phase for employment and labour markets have received little to no attention. This paper aims to analyse and discuss how the nature of employment is likely to change, and the role of and challenges for labour market institutions and policies in the coming years in Viet Nam in the context of a systemic shift to new drivers of productivity and economic growth. The scope of this paper is largely conceptual. Contemporary Viet Nam provides the setting, and while the paper provides a framework for analysing specific strengths and weaknesses of labour market institutions and policies in Viet Nam, it does not undertake such an analysis.

What is productivity and why does it matter?

Productivity measures the amount of output produced with a given amount of production factors, primarily labour, capital and land. In other words, it is a measure of efficiency of production of goods and services. Total production of goods and services can be increased in two ways, by using more inputs of labour, capital, or land, or by using the factors of production more efficiently. There are limits to the amounts of additional factors of production that can be added. There are natural limits to the available amounts of land and labour, while additional capital can be obtained through increased domestic savings, earnings or borrowing money from abroad or through foreign direct investments. In practice, sustainable economic growth over the long term must therefore primarily be based on productivity growth.

Productivity growth is important because it is the main source, and in the long run the only sustainable source of increasing the material standard of living of the population. It is not only a crucial dimension of overall productivity growth, but it also forms a direct link with income growth from employment. Furthermore, labour productivity depends on two key policy areas: human resources development through education and skills training and efficient labour market institutions and active labour market policies to enable and ensure a productive workforce.

Labour productivity is measured as the value added created (in a year) per worker. Growth in labour productivity is calculated as the growth in value added created per worker from one period to another. Labour productivity can be measured at national levels; sector (agriculture, manufacturing etc.) levels or at the level of firms or even units of production. At the national level, labour productivity is commonly defined as the total value added produced divided by total employment.

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► **Alternative definition of labour productivity**

From a policy perspective, a useful complementary definition of labour productivity is the total value added produced (in a year) divided by the total labour resources available in the economy. In order to maximize growth in material living standards, it is important to: (i) increase efficiency of production factors currently in use, and (ii) put all available but unutilised production factors to productive use. In practice, this implies including in the denominator the population employed plus population that is not employed but is willing and able to take up employment. This definition of labour productivity has major implications for policies. It broadens the role of labour market institutions and policies for productivity growth to include measures aimed at supporting members of the unemployed population to take up employment (for e.g., women, people living in economically remote or depressed areas or with disabilities etc.). It also places a stronger focus on the role of active labour market policies to promote productivity growth. It should be noted that an alternative definition such as this does not replace the existing internationally recognized definition but complements it.

Changing drivers of productivity growth in Viet Nam

More than thirty years of successful productivity growth

Viet Nam has achieved unprecedented rapid economic development in the last three decades. Per capita GDP has increased almost five times at constant prices from 732 USD in 1992 to 3,694 USD in 2021¹. Growth in living standards has been the highest in Viet Nam's history and millions of Vietnamese have been able to escape material poverty. This increased economic welfare is a result of a rapid productivity growth that has been sustained for a long time. In other words, economic value that a worker creates in a given period of time has steadily increased alongside increased returns to labour.

The past decades are an example of a highly successful early phase of industrialisation. Rapid increases in returns to land and labour in agriculture after the de-collectivisation and liberalisation of agriculture after 1987 resulted in broad-based increases in income and consumer demand, which in turn created incentives for rapid development of non-agricultural sectors of the economy, which created non-agricultural employment and opened up the possibility for agricultural and rural population to move to other sectors of the economy with better earning opportunities.

In less than three decades, the share of employment in agriculture fell from 73 to 33 per cent, while that of industry increased from 11 to 31 per cent and the share of employment in services from 16 to 36 per cent (Table 1). Employed men and women have participated in almost equal measure in this transformation. Although men have, to a larger extent than women, gone from agriculture to industry while a shift from agriculture to services has been more common among employed women. In absolute terms, non-agricultural employment increased from 9.3 million in 1993 to 35.9 million in 2020. Agricultural employment continued to increase until around 2020 but has since fallen sharply. Labour force participation decreased somewhat over the past decade but is still relatively high. However, there is a persistent gender gap in labour force participation of over 10 percentage units. In 2020, about 80 per cent of working age men participated in the labour force against only 69 per cent of working age women. Gender discrimination on the labour market and at work therefore remains a serious issue as is inter alia manifested in gender-based occupational segregation and wage inequality.

¹ At constant 2015 prices.

► **Table 1: Employment distribution by aggregate economic sectors (in %)**

	1993	2000	2010	2020
Agriculture				
Both sexes	73.0	65.3	48.4	32.6
Men	n.a.	n.a.	46.1	31.6
Women	n.a.	n.a.	50.9	33.8
Industry				
Both sexes	10.7	12.4	21.6	31.1
Men	n.a.	n.a.	25.7	34.9
Women	n.a.	n.a.	17.2	26.8
Services				
Both sexes	16.3	22.3	30.0	36.3
Men	n.a.	n.a.	28.2	36.9
Women	n.a.	n.a.	32.0	39.4

Source: Labour force surveys (Hanoi: GSO)

The transfer of labour from agriculture, which initially suffered from massive overemployment and very low marginal productivity of labour to the non-agricultural sectors with much higher levels of productivity became a forceful driver of overall productivity and economic growth.

Although starting from a lower level, labour productivity in Viet Nam increased by 70 per cent, a growth rate second only to China (104 per cent) in the region and substantially higher than that of other ASEAN countries (for e.g., Indonesia 31 per cent and Thailand 26 per cent). The highest rates of labour productivity growth were observed in manufacturing and in agriculture, which is encouraging as it reflects a sound structural change that indicates that productivity gains have reached a large share of the workforce and their families.²

Productivity gains that resulted from this structural transformation were not only direct, i.e., productivity gains from moving labour from agriculture to non-agricultural sectors. Equally important were indirect productivity gains from reducing employment in labour surplus sectors (notably agriculture, but also low-end services) and increasing employment in sectors with high marginal labour productivity due to economies of scale. For many years, non-agricultural sectors grew based on a seemingly unlimited supply of labour. Demographic factors reinforced this development.

The working age population and labour force grew at a rapid rate. At the same time, declining fertility rates resulted in slower population growth and a lower number of children and older persons to the working-age population (dependency ratio). This decline in the dependency ratio was significant for the first two decades after the launch of Doi Moi; it fell from 0.80 in 1990 to 0.43 in 2013³. The combined effect of rapidly increasing productivity and sharply falling dependency ratio explains the increased growth in per capita income. However, in the past decade, the dependency ratio has begun to increase as the share of ageing population increases. This new negative trend will continue in the foreseeable future.

² Calculations based on UN national accounts statistics and ILOSTAT data.

³ www.population.un.org

As the previous drivers of productivity growth run out of steam, new drivers of growth need to step in

The shift of labour from agricultural to non-agricultural sectors cannot take place indefinitely. Supply of low-cost labour from agriculture will diminish, as will the scope for economic and productivity growth based on reallocation of labours. While agriculture is no longer the source of abundant labour, there is a simultaneous decline in the demographic growth of the working age population and an ageing of the population.

To continue a path of productive transformation and rapid growth, the Vietnamese economy will need to shift gears and develop new drivers of economic growth. This requires a fundamental qualitative shift in economic development.

Sustaining economic development will, in the years to come, require increasing productivity through innovations, improved technology and production methods, finding new market niches, and graduating out of low-cost production into technology- and knowledge-based production with higher value added. Policymakers at the national level will need to focus on creating an environment that encourages and enables firms to implement this transition, and institutions and labour markets will need to develop and adapt so that they support rather than constrain continued economic development. This is well reflected in Viet Nam's socio-economic strategy 2021-2030, which includes "Forcefully develop science, technology and innovation with an aim to making a breakthrough in improvement of productivity, quality, efficiency and competitiveness of the economy" as its main objective.⁴ The strategy sets an ambitious target to achieve an annual GDP growth rate of 7 per cent from 2021-30. The main driver of economic growth is foreseen to be labour productivity growth at an average 6.5 per cent annually.⁵

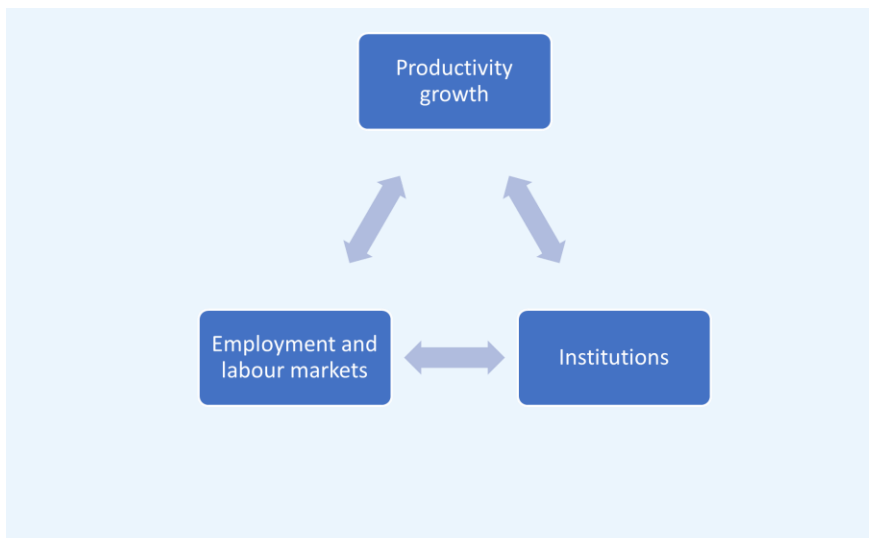
Countries at this development phase typically pursue a variety of strategies. Some, not least smaller countries, aim at specialisation to maximise competitiveness in attractive niches, while others focus on diversification. Some rely more on manufacturing, others on services. Despite this divergence, all these countries have common characteristics and face similar challenges. Irrespective of the nature of industrial strategy, competitiveness, a pivotal role for industries and sectors producing tradable goods and services, for moving up the technology ladder and up-front in the product cycle and reducing transaction costs all become imperative. Many countries have found this shift from extensive to intensive development challenging, also known as the middle-income trap.

In addition to the challenges that come with moving from one development phase to another, changes in the external environment also create constraints and opportunities to transition to new drivers of productivity growth. Given this, Viet Nam will have to prioritize the Fourth Industrial Revolution - Industry 4.0. This includes leapfrogging from basic and often rudimentary technology to adopt state of the art technology and production methods, which inter alia will put a premium on computer skills, information, and technology. It will also have significant implications on the way production is organised.

⁴ 2021-2030 10-Year Socio-economic Development Strategy. (Draft).

⁵ Ibid.

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Parallel to a transformation of the economy, there is also an ongoing transformation of employment and labour market in Viet Nam. The labour market and the employment characteristics and challenges of an agrarian society differ fundamentally from those in early industrialising countries, which in turn are very different from those in mature industrialising economies. Employability (education, skills etc.) and occupational, geographic, and social mobility

are crucial at all times. However, the nature of challenges in these contexts and the demands on a well-functioning labour market vary as a country moves from one development phase to the next. Employment transformation is broader than economic transformation. It is also conditioned by demography and involves human resources development (supply side factors). Economic transformation and transformation of employment and the labour market are closely intertwined such that one cannot succeed without the other. The importance of investing in human resources and of a well-educated and highly skilled labour force is reflected in SEDS 2021-2030, which in parallel with the objective of technology- and knowledge-driven growth has the twin objective to "Develop human resources, education and training to meet the requirements for high quality manpower..."⁶

Transformation of employment and labour markets matters in two ways. Firstly, without a successful transformation of employment and labour markets in harmony with economic transformation, productivity growth will slow down and may even come to a halt. Secondly, transformation of employment and labour markets is crucial for ensuring that economic transformation is inclusive and job-rich and that productivity gains translate into broad-based increases in labour income. Labour market in Viet Nam, as in many other countries at this stage of development, reflects a certain dualism. On one hand is a growing but small segment consisting of highly skilled labour in formal wage employment, and on the other is a segment made up of low-skilled labour in informal jobs with low productivity.

Institutions, in a broad sense, provide the framework and form economic development. They also result from development and, as such are subject to change. The formal and informal institutions that provide the structures for development are largely normative. They are a product of past and contemporary developments, and reflect values and features emerged over time. While they have generic features, they are also products of cultural and historic influences, and as such context specific.

The legal and regulatory framework makes up the core of a country's formal institutions. It sets explicit rules of the game for economic actors, and the parameters for the relationship between authorities and the public. Together with institutions for governance and public administration and for mobilisation and management of public resources, they make up the bulk of a country's formal institutions. Labour market institutions, in a broad sense, can foster and shape successful and inclusive transformation of employment and labour market. However, ill designed or poorly functioning institutions can also constrain or distort such a transformation.

Institutions need to have a high degree of stability, predictability and credibility in order to fulfil their normative and formative roles. At the same time, they must also be flexible, and be able to change at pace with the overall

⁶ Ibid.

development and transformation of society. Development of human resources and institutional development together create conditions for continued economic and social development. Economic development, in turn, creates economic resources for continued and increased investments in human resources and institutional capacity building.

Changing roles of the State and the market

History has proven that market economies can be highly efficient in allocating and making efficient use of production factors, but their record when it comes to mobilising labour and other resources and to ensure inclusive development is less impressive. There are several examples where rapid economic and productivity growth have co-existed with high rates of unemployment and inequality. By contrast, centrally planned command economies can be more successful at mobilising resources and have effective means at their disposal to reduce inequality. Even highly centralised command economies that allowed no role for the market, such as in Albania and Romania, have managed to achieve high rates of economic and productivity growth during the early phase of industrialisation. This could be achieved through large investments in industrialisation, with less attention to economic criteria such as productive efficiency or profitability and massive transfers of underutilised labour from agriculture to new factories. However, once this early extensive phase of industrialisation approached its natural end, economies began to stagnate. A rigid economic system that had proven effective for mobilising unused resources remained incapable of increasing productivity of industrial labour force as external sources of labour dried up.

Ever since launching Doi Moi thirty years ago, Viet Nam has successfully allowed the market to play a role alongside the State. As Viet Nam enters a new development phase, the role of the State, while remaining crucial, will need to adapt. Successful adoption of innovations and advanced technologies, production of increasingly sophisticated products and services, and improved modes of production, which are to become the main drivers of growth, will likely only result from independent decisions made by of the different enterprises and economic actors, in each case based on detailed knowledge of the firm-specific context, opportunities and challenges. This calls for well-functioning and efficient markets as well as free and easy access to information.

It is vital that the "new" role of the State go beyond providing provisions for markets to function well. The State will have an increasingly important role to promote productivity growth through fostering and shaping economic development and, not least in the fields of human development, ensuring a well-functioning labour market with opportunities for decent work for all women and men, and enabling inclusive participation. Industrial policies may need to stimulate transformation-enhancing investments, while discourage transformation-impeding investments for e.g., FDI in low technology and low wage production. The regulatory role ensuring fairness, equal treatment and prevention of abuse of positions of power is equally important. The State should refrain from any attempt at detailed micro-management of decision-making.

The twin challenges of sustaining productivity growth and making it inclusive and job-rich, and the role of labour market institutions

Labour and employment are at the heart of making productivity growth sustainable and inclusive. First, it is a key production factor, and as such crucial for economic growth. The quality of labour, regeneration of labour and efficiency of the allocation and use of labour are of fundamental importance for sustaining productivity growth.

Second, employment also serves as the main link between productivity growth and improved welfare, as income from employment provides the most important source of income. The ability of the economy to generate and

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sustain jobs at increasing levels of productivity largely determines its capacity to reduce poverty and to increase welfare of the population.

Third, employment is also crucial for making economic development and productivity growth inclusive. A high degree of equality in access to resources, notably human resources such as education, skills and health, and equal opportunity to make full and productive use of one's resources and to participate in the economic and social development primarily through employment is at the heart of making economic development inclusive.

Scope and role of labour market institutions and policies

Multiple roles of employment imply that labour market institutions and labour policies are called upon to fulfil multiple functions. Most of these functions also serve the purpose of promoting labour productivity growth, both by increasing productivity at the workplace and by enabling unutilised labour resources to access productive employment.

Labour market intermediation. Efficient intermediation and matching of the supply and demand for labour reduces transaction costs and increases overall efficiency of the economy. It facilitates structural change, reduces inflationary pressure, and helps to sustain productivity growth. Job requirements as well as qualifications of jobseekers are very heterogeneous and case specific, and consequently search, matching and other transaction costs tend to be high. Labour market institutions and, not least active labour market policies can significantly reduce such costs.

Promoting employability and employment. Increasing employability, productive capacity of labour and their incomes, and promoting labour and employment contribution to economic development through a wide range of policies, including skills training, entrepreneurship training etc is particularly important at a time when the nature and drivers of economic development are changing towards becoming more technology- and skill-based.

Combining economic development with social justice. All employment does not translate into decent work and productive jobs. A regulatory framework is needed to ensure fair terms of employment and decent working conditions. Governments also have a responsibility to eliminate harmful or degrading forms of employment, such as forced labour, child labour and work that puts the safety and health of the worker at risk.

Reduce vulnerability. Labour market institutions provide various forms of insurance for their labour force, such as insurance against unemployment and stipulations for paid sick leave and maternity/paternity leave. Basic economic security is essential to enable workers in dead-end jobs or in economically depressed areas to move to more attractive jobs elsewhere or in other words for geographic and occupational mobility. This is particularly important for those living in poverty who lack the economic margins needed for taking calculated risks.

Foster inclusiveness and equality. A wide range of labour market institutions and policies can serve to foster inclusiveness. Legislation as well as tripartite agreements between government, employers' and workers' organisations are needed to combat discrimination in the labour market and at work. Equal access to training and other opportunities to enhance one's employability needs to be followed by equal access to productive and good jobs on the labour market and, once in employment, by equality of treatment at work, irrespective of gender, race etc. Proactive policies and interventions aimed at strengthening employability and labour market access of vulnerable groups, such as those living in poverty, youth, and women, offer another example of how labour market institutions and policies can foster inclusiveness.

Labour market policies and institutions act as shock absorbers. Recent global crises have brought to light the importance of labour market policies that target both at keeping people in jobs and providing income support to job losers for mitigating the impact of a severe external shock on employment and incomes and, by extension, on the domestic economy. They also serve to smooth economic fluctuation over time as sound industrial relations and

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efficient labour market intermediation reduce inflationary pressure at times of rapid economic growth, while labour market policies protecting jobs and job losers cushion the impact of economic downturns.

Labour market institutions are an important part of the social fabric of nation building. Promotion of social justice along with economic development through appropriate labour market institutions and policies, and the establishment of regular mechanisms and fora for social dialogue between government and representatives of employers and employees and good industrial relations are important for fostering social cohesion and as such are important aspects of the social fabric of inclusive development and nation-building.

The tools

Labour market institutions include the regulatory framework concerned with labour and employment. In Viet Nam, this comprises of employment and labour laws as well as administrative structures, physical institutions and the framework for industrial relations and labour market dialogue. Employment legislation covers a wide range of areas such as Employment Protection Legislation (EPL) including rules related to hiring and firing of workers and protection against unfair dismissal, working conditions, protection of occupational health and safety, protection against discrimination and degrading and harmful forms of labour, and mechanisms for wage-setting and industrial relations. All of these are also covered by international labour standards in the form of conventions or recommendations.⁷

Administrative and institutional structures and systems include not only government agencies, typically under the Ministry of Labour, but also employers' and workers' organisations. Public employment service centres play an important role in labour market intermediation through job matching and job search assistance, coaching and vocational and occupational guidance. Labour inspectorates are important to advise stakeholders and enforce implementation of labour legislation and regulations at the workplace.

Labour market policies (LMP) comprise of all regulatory policies that influence the interaction between the supply and demand for labour. A distinction is often made between "passive" policies that provide income replacement during periods of unemployment and job search, while active policies aim at labour market integration through matching supply- and demand-side measures. Unemployment insurance (contributory) and unemployment assistance (non-contributory) are common passive policies. Active labour market policies (ALMP) focusing on the supply side aim to make job seekers and other vulnerable groups in the labour market more employable through measures such as apprenticeship programmes, training programmes and skills upgrading. ALMP becomes increasingly important as an economy develops and becomes more sophisticated as the demand for skills becomes both more exigent and specific.

Demand side measures have a special role to play to cushion employment impact during economic crisis by keeping people in jobs through, for instance, on-the-job training, voluntary temporary reduction of working hours and reduction of employers' social contributions. Entrepreneurship training and support in "setting up and running your own business" address both the supply and demand side of labour. Job search assistance and job matching similarly address both the supply- and demand side of labour and serve to increase the overall efficiency of the labour market.

Labour market information systems (LMIS) focus on the characteristics, dynamics, and interaction of supply- and demand-side of the labour market. At the heart of LMIS are the characteristics and dynamics of labour force and employment, such as age, sex, education, and skill composition of employed and unemployed workers, and the industrial and occupational composition and labour force status of the employed. More broadly it also concerns

⁷ A complete list of ILO conventions ratified by Viet Nam is available at:

https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:11200:0::NO::p11200_country_id:103004

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skills formation and education on the supply side and patterns of economic development, structural change and technological change on the demand side.

New challenges and roles for labour market institutions

Transformation of employment and labour markets that must accompany the transformation of the economy increases the role and importance of labour market institutions, but also presents new challenges. Efforts to increase the effectiveness of employment and labour market institutions and policies to meet the needs of the economy and labour market should focus on several broad areas:

- Human resources development and strengthening employability to match an increasingly knowledge- and technology-driven economy and meet the challenges of Industry 4.0.
- Access to productive employment opportunities for all: The crucial role of ALMP.
- Changing nature of unemployment and new challenges to make employment inclusive.
- Efficient labour market information system and sophisticated employment planning.
- Creation of productive employment and decent work, with a special focus on SMEs and reducing informality.
- Policy coherence and funding.
- Strengthened interface with other policy areas.

Human resources development and employability strengthening to match an increasingly knowledge- and technology-driven economy

Non-agricultural employment that was created during the early phase of industrialisation was mainly for low-skill jobs. These jobs required basic education and little, often on-the-job, additional training. With a shift to a development model based on technology and knowledge intensive production and the advent of Industry 4.0, skill requirements can be expected to increase significantly as will the need for life-long learning. Employment will increasingly involve more complex and difficult tasks, analytical skills and problem solving and core skills such as teamwork and communication. Modes of organising production will change and become more complex. Furthermore, the rapid development of information technology will require constant skills upgrading to ensure and maintain state-of-the art computer and IT literacy.

► **Table 2: Employed population by educational attainment and sex in 2020 (in %)**

	Total	Men	Women
No formal education	3.2	2.5	4.0
Uncompleted primary education	8.4	7.9	9.0
Completed primary education	20.9	20.7	21.2
Completed lower secondary education	28.7	28.8	29.6
Completed upper secondary education	15.2	14.4	16.1
Technical qualifications	23.6	26.7	20.1
Total	100.0	100.0	100.0

Note: For details on technical qualifications, see Table 3

Source: Report on Labour Force Survey 2020 (Hanoi: General Statistics Office). Table 2.3

High levels of general education, where completed secondary rather than just primary education will become the norm, is essential for learning advanced technical and vocational skills and not least for reskilling during working life and maintaining occupational mobility.

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The role of technical and vocational training (TVET) will become even more important. The challenges are manifold, and may be categorized into quality, relevance and inclusiveness. Achieving these three objectives will require close coordination with education and industrial policies, and collaboration with employers' organisations and trade unions. Enterprises should be encouraged to train and re-train workers and mechanisms for training or retraining of self-employed and informal workers will also be needed.

► **Table 3: Share of employed population with technical training and qualifications, 2020 (in %)**

	Total	Male	Female	Urban	Rural
Vocational training	4.7	8.3	0.7	6.1	4.0
Mid-term professional training	4.3	4.8	3.8	5.8	3.6
College	3.7	3.2	4.2	5.4	2.8
University	10.9	10.4	11.4	21.9	5.5
Any of the above	23.6	26.7	20.1	39.3	16.0

Source: Report on Labour Force Survey 2020 (Hanoi: General Statistics Office). Table 2.2

At present (2020), approximately a third of the employed population has no more than primary education and almost 12 per cent have not even completed primary education. 29 per cent have completed lower but not upper secondary school (Table 2). This suggests that around a third of the employed are at risk of becoming marginalised and confined to the lower end of the labour market in the years to come, as educational and skills requirements will increase in the labour market. Furthermore, low levels of general education make reskilling more difficult. Complementary adult education to raise the level of general education for those with only primary education is likely to be needed to keep this group competitive in the labour market.

A more detailed analysis (Table 3) shows that less than a quarter of the employed have technical or vocational training or tertiary education. While women and men rate more or less equally in terms of general education, vocational training is much more common among men than women. There is also a large rural-urban gap across all types of technical and vocational training. Less than 16 per cent of the employed in rural areas have any technical training, compared to 39 per cent of the urban employed. The need for massive efforts to upgrade the employability in terms of technical and vocational skills of the rural labour force is obvious.

The Socio-Economic Development Strategy (SEDS) 2020-2030 gives high priority to developing human resources and explicitly sees this as an essential dimension and prerequisite for achieving development goals. It takes a broad and integrated approach to it and provides a strong basis for reforms and further development of technical and vocational training and general education.

Access to productive employment opportunities for all: The crucial role of Active Labour Market Policies

Human resources and employability need to be matched with opportunities. ALMP remain underdeveloped in Viet Nam and in the region at large. Yet, they are fundamental for creating an efficient labour market, not least for matching jobseekers with job opportunities as efficiently as possible and thereby contributing to productivity. In the earlier phase of industrialisation, where the emphasis was on transfer of labour from agriculture to labour-intensive and low-skill manufacturing, the task was comparatively simple. The demand for labour in low-skill manufacturing was homogeneous. As the economy enters a new development phase where growth will be driven mainly through shifting to more technology- and skill-intensive production, the need and role of ALMP increases significantly.

ALMP can also act as shock absorbers. Recent global crises have brought to light the importance of ALMP that target both at keeping people in jobs and providing income support to job losers for mitigating the impacts of

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severe external shocks on employment and incomes and, by extension, the domestic economy. They also serve to smooth economic fluctuation over time as sound industrial relations and efficient labour market intermediation reduce the inflationary pressure in times of rapid economic growth, while labour market policies protecting jobs and job losers.

Both demand and supply of employment will become increasingly skills specific, which is why matching is crucial, highly information intensive and why it cannot be left to the market. In the new development phase, skill demands will not only be higher and specific, but are also likely to change rapidly over time. Structural transformation implies job destruction as well as job creation. Some economic sectors and occupations may decline with job losses as a result, while other often new economic sectors and occupations may develop rapidly creating new jobs requiring different skills. Technological development within industries and sectors may make some occupations and skills obsolete at the same time as demand increases for other occupations or skills. Rapid development of ICT and the associated fourth industrial revolution will accentuate the changing nature of occupations and the increasingly exigent skill requirements.

The role of ALMP will not only increase in importance but will also become challenging. Job search assistance and job matching will increase in importance but will also become more complex and knowledge and information intensive. It will require close cooperation with employers and employer's organisation and will need to be backed by high quality labour market information and analysis and require diversifying means of service provision. The demand and need for short-term training, reskilling and skills upgrading will increase greatly and the contents of training will need to be updated continuously to ensure their relevance.

Extending the coverage of ALMP to include not only those in informal employment will be a major challenge. Yet, it is essential to reduce the divide between the formally and informally employed workers. Such an extension of ALMP, which would require changes in legislation as well as in practices, could also contribute to reducing informality overall.

Employment Services Centres are the main institutions responsible for the actual implementation of ALMP in the field. They will need to be strengthened considerably in terms of staffing, competence and funding in order to be able to fulfil their increasingly important, complex and demanding role. They will also need to be backed by other labour market institutions, not least by a high-quality labour market information system (LMIS).

Changing nature of unemployment and new challenges to make employment inclusive

ALMP is also called upon to play a key role to ensure equal and inclusive access to labour market and job opportunities. To this end it needs to be supported by a strong legislative framework prohibiting all forms of discriminatory behaviour in the labour market and at work.

Rapid structural change has winners and losers. It results in job destruction as well as job creation. This makes it important that ALMP also works proactively and offers special support to vulnerable groups in the labour market. Gender equality must be guaranteed. Rural workers are at a disadvantage both because of their location and inadequate education and industrial skills. Youth face difficulties entering the labour market at the same time as elderly workers face particular challenges in remaining attractive on the labour market. Yet an ageing work force implies that they are called upon to remain productive until they retire etc.

As the economy gradually shifts to be driven more by skill- and technology-based productivity growth, the nature of unemployment is likely to change. Structural unemployment is likely to become more prominent because of structural change and as demand for skills becomes increasingly specific. Matching supply and demand become more difficult as both jobseekers and the demand for labour becomes heterogeneous in terms of their skills and qualifications. Skill shortages and mismatches are likely to cause unemployment, and may also slow down economic

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progress, and thus labour demand. Long-term unemployment may also become a more serious issue as low-education/low-skilled labour will find it difficult to find jobs in an increasingly skill-demanding economy. It should be recalled that, at present, a third of the employed have at most primary education. As low levels of education are particularly high in rural areas and among low-income households, comprehensive efforts will be needed to ensure that these vulnerable groups are not marginalised in the labour market. The first generation of low-skilled industrial workers, many of whom are women, is also likely to become increasingly vulnerable as the economy moves from low skill and low wage to more skill-intensive and advanced industries.

On the other hand, large-scale general un- and underemployment, due to inability of the economy to create sufficient employment, may be less of an issue as demographic supply pressure on the labour market subsides.

In other words, unemployment will become even more a function of economic and labour market policies. Active labour market policies, broadly defined, will arguably become a main determinant of unemployment. Education and TVET, reskilling and skills upgrading, enabling labour mobility more generally and strong institutional support to job matching, together with special interventions to capture those at risk of becoming marginalised, will be essential to minimise structural and long-term unemployment. This, in its turn, will require a well-functioning labour market information system. These different areas of employment policy must therefore be seen as a whole.

ALMP and basic economic security need to go hand in hand. Moving from one job to another or looking for a first job is invariably associated with economic risks. Without basic economic security, workers living in difficult economic circumstances may not be able to afford the risk of occupational and geographic mobility. Similarly, without a basic income, workers cannot afford to improve their job prospects through participation in technical and vocational training or reskilling. The scope for expanding unemployment insurance to become an employment insurance, providing a basic income not only during unemployment but also during periods of training and skills upgrading aimed at ensuring continued productive employment could be explored.

The effectiveness of ALMP will be much reduced unless it is backed by adequate unemployment insurance and basic income security. At the same time, without a strong and well-designed system of ALMP, other labour market institutions are likely to fail to live up to new challenges and both productivity growth and inclusiveness will suffer.

Efficient labour market information and analysis system (LMIS), and sophisticated employment planning

Putting productive employment in focus to achieve inclusive and job-rich economic development requires that strategies and plans for human resources development, employment and economic development are brought together, designed, and implemented in unison. This, in its turn, requires a strong analytical capacity that can integrate (i) economic analysis, (ii) employment and labour market analysis, and (iii) demographic and human resource analysis. Policymakers in the economic fields need to understand and factor in employment dimensions of economic development and policies. Those with immediate responsibility for active labour market policies and their effective implementation, such as MOLISA and the Employment Services Centres, need to also understand the dynamics of the economy. All stakeholders need to understand how human resource development, employment and labour markets and economic development are intertwined and how these interrelationships ultimately determine development outcomes. The need for up-to-date labour market information and high-quality analyses becomes crucial as the economy shifts to a new development phase where skill requirements will not only become higher and more specific but will also constantly change because of structural change and technological development. The level of sophistication and complexity of labour market information and analysis required for well-informed policy and decision making will also increase.

The main purpose of labour market information in Viet Nam has been as a tool for planning employment by sectors. In an increasingly complex market economy, an LMIS needs to assume a different and more challenging role to serve as a crucial interface between economic and industrial planning and strategies on the one hand, and human

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resource and employment planning on the other. Successful and effective development planning requires that these two policy areas inform each other and are developed in close conjunction. This is more important at a time when the country is moving from one development phase to another and when there are fundamental changes in the drivers of productivity growth, which in turn affect the skill and knowledge requirements for labour and make these demands more specific. The labour market is the main interface between the two, and LMIS has an important role to play in bringing them analytically together and to add employment and labour market dimensions to the analysis, yet it is all too often a missing middle.

Employment planning in the earlier phases of economic development was relatively simply. By contrast, in a labour market where both demand and supply of labour is highly skills-specific and where structural change results in an ever changing and increasing demand for skills and knowledge, employment planning becomes complex, requiring both sophisticated methodologies, access to high quality labour market and economic information and, not least high competence and analytical skills.

A modern labour market information system can be defined as a system to generate and analyse labour market information and create and disseminate labour market knowledge. This involves:

- ▶ Generation of data.
- ▶ Compilation, processing, and publication of labour market information.
- ▶ Serving as a repository for labour market information and as a gateway to sources of data.
- ▶ Labour market analysis, transforming data into knowledge and labour market intelligence.
- ▶ Generation of information and analysis needed for sophisticated employment and career planning.
- ▶ Dissemination of results and conclusions of labour market analysis.
- ▶ Technical infrastructure such as websites and portals for easy access.

The importance of developing a high quality LMIS is clearly stated in SEDS 2021-2030 and recognised in Employment Law and within Government. MOLISA has a main but not sole responsibility for the creation of an LMIS. MOLISA has a shared responsibility with the General Statistics Office (GSO) to generate labour market statistics and information. MOLISA also has the main role for coordination and dissemination, and a shared responsibility for labour market analysis and research (e.g., through ILSSA).

The main weakness is not primarily lack of statistics and information. Basic institutional structures are in place to produce high quality statistics on employment and other issues at regular intervals. Key challenges and tasks ahead are rather to coordinate and combine different sources of labour market data and, not least to strengthen institutional capacity for high quality analysis and dissemination within and outside Government. There are several institutes generating labour market analysis and knowledge at present both within Government structures and in academia, notably ILSSA, CIEM, GSO. However, a critical mass is still lacking. This requires investment capacity building and not least close cooperation between the institutions involved. Employment, education and skills and economic policy are interdependent. In some countries, the need for a strong labour market information and analysis system has been met through the creation of 'employment observatories' capable of provide analytical knowledge for policy design, coordination and implementation that address economic development, employment, and human resource development in an integrated manner. Building on what already exists, such as ILSSA and CIEM, this may be achieved in the form of a single centre of excellence or through close cooperation between a network of centres.

Creation of productive employment and decent work, with a special focus on SMEs and reducing informality

Supporting enterprise development falls primarily within the realm of industrial and economic policy. Despite this, it is at the heart of employment creation. In the context of the shift to a higher stage of economic development with a focus on both productivity growth and employment, SMEs deserve special attention. They are the main source of employment growth, but also exposed and vulnerable to changes in their external environment resulting from a

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shift to an economic development model based primarily on within sector and within enterprise productivity growth. To support SMEs, the focus should be on three inter-connected areas.

Levelling the playing field. SMEs have a number of disadvantages resulting in part from their smaller size. Unlike SMEs, large FDIIs and SOEs have the power to effectively lobby governments and policymakers, which often results in a bias of policies in favour of SOEs and FDIIs at the expense of SMEs.

There are various ways of reducing the disadvantages related to size, which often have to do with high transaction costs rather than objective economies of scale in the production process. Cooperation rather than competition with peer firms, pooling of resources for information gathering and marketing, horizontal networking with other local economic actors and public and non-public institutions as well as vertical networking with larger firms are tested ways of reducing costs of being small. Public authorities and institutions can support such measures and at a more basic level have an obligation to ensure that laws and regulations, as well as policies and support activities are at least equally designed to the needs and interests of SMEs as they are to large enterprises. One case in point is ensuring equal access and possibilities for SMEs to bid for public procurement and investment projects. Conscientious efforts by Government to level the playing field for SMEs by helping them overcome the disadvantages that follow from their small size and, not least by eliminating policies favouring SOEs and FDIIs over domestic SMEs are essential to release the full potential of SMEs.

Facilitate productivity growth in SMEs. Access to technology and adoption of innovations developed outside the firm are crucial for increasing within-firm productivity growth and for retaining competitiveness in a rapidly changing economy. Yet, SMEs usually have a disadvantage in these regards. They have less access to new technologies and innovations, which often originate abroad, and which are typically transferred from one large firm to another. FDI as well as cross-border collaboration with other firms have an important role to play here. Contacts and economic relations between large firms and SMEs (vertical economic integration), for instance, in the form of sub-contracting are arguably the most important way of enabling SMEs to access innovations and technology. Publicly supported or sponsored SME chamber of commerce or marketing fairs and the establishment of regional centres to support the adoption of innovations and advanced technologies in SMEs are examples of more proactive support to SMEs that have been introduced with success elsewhere.

Promote formalisation. There is a high degree of informality in the Vietnamese economy, not only in agriculture but also in non-agricultural sectors. This takes the form of both informal enterprises and informal employment in formal enterprises. Informality tends to go hand in hand with vulnerable employment. It is also likely to become an increasingly important constraint to sustaining high levels of economic and productivity growth as the economy moves to a more advanced development stage. Informal firms continue to remain small, local and with very limited scope to increase their productivity. There are many reasons why firms remain informal or hire labour on an informal rather than formal basis. The costs of being formal are often a major factor as this involves paying taxes and fees, meeting the requirements of employment and labour legislation and not least a higher cost of labour, in particular when social contributions and other overhead on wages are high. Understanding the reasons why firms stay informal is crucial for reducing costs and other disincentives to formalisation. Reducing the cost of employment, for instance, by relying more heavily on ALMP than on stringent employment protection legislation, and by shifting the cost of economic security and social protection from employers to the State may also have a positive effect on making formalisation more attractive. Similarly, creating an environment that is conducive for SMEs and proactive policies in support of SMEs are also likely to increase the attractiveness of going formal. Eliminating informal employment in formal enterprises must also, to a large extent, be a question of enforcing existing legislation.

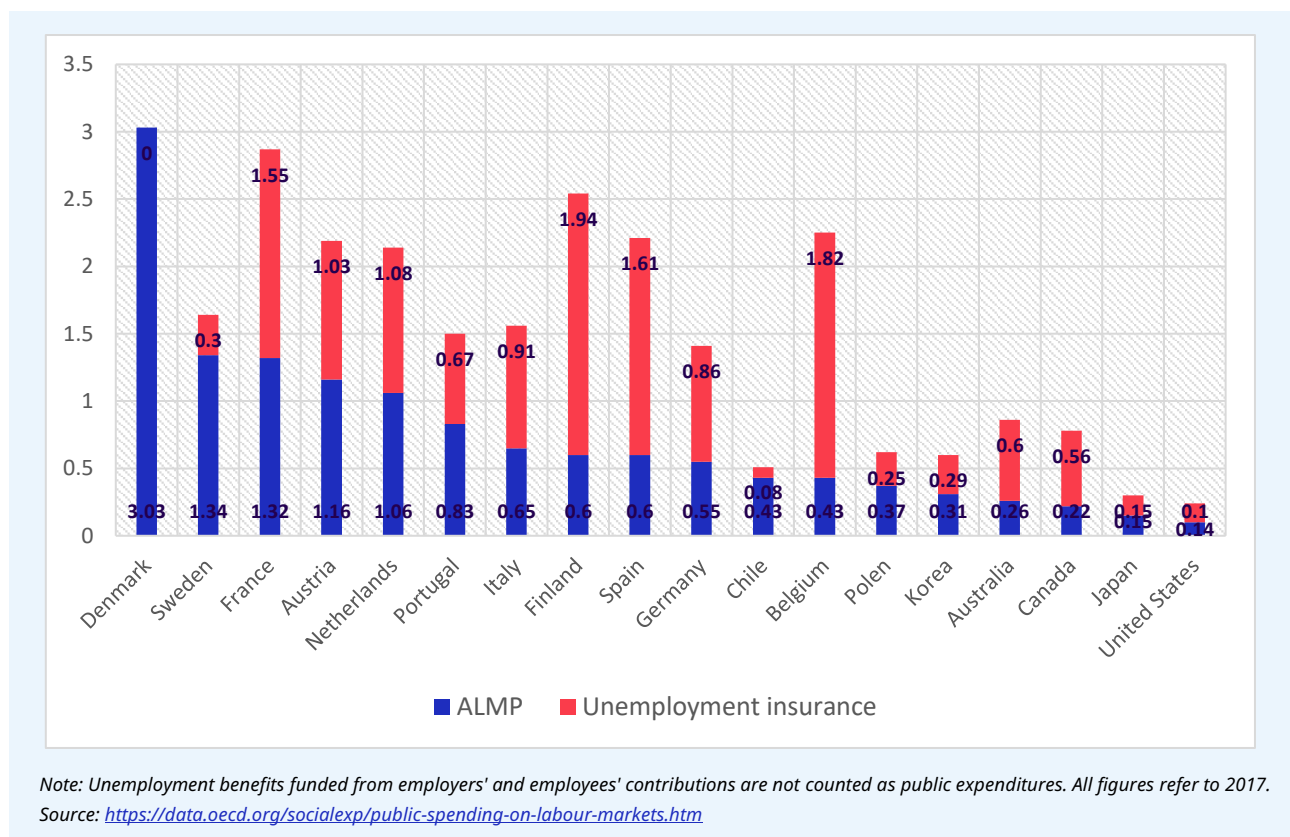
Policy coherence and funding

Different areas of labour market policies and laws are closely interlinked. The effectiveness of laws and policies governing areas such as employment protection legislation, ALMP, unemployment insurance and labour market

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information depends on how well they are designed to support and complement each other. For instance, active labour market policies (ALMP) will be less effective and less inclusive if they are not backed by basic economic security, such as unemployment insurance. At the same time, ALMP will bring down the cost of unemployment insurance as they will reduce the periods of unemployment. Similarly, strong ALMP and adequate economic protection against unemployment will reduce the need to protect workers through strict employment protection legislation (EPL), which has additional benefits as strict EPL can make employers reluctant to hire workers, reduce labour mobility and act as a disincentive to formalisation. Experience from other countries shows that comprehensive ALMP combined with basic economic security, such as unemployment assistance, can lessen the need for very stringent employment protection legislation, while at the same time reducing the vulnerability of individual workers through a basic income guarantee and effective measures to bring him or her back in productive employment as quickly as possible. However, effective ALMP depend crucially on high quality and up-to-date labour market information that is on a strong LMIS.

► Figure 1: Public expenditures on ALMP and on unemployment benefits in 2017 as % of GDP



The issue of who pays for what is important. The burden of employment-related economic security in Viet Nam, as in many other countries, is mainly placed on the employers and employees. This can take the form of excessively stringent employment protection legislation making firing of employees very difficult and costly. It can also take the form of high contributions to social security funds paid by employers on top of wages. A review shows that the contributions to social security funds that employers must pay on top of wages are higher in Viet Nam than in most other ASEAN countries. In Viet Nam, employers' contributions to the social fund amounts to 26 per cent of the wage bill compared to 8 per cent in Indonesia, 12-13 per cent in Malaysia, 14 per cent in the Philippines, 17 per cent in Singapore and 5 per cent in Thailand. In addition, employees in Viet Nam pay 8 per cent of their wages for unemployment insurance. While it is common practice in most countries for employers and employees to bear the cost of unemployment insurance and other employment related insurances such as pension, the resulting high overhead costs on hiring labour can act as a disincentive to formalisation of employment. As formalisation of

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economic activities and employment is not only fundamental for decent work, but also essential for economic development, high overheads on wages come at a cost to overall economic development.

Active labour market policies as well as basic economic security should be considered as public goods, benefitting inclusive and more rapid economic development and productivity growth and not just the individuals concerned. As such, they should, as far as possible, be funded from the fiscal purse rather than by employers and employees themselves.

ALMP will need to play a fundamental role in the new stage of economic development that Viet Nam is now entering. Yet, ALMP are still poorly developed and seriously under-funded, just as in other ASEAN countries. Funding ALMP should be seen as an investment in inclusive and job-rich economic development and not as a luxury that the country cannot yet afford.

Interface between labour market institutions, policies and other national institutions and policy areas.

Labour market institutions and policies are linked to wide range of other policy and thematic areas, three of which deserve special mentioning.

Social protection. Social protection is a significant aspect of strategies aimed at inclusive, economic and social development. It helps empower people living in poverty by reducing their vulnerability, providing crucial income to resource-poor households and by improving access to education and health care. It also enables labour mobility by reducing risks involved and plays a countercyclical role boosting household consumption and aggregate demand at times of crisis. Access to productive employment and social protection are complementary and mutually supportive. However, social security is not a substitute for employment. Full, productive and decent employment is the most important source of income security.

National social protection systems and labour market institutions partly overlap. Broadly speaking, income redistribution over the life cycle, such as child allowances and pensions, health insurance and social assistance belong to the sphere of national social protection, while unemployment insurance and other employment related protections fall within the realm of labour market institutions. In reality, the distinction is less clear as pensions as well as health insurances and other forms of protection often are contingent upon contributions by employers and workers and thus linked to employment. In the absence of publicly funded social protection, the financial burden of social protection tends to fall on employers in the formal economy. For instance, an absence of publicly funded unemployment schemes is often compensated for by unduly rigorous regulations for firing of workers; in the absence of a system of free or affordable health care, the cost of medical insurance tends to be borne by the employers and employees, maternity leave that is paid for by the employer rather than from the public purse can result in strong disincentives to hire women, etc. Shifting the cost of social protection from employers to the public purse, when fiscally possible, can have several positive consequences:

- It is a precondition for moving from a situation where social protection is only extended to a privileged few with formal wage employment to a situation where the population at large is covered.
- It eliminates a major barrier to formalisation of firms and employment.
- It reduces the cost of labour in the formal economy and increases the propensity of formal businesses to hire labour.
- It is often a major step towards eliminating gender discrimination in the labour market, as the disincentives to hire women are reduced when employers no longer have to shoulder the cost of paid maternity leave and leave associated with childcare.

Economic and industrial policies. Labour market institutions and policies have limited capabilities on their own to create and sustain productive jobs. Economic and industrial policies and strategies matter hugely to this end.

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However, the latter tend to focus on growth and other macroeconomic targets and often display scant understanding of the employment dimensions of growth. The interface between economic, employment and labour market expertise and between the respective policy areas is essential for making economic development job-rich and inclusive but is all too often poorly developed.

Support to SMEs and reducing informality. SMEs play a crucial role in economic development and are a main source of employment. As an essential part of the economy, SMEs are covered by economic and industrial policies at the same time as they are also an important aspect of employment policies because of their crucial role for employment creation. Effective support to SMEs requires close coordination between economic and industrial policies on one hand and employment policies on the other.

Yet, SMEs often face greater obstacles to grow and prosper than larger enterprises and are much more dependent on well-functioning and supportive institutions as well as efficient labour and capital markets than larger enterprises. Often the playing field is not level but tilted against SMEs as legislation, institutions and policies are excessively focused on and tailored for larger enterprises. The transition to an economic development model based on increasing productivity through more advanced technology and production of goods and services with higher value added and at an earlier stage of the product life cycle implies challenges for SMEs, as these tend to have less access to innovations, information, and technology than larger firms.

Education and human resources development policies. While short term TVET often falls within the realm of active labour market policies and thus ministries of labour and education, and much of the more comprehensive TVET does not. Yet, the two are intrinsically linked. Short term skills training is of little use if those trained lack general education. Education and TVET that is detached from the demands of the economy risk becoming irrelevant. Inclusive access to high quality and relevant education and TVET is a sine qua non for achieving inclusive economic and social development.

Inclusive development requires participation

It is only through economic transformation that productivity growth can be put on a new and secure footing. Transformation is about change. Successful transformation to a new development model and introduction of Industry 4.0 that not only provides a basis for sustained productivity growth, but which is also inclusive and rich in productive employment depends not only on astute technocrats and elegant policy formulations, but also on broad-based active participation. Without inclusive participation, there will be no inclusive outcomes, and without the benefit of knowledge and insights of the many individuals and businesses who in different capacities are the main actors in the economy, the design and implementation of policies and strategies will suffer. Social dialogue that is broad-based and inclusive, and which reaches beyond the traditional tripartite partners is essential. Broad-based social dialogue needs to be actively fostered. The various partners in this dialogue need support to make their voices heard and channels of dialogue and communication need to be developed.

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