Article

Assessing Labour Costs in Vietnamese Enterprises and Policy Recommendations

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Abstract

Vietnam has seen a rapid increase in average wages in recent years, far exceeding the average increase in Southeast Asia. However, labour productivity has been slow to improve, significantly impacting the competitiveness of the economy. This article focuses on analysing the current state of labour costs in Vietnam and the factors affecting labour costs in enterprises, thereby offering some policy recommendations to improve labour costs in enterprises in the coming years.

Keywords

Labor costs, enterprises, labor productivity, policy recommendations, Vietnam

Introduction

Vietnam has the advantage of being a country with a relatively high growth rate and an abundant labour force. Compared to countries with similar GDP development levels, Vietnam has a higher percentage of its workforce with higher education. Vietnam also boasts a low cost of living and relatively inexpensive labour costs. Therefore, foreign investment in Vietnam has steadily increased in recent years. However, some recent studies indicate that Vietnam's wage growth rate is quite high and may affect the competitiveness of its economy (Nguyen et al., 2017).

With the aim of analysing, clarifying and removing barriers that increase production costs and thus reduce business profits, specifically labour costs in Vietnamese businesses, this article focuses on clarifying the current state of labour costs in Vietnamese businesses and the factors affecting them. Based on this, it

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proposes several policy recommendations to improve labour costs in Vietnamese businesses in the future.

Research Methodology

Secondary data were collected from documents and reports related to labour costs in Vietnamese businesses. The primary data used for analyzing and evaluating Vietnamese labor costs are the Annual Report on Businesses in Vietnam over the years and data from the General Statistics Office on labor in businesses (General Statistics Office, 2025).

The author presents the data in tables to show the trend of labour cost fluctuations in Vietnamese businesses in recent years. Based on the collected data, the author analyses and clarifies the current state of labour costs in businesses, thereby recommending policies to improve labour costs in businesses in Vietnam in the future.

Current State of Labour Costs in Vietnamese Enterprises

Calculations from the 2020 business survey by the General Statistics Office show that the size of Vietnamese businesses, according to the labour criterion, tended to shrink during the period 2016–2020. This is partly due to the increase in the number of small and medium-sized enterprises (SMEs) (approximately 90% of the total number of businesses).

In addition, 2020 was the first year since 2016 in which there was a decrease in the number of employees in operating businesses with production and business results, decreasing by 2.97% compared to 2019, to only about 14 million people. The main reason is the impact of the COVID-19 pandemic, which forced many businesses to close or scale down production. During the period 2016–2020, the rate of increase in the number of workers decreased sharply, reaching only 1.21% per year (compared to an average increase of 3.39% per year during the period 2011–2015). The proportion of female workers in enterprises did not fluctuate significantly; the service sector still attracts the most workers but is showing a declining trend. In 2020, female workers accounted for 48.4% of the total workforce in enterprises, a slight decrease compared to 48.5% in 2016. Female workers in the service sector still accounted for the highest proportion at 49% in 2020; however, this has been declining since 2016, down 1.1 percentage points compared to 2016. The industrial sector accounts for 47.2% and the agricultural sector accounts for 32.7% (General Statistics Office, 2021; Vietnam Chamber of Commerce and Industry [VCCI], 2022; VCCI, 2023). This trend is expected to continue in the 2021–2025 period, with changes in the labour structure by gender and skill level within enterprises for each labour group.

Regarding the labour costs of enterprises, the average wage of employees in 2016 was 56.1 million VND, increasing to 94.1 million VND in 2021 and 100.8 million VND per employee in 2025. The labor structure by gender and skill level

Table 1. Labour Structure by Gender and Skill Level in Enterprises.

	Average Number of Employees Per Enterprise (People)	
	2021	2025
Female employees	46.5	46.3
Unskilled employees	8.3	8.2
Short-term trained employees	5.4	5.7
Intermediate and vocational secondary school employees	6.5	6.4
College-level and above employees	7.5	7.0

Source: Calculated from data of the General Statistics Office.

Table 2. Labour Costs of Vietnamese Enterprises by Region and Industry.

	Average Labour Wage (Million VND/Year/Person, Price 2020)		Ratio of Labour Costs to Total Business Costs (%)	
Year	2021	2025	2021	2025
Overall	94.1	100.8	24.5	25.2
Main Business Sectors				
Agriculture	29.2	29.7	30.2	33.3
Mining	82.3	102.1	28.3	22.1
Processing	61.2	75.6	23.2	24.0
Textiles	86.1	100.9	35.0	39.1
Wood, paper	67.4	80.5	20.9	21.0
Manufacturing	80.7	105.2	23.1	25.2
Construction	86.0	104.8	30.9	30.7
Trade	65.0	78.4	12.8	16.2
Services	78.2	95.5	31.1	30.0
By Labour Force Size				
1–5	42.8	52.3	24.3	24.2
6–10	78.2	88.3	25.2	26.0
11–50	95.8	103.2	25.4	25.8
51–100	104.7	108.6	27.0	28.6
101–200	105.1	106.7	28.1	28.2
201+	103.4	107.3	32.2	34.2
City				
Ha Noi	98.8	102.5	27.6	27.2
Ho Chi Minh City	96.7	102.1	24.4	25.5
Others	60.2	71.1	23.2	23.8

Source: Author's calculations from data of the General Statistics Office.

in enterprises is presented in Table 1. The labor costs of Vietnamese enterprises by region and industry are presented in Table 2.

During the period 2021–2025, labour costs of Vietnamese businesses tend to increase. In terms of business sector, agricultural enterprises have lower average wages compared to other sectors. In terms of workforce size, enterprises with one to five employees have the lowest incomes. In terms of location, Hanoi and Ho Chi Minh City have the highest average wages nationwide during the 2021–2025 period.

Regarding labour productivity, the average for the 2021–2025 period shows that Vietnam's labour productivity increased by approximately 4.78% per year. This indicates that labour productivity in Vietnam has improved, and the skills and capabilities of the workforce have been enhanced.

Considering labour productivity by economic sector, the industrial sector achieved the highest labour productivity at constant prices, followed by the service sector and, finally, the agriculture, forestry and fisheries sector, which consistently had the lowest productivity during the 2021–2025 period. There is a significant difference between the labour productivity of the industrial and service sectors and that of the agricultural sector; however, this difference tends to narrow in 2024 and 2025.

Regarding the labour productivity growth rate of economic sectors in Vietnam, the labour productivity of all three sectors has increased; however, the rate of increase in labour productivity between sectors over the years tends to differ.

From the data in Table 4, it can be seen that while the service sector had the highest labor productivity growth rate in 2021 (6.22%), the agricultural sector recorded the highest growth rates in 2022 and 2023, at 6.12% and 4.83%, respectively. By 2024 and 2025, the industrial sector had become the sector with the highest labor productivity growth rate. By 2024 and 2025, the industrial sector will again become the sector with the highest labour productivity growth rate. The

Table 3. Labour Productivity at Constant Prices of Economic Sectors in Vietnam During the 2021–2025 Period.

Unit: Million VND/Labour

Year/Sector	2021	2022	2023	2024	2025
Agriculture	75.00	82.01	88.61	101.28	111.01
Industry	195.30	218.74	225.84	248.67	275.63
Services	188.67	200.50	215.04	234.11	256.46

Source: General Statistics Office.

Table 4. Labour Productivity Growth Rate of Economic Sectors in Vietnam During the 2021–2025 Period.

Unit: %

Year/Sector	2021	2022	2023	2024	2025
Agriculture	2.90	6.12	4.83	4.70	5.28
Industry	4.84	3.85	2.25	6.71	7.81
Services	6.22	4.05	3.97	4.56	5.63

average annual labour productivity growth rate for the three sectors (agriculture, industry and services) during the 2021–2025 period is 4.76%, 5.07% and 4.88%, respectively. Labor productivity at constant prices by economic sector during the 2021–2025 period is presented in Table 3. The labor productivity growth rates of the three economic sectors during the 2021–2025 period are presented in Table 4.

Table 5 shows that, in absolute terms, only the agriculture, forestry and fisheries sector saw a decrease in total profit size, while the total profit size of other businesses operating in the economy increased over time. However, this increase in profit value was contributed by an increase in the number of businesses. Businesses are also affected by the increase/decrease in profit scale within each business. Therefore, when calculating average profit per worker, the results show that the average profit per worker in businesses decreased slightly, from VND 172.35 million per worker (2021) to VND 171.20 million per worker (2023).

Thus, in the period 2021–2025, Vietnam's labour productivity, although improved, is still slow. This result shows that labour costs for businesses have increased relatively, and if this trend continues in the following years, it will put pressure on businesses. Therefore, it is necessary to seek solutions to reduce (relatively) labour costs in relation to business profits before the increase in costs becomes stressful, creating difficulties for businesses in competing in domestic and international markets.

Factors Affecting Labour Costs in Vietnamese Enterprises

- Slow improvement in labour productivity

According to the World Bank (2024), a relatively large proportion of Vietnamese businesses believe that labour quality is a barrier to their production and business operations.

Table 5. Pre-tax Profit of Operating Enterprises with Production and Business Results.

Unit: Billion VND

Economic Sectors	2021	2022	2023
Agriculture, forestry and fisheries	10,780	9,790	–1,927
Mining	25,943	68,964	59,249
Manufacturing	532,748	514,989	432,491
Construction	70,082	26,664	16,344
Wholesale and retail trade; repair of automobiles, motorcycles and other motor vehicles	112,084	128,277	60,426
Transportation and warehousing	33,650	42,560	41,408
Real estate business activities	101,471	188,811	150,944
Accommodation and food services	–36,925	–9,150	–8,676

Source: General Statistics Office (2024).

The reality of labour quality not meeting the job requirements of businesses is clearly shown through the survey data of the report. Approximately over 50% of businesses have to retrain their employees. In the foreign-invested sector, this rate reaches over 70%. Correspondingly, over 50% of workers in businesses have to undergo retraining, with an average training time of about 3 months. This practice shows a serious imbalance between labour supply and demand in the market and therefore will increase the labour costs of businesses.

- Economic and technical characteristics of the enterprise and industry

Mining, trade, services and construction industries have higher wages than other industries. Agricultural labour has the lowest wages among all industries. Labour migration from agriculture to other industries can reduce overall labour costs and improve the wage gap between industries. In other words, labour costs vary across professions.

- Social insurance

According to the current Social Insurance Law (National Assembly, 2024), employees and businesses will contribute to social insurance based on a percentage of wages, allowances, and supplementary income, instead of based on the basic wage as is currently the case.

According to assessments by businesses regarding the impact of increased labour costs on production and business operations, the rate of increase in labour costs in recent times has not significantly affected business operations. Only about 20% of businesses believe that the rate of increase in labour costs has a significant impact on their operations.

Policy Recommendations to Help Vietnamese Enterprises Reduce (Relatively) Labour Costs

- Improve policies to encourage businesses to innovate technology

The core issue for effective capital utilisation is that the production and business activities of enterprises must be truly efficient; enterprises must operate profitably and accumulate capital. To achieve this, enterprises must reassess their competitiveness

Table 6. Assessment of Factors Affecting Labour Costs.

Impact Level as Assessed by Businesses	Minimum Wage Increase Rate 2021–2025	Labour Cost Level 2021–2025	Labour Cost Increase Rate 2021–2025
Very low	9.6	5.4	5.4
Low	15.3	12.5	10.8
Medium	61.8	64.8	62.9
High	10.2	13.7	17.0
Very high	3.2	3.5	3.9
Total	100.0	100.0	100.0

and resources and then develop appropriate business plans. Therefore, the state needs to improve preferential policies and support for organisations and individuals carrying out scientific research, technological development and high-tech innovation; provide policies supporting taxes and human resources; and support for intellectual property and commercialisation of research results. Businesses' assessments of factors affecting labor costs are presented in Table 6.

- Continue implementing policies to attract talent in enterprises

Besides training and developing human resources within enterprises, enterprises also need to implement policies to attract and retain talented employees. Enterprises need to offer salaries and incomes that are commensurate with the contributions of their employees. In the context of international economic integration, retaining employees has become much more difficult, especially for SMEs. Many international companies are willing to spend a large amount of money on hiring 'talent scouting' companies to recruit employees for them and offer very high compensation packages to talented employees. To retain talented employees, businesses also need to have compensation, bonuses and benefits that are commensurate with employees' contributions. When employees are fairly compensated, they will be more committed to the company and contribute more to it.

- Improve the legal framework to build an equal business environment for all enterprises

Improving the legal framework aims to build a favourable business environment, remove barriers and create opportunities for equal and efficient business conditions for all types of enterprises. Furthermore, fundamental reforms to wage policies in the production and business sector are necessary. Wages must be based on market wages, ensuring accurate and complete calculation, and taking into account the supply and demand of labour. Wage payments should be based on labour performance and economic efficiency, overcoming irrationalities in wages and income caused by advantages in specific industries and economic sectors, and moving towards a unified wage policy applicable to all types of businesses. A wage information system should be developed to inform both employees and employers about the wages of various types of labour in certain industries and sectors. This information is for reference when negotiating wages and signing employment contracts.

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