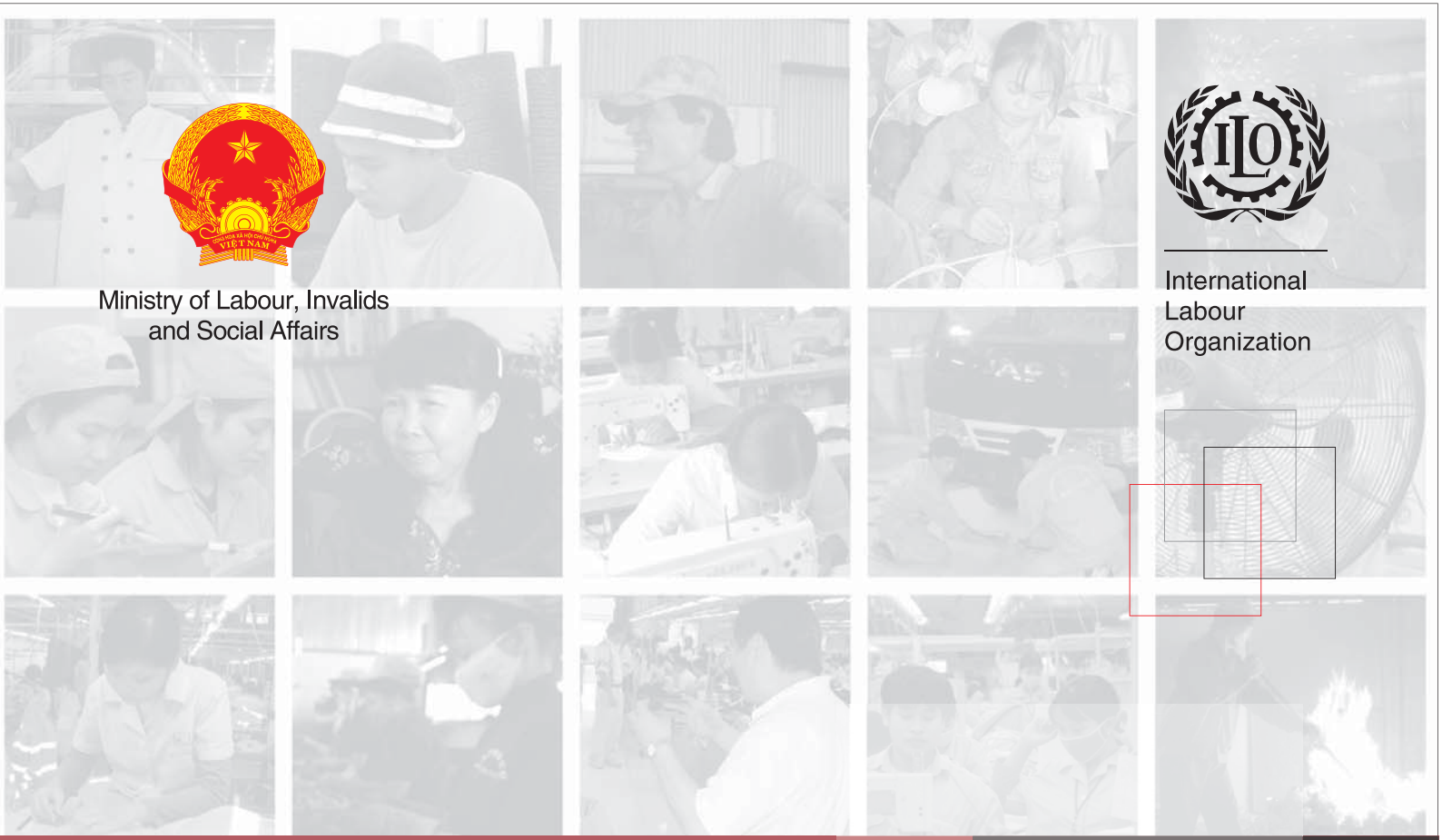

Ministry of Labour, Invalids and Social Affairs

International Labour Organization

# Meeting the employment challenge in Viet Nam – Towards an employment oriented growth strategy

T S Papola

Hanoi, December 2011

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# Meeting the Employment Challenge in Vietnam:

# TOWARDS AN EMPLOYMENT-ORIENTED GROWTH STRATEGY FOR VIETNAM

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# Contents

# Foreword

In December 2007, the Ministry of Labour, Invalids and Social Affairs of Vietnam (MOLISA) signed a Memorandum of Understanding (MOU) with the ILO. The primary aim was to provide MOLISA with policy advice and capacity building to support the integration of decent work and employment policies and strategies into Vietnam's national development framework. More specifically, this meant ILO's technical advisory services to MOLISA would be anchored in Vietnam's five-year Socio-Economic Development Plan (SEDP) for 2006-2010, ten-year Socio-Economic Develoment Strategy (SEDS) for 2011-2020, and the new phase of SEDP (2011-2015). This MOU was followed by an ILO mission to Hanoi in September 2008 that laid the groundwork for intensive collaboration between the ILO and MOLISA on the process and content of formulation of the Vietnam Employment Strategy 2011-2020 and in mainstreaming employment issues in the SEDS and SEDP. A number of tripartite consultations have been held since September 2008 to identify priorities, following which several thematic studies were prepared by international and national consultants. These studies were peer reviewed in workshops and seminars before being finalized.

Dr. Trilok Papola's study offers an analysis of the composition of growth and its implication for employment creation over the past years. Furthermore, the discussion on employment and growth provides the opportunity to define a comprehensive *employment challenge*, where unemployment – very low in Vietnam – is seen as the tip of the iceberg. In fact, the employment challenge relates also to under-employment and working poverty. Finally, the paper provides a quantitative estimate of the job creation requirements, and consequently, growth and employment creation targets are proposed for the next 10 years.

This study offers a number of recommendations for policies and institutions for employment promotion. The recommendations reflect ILO inputs to the Vietnam Employment Strategy 2011-2020. They also reflect the main outcomes of the several rounds of consultations that were undertaken in formulating the strategy which were led by MOLISA and included other ministries, in particular MPI, the National Assembly, Workers and Employers' organizations and key academics and researchers. The financial support from the Employment Policy Department of the ILO is also gratefully acknowledged.

This policy paper synthesizes the main elements of ILO technical support to the MOLISA on how to appraise and re-orient the model of growth with an employment lens,in coordination with a number of other Government ministries and institutions. It provides the foundation, based on a process of intensive collaboration with the government and social partners in Vietnam, for a coherent socio economic framework for productive employment generation.

# The Study: Background and Objectives

Vietnam has recorded highly remarkable economic performance over the past two decades. Growth in its Gross Domestic Product (GDP) has been one of the fastest, second only to China, over the period 1990-2009. In real terms, GDP growth has averaged 7.5 per cent per annum. Per capita income, estimated to be about 1200 USD in 2010, has grown at about 5.5 per cent per annum taking Vietnam from the 'low income' to 'lower middle income' group of countries. The relative size of the Vietnam economy now stands at about 8 per cent of the ASEAN 4 economy, increasing from 2.2 per cent in 1990. Income poverty, measured in whatever terms, has seen dramatic decline, perhaps the fastest in any country in a period of 15 years. Non-income indicators such as access to education, health, electricity, road connectivity, water and sanitation have also remarkably improved.

However, the impressive performance of Vietnam's economy has not been accompanied by a correspondingly high growth of employment, particularly of good quality jobs with reasonably high wages, job security and social protection. Employment has grown. The number of persons in employment is estimated to have increased from around 35.60 million in 1997 to 48.02 million in 2009; however, that has not reduced unemployment: the number of unemployed has increased from 1.05 million in 1997 to 1.29 million in 2009. The unemployment rate declined from 2.9 in 1997 to 2.3 in 2000, but has gone up to 2.6 in 2009. The number of unemployed and the rate of unemployment increased significantly during 2008 and 2009 as a result of job losses caused by the economic impact of global financial crisis. It appears, however, that more than the numbers of the unemployed, it is the quality of jobs that is of major concern in the employment challenge that Vietnam faces. The overwhelming majority of jobs are in the informal sector or of informal type: irregular in tenure and without social protection. Employment of about three-fourths of the workers is assessed to be "vulnerable." These workers are in own account businesses or doing unpaid family work and their earnings are subject to uncertainty and fluctuations.

It sounds rather intriguing that despite a high and broad based economic growth, Vietnam continues to face the problems of unemployment and poor quality employment. How serious are these problems? Are they concentrated in certain regions and population groups? Why has a fast growth of GDP not been effective in tackling them? Is composition of growth, in terms of the contribution of different sectors to growth, relevant in this context? What specific measures are required to reorient growthso that theemployment content of growth is sufficienty enhanced to generate productive employment for all in need – focusing particularly on areas and groups which are most afflicted with unemployment, poverty and vulnerability? The present study attempts to examine and answer these questions. Specifically, it

- analyses the growth experience of Vietnam over the past two decades in terms of its composition and sources;
- examines the employment performance of economic growth by sectors in terms of growth of employment, employment content and elasticities of growth and structural changes vis-a-vis changes in output structure;
- assesses the employment challenge in Vietnam both in quantitative and qualitative terms and projects the requirements of employment generation in the decade 2011-2020;

- identifies the sectors and activities where new employment generation could take place;

- outlines the strategies, policies and programmes needed to meet the employment challenge both in quantity and quality.

The study is primarily a synthesis of several recent studies on the subject – undertaken by Vietnamese scholars and institutions as well as international consultants and agencies – presented in an analytical framework. It is supplemented by the author's own analysis and interpretation of data as reported in official documents from the agencies of the Vietnamese government. Besides attempting to provide answers to the questions posed above, this paper also provides a framework and methodology for analysis of the employment problems in a developing country like Vietnam.

# I. Economic Growth: Rate and Pattern

Vietnam's economy has maintained a more or less steady growth of Gross Domestic Product (GDP) during 1990-2009 (around an average of 7.5 per cent per annum). After a relatively low growth of 5 per cent and 6 per cent during 1990 and 1991, it grew at a high rate of 8 to 9 per cent during 1992-97. The economy saw a lower average of around 6 per cent during the next five years but picked up to an average of 8 per cent during 2002-2007. It slid down to 6.2 per cent and 5.2 per cent during 2008 and 2009 in the wake of the global financial crisis. The rate of growth averaged 7.5 per cent during the nineties and 7.3 per cent during 2000-09. Thus, the growth has not only been high but also robust: only the last two years have seen some fragility (Table 1).

**Table 1. Economic Growth in Vietnam, 1990-2009**
(Yearly Growth of Gross Domestic Product)

| Year | GDP Growth (%) | Year | GDP Growth (%) |
|---|---|---|---|
| 1990 | 5.1 | 2000 | 6.8 |
| 1991 | 5.8 | 2001 | 6.9 |
| 1992 | 8.7 | 2002 | 7.1 |
| 1993 | 8.8 | 2003 | 7.3 |
| 1994 | 8.8 | 2004 | 7.8 |
| 1995 | 9.5 | 2005 | 8.4 |
| 1996 | 9.3 | 2006 | 8.2 |
| 1997 | 8.2 | 2007 | 8.4 |
| 1998 | 5.8 | 2008 | 6.2 |
| 1999 | 4.8 | 2009 | 5.3 |

*Source: General Statistical Office, as computed and presented in VIE, 2010, Table 2.1.1.1.*

## Industry-Led Growth

Industry (which consists of mining; manufacturing; electricity, gas and water; and construction) has grown the fastest and has thus been the main contributor to growth over the past two decades (Table 2). Industry maintained a steady growth around the average of 10.00 per cent per annum during 1990-2009, except during 2008 and 2009 when its growth was low at 6.1 per cent and 5.5 per cent only. Within industry, manufacturing maintained a consistently high growth rate (averaging at 11.00 per cent) for the entire period. However, the manufacturing growth rate dipped to a low of 2.8 per cent in 2009.

Services had the next highest growth rate, averaging at 7.7 per cent for the entire period. However, it showed greater fluctuations: it was 8.6 per cent during 1990-95, declined to 5.7 per cent during the next five years, increased to around 6.7 per cent during 2000-05, and was higher at

8 per cent during 2005-09. Services seem to have seen the least adverse impact from the global financial crisis as their growth did not experience a very sharp decline like industry and manufacturing during 2008 and 2009. Understandably, agriculture registered lower growth than industry and services, yet its growth rate (averaging at 3.7 per cent over the period 1990-2009) was reasonably high by international standards. It seems, however, that growth momentum in agriculture has slowed down in the post-2000 period – it grew at higher than 4 per cent per annum during the 1990's, while its growth during 2000-2009 averaged to just above 3 per cent. The global financial crisis did not seem to have immediately affected agricultural growth in Vietnam since it grew at over 4 per cent in 2008. However, the crisis appears to have made a severe dent in 2009 when agricultural growth declined to the lowest in two decades (1.8 per cent).

Vietnam's rapid economic growth has been accompanied by a large transformation in its economic structure in terms of the shares of different sectors in the national product. For example, industry, which accounted for about 23 per cent of GDP and was smaller than the services sector (which accounted for 39 per cent) in 1990, has become the largest sector with 40 per cent share in GDP. This is by virtue of its having registered the fastest growth during the two decades (Table 3). Within industry, all subsectors – mining; manufacturing; electricity, gas and water; and construction – have increased their share in GDP, but electricity, gas and water has gained the most, raising its share from 1.4 per cent to 3.5 per cent of total GDP. Mining doubled its share from 5 per cent to 10 per cent. Construction had an almost similar gain from 3.8 per cent to 6.7 per cent. Manufacturing continues to be the major subsector, accounting for about one half of the industry sector. Its share in aggregate GDP increased from 12.3 per cent in 1990 to 20.1 per cent in 2009.

**Table 2**
**Total and Sectoral Growth Rates of GDP** (Different Periods, 1990-2009)

| Period | Total | Growth Rates of GDP (% per annum) | | | |
|---|---|---|---|---|---|
| | | Agriculture | Industry | Manufacturing | Services |
| 1990-95 | 8.00 | 4.09 | 11.00 | 10.31 | 8.60 |
| 1995-2000 | 6.95 | 4.42 | 10.60 | 11.50 | 5.69 |
| 2000-2005 | 7.45 | 3.57 | 10.51 | 11.50 | 6.70 |
| 2005-2009 | 7.00 | 3.01 | 8.00 | 9.50 | 8.01 |
| 1990-2000 | 7.50 | 4.35 | 10.40 | 11.00 | 7.22 |
| 2000-2009 | 7.30 | 3.25 | 9.25 | 10.50 | 7.15 |
| 1990-2009 | 7.45 | 3.52 | 10.00 | 11.00 | 7.70 |

*Source: Compiled on the basis of data from GSO, Statistical Yearbook of Vietnam, various years, Statistical Publishing House, Hanoi,.*

**Table 3**
**Structural Changes in GDP: Sector Shares (%)**

| Sector | 1990 | 1995 | 2000 | 2005 | 2009 |
|---|---|---|---|---|---|
| Total | 100 | 100 | 100 | 100 | 100 |
| *Agriculture (including Forestry and Fishery)* | *38.74* | *27.18* | *24.53* | *20.97* | *20.91* |
| Minings & Quarrying | 5.21 | 4.81 | 9.65 | 10.59 | 9.97 |
| Manufacturing | 12.26 | 14.99 | 18.56 | 20.63 | 20.09 |
| Electricity, Gas & Water | 1.37 | 2.05 | 3.17 | 3.45 | 3.53 |
| Construction | 3.84 | 6.90 | 5.35 | 6.35 | 6.65 |
| *Industry* | *22.67* | *28.76* | *36.73* | *41.02* | *40.24* |
| Trade | 13.01 | 16.38 | 14.23 | 17.05 | 18.83 |
| Transport, Storage and Communication | 3.45 | 3.98 | 3.93 | 4.36 | 4.37 |
| Public Administration | 3.32 | 3.62 | 2.73 | 2.75 | 2.84 |
| Education Health | 4.27 | 5.21 | 4.72 | 4.69 | 3.88 |
| Other Services | 3.31 | 12.86 | 11.28 | 7.36 | 6.96 |
| *Services* | *38.59* | *41.06* | *38.73* | *38.01* | *38.79* |

*Sources: As in Table 2.*

Unlike most other countries in Asia, the share of services has not increased in Vietnam – it was about 39 per cent in 1990 and, with some minor fluctuations over the years, held the same share in 2009. Thus, Vietnam's economic growth has been mostly industry-driven. This is in contrast to many other countries in South East and East Asia where services have played the major role in their growth in recent years and have emerged as the most important of the three divisions of economic activity. Within the services sector, economic services – trade, transport and finance – have grown faster and increased their importance as compared to social, community and personal services. The latter services have, in fact, shown a decline in their share in GDP. The decline in the share of agriculture, from 39 per cent to 21 per cent, is entirely compensated by the increase in that of industry.

Another major transformation that has taken place in the Vietnamese economy is with respect to ownership sectors. The process of decline in the share of state-owned enterprises (SOEs) and emergence of domestically owned private enterprises (NSPEs) started with the Doi Moi era and gained momentum during the 1990s. The post-2000 period has seen acceleration in this process especially with foreign direct investment (FDI) created enterprises gaining in importance. Thus, the contribution of the state sector in GDP declined from around 46 per cent in 2000, to 35 per cent in 2009. The contribution of the non-state domestic sector (which includes collectives, private enterprises and household enterprises) increased from 43 per cent to 47 per cent while FDI enterprises increased their contribution from 11 per cent to 18 per cent. In terms of investment, during 2000-2009, the share of the state enterprises declined from 59 per cent to 35 per cent, that of the non-state domestic sector increased from 23 to 39 per cent, mirrored by(?) the foreign-owned enterprises which increased their share from 18 per cent to 26 per cent (Table 4).

**Table 4**
**Structure of Vietnam Economy by Ownership Sectors (%)**

| Sector | Share (%) in | | |
|---|---|---|---|
| | GDP | Investment | Employment |
| *State-owned Enterprises (SOEs)* | | | |
| 2000 | 46.0 | 59.1 | 9.33 |
| 2006 | 41.0 | 45.7 | 10.56 |
| 2009 | 35.0 | 34.8 | 9.60 |
| *Non-State (Private) Sector (NSPEs)* | | | |
| 2000 | 43.0 | 22.9 | 89.70 |
| 2006 | 46.0 | 38.1 | 87.50 |
| 2009 | 47.0 | 39.5 | 87.0 |
| *Foreign Director Investment (FDI) Sector* | | | |
| 2000 | 11.0 | 18.0 | 0.97 |
| 2006 | 14.0 | 16.0 | 1.94 |
| 2009 | 18.0 | 25.7 | 3.40 |

*Source: GSO (2009) and VIE 2010 (Tables 3.1.1, 3.1.2 and 3.3.3).*

## Investment-Led Growth

Overall, the growth of investment has far exceeded GDP growth. As a result, the incremental capital output ratio (ICOR) has sharply increased over the years. It was about 3.0 during 1990-95, increased to about 5 during 1995–2000, remained at that level till 2007, then sharply increased to 6.6 and 8 per cent during 2008 and 2009 respectively (Table 5). In 2009, gross investment in the Vietnamese economy was estimated to be 44 per cent of GDP. The years 2008 and 2009 were, no doubt, exceptional due to the fallout of the global financial crisis, but even earlier, the trend of the Vietnamese economy becoming increasingly more capital intensive was quite clear. A recent study (VIE, 2010), aimed at measuring the contribution of capital, labour and efficiency of factor use to growth, concluded that while growth of GDP in Vietnam during the 1990s was derived more from increase in productivity than from increase in investment, the trend has been reversed in the post 2000 period (Table 5). Estimates made by the study reveal that efficiency of the factor use as measured by total factor productivity (TFP) was the most important contributor to GDP growth during 1990-96 – after which the largest part of growth was derived from capital investment.

During the earlier period, capital contributed about 30 per cent and TFP about 50 per cent to growth. The proportion in the post-1996 period has been around 55 per cent by capital and 25 per cent by productivity. For most years since 2000, contribution of capital has been close to or in excess of 60 per cent.

**Table 5**
**Contribution of Capital, Labour and Total Factor Productivity (TFP) to Growth**

| Year | Contribution to GDP Growth (%) | | | International Capital Output Ratio (ICOR) |
|---|---|---|---|---|
| | Capital | Labour | TFP | |
| 1990 | 6.6 | 43.9 | 49.5 | 3.31 |
| 1991 | 8.4 | 16.9 | 74.7 | 2.92 |
| 1992 | 13.0 | 14.5 | 72.5 | 2.23 |
| 1993 | 41.5 | 21.6 | 36.9 | 3.25 |
| 1994 | 39.6 | 18.5 | 42.5 | 3.14 |
| 1995 | 39.9 | 16.2 | 43.9 | 3.12 |
| 1996 | 36.4 | 1.5 | 62.1 | 3.34 |
| 1997 | 54.9 | 16.0 | 29.1 | 3.80 |
| 1998 | 64.1 | 18.6 | 17.3 | 5.59 |
| 1999 | 62.2 | 17.4 | 20.4 | 6.59 |
| 2000 | 47.4 | 13.8 | 38.8 | 4.80 |
| 2001 | 59.9 | 20.6 | 19.4 | 4.89 |
| 2002 | 44.2 | 27.7 | 28.2 | 5.01 |
| 2003 | 72.1 | 43.7 | 15.8 | 5.09 |
| 2004 | 61.5 | 21.9 | 16.6 | 4.91 |
| 2005 | 59.8 | 16.4 | 23.8 | 4.68 |
| 2006 | 57.1 | 14.3 | 28.6 | 4.88 |
| 2007 | 59.5 | 14.8 | 25.7 | 4.90 |
| 2008 | NE | NE | NE | 6.60 |
| 2009 | NE | NE | NE | 8.00 |

*Source: Based on GSO statistics as estimated in VIE, 2010, Table 2.1.1.1.*
*NE = Not estimated.*

It seems that while the shares of capital and productivity have changed, in favour of the former, the third component of growth, namely labour, has had the lowest contribution. The contribution of labour has fluctuated sharply in some years, but has not changed much for most of the period under consideration and, over a longer period of time, it has shown a decline. The contribution of labour was high at 44 per cent in 1990, averaged around 18 per cent during the rest of the 1990's, increased to about 25 per cent during 2000-2004 with a sharp rise to 44 per cent in 2003, but dropped to 15 per cent during 2005-07. In other words, economic growth in Vietnam has been neither efficient nor employment generating. It has primarily been enabled by pumping in increasingly large amounts of investment, both domestic and foreign.

It needs to be noted that an increase in capital input per unit of output, and a low and declining labour to output ratio, may not necessarily be the result of decline in the efficiency in use of capital and in labour requirements of output in individual products. These may be outcomes of larger investments going into sectors and activities that require more capital and use less labour per unit of output. This aspect requires more detailed investigation, but a change in investment pattern in the direction of more capital-intensive sectors appears to have taken place, particularly since 2000. According to a study (VIE, 2010), over 72 per cent of total investment during 2000-2008 was in 20 industries such as oil and gas, electricity, coal, real estate, cement, roads, waterways, telecommunications, chemical fertilizers and social services, most of which are highly capital-intensive in nature. On the other hand, relatively less capital-intensive and more labour-intensive, manufacturing industries such as electronics, agro-processing, wood products and the like, received relatively small investments.

Thus, the economic growth in Vietnam has been industry-led and capital-intensive. Another important feature of growth, particularly since 2001 – when Vietnam entered into a bilateral trade agreement with the United States of America – and more so since its accession to World Trade Organisation (WTO) in 2007, is its strong focus on the external sector. From the time of the initiation of the Doi Moi policy in 1986, heralding the economic reforms towards market orientation and globalization, Vietnam adopted "an export and foreign direct investment (FDI) – driven industrialization strategy" for economic development (Lim, 2010). Exports have experienced a rapid and steady growth throughout the period since 1991. They made 25 per cent of GDP in 1996, and have grown at a rate of 20 per cent per annum to account for over 70 per cent of GDP in 2008. Exports declined by about 9 per cent in 2009 to make up 60 per cent of GDP.

FDI amounted to 36 billion USD in 2006, and rose to 71 billion USD in 2007, making up 13 per cent of GDP. As mentioned earlier, FDI enterprises accounted for 26 per cent of gross investment and 18 per cent of GDP in 2009 (Lim 2010 VIE, 2010).

## Inclusive Growth: Sharp Decline in Poverty

Economic growth in Vietnam has not only been rapid, but also seems to have been quite broad-based and inclusive in so far as it has significantly benefited the poorer segments of the population. This is testified to by a very impressive reduction in the number of poor and the incidence of poverty. It is estimated that about 30 million people have overcome poverty over the last two decades and the percentage of the poor, defined as members of households unable to meet the food and non-food consumption needs that allow a person a daily intake of 2100 calories, has declined from 58.1 per cent in 1993 to 14.5 per cent in 2008. Poverty defined in terms of the international criteria of 1.25 USD and 2 USD per person per day is also estimated to have declined from 64 per cent to 22 per cent, and 86 per cent to 48 per cent respectively, during 1993-2006. The poverty gap, measured in terms of the shortfall of the consumption of the average poor from the poverty line, has also declined from 18.5 per cent to 3.5 per cent during this period, so has poverty severity, measured as the weighted average of the poverty gap of the poor, decreasing from 7.9 per cent to 1.2 per cent (Table 6).

**Table 6**
**Trends in Incidence of Poverty**

| Year | (% of Population below Poverty Line) | | | Poverty Gap | Poverty Severity | Poverty by Inter-national Poverty Line | |
|---|---|---|---|---|---|---|---|
| | Urban | Rural | Total | | | $ 1.25 | $ 2 |
| 1993 | 25.1 | 66.4 | 58.1 | 18.5 | 7.9 | 63.7 | 85.7 |
| 1998 | 9.2 | 44.9 | 37.4 | 9.5 | 5.6 | 49.7 | 78.2 |
| 2002 | 6.7 | 35.6 | 28.9 | 7.0 | 2.4 | 40.1 | 68.7 |
| 2004 | 3.6 | 25.0 | 19.5 | 4.7 | 1.7 | 24.2 | 52.5 |
| 2006 | 3.9 | 20.4 | 16.0 | 3.8 | 1.4 | 21.5 | 48.4 |
| 2008 | 3.3 | 18.7 | 14.5 | 3.5 | 1.2 | NA | NA |

*Source:* *General Statistical Office, as reported in, VASS, (2010). Poverty Assessment in Vietnam, 2008-2010, Synthesis Report: Poverty Reduction in Vietnam: Achievement and Challenges (Table 6 and Figure 1).*

*Note:* *1. The Official Poverty Line, defined as the cost of food and non-food consumption basket that allows a person a daily intake of 2100 calories, and calculated on the basis of average monthly per capital expenditure was fixed at VND 200,000 (=USD 11.50) for rural and VND 270,000 (=USD 15.53) for urban areas for the period 2006-2010.*
*2. Poverty gap is measured as the average distance of the consumption of the poor population from the poverty line income.*
*3. Poverty severity is measured as the weighted average of the distance of the consumption of the poor from the poverty line.*

Poverty has declined in all areas and among all population groups, but the rate of decline has been disparate. Poverty in rural areas has always been much higher than in urban areas, but has also declined at a lower rate than in urban areas. In the former it declined from 66.4 per cent in 1993 to 18.7 per cent in 2008, while in the latter, it declined from 25.1 per cent to 3.3 per cent during that period. Thus, poverty is now a predominantly rural phenomenon.

Similarly, there are significant differences in the incidence of poverty and the rate of its decline among different provinces. The Northwest has had the highest incidence of poverty and also had the slowest rate of decline, from 81 per cent in 1993 to 46 per cent in 2008. The Northeast, North Central Coast and Central Highlands, were other provinces with very high poverty in 1993, but have recorded a reasonably fast decline to less than one-fourth by 2008. The Red River Delta had a similar extent of poverty as the Central Highlands in 1993, but now has an incidence of poverty of only 8 per cent. The Southeast had the lowest rate of poverty and has recorded the fastest decline in poverty from 40 per cent to 3.5 per cent. The Mekong River Delta and South Central Coast have had an average level and performance record in reduction of poverty.

**Table 7**
**Poverty by Regions and Community**

| Region | Incidence of Poverty: Head Count Ratio (HCR) (%) | | | | | |
|---|---|---|---|---|---|---|
| | 1993 | 1998 | 2002 | 2004 | 2006 | 2008 |
| Red River Delta | 61.4 | 28.6 | 22.4 | 12.1 | 8.8 | 8.10 |
| North East | 78.9 | 55.8 | 38.4 | 29.4 | 25.0 | 24.3 |
| North West | 81.0 | 73.4 | 68.0 | 58.6 | 49.0 | 45.7 |
| North Central Coast | 74.5 | 48.1 | 43.9 | 31.9 | 29.1 | 22.6 |
| South Central Coast | 47.2 | 34.5 | 25.2 | 19.0 | 12.6 | 13.7 |
| Central Highlands | 61.2 | 57.9 | 51.8 | 33.1 | 28.6 | 24.1 |
| South East | 40.0 | 13.5 | 10.6 | 5.4 | 5.8 | 3.5 |
| Mekong River Delta | 47.1 | 36.9 | 23.4 | 19.5 | 10.3 | 9.0 |
| Community | | | | | | |
| Kinh Hoa | 53.9 | 31.1 | 23.1 | 13.5 | 10.3 | 9.0 |
| Ethnic Minorities | 86.4 | 75.2 | 69.3 | 60.7 | 52.3 | 50.3 |
| Vietnam | 58.1 | 37.4 | 28.9 | 19.5 | 16.0 | 14.5 |

*Source: Based on GSO Statistics, reproduced from VASS, 2010, Table 6.*

An equally, if not more, disconcerting feature of the disparities in the incidence and reduction of poverty is the difference between the majority Kinh Hoa group and minority communities. As many as 86 per cent of the members of ethnic minorities were poor in 1993 and over one-half of them are recorded to be poor in 2008 as well. Corresponding figures for the Kinh-Hoa are 54 per cent and 9 per cent. Thus, not only is the extent of poverty higher amongst the ethnic minorities, the progress in reducing poverty has been much slower in their case than that of the general population.

## Continuing Pervasiveness of Low Incomes and Vulnerability

The poor in rural areas, remote mountainous regions, and ethnic minorities, appear to have gained much less from the impressive growth performance and large increases in average income levels. Overall reduction in poverty has been remarkable, almost miraculous, but it must also be recognized that the income level at which the poverty line is set is very low by international standards. For example, it was fixed at 200,000 VND (=11.50 USD) per person per month for rural and 270,000 VND (=15.53 USD) for urban areas for the period 2006-2010 – this is much lower than the international norms.[1] While poverty by this criterion was estimated to be 16 per cent, it was estimated at 21.5 per cent with the 1.25 USD per person per day poverty line, and 48.4



[1] According to a Government website (http://baodientu.chinhphu.vn), poverty lines have been revised to 400,000 VND (USD 20.5) for rural and 500,000VND (USD 25.5) for urban areas, with effect from January 1, 2011 and will remain valid for five years (2011-2015) for eligibility for social welfare benefits.

per cent by the 2 USD per person per day poverty line in 2006. Thus, a large number of people counted as non-poor still have very low incomes. For example, a study estimated that about 5 per cent of workers had expenditures that were less than 10 per cent above the poverty line in 1998 (World Bank 1999, as reported in Lim, p.13). A little change in family earnings will push such workers back into poverty.

A study in poverty dynamics (Baulch and Dat, 2010, cited in VASS, 2010, p. 31), using data sets from the Vietnam Household and Living Standards Survey (VHLSS) 2002, 2004 and 2006, estimated that though poverty declined from 28 per cent in 2002 to 16 per cent in 2006, 35 per cent of people lived in poverty in at least one year out of these three. Of them, about one-fourth were poor in all three years, one-third escaped poverty on a sustainable basis (i.e. they were poor in 2002 but non-poor in 2004 and 2006) and the rest, over 40 per cent, were transient poor (i.e. they were poor in one or two years and non-poor in the rest of the years).

In spite of the high growth of GDP and per capita income and the sharp reduction in poverty, the phenomenon of low incomes continues to be pervasive in Vietnam. In other words, rising incomes are not adequately shared by a large number of people because many have not been able to effectively participate in the growth process. In a situation where a large mass of the people, particularly the poor, have no (or only a limited amount of) productive assets, earnings from employment are the main or only source of income. Therefore, the rate at which employment gets generated with growth becomes the major determinant of how much the rising incomes benefit the relatively poor. It is to this aspect of the last two decades of economic growth in Vietnam that we turn to in the following section of this paper.

# II. Employment Performance of Economic Growth

As noted earlier, economic growth in Vietnam during the last two decades has been mostly contributed by capital. The efficiency of factor use has been the second largest contributor, though its contribution has seen a decline since 1997 (Table 5). Labour has always been a minor contributor, accounting for about 20 per cent of the inputs. By 2005-07, the latest period for which estimates have been made, the contribution of labour had declined to about 15 per cent. While these estimates imply a relatively small and declining employment content of growth, they should not by themselves be cause for concern. Most growth in a poor developing country, with generally low levels of productivity, is derived from increase in labour productivity rather than increase in labour input (i.e. employment). However, low and declining content of growth, resulting in slow employment growth, is a matter of concern when the labour force is growing relatively fast and unemployment is high and rising.

## Employment Growth: Industry The Major Contributor

Even with the low employment content of economic growth, employment growth in Vietnam has been reasonably high because of the continuation of a high rate of growth in general. Total employment in the economy increased from 35.60 million in 1997, to 43.45 million in 2005 and 48.02 million in 2009 (Table 8). The long-term growth of employment during 1997-2007 has been over 2.5 per cent. In the years following global financial crisis, 2008-09, employment has grown at a slower rate of about 2.2 per cent per annum. The labour force has been growing at similar rate as employment over these years. In absolute terms, labour force (as well as employment) grew by about one million per year during 2000-2009.

**Table 8**
**Employment Growth and Structure**

| | Employment ('000) | | Growth in 2009 over 1997 (%) | Shares in Employment | |
|---|---|---|---|---|---|
| | 1997 | 2009 | | 1997 | 2009 |
| *Total* | *35 603* | *48 015* | *34.86* | *100* | *100* |
| **Agriculture** | **23 242** | **22 850** | **-1.67** | **65.3** | **47.6** |
| Mining | 131 | 227 | 73 | 0.4 | 0.5 |
| Manufacturing | 3 460 | 6 950 | 100 | 9.7 | 14.5 |
| Electricity, Gas & Water | 74 | 274 | 270 | 0.2 | 0.5 |
| Construction | 847 | 3038 | 259 | 2.4 | 6.3 |
| **Industry** | **4 512** | **10 489** | **132** | **12.7** | **21.8** |
| Trade | 3 676 | 5 708 | 55 | 10.3 | 11.9 |
| Hotels & Restaurants | 601 | 1 979 | 229 | 1.7 | 4.1 |
| Transport | 935 | 1 721 | 84 | 2.6 | 3.6 |
| Finance | 118 | 229 | 94 | 0.3 | 0.5 |
| Science & Technology | 17 | 238 | 1 300 | 0.0 | 0.5 |
| Real Estate | 38 | 101 | 165 | 0.1 | 0.2 |
| Public Administration | 425 | 1 135 | 167 | 1.2 | 2.4 |
| Education | 828 | 1 663 | 94 | 2.3 | 3.5 |
| Health | 243 | 435 | 79 | 0.7 | 0.9 |
| Culture Reports | 107 | 290 | 171 | 0.3 | 0.6 |
| Politics (Party) | 94 | 186 | 98 | 0.3 | 0.4 |
| Other Services | 623 | 737 | 18 | 1.8 | 1.5 |
| Household Employees | 141 | 242 | 72 | 0.4 | 0.5 |
| Other-International Organisation | 3 | 5 | 66 | 0.0 | 0.0 |
| **Services** | **7 849** | **14 676** | **87** | **2.0** | **30.6** |

*Source: Calculated on the basis of data from GSO, Statistical Yearbook of Vietnam, various years.*

Among major economic activity sectors, agriculture has experienced a decline in employment in 2009 as compared to 1997; however, the economic activity in manufacturing has doubled during this period. In construction, activity has increased over two and a half times. Trade, the most important activity in the services sector, registered a relatively smaller increase of only 55 per cent during 1997-2009, while in hotels and restaurants, employment more than tripled, and in transport and financial services almost doubled. Education, a relatively larger subsector, registered an almost 100 per cent increase in employment. So did health, a relatively smaller subsector.

As a result of the differential growth of employment, there have been changes in the structure of the workforce. Agriculture, which accounted for 65 per cent of workers in 1997, employed 48 per cent of them in 2009. Services also saw a decline in their share of employment from 24 per cent to 21 per cent. Industry gained substantially from 13 per cent to 22 per cent. At a more disaggregated, one-digit level, the share of manufacturing increased from 9.7 per cent in 1997 to 14.5 per cent in 2009, and the share of construction went from 2.4 per cent to 6.3 per cent. In the services sector, the share of hotels and restaurants increased the most, from 1.7 to 4.1 per cent followed by transport and education. The largest sub-division, trade, registered but a small increase in its share from 10.3 per cent to 11.9 per cent of total employment in the country.

Thus, manufacturing, construction, trade, hotels and restaurants, social services, education, and health, have been the major contributors to employment growth. Manufacturing, being the most important among these sectors, has had the largest contribution. Of about 12.4 million new employment opportunities that came up during 1997-2009, about 28 per cent were in manufacturing, about 18 per cent were in construction, and 16 per cent in trade.

In the case of manufacturing, it is observed that more jobs were created in production of output that was exported than in the part meeting domestic demand. According to an estimate, exports generated about 1.4 million jobs while output growth meeting domestic demand generated about 935,000 jobs during 1995-2008 (Lim, 2010, Table 5.2).

It is also important to note that over the years the SOEs have been declining in importance both in terms of employment and GDP, while foreign-owned enterprises have gained (Table 4). The privately owned domestic sector has increased its share in GDP, but has more or less maintained its share in employment. It is the largest sector, contributing about 47 per cent of GDP and 87 per cent of employment.

During 2000-2009, employment growth was fastest in the foreign-owned sector – its share in total employment has increased from less than one per cent in 2000 to about 3.4 per cent in 2009. Its share in GDP has also substantially increased from 11 to 18 per cent and its share in investment has gone up steeply from 23 per cent to 40 per cent. Thus, the foreign-owned or FDI controlled sector has been the most employment intensive, but its capital intensity has sharply increased, requiring much larger investment for job creation.

The FDI sector is still a small sector in terms of employment and, therefore, would need to grow much faster in order to make significant impact on total employment growth. The state-owned sector has been declining and will continue to decline in importance both in GDP and employment. As a result, the task of creating new jobs falls to the private domestic sector, which, in any case, already accounts for the overwhelming majority of total employment in Vietnam anyway.

## Nature of Recent Employment Growth: Productive v/s Work Sharing

Of about 5 million new jobs created during 2005-2009, 4.4 million (or about 89 per cent) were in the non-state domestic (private) sector. Of them, 3.88 million were in the household sector and only 0.68 million in private enterprises. This raises the question whether this increase really meant the creation of new productive jobs or if it mostly reflected work sharing and no (or very little) addition to earnings. That it basically was the latter is suggested by the experience of 2009, the second year following the global financial crisis, when GDP growth declined continuously (from 8.5 per cent in 2007 to 6.2 per cent in 2008 and 5.2 per cent in 2009) and so did the export growth rate which in fact had turned negative as exports fell from 62.69 billion USD in 2008 to 57.10 billion USD in 2009 (GSO, 2009–Preliminary Estimates).

Job losses ranging between 300,000 to 700,000 were forecast/estimated for 2009 by different scholars (Lim, 2010, Table 4.2), implying a negative growth in employment (VIE p.12). According to one estimate, in the first half of 2009, 107,000 employees lost their jobs – accounting for 18% of wage-salary workers (Tuan et.al. 2009). However, the actual position, as officially reported (Statistical year book, 2009; Table 17), shows an increase of 1.28 million in total employment! What is significant to note is that employment in all ownership sectors (state, collective, private enterprises and foreign-owned), declined. The only increase – of about 2.24 million – was recorded in households!

**Table 9**
**Employed Workers by Employment Status (%)**

| Status | 1997 | 2005 | 2007 | 2009 |
|---|---|---|---|---|
| Wage and Salaried Workers | 18.5 | 25.7 | 30.5 | 33.4 |
| Self Employed | 41.7 | 41.4 | 46.5 | 49.6 |
| *Employers* | *0.2* | *0.4* | *2.5* | *4.8* |
| *Own Account Workers* | *41.5* | *41.0* | *44.0* | *44.7* |
| Unpaid Family Workers | 39.5 | 33.0 | 23.0 | 16.7 |
| Others | 0.3 | 0.0 | 0.2 | 0.2 |

*Source: MoLISA, (2010) Labour and Social Trends, 2009-10 and Vietnam Employment Trends, 2010, as estimated on the basis of data from, Labour Force Surveys.*

Scholars, projecting large job losses, also forecasted a sharp rise in the unemployment rate – from 4.6 per cent in 2008, to around 7 per cent in 2009, and close to 8 per cent in 2010 (Warren-Rodriguez, 2009). Estimates for 2008 are not available as no labour force survey was conducted in that year.

In 2009, estimates placed the unemployment rate at a higher figure – 2.61 per cent (compared to about 2.4 per cent in 2007). This figure is still much less, than was forecast – "increase" in employment in households offsetting the decline in employment in public, private, and foreign-owned enterprises, is part of the reason. It appears that the increase in the number of persons joining the labour force in self-employed households was absorbed by the household enterprises, as no jobs were available elsewhere. A number of workers who lost jobs in enterprises reverted back to businesses run by their households. Thus, unemployment did not show a sharp increase in spite of huge job losses. However, there was a large increase in the number of workers in the informal sector.

According to a study, by the Institute of Policy and Strategy for Agricultural Development, on farmers in four provinces, more than 20 per cent of rural migrant workers lost their jobs and returned home to their farms. (IPSAD, 2009). Another study observed, that with jobs in other sectors drying up, pressure was on the unregistered household businesses to absorb both the new entrants to the labour force and those rendered redundant by formal enterprises (Cling, et al 2009). It was estimated that about 750,000 workers would have been added to the informal sector in 2009, increasing its share of employment by 6.5 per cent over 2008 (Lim, 2010, p.28).

It is not only in the one or two years directly following an unusual crisis that an increase in employment may mean more work-sharing rather than adequately productive and remunerative work, but also in the long run and under normal conditions as well. This is because the majority of workers are own account, in household based enterprises, and in the informal sector. Over two-thirds of the workers in Vietnam are outside of wage and salaried work, and 79 per cent work in households. Practically all agriculture is in the informal sector, and over 70 per cent of non-agricultural employment is also in the informal sector. No doubt, informality is declining and wage and salary employment is increasing. However, a still overwhelming majority of workers are in informal and non-regular employment.

## Employment Elasticities: Trends and Sectoral Differences

It appears that even such relatively poor quality employment has not been growing at rates commensurate with the rate of economic growth. Economic growth, as noted earlier, has on average been 7.5 per cent per annum over the last two decades. Employment growth, on the other hand, has been of the order of about 2.5 per cent, thus yielding an employment elasticity of 0.33. In other words, a 1 per cent GDP growth was accompanied by an employment growth of one-third of 1 per cent.

As pointed out earlier, high employment elasticity is not necessarily desirable in an economy afflicted with the widespread phenomenon of low productivity. At the same time, "jobless growth," as reflected in very low employment elasticity, is a matter of concern in a labour abundant economy as it may lead to rising levels of unemployment over the years.

**Table 10**
**Employment Elasticities**

| Sector | 1991-95 | 1996-2000 | 2001-04 | 2005-07 | 2006-08 |
|---|---|---|---|---|---|
| *All* | *0.274* | *0.348* | *0.363* | *0.227* | *0.315* |
| By Division of Activity | | | | | |
| **Agriculture and Allied** | **0.417** | **0.276** | **0.279** | **-0.225** | **-0.196** |
| Agriculture & Forestry | 0.352 | 0.272 | 0.219 | 0.312 | -0.304 |
| Fishery | 0.621 | 0.519 | 0.550 | 0.489 | 0.560 |
| Mining | -0.118 | -0.170 | 0.513 | -3.658 | -2.215 |
| Manufacturing | 0.274 | 0.387 | 0.341 | 0.425 | 0.572 |
| Electricity, Gas & Water | 0.046 | 0.037 | 0.567 | 0.141 | 1.179 |
| Construction | 0.216 | 0.698 | 1.144 | 0.511 | 1.217 |
| **Industry** | **0.208** | **0.373** | **0.569** | **0.554** | **0.949** |
| Trade | 0.901 | 1.474 | 0.859 | 0.401 | 0.238 |
| Transport | 0.565 | 0.671 | 1.329 | 0.028 | 0.026 |
| Finance | -0.032 | -0.066 | 1.868 | 1.681 | 0.733 |
| Public Administration | 0.186 | 0.475 | 0.356 | 1.296 | 1.012 |
| Education | 0.198 | 0.396 | 0.577 | 0.499 | 0.410 |
| Health | | | | 0.390 | 0.526 |
| Other Services | 0.552 | 1.106 | 0.907 | 0.827 | 0.898 |
| Services | 0.499 | 0.981 | 0.851 | 0.552 | 0.468 |
| *By Ownership Sector* | | | | | |
| State Sector | _ | _ | 0.233 | 0.109 | -0.387 |
| Non-State Domestic Sector | _ | _ | 0.307 | 0.168 | 0.273 |
| Foreign- Owned Sector | _ | _ | 1.981 | 1.209 | 0.382 |

*Source: ILO, 2005 and Lim, 2010.*

In the longer period of 1990-2009, aggregate employment elasticity works out to 0.333, but in the shorter periods, it has fluctuated (Table 10). It increased during the 1990's from 0.27 during 1991-95 to 0.35 during 1996-2000. This trend continued during 2000-04 when it was estimated at 0.36, and declined to 0.23 during 2005-07.

With a sharp decline in the rate of GDP growth as a consequence of global financial crisis, but no similarly adverse impact on total employment growth, employment elasticity for the period of 2007-09 works out to be higher at 0.49. However, looking at the yearly changes, it appears that employment elasticity has seen a steady decline since 2000, when it was over 0.67. Since then, it declined to about 0.32 by 2004 and further declined to 0.23 by 2007 (VIE, 2010, Table 2.2.4). The relatively higher figure for the years 2007-2009 should, therefore, be seen as an exception to the trends due to abnormal economic circumstances.

It may be noted, that the non-agricultural sectors – industry and services – have maintained a relatively high employment elasticity throughout the period 1991-2008, while agriculture has shown a decline and, since 2005, a negative employment elasticity. It stands to reason that agriculture, with its shrinking share in GDP and still about one-half of workers engaged in it, cannot be expected to provide productive employment to increasing numbers of people.

In the non-agricultural sectors it appears that, in recent years, employment elasticity has been on a decline – particularly in the services sector where it has seen a continuous decline since 1996-2000. Industry has also seen a decline in the post-2000 period. The very high figure of 0.949 for 2006-2008 will have to be taken with a pinch of salt, for the reasons explained earlier, namely, all of the increase in employment in 2008 may not really have been productive: a large part of it could have been distress-driven.

Looking at further disaggregation at the one-digit level, the fishery subsector of agriculture has a high, though declining, employment elasticity. In the industry division, construction (followed by manufacturing) has had high employment intensity of growth. During 2005-07, construction showed a decline in elasticity compared with the earlier period, 2001-04, yet it was still high, at over 0.50. Manufacturing, in fact, seems to have sustained a relatively high and increasing elasticity – recording a figure of 0.43 during 2005-07. In services, trade – the largest subsector – showed very high employment elasticity during 1991-2004, but it declined during 2005-07. Transport also exhibited a similar trend. Financial services have shown very high employment intensity of growth since 2001. Social services, education and health, have recorded increasingly high employment elasticity, averaging about 0.5 during 2000-2007. On the whole, all of the services subsectors hold reasonably good promise for employment generation.

A word about employment elasticity in different ownership sectors: the FDI sector scores best in so far as 1 per cent of GDP growth in this sector generated about 2 per cent of employment growth during 2001-04, and 1.2 per cent during 2005-07. Elasticity declined during 2006-08, but was still the highest at 0.38, compared to 0.27 in the non-state domestic sector and a negative figure of 0.39 in the state sector. It must, however, be noted that differences are not due to the ownership as such, but mainly due to the composition of activities operated by each of the ownership categories and changes in this composition over the years.

# III. The Employment Challenge

The employment challenge a country faces at any point of time consists of the number of jobs it needs to create to ensure productive and decent employment to all within a certain time frame. The employment challenge has both a quantitative and a qualitative dimension. In quantitative terms, it can be assessed in terms of the currently unemployed and additions to labour force over the period under reference. In qualitative terms, it would entail meeting minimum requirements of reasonable income, regularity of work, safe and healthy conditions at work, social security against risks at work, and freedom of dialogue and collective action. Key elements of this challenge are identified in the MoLISA document: Labour and Social Trends in Vietnam, 2009/10,as (ii) addressing deficits in the quantity and quality of jobs, (ii) boosting productivity and competitiveness, and (iii) extending social protection coverage (MoLISA, 2010 (Chapter 3, 3.1).

## 1. The Quantitative Dimension

### Unemployment: A Serious Problem?

Let us first attempt an assessment of the quantitative dimension of the employment challenge in Vietnam,taking 2011-2020, the period covered by the Employment Strategy document prepared by MoLISA in 2010 (MoLISA, 2010a), as the reference period. The first component of this dimension is the backlog of unemployment in the beginning of 2011.

The latest unemployment estimates available are for 2009. Since unemployment rates are observed to have remained stable over the years at around 2.3 per cent, but have increased to 2.6 per cent in 2009 (Table 11), it seems reasonable to assume an unemployment rate of 2.5 per cent for the end of 2010 or beginning of 2011. Labour force is projected by applying a rate of 2.3 per cent annual growth – the average for the period 2001-10 (MoLISA, 2010c, p.39) – over the estimate for 2009 (49.30 million). This results in a figure of 51.59 million. At the rate of 2.5% the number of unemployed in the beginning of 2011 would be 1.29 million.

**Table 11**
**Unemployment: Numbers and Rates**

| Numbers ('000) | 1997 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total | 1051 | 886 | 1107 | 871 | 949 | 926 | 930 | 1031 | 1129 | 1287 |
| Rate (%) Total | 2.9 | 2.3 | 2.8 | 2.1 | 2.3 | 2.1 | 2.1 | 2.3 | 2.4 | 2.6 |
| Male | 3.2 | 2.4 | 2.3 | 1.9 | 1.9 | 1.9 | 2.0 | 2.3 | 2.4 | 2.5 |
| Female | 2.5 | 2.1 | 3.3 | 2.3 | 2.6 | 2.4 | 2.2 | 2.2 | 2.5 | 2.7 |
| *Age Group 15-24 Years* | | | | | | | | | | |
| Nos. (000) | 426 | 409 | 545 | 396 | 434 | 428 | 456 | 486 | 593 | 566 |
| Rate % Total | 4.7 | 4.8 | 5.9 | 4.3 | 4.8 | 4.6 | 4.9 | 4.9 | 6.0 | 6.2 |
| Male | 5.2 | 5.0 | 4.7 | 4.1 | 4.5 | 4.4 | 4.7 | 4.9 | 5.8 | NA |
| Female | 4.2 | 4.6 | 7.1 | 4.6 | 5.1 | 4.9 | 5.0 | 4.8 | 6.3 | NA |

*MoLISA, Vietnam Employment Trends ,2009 and 2010*

Low as the unemployment rates are, they have prompted the official agencies and scholars to often pronounce that unemployment is not a "serious problem" (MoLISA, 2009, p.25) or, "is not an issue" (VIE, 2010, p.12). While this appears to be true on the face of it, it does not imply that Vietnam faces no employment challenge or that it does not need to step up growth of employment in quantitative terms and improve the quality of jobs. In fact, the problem is, even quantitatively, much larger than the estimates of unemployment indicate. A large number of persons recorded as employed by time criterion may in fact be, in real terms, virtually unemployed in so far as they are not able to either find regular work or to earn incomes that meet their basic needs as indicated by the poverty line income. As such, the incidence of poverty is much higher (14.5%) than unemployment (2.4-2.6 per cent). This means that a large number of persons are employed but poor.

An assessment of the employment challenge should examine why, for many, work does not yield adequate income. This should be done with a view to devising strategies for generating more productive jobs. A framework for such an assessment is given in the box on the following pages (Box 1). An attempt is made in the following paragraphs to assess the quantitative challenge of employment in Vietnam according to this framework. However, limitations of data availability do not allow its full and precise application; therefore, estimates in some aspects are only rough and approximate.

*Box 1*
*Quantitative Estimates of the Employment Challenge*

Unemployment rates as measured on the basis of the time criterion (not worked though available for and willing to work during the reference period) do not fully capture actual number of persons who require and would be willing to take alternative full time employment in a developing economy with dominance of agriculture and informal sectors. It does not therefore, adequately measure that part of the quantitative dimension of employment challenge which is expected to quantify the number of persons currently in need of jobs. Besides those recorded as unemployed (not at all worked during the reference period), the following would also be in need of full time productive alternative employment:

i) **Severely Underemployed**: As is well known underemployment is often more prevalent than unemployment in these countries. But degrees of underemployment vary, some persons are only marginally under-employed, that is unemployed only for a small part of time, suggesting that some supplementary work in the same or in some other activity will make them fully employed. There are others who are severely under employed, that is, they do not have work for most of the time, say more than half the time they are available for work, and may in fact, require alternative employment.

ii) **Working Poor**: There are more poor than unemployed even after including severely under-employed, implying that a large number of the poor are employed but are not able to earn even the poverty line income due to:.

a) low wages as hired labour because of
   i) low productivity of enterprise
   ii) poor bargaining power/non-compliance of wage laws

b) low income from self-employment because

i) too small a business, though scope to expand with provision of inputs, credit, market etc.

ii) low revenue realization due to limited/ declining market due to out-of-demand (negative income elasticity of demand) product or competition from larger producers

while a (i) requires labour market interventions, and a(i) and b(i) could be addressed with proper policies and programmes for increasing productivity and expansion of small/micro enterprises, those in category b(ii) will need to move to new jobs/employment.

As an approximation to the estimates of such working poor who are in need of new job/employment, those with less than one half of the poverty line income may be taken to be in this category. The 'severely underemployed' and 'working poor' under the category b(ii) above need to be included along with the number of unemployed, as the quantitative part of the employment challenge in the base year.

In the part of the challenge that will emerge in future, besides the additions to the labour force one should also include, those likely to be displaced for reasons like (a) restructuring of enterprises, particularly of the state owned enterprises, that will render part of their workforce redundant and (ii) acquisition of farm land for infrastructure, industrial and other projects that will displace farmers and farm workers.

The quantitative magnitude of the employment challenge will thus be = the unemployed + the severely underemployed + the very poor employed (all in the base period) + additions to the labour force + likely to be displaced from present employment (during the target period).

## Underemployment: Mild and Severe

In the first instance, there are workers who, though not recorded as unemployed, may not have work for a long enough time to earn an adequate income. In other words, they may be underemployed. It is well recognized that "though not technically unemployed, the underemployed are often competing for available hours of work and jobs on the labour market" (MoLISA, 2010b p.34, emphasis added).

Underemployment, defined as the percentage of workers who worked for less than 35 hours per week and were ready to work additional hours, was estimated to be 6.8 per cent in 2009. It seems to have increased in that year, though the long term trend was recorded to be that of a decline: it was estimated to be 14.4 per cent in 2001, but declined 48 per cent in 2007 (Table 12).

**Table 12**
**Underemployment Rates (%)**

| | Total | | Male | | Female | |
|---|---|---|---|---|---|---|
| | 2007 | 2009 | 2007 | 2009 | 2007 | 2009 |
| Total | 4.8 | 6.8 | 4.7 | 7.3 | 4.9 | 6.2 |
| Urban | 2.0 | 4.0 | 2.2 | 4.6 | 1.8 | 3.4 |
| Rural | 5.8 | 7.7 | 5.7 | 8.3 | 5.9 | 7.2 |

*Source: MoLISA, Vietnam Employment Trends, 2010, Table 6.*

With growth, modernization and structural transformation leading the shift towards non-agricultural occupations and a larger proportion of wage earners, underemployment is expected to decline. However, a decline in wage paid jobs in the formal non-agricultural sector as a result of the global financial crisis seems to have, hopefully temporarily, led to an increase in underemployment as compared to 2007.

By 2011, one can assume neither improvement nor deterioration, so the extent of underemployment may remain at the same level as 2009, i.e. about 7 per cent. It must, however, be noted that the extent of underemployment is higher in rural than in urban areas, but seems to have sharply increased even in urban areas post-2007. In 2007, the underemployment rate was 5.9 per cent in rural areas and 2.3 per cent in urban areas. For 2009, the two figures were 8.6 and 5.9 per cent respectively (MoLISA, 2010b).

Not all of the underemployed are "in competition for jobs." For most, their present vocation provides them with work most of the time and some additional hours of work supplementing their current engagement will make them "fully" employed. But those without work for more than half the time they are looking for work could be safely taken as the candidates for new jobs. No data are available to estimate the number and percentage of people with different degrees of underemployment. Data on distribution of employed persons by hours of work available from MoLISA Labour and Employment Surveys for 2009 indicate that 6.9 per cent of the employed persons worked for less than 20 hours a week and another 13.1 per cent for between 20 and 29 hours a week (MoLISA 2010b, Annex Table 8, p. 68). Taking the standard work week in Vietnam to be 40 hours (MoLISA, 2009, p. 21), those working for less than half the time, i.e. 20 hours could be treated as "severely underemployed", in need of alternative work/jobs, as their present work is not likely to give them full time or even major time employment. Assuming their proportion to continue at about 7 per cent of the employed, the "severely underemployed" and applying it to the estimate of the employed labour force at 50.30 million the absolute number of such persons in 2011 will work out to around 3.52 million.



## The Working Poor: The Ultra Poor Needing Alternative Employment

Another segment of workers that would be in need of alternative work/jobs are the very poor. These people, whose incomes are less than the poverty line, are not able to sustain or improve their incomes in their current employment. They consist of self-employed and wage workers in activities with declining demand and no potential for growth and expansion.

It is not possible to precisely estimate the number of such persons; however, their number is likely to increase in a dynamically changing economic situation where increasing incomes lead to changes in the structure of commodities and services in the consumption basket. Some of the items in the basket currently have a negative income elasticity of demand and are, therefore, likely to disappear. A proxy to the number of persons engaged in the production of such items can be had in the form of very low and stagnant incomes. Living in "chronic poverty" with income significantly below the poverty line could be taken as a rough indicator of the status of workers who would need alternative employment to sustain their livelihoods.

Again, what proportion of the 14.5 per cent of the poor (in 2008) belong to this category is not known. A study on poverty dynamics (Baluch and Hoang, 2010) – using a panel data set from VHLSS 2002, 2004 and 2006 – found that while the poverty rate fell from 28.9% in 2002 to 16% in 2006, 35% of the population experienced poverty at some point during this period (one-fourth lived in "chronic poverty", that is, they remained poor throughout this period). The "chronically poor" made up 9.3 per cent of total population. Considering that, despite high GDP and per capita income growth during this period, these persons could not improve their incomes to reach the poverty line, suggests that there must be a large gap between their incomes and the poverty line. If we take all those in the category of 'chronic poor' as very poor and needing alternative employment (assuming these numbers have proportionately declined with overall poverty from 16.4 per cent in 2006 to 10 per cent in 2011) they would currently constitute 5.6 per cent of population. To estimate the number of employed "chronically poor" workers we can assume that their proportion in the workforce is the same as in the population. By this method, the number of poor employed workers in need of alternative jobs will work out to be 2.82 million.

Another way to estimate the employed poor in need of alternative employment is to look at the levels of their income. Those with incomes significantly lower than the poverty line could be taken to belong to this category. If one includes all those with incomes at less than 50 per cent of the poverty line (the "ultra poor"), as estimated on the basis of information provided in VASS Poverty Assessment Document (VASS, 2010, Figures 5), the number would be only about 2 per cent of total, or 1.03 million. Though on the conservative side, this figure is considered in the following exercise.

## Employment Goal: Required Number of Jobs: 2011-2020

The quantitative magnitude of the employment challenge in the base year (2011) is, in fact, much larger than what the recorded unemployment estimates would suggest. The number of persons needing jobs can be estimated as follows:

| | |
|---|---|
| ▪ unemployed | 1.29 million |
| ▪ severely underemployed | 3.52 million |
| ▪ the employed ultra poor | 1.03 million |
| | --- |
| ▪ Total | 5.84 million |
| | --- |

An even larger component of the quantitative magnitude of the employment challenge to be addressed during 2011-2020 consists of the additions to the labour force during this period. The labour force was estimated to be 49.30 million in 2009 (MoLISA, 2010b, Annex Table 3). Applying a growth rate of 2.3 per cent per year, as recorded during 2001-2009, the labour force is projected to be 51.59 million in 2011. Participation rates are expected to decline due to the slower rate of addition to the working age group – a result of a decline in population growth during 1995-2000. The rate of growth of the labour force is projected to decline. to 2.1 per cent during 2011-2015 and 1.7 per cent during 2015-2020. Overall, the labour force is projected to grow by 18.5 per cent or by 9.5 million during the 10-year period.

On the basis of these estimates, the Vietnamese economy would need to generate about 15.3 million additional jobs during 2011-2020 in order to ensure employment to all those requiring it. To this, one could add the number of persons likely to be rendered redundant in the restructuring of SOEs, and dislocated from farming due to the acquisition and transfer of their land for non-agricultural purposes such as infrastructure and industrial projects.

We have no estimates of the numbers of workers and farmers likely to be affected by these developments; however, it is well recognized that the SOEs are heavily overstaffed (Lim, 2010, p. 48) and the ongoing reforms of the state sector will lead to redundancy on a large scale. Similarly, acquisition of land for industrial and infrastructure development has been going on at a large scale particularly around the larger urban agglomerations of Hanoi and Ho Chi Minh City. Over a period of 10 years, the number of persons displaced by such acquisitions and transfers could easily be about a million, if not more. During 2002-2004, for which some estimates were available, about 1,55,000 hectares of farmland were acquired for different projects (ILO, Hanoi/Geneva, 2005). Assuming 2.5 persons were employed per hectare, this would have displaced about 400,000 farmers and farm workers.

Thus, during 2011-2020, approximately about 16 million new jobs will need to be generated at the rate of 1.6 million per year. The estimated employment of 50.30 million at the beginning of 2011 implies an average annual employment growth rate of 3.00 per cent per year. On the face of it, it does not seem to be a big task. Long-term employment growth has been around 2.5 per cent; so, raising it to 3 per cent sounds feasible. In fact, according to a MoLISA announcement in early 2011 (Vietnam News, January 19, 2011, p.1), Vietnam plans to create 10 million jobs in the next five years. This, however, appears to be rather ambitious, and would imply an almost 4.0 per cent rate of employment growth per annum during 2011-2015. At the estimated elasticity of around 0.32 for the latest period (2006-2008), it would require a 12.5 per cent annual growth of GDP. As of now, predicting such a growth rate does not seem realistic.



Some other projections, like the one made by MoLISA (2010a, p.27), appear unrealistically conservative, projecting a total employment (labour demand) of 56.95 million workers in aggregate by the year 2020. This is an increase of 7 million in 10 years, “under a high growth scenario assumption”. (2010a,Table 9), implying an employment growth rate of 1.4 per cent per annum. It is not clear what rate of GDP growth is assumed in the projections above, but if an employment elasticity of 0.32 (as observed lately) is assumed, GDP growth implied in this employment forecast will be only 4.4 per cent per annum. Given the past record, this appears too low a growth rate projection for the Vietnamese economy!

Projections made in MoLISA's Employment Trends 2010 appear more realistic. They place total employment in 2020 at 59.06 million, an increase of 9 million compared to the figure of about 50.00 million in 2011. This implies an employment growth of 1.8 per cent which, with the observed employment elasticity of 0.27, would require a GDP growth of 7.5 per cent. While this may sound very realistic, it is desirable and also feasible to plan for a high employment elasticity as well as higher GDP growth.

## Economic Growth: Required Rate and Pattern

What are the prospects of high economic growth in Vietnam? It is not easy to project growth rates during the next ten years. At the same time, a few facts suggest that there is every possibility of Vietnam averaging a GDP growth rate of 7 to 8 per cent – it has registered such a growth rate on a sustained basis over a period of almost two decades.

The setback that economic growth suffered in the wake of the global financial crisis was not very severe. The economy still grew at a rate of 5 to 6 per cent and there were signs of recovery in 2010. Even during 2009, when growth rate declined to 5.2 per cent, the growth of industry and services, at 5.5 and 6.6 per cent respectively, was higher than in the previous yearIt was the low – 1.8 per cent – growth of agriculture that pulled the overall growth down. Exports, which saw an absolute decline of about 10 per cent in 2009, are reported to have rebounded to positive growth in early 2010 (MoLISA, 2010c, pp. 28,30). It appears it will not be long before the Vietnamese economy returns to its historical GDP growth of 7.5 per cent per annum, or even exceeds it, in coming years. In any case it would be reasonably safe to expect the average of 7.5 per cent over the ten year period. It could be further improved to around 8 per cent if the efficiency of factor use improves with better utilization of the industrial and infrastructure capacity created over the past two decades.

The incremental capital output ratio (ICOR) at 8.0, as estimated for 2009 (VIE 2010 Table 2.1.1.1), is unrealistically high. It has risen abruptly from 4.90 in 2007 and 6.60 in 2008 and must come down to a more normal level after the sharp rise during the financial crisis. It can be expected to average at around 6 during 2011-2020.

The gross investment rate has consistently increased from 36 per cent in 2004, to 41 per cent in 2006, 43.1 per cent in 2008 and 44 per cent in 2009. If it averages to 45 per cent during 2011-2020, GDP growth rate for that period will average to 7.5 per annum. Thus, if ICOR can be brought down to 5.5, GDP growth could rise to over 8 per cent.

At what rate employment will grow with the given GDP growth will, of course, depend on employment elasticity of growth. As noted earlier, aggregate employment elasticity has registered a decline since 2000. It averaged 0.36 for the period 2001-2004 and declined to 0.23 during 2005-07. It showed an increase to 0.39 during 2007-09 (with average annual growth of GDP at 5.7 and of employment at 2.2 per cent); this, however, seems to be a result of sharp rise in the labour-force and work participation rate forced by economic distress caused by the global financial crisis. Therefore, it should not be taken as a reliable base for future projections. On the other hand, the decline in employment elasticity from the period 2001-04 to 2005-07 from 0.36 to 0.23 seems rather too sharp.

A figure around 0.27 may be considered as a more realistic average for the period 2004-09 and could be used as the base year figure for projections. ith employment elasticity at that level, employment W growth will average to about 2.0 per cent per annum with 7.5 per cent GDP growth and 2.2 per cent with an 8 per cent GDP growth.

Can employment elasticity of growth be raised so as to increase employment growth to 2.8 to 3.0 per cent? As pointed out earlier, an increase in elasticity in individual product lines may not be desirable, particularly in those lines with low levels of productivity. It is, however, possible to have a higher aggregate elasticity in the economy, or sectors, with no change in, or even lower, employment elasticity in individual product lines. Thus, for example, agriculture has a very low, or even negative, employment elasticity, while industry and services have high employment elasticity, so, faster growth of the latter sectors will improve overall employment elasticity. Within industry, faster growth of manufacturing, the subsector with the highest employment elasticity, will improve the employment elasticity of the entire sector.

To the extent that the emerging pattern of growth in Vietnam seems poised to strengthen growth momentum in product lines with higher employment elasticity (e.g. fishery, manufacturing, construction, trade and financial services), one can expect a rise in employment elasticity. The rising share of the FDI sector in GDP will strengthen this trend in so far as it has much higher employment elasticity than the state-owned or domestic private sectors. It would be reasonable, therefore, to expect employment elasticity of growth in coming years to average at around 0.35.

GDP growth of 7.5 per cent can yield an employment growth of 2.6, and a GDP growth of 8 per cent, will lead to employment growth of 2.8 per cent – closer to the three per cent estimated as required to generate enough jobs for all during 2011–2020. Thus, on the basis of our analysis of available data and assumptions that are considered to be reasonably realistic at present, a GDP growth of 8 per cent and employment elasticity of 0.35 presents a desirable and also feasible setting for coming close to meeting the quantitative part of the employment challenge in Vietnam during 2011-2010. Sector wise break up of this scenario is presented in Box 2.

***Box – 2***
***Projected GDP and Employment Growth Scenario***
***In Vietnam (2011-2020)***

| *Sector* | *GDP Growth (% pa)* | *Employment Elasticity* | *Employment Growth (% pa)* |
|---|---|---|---|
| *Agriculture* | *4.0* | *0.01* | *0.04* |
| *Industry* | *11.5* | *0.40* | *4.60* |
| *Services* | *9.5* | *0.35* | *3.30* |
| *Total* | *8.2* | *0.35* | *2.85* |

## 2. The Qualitative Dimension

As discussed above, achieving high economic growth with reasonable employment intensity is expected to take care of the quantitative challenge of creating new employment opportunities that would ensure jobs for all those requiring them. It may, however, not necessarily meet the qualitative challenge of ensuring reasonable and rising levels of income, regularity of work, and minimum social protection against the risks of work and life. What are the gaps in these aspects that need to be addressed to ensure decent employment to all?

### Wages and Incomes

Let us start with an assessment of the levels and growth in the incomes of workers. Here, while information is available on wages of the hired workers (employees), no estimates are available of the incomes of the self-employed and own account workers who constitute the majority. Average monthly wages of workers in SOEs and public enterprises are relatively high, but average monthly wages in household enterprises are quite low. In 2006, the latest year for which data is readily available, the SOEs paid 1.1 million VND, and foreign enterprises 1.3 million VND per month to their employees. Employees in household enterprises received, on an average, 664,000 VND per month, while domestic private enterprises paid an average 936,000 VND, per month to their employees.

During the years 1998-2006, wages of workers in SOEs and foreign-owned enterprises increased by 8.6 per cent per annum. Wages in domestic private enterprises registered an increase of 6.8 per cent per annum during this period. Wage earners in household enterprises, however, saw very small increase over the years – their wages increased only by 2.3 per cent per annum during 1998-2006 (MoLISA 2010c, Table 1.1).

It is clear that relatively larger domestic and foreign-owned enterprises pay reasonably high, and rising, wages. Workers in small (particularly household) domestic enterprises, receive very low wages with little increase over time. The gap between the two groups has significantly increased. In 1998, the average earnings of SOEs and other domestic, including household enterprises, were not very different from each other and were also only about 2 – 3 per cent lower than in foreign-owned enterprises for that year.

By 2006, domestic non-household, SOEs and foreign-owned enterprises were paying 40 per cent, 66 per cent and 98 per cent higher respectively than the household enterprises. Besides the large increase in wage disparity among workers in different categories of enterprises, what is particularly disconcerting is the fact that the wages of workers in household enterprises rose by only 2.3 per cent. This, while contrasting with an over 4 per cent annual rate of inflation during the period 1998-2006 (ibid, p. 17), implied a significant decline in real incomes. Those in domestic private enterprises have faired somewhat better. They had about a 4.5 per cent increase in real wages. But those in sSOEs and foreign-owned enterprises experienced relatively rapid increases of 8.6 per cent per annum.

Differences in wage levels and trends are a result of processes in both the labour market and wage fixation mechanisms. Wages are determined by the market, but are also influenced by the government fixed minimum wages. The bargaining power of workers in the domestic private enterprises, most of which are small sized, is weak as compared to those in SOEs and foreign-owned enterprises. Also, the minimum wages fixed for foreign-owned enterprises are much higher, often nearly twice as high, than those for workers in the domestic enterprises (MoLISA 2010c, pp. 24-25). It is understood that the government is going to introduce wage reforms to have a unified minimum wage by 2012.

## Vulnerability

The main reason for the low and stagnant wages of workers in household based enterprises is, of course, low productivity. This is due to the use of low-level technology and limited access to markets. It is not only the wages of the hired workers, but also earnings of the self-employed and own account workers, that are very low in household enterprises. Additionally, household enterprises face a high degree of uncertainty in relation to the markets due to their limited capacity to reach larger markets. That is why the own account and self-employed (unpaid) family members who constitute most of those engaged in these enterprises, are described as being in "vulnerable employment."

According to the latest estimates by MoLISA, such workers account for 61.5 per cent of all workers (Table 13). Their share is estimated to have declined from 66 per cent in 2007 (MoLISA, 2010b). According to earlier estimates, vulnerable employment constituted a much larger proportion of the total: 80 per cent in 2000 and 74 per cent in 2004 and 2005 (MoLISA, 2010c, p. 65). It seems that there has been a decline in degree of vulnerability in employment in Vietnam in the post-2000 period. Still, the proportion continues to be very high, reflecting a large deficit in decent employment.

**Table 13**
**Share of Vulnerable Employment, by Sector and Size, 2007 & 2009 (%)**

| | 2007 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Total | Male | Female | Total | Male | Female |
| All sectors in which, in | 65.8 | 59.9 | 72.0 | 61.5 | 54.4 | 69.1 |
| Agriculture | 45.4 | 42.3 | 48.5 | 41.8 | 38.4 | 45.4 |
| Industry | 5.7 | 5.8 | 5.6 | 4.5 | 4.3 | 4.8 |
| Services | 14.8 | 11.8 | 17.9 | 15.2 | 11.7 | 18.8 |

*Source: MoLISA, (2010), Vietnam Employment Trends, 2010, Annex Table 5.*

Decline in vulnerability, is reckoned to have been caused mainly by an increase in the proportion of wage and salary earning employees, and some increase in the proportion of employers. The share of wage and salaried workers is estimated to have increased from 18 per cent in 2000 to 26 per cent in 2005, 31 per cent in 2007, and 33 per cent in 2009 (Table 13).

The share of employers increased from less than one per cent in pre-2000, to 3 per cent in 2007, and 5 per cent in 2009. The assumption here is that while own account work and self-employment carry the risk of uncertainty and, therefore, a high probability of fall in incomes, work for wages and salaries ensures an assured income on a regular basis. However, this may not necessarily be so, as is shown by the low and declining wages of wage earners working with household enterprises (as described above).

Further, wage paid employment can be as uncertain and as irregular, if not more, as self-employment or own account work. Many of those employed on wages do not have any contract assuring regular or even fixed-time work. It is observed that between 2007 and 2009, there was a decrease in the share of workers with regular and assured employment. In 2009, 44.7 per cent of all wage and salaried employees worked with verbal contractual arrangements or without any contract. In 2007, the proportion had been lower at 42.3 per cent (MoLISA, 2010b, p. 27, and Table 4).

ercentage of those with pe On the other hand, the p rmanent contracts, decreased from 32.6 per cent in 2007 to 29.4 per cent in 2009. Thus, a large percentage of wage and salaried workers could easily be categorized as vulnerable, as their employment and income are not assured on a regular basis.

## Informality

Employment in the informal sector, which encompasses "all economic activities by workers and economic units that are, in law or in practice, not covered or insufficiently covered by formal arrangements" (ILO,2004), may also approximate what can be described as vulnerable employment. Following ILO, informal sector is defined in Vietnam to consist of "all private unincorporated enterprises that produce at least some of their goods and services for sale or barter, do not have a business license and are engaged in non-agricultural sectors" (MoLISA 2010b, p 30.), it is estimated that 45.6 per cent of employment in the non-agricultural sector in Vietnam was in the informal sector in 2009 (MoLISA, 2010b, Table 5 p. 31).

In agriculture, 74 per cent of those employed were in non-registered enterprises. Also, 87 per cent of workers in the formal sector were informally employed – engaged in unpaid family work or wage and salary workers without social security. Adding all of these together, informal employment is estimated to make 71.5 per cent of total employment (MoLISA, 2010b, p.30). Informality was, of course, very high in construction (77.5%); followed by hotels and restaurants (63.6%); trade (57.9%); and the real estate business (53.6%).

## Lack of Social Protection



A general characteristic of the workers in informal employment is the lack of social protection against common risks at work, a necessary condition for good quality of jobs and decent employment. An overwhelming majority of workers, as indicated by the share of informal employment are thus by definition not covered under any statutory scheme of insurance or public assistance against such risks like illness, unemployment and old age.

The two recently introduced social security initiatives, namely, the Social Insurance Law of 2007 and the Unemployment Insurance scheme of 2009, still offer limited coverage (MoLISA 2010c). Under the compulsory social insurance component of the former, employees, mainly in the public sector and foreign-owned enterprises, are covered and the coverage. By the end of 2008 this coverage was reported to be less than one-fifth of the total workforce; but, of course, almost 80 per cent of those who were eligible. The Unemployment Insurance Scheme entitles the workers displaced from their jobs in enterprises (registered with ten or more workers) payment of 60 per cent of the average pay for last six months. The coverage was reported to be around 5.4 million (by the end of 2009) in terms of the number of participating workers who, along with the employers, pay one per cent of their salary as the premium.

Vietnam also has a compulsory old age pension programme which applies to workers in formal enterprises and public employees. It is a contributory scheme; the employers pay 11 per cent and employees 5 per cent of the salary. The programme's coverage extended by 2007 to around 18 per cent of total workforce and 54 per cent of workers in enterprises (state-owned, foreign-owned and private). Around 1.9 million persons aged 60 years or above were receiving pensions under the scheme in that year. There is also a general social assistance scheme for the aged and disabled, with a rather small cash benefit – equivalent to around one-third of the poverty line income on an average – and reportedly limited coverage (about 1.2 million). Thus, social protection presents a major challenge for Vietnam in its endeavour to achieve productive and decent employment for all of its workers.

## 3. Structural Dimensions of Employment Challenge

Besides the quantitative and qualitative dimensions, as described above, the employment challenge in Vietnam also has some special structural characteristics that need to be taken into consideration while formulating plans and policies for tackling it. These relate to variations in the nature and extent of the problem by age, sex, location and social and ethnic groups and supply demand mismatch of skills.

### High Unemployment among the Young

Unemployment rates are generally low, but they are quite high among the younger people. Compared to a 2.6 per cent unemployment rate in the total labour force, it was 6.2 per cent in the case of those in the age group 15 - 24 in 2009, and they constituted 45 per cent of all unemployed. With a growing labour force and slow growth of employment, it is natural that the new entrants into the labour market face unemployment more often than the older people. However, non-utilisation of the labour of the young (and potentially more productive) involves a serious waste of human resources, particularly when most of them also happen to be educated.



It is suspected that many young people do not find work of their choice commensurate with their education and thus end up in "second choice" employment (MoLISA, 2010b p. 10). It is also observed that, during the slack in full time employment opportunities during 2007-09, a large number of young people have to resort to work wherever and whenever work could be found,

doing whatever was available. Consequently, time-related underemployment was much higher (8.1 per cent) in 2009 for those in the age-group 15-21 years than for all in age group 15+ ( 6.8 per cent). The rate rose faster – from 5.2 per cent in 2007 to 8.1 per cent in 2009 – for the former group and while it increased for the latter as well, but at a slower rate, from 4.8 to 6.8 per cent (MoLISA, 2010b, Table 6, p.36).

## Gender Disparity in Employment

Gender based differences are not very large in Vietnam in terms of labour force participation, employment to population ratio and unemployment rates. However, women are less often in regular, wage/salary jobs, and more often in unpaid family work; so, they are more frequently found in vulnerable employment. Wage and salaried employees account for only 27.5 per cent of females but 33.4 per cent of male workers. Unpaid family workers account for 22.2 per cent of females and 16.8 per cent of males, and workers in vulnerable employment generally account for 69.1 per cent of females and 54.4 per cent of male workers (Table 13).

It is also significant to note that the percentage of unpaid family workers among females has increased from 14 per cent in 2007 to 22 per cent in 2009. This implies that women have found it increasingly difficult to find or retain wage and salary paid employment in recent years. This may be particularly so because of the adverse impact of financial crisis on labour intensive export industries like textile and garments in which 80 per cent of the workforce is female (MoLISA, 2010c, p.32).

## Rural-Urban and Regional Disparities

Another structural dimension of the employment problem in Vietnam relates to the differences between rural and urban areas. Unemployment was much lower in rural areas than in urban areas. In 2009, the rate in the former was 1.9 per cent and 4.4 per cent in the latter. However, the underemployment rates showed a reverse situation – 7.7 per cent in rural and 4.0 per cent in urban areas (MoLISA, 2010b, p. 36). This largely reflects the occupational differences between the two areas – rural areas are dominated by agricultural employment and urban areas by industry and service employment.

More importantly, verage productivity of employment in rural areas is much lower than in urban areas as is reflected in the highly different poverty rates between the two. Poverty in urban areas was estimated at 3.1 per cent and in rural areas at 18.1 per cent in 2008. Over the years, the former has declined much faster than the latter (Table 6). Urban poverty was 25.1 per cent in 1993 and declined by 22 percentage points, or to less than one-eighth, by 2009. Rural poverty was 66.4 per cent in 1993 and it declined by 48 percentage points to 28 per cent of the 1993 figure in 2009.



Much greater than the rural-urban divide, it is the difference between relatively developed provinces and poorer ones. This presents a more serious problem. Here, unemployment estimates seem to be a rather poor proxy to the employment challenge as conceptualized in the earlier section. Unemployment rates are similarly low across the regions. They are particularly low in Northern Mountains and Central Highlands, while somewhat higher in the Southeast, Mekong River Delta and Red River Delta (Table 14).

Time-related underemployment is also not very different among different regions. The rates of time-related underemployment are relatively high in the Central Highlands and North Central Coast, but much higher in the Mekong River Delta. However, the differences in the incidence of poverty are very sharp. Poverty incidence was the highest in Northern Mountains (45.7 per cent in West and 24.3 per cent in the East) followed by the Central Highlands (24.1 per cent) and North Central Coast (22.6 per cent). Poverty was the lowest in the Southeast at 3.5 per cent, followed by Red River Delta at 8.1 per cent (Table 7). Though it is true that due to differences in population density across regions (94 in Central Highlands, 116 in the Northern Mountains, and 932 in Red River Delta), the poor are concentrated, in spite of low poverty incidence, in delta regions. However, the very high incidence of poverty in Northern Mountains and Central Highlands is a matter of special concern.

**Table 14**
**Unemployment and Underemployment Rates by Region, 2009**

| Region | Unemployment | | | Underemployment | | |
|---|---|---|---|---|---|---|
| | General | Urban | Rural | General | Urban | Rural |
| Vietnam | 2.90 | 4.00 | 2.25 | 5.61 | 3.33 | 6.51 |
| Red River Delta | 2.69 | 4.59 | 2.01 | 5.46 | 2.49 | 6.57 |
| Northern Midlands and Maintain Areas | 1.38 | 3.90 | 0.95 | 3.39 | 2.79 | 3.50 |
| North Central and Central Coastal Areas | 3.11 | 5.54 | 2.40 | 5.47 | 5.44 | 5.47 |
| Central Highlands | 2.00 | 3.05 | 1.61 | 5.73 | 4.99 | 6.00 |
| South East | 3.99 | 4.54 | 3.37 | 3.31 | 1.50 | 5.52 |
| Mekong River Delta | 3.31 | 4.54 | 2.97 | 9.33 | 5.46 | 10.49 |

*Source: GSO, Statistical Yearbook of Vietnam, 2009, Table 26, p. 73.*

## Special Case of Ethnic Minorities

As was noted earlier (Table 7), the incidence of poverty is much higher among ethnic minorities than among the general, Kinh and Chinese, population. To some extent, this ethnic dimension of poverty is coincident with the spatial differences in poverty is so far as most of the ethnic minorities live in the mountain areas in the North. A very high incidence of poverty among the ethnic minorities is not only due to low productivity and incomes from their work, but also from the lack of alternative, more productive employment opportunities in the areas they live. As such, their economic condition becomes an integral part of the employment challenge and its amelioration must form part of the overall employment strategy as well as of specially focused anti-poverty programmes.

## Mismatch in Skills

An important reason why workers are often not in a position to find jobs or raise productivity and income in the employment they are engaged in is the lack of appropriate skills – particularly in the dynamic situation of changing technologies and demands. Part of the problem is observed to be geographical in so far as there is a serious shortage of skilled labour in areas where industrial zones are located. (MoLISA, 2009, Lim, p.19). However, the problem is more general. A World Bank Investment Climate Assessment (2006) found the shortage of appropriately skilled workers as the third most important constraint that entrepreneurs in manufacturing faced, after access to finance and access to land and infrastructure. Only 25.7 per cent of the workers were adjudged to be skilled in 2009 (MoLISA, 2010a p.9).

The Labour and Employment Survey of 2007 revealed that 65 per cent of workers had no technical education, 18 per cent were skilled but without any technical certificate or degree. Only 3.8 per cent had a vocational diploma, 5.3 per cent had a professional certificate of a secondary level, and 6.3 per cent had a college or university degree. In terms of general education, though the illiterate constituted only 4.5 per cent of workers, about 42 per cent had studied up to primary only, and only 23 per cent had completed upper secondary school education (MoLISA, 2010c, Tables A1.2 and A1.3).

As of 2009, 1.7 million were under vocational training, but such an intake is assessed to be adequate to meet only 30-40 per cent of the demand for skilled workers. Further, vocational training is not always demand- oriented; people often get trained in vocations with no or very little demand while there are limited training facilities and low enrolment in vocations with rising demand (VIE, 2010, p. 11). Training in vocations experiencing increasing demand is crucial not only for meeting the requirements of economic growth, but also for providing productive and decent employment to the youth, who constitute a large part of the unemployed.

# IV. Employment Maximising Growth: Identifying Sectors

Faster expansion of employment opportunities is necessary to meet the employment challenge in all its dimensions: quantitative, qualitative and structural. An increase in demand for labour will not only lead to jobs for more people, but will also improve the quality of jobs by putting pressure on the labour market and facilitating better provisioning of the qualitative attributes of decent employment such as social protection. Faster employment growth is also accompanied by the structural transformation of the labour force and results in the reduction in disparities by extending demand for labour to areas and groups left behind when employment growth is slow.

As pointed out earlier, employment growth must take place in the process of economic growth, particularly in an economy like that of Vietnam which is still characterized by large scale low productivity employment. Growth of employment without growth in productivity and output in such a situation results only in perpetuation of low income employment and poverty. Therefore, employment growth needs to take place at increasing productivity levels. In other words, as emphasized earlier, employment elasticity should not increase in individual product lines, but increase at the aggregative level as a result of the faster growth of sectors and products with higher employment elasticity.

Subsectors at the one-digit level with high employment elasticities have been identified earlier. The exercise needs to be carried out at a more disaggregated level within each one-digit level sector to be able to more precisely identify the product lines in which investment and growth need to be given priority with a view to maximizing the employment impact of growth.

## Relevance of Employment and Income Multipliers

Employment elasticity measures only the direct employment effect of the growth in output. There are also indirect effects, often much larger than the direct ones, of output growth in a sector or product line through its output linkages with other sectors. In the production of a commodity or service, several other commodities and services are used (backward linkages), and also, that commodity or service is used in the production of others (forward linkages), as inputs. Thus, the expansion of output of any product induces or facilitates the production of other products. These relationships are captured and quantified in the input-output tables, which are useful for assessing the total impact of growth of output in one sector in terms of total employment in all the related sectors of the economy.

In order to avoid double counting, such an assessment is made in one direction, using only backward linkages. The magnitude of employment that production of one unit of output in a particular sector is likely to generate in all the related sectors is called the employment multiplier. This is, of course, derived from the input-output linkages and labour co-efficients (amount of labour directly used in producing one unit of output) in different sectors.

A team of scholars at the Vietnam Institute of Economics has recently conducted an exercise along these lines (VIE, 2010). The result of their research can provide guidance on how to make the structure of Vietnam's economic growth maximize employment.

The exercise was carried out based on the input-output tables for 2000,2005, and 2007 (a new table is now available for 2010 which could be used to make estimates for the period 2011-15). Tables for 2000 and 2005 have 112 and that for 2007 has 138 sectors. We will mostly be using here the results of the latter exercise. The study has computed (i) labour coefficient (l), or the direct employment effect (labour dispersion), i.e. employment generated in the specific sector); and (ii) employment multiplier (e), (labour dispersion index), i.e. the total employment generated in all the related sectors (backward linkages) of an increase of one million VND worth of output (final demand).

It has also estimated the (iii) income or output multiplier (y) ('economic dispersion index') which is the aggregate value of output produced in all related sectors as a result of a one million VND increase in final demand in the specific sector. This measure is useful for policy purposes as it is not only employment maximization that is the goal but also an increase in productivity and income along with an increase in employment. Therefore, the sectors that merit priority in investment and growth should not only have high employment multipliers, but also high income multipliers.

## Sectors with High Employment and Income Impact

Keeping the above considerations in view, we present here the choice of sectors and product lines where output growth has a high employment impact. These sectors are arranged in the following three categories: (i) those with high output and employment impact (with both income and employment multiplier with a value ≥ 1), (ii) those with high output but moderate employment impact (with income multiplier ≥ 1 and employment multiplier between 0.75 and 1.00), and those with moderate output but high employment impact (with income multiplier ≥ 1 and employment multiplier between 0.75 and 1.00). Sectors identified on the basis of the estimates made in the VIE study, are presented in Table 15.

**Table 15**
**Output and Employment Impact of Growth:**
**Labour Coefficient (l); Income (y) and Employment (e)**
**Multipliers of different sectors: (based on 2007 I/o Table)**

| Sector | Labour Coefficient | Income multiplier | Employment multiplier |
|---|---|---|---|
| (1) | (2) | (3) | (4) |
| **Category (i) (with y and e ≥ 1)** | | | |
| *Agriculture* | | | |
| Livestock (Buffalo/Cow) | 0.264 | 8.943 | 1.149 |
| Piggery | 0.113 | 3.847 | 1.794 |
| Poultry | 0.083 | 2.818 | 1.616 |
| Other Livestock & Poultry | 0.060 | 2.039 | 1.591 |
| Agriculture n.e.c. | 0.173 | 5.883 | 1.48 |
| Fish Farming | 0.065 | 2.212 | 1.694 |

| (1) | (2) | (3) | (4) |
|---|---|---|---|
| **Manufacturing** | | | |
| Processing & Presentation of meat products | 0.074 | 2.502 | 2.034 |
| Processing and Preservation of Seafood Products | 0.036 | 1.216 | 1.713 |
| Processing and Preservation of Vegetable Products | 0.051 | 1.718 | 1.516 |
| Rice Milling & Products | 0.131 | 4.446 | 1.535 |
| Flour and Products | 0.117 | 1.968 | 1.460 |
| Sugar | 0.050 | 1.698 | 1.265 |
| Sugar Products (Jam, Jelly, Chocolates etc.) | 0.059 | 2.013 | 1.430 |
| Processing of Coffee | 0.048 | 1.623 | 1.013 |
| Administrative Services | 0.034 | 1.170 | 0.896 |
| Education and Training (other an higher education) | 0.035 | 1.180 | 0.874 |
| Computer, household and personal repair services | 0.134 | 4.533 | 0.894 |
| Other food products (noodles, sauces etc.) | 0.047 | 16.090 | 1.421 |
| Animal Husbandry Products, n.e.c | 0.080 | 2.724 | 1.636 |
| Alcoholic Beverages | 0.037 | 1.244 | 1.129 |
| Aerated Water and Soft Drinks | 0.030 | 1.029 | 1.132 |
| Wood and wood products | 0.039 | 1.330 | 1.100 |
| **Services** | | | |
| Restaurant services | 0.042 | 1.432 | 1.043 |
| **Category (ii) with y = >= 1 and e = 0.75-1.00** | | | |
| **Manufacturing** | | | |
| Beer | 0.029 | 0.991 | 1.151 |
| Cigarettes | 0.026 | 0.897 | 1.229 |
| Non-metallic mineral products (other than cement) | 0.024 | 0.813 | 1.074 |
| Furniture (Metal) | 0.022 | 0.735 | 1.023 |
| **Building Construction** | 0.022 | 0.743 | 1.048 |
| **Services** | | | |
| Production of films, and music | 0.023 | 0.776 | 1.069 |
| **Category (iii) with y = 0.75-1.00 e = ≥ 1** | | | |
| **Agriculture** | | | |
| Paddy cultivation | 0.151 | 5.126 | 0.901 |
| Sugarcane cultivation | 0.097 | 3.281 | 0.945 |
| Plantations | 0.157 | 5.314 | 0.987 |
| Rubber | 0.060 | 2.048 | 0.769 |

| (1) | (2) | (3) | (4) |
|---|---|---|---|
| Coffee | 0.080 | 2.702 | 0.872 |
| Tea | 0.119 | 4.024 | 0.779 |
| Other forestry services: plantation and protection | 0.046 | 1.550 | 0.853 |
| **Services** | | | |
| Bus transport | 0.031 | 1.039 | 0.746 |
| Passenger shipping services | 0.043 | 1.464 | 0.760 |
| Veterinary services | 0.033 | 1.126 | 0.980 |

*Source: Vietnam Institute of Economics (VIE),2010*

For the economy as a whole, the labour co-efficient works out to be 0.029, meaning, an increase of 1 million VND in final demand or value of output created 0.029 jobs. So, in order to have one additional job created, output will have to increase by 34.5 million VND. There are, no doubt, sectors and product lines which have relatively high labour coefficients. For example, in the cultivation of paddy and plantation crops it takes only about 6 million VND of production to create one job; in livestock (cow and buffalo) rearing, it takes less than 4 million VND of output to create a job. In the processing of agricultural and livestock products the labour coefficient is also reasonably high, significantly higher than average.

As pointed out earlier, it is more meaningful from a policy viewpoint to look at the total impact that growth in a sector produces on employment . And it is captured by the employment multiplier. Again, as emphasized earlier, it is desirable that growth produces not only a high employment impact, but also a high income impact so that the additional employment is created at an increasing level of productivity and income. It is undesirable to have 'jobless growth; however, it may not be any better to have an employment growth without income growth. An employment-oriented growth strategy should, therefore, give priority to sectors and product lines that have not only high employment multipliers, but also high income (output) multipliers.

## Sectors Deserving Top Priority

As seen in Table 15, there are a large number of sectors (in the 138- sector scheme used in the input-output Table of 2007), which have an employment multiplier that is higher than one. The highest multiplier (8.943) is observed in the cattle (buffalo and cow) breeding subsector of the agriculture and animal husbandry sector. A 1 million VND increase in value added in this activity will lead to an employment impact nine times of the average (0.029 x 9 =0.261) for the economy. The income multiplier is also greater than one in this sector and on that basis it meets both the necessary and sufficient criteria for priority in the framework of an employment-oriented growth strategy.

In fact, all subsectors in the agriculture sector (including animal husbandry) have high employment multipliers, but not all of them have income multipliers of higher than one. Paddy cultivation, plantations and sugarcane cultivation all have relatively high (>4) multipliers, but their income multipliers have a value of lower than one. Therefore, they do not feature in our list of

category (i) sectors that deserve the highest priority in an employment-oriented growth strategy. Fish farming (though not fisheries as such) is another activity within the broad sector of agriculture that qualifies for the top order in this strategy.

In the manufacturing sector, all but a few products based on agricultural produce have a better than average employment as well as income multiplier. Rice milling and flour milling have employment multipliers of 4.45 and 3.97 respectively, and also income multipliers at around 1.5 each. The processing and preservation of meat and meat products have the highest income multiplier (2.03) among all 138 activities, and also have a relatively high (2.50) employment multiplier.

Animal oils and fats, and milk products have relatively high income multipliers, but very low employment multipliers. These are the only two product lines among the agro-based products that do not qualify for the inclusion in category (i) of the employment-oriented growth strategy. Besides all other agriculture, animal husbandry and fishery based industries, wood and wood products, and forestry based industry, also make the list. Contrary to the general perception, leather and leather products, including footwear, fail to qualify, not only by income but also by employment criterion, as the multipliers have a value lower than one in the case of this industry group.

The only activity from the services group that qualifies for category (i) is restaurant services. Restaurant services has a higher than one value of both employment and income multipliers.

## Sectors with Second Order Priority

Let us now consider product groups with a reasonable but somewhat weaker case for inclusion in the priority list. One group of such activities consists of those with high ($\geq 1$) income multipliers and employment multipliers between 0.75 and 1. We find a few subsectors in this group (category (ii) in Table 16). Beer making tops the list with a 1.15 income multiplier and an employment multiplier of nearly one, followed by cigarettes, brick making and building construction. Metal furniture making also features in this category as does film and music production.

Category (iii) consists of product lines which show better than average employment impact ($e = \geq 1$), with an income impact not far below the average (e.g. = 0.75 to 1.00). Quite a few activities are found to be in this category. Paddy, sugarcane and perennial crops cultivation come very close to qualifying as part of category (i) above. They have very high employment multipliers (between 3 and 5), and fall short of the average by less than 10 per cent, in terms of income multipliers. Rubber, coffee and tea plantations are only marginally below them.



In the manufacturing sector, only apparel (garments) seems to be anywhere closer to qualifying (1.03 employment and 0.88 income multiplier). Weaving of cloth (textiles), which is mostly found to have high labour intensity, has a low (0.64) employment multiplier and a somewhat better (1.20) income multiplier; however, it does not score high enough to be a part of

the employment-oriented growth strategy. Road transport, passenger shipping, veterinary services, administrative services, primary and secondary education and training, computer repair, and household and personal equipment are activities in the services sector which have relatively higher employment multiplier with income multipliers closer to one. Accordingly, they deserve some attention.

## Continuing Relevance and Potential of Agriculture

From the above account of the relative importance of different sectors and activities in generating productive employment so as to contribute both to accelerating growth and job creation, a few sectors stand out as most crucial in Vietnam's growth strategy in coming years. First, most segments of agriculture, including animal husbandry, fishery and forestry have the capacity to produce productive employment in their growth process. While there is no denying the desirability and inevitability of a shift of the labour force from agriculture to other sectors, it is not as if agriculture only "absorbs" and does not "employ" workers. The emphasis on transformation "of the economy by reducing contribution of the primary and increasing that of the secondary and tertiary sector", should not lead to a neglect of agriculture (VIE, 2010, p.17). Faster growth of agricultural sector is necessary, not only for reasons of food security, but also for increasing productivity and employment opportunity so as to contribute significantly to higher growth and employment generation. Second, focus on agriculture is particularly crucial in view of the fact that the other major group of activities that has potential for creating jobs with increasing levels of productivity and incomes consists of manufacturing based on agricultural produce – agro-based, animal husbandry based, fishery-based and forestry based industries. In order to help these industries grow faster and play their role in growth and employment effectively, a higher rate of agricultural growth is necessary.

Third, in the tertiary sector, services that are essential both for facilitating faster growth, such as transport infrastructure, administration and social services, and servicing the rising production and consumption, such as veterinary services, housing, and repair of equipments, are also found to support both income and employment objectives. The increased growth of this sector is essential to sustain faster and employment-oriented growth.

# V. Policies for Meeting Employment Challenge

An employment focused growth strategy as outlined in earlier sections would require accelerated efforts in some areas and a reorientation of policies in some others. While a high rate of economic growth with appropriate employment orientation will lead to faster expansion of employment and induce such improvement as employment stability and increase in earnings, special provisions would be required to extend social security to the wider sections of the working population. Besides, it would also be necessary to step up existing programmes and initiate new ones to address problems of specific regions and social groups.

## Redution in ICOR for Faster Growth

As argued earlier, a high rate of economic growth is necessary, among other things, to generate the required number of jobs to meet the quantitative targets of the employment challenge – particularly in view of the fact of low and declining employment elasticities. The targets can be achieved if the investment pattern is reoriented in favour of sectors with relatively lower incremental capital output ratios (ICOR), so as to bring the aggregate ICOR down from the abnormally high level it has reached in recent years (ICOR was around 5.0 during 2000-2007 and estimated to have suddenly risen to 6.60 and 8.00 in 2008 and 2009 respectively (VIE, 2010, Table 2.1.1.1)).

To a certain extent, this sharp rise may reflect underutilization of capacity due to slack in demand, especially external demand, during the period of financial crisis. To that extent, the recovery would lead to some decline in ICOR. However, special efforts would be needed to improve efficiency of capital use, for which reorienting investment into sectors with low capital-output ratio could be an important measure. Assuming that these sectors produce goods and services that meet with increasing domestic and export demand, it would be useful to identify them and devise an incentive structure to promote investment in them.

It is quite likely that sectors with low ICOR are also those with high employment potential. The entire range of agriculture based processing and manufacturing industries found to have high employment and income multipliers could easily fall into this category. Investment in this group of industries has declined from around 18 per cent of total manufacturing investment in the early years of the decade to about 16 per cent during 2006-2009. In fact, investment in labour intensive industries, in general, has declined from around 24 per cent to around 19 per cent during this period, while that in capital-intensive industries has increased from 33 to 41 per cent. Technology-intensive industries have also seen some increase in their share of investment from 21 per cent to 23 per cent (VIE, 2010, Table 3.4.5.). This trend in the pattern of investment appears neither conducive to reducing ICOR nor to enhancing employment growth. It seems necessary to have another look at this pattern and see if it could be modified in favour of low capital intensive and high employment intensive sectors by devising appropriate fiscal, financial and other promotional measures.

## Increase in Domestic Orientation?

A decline in the growth rate of GDP and large losses of jobs by employees in enterprises, attributed to the fall in export demand during the years (2008 and 2009) following the financial crisis, have prompted some observers to question the value of Vietnam's "heavy dependence" upon global markets and foreign investment (MoLISA, 2010c, p.8). Exports increased at an average rate of 20 per cent per annum during 1995-2008 and made up 70 per cent of GDP in 2008. FDI made up about one-fourth of gross investment, and contributed about 18 per cent of GDP. Obviously with such important role played by exports and FDI, global economic developments are certain to have a serious impact, both positive and negative, on the economy of Vietnam.

In the wake of the global financial crisis, a view seems to be emerging that "too much reliance on [the] export-led model has limitations and while promoting exports, Vietnam would also need to promote measures to raise domestic demand" (MoLISA, 2010a, p. 32). Increase in per capita income is expected to lead to a shift in demand in favour of non-tradables and domestic products, and decrease in the reliance on exports as source of aggregate demand (Riedel, 2009, Lim, 2010 p. 34). But whether the alternative "to produce less for exports and more for domestic consumption"(Lim,2010 p.34) is a viable and desirable growth strategy for Vietnam at the present stage is debatable. While some scholars think that it is desirable (MoLISA, 2010a, and VEI, 2010), others believe, that the Vietnamese economy is still many years away from that stage (Reidel, 2009 and Lim, 2010, 35).

It needs to be noted that production for the domestic market could be a more effective strategy so far as the employment growth is concerned. Export, which has contributed significantly to economic growth, has not proved similarly potent in employment generation. The expectation that, with its comparative advantage in labour, Vietnam would be able to rapidly increase its labour intensive exports thus making export a major contributor to the growth of employment, has not been quite fulfilled. Some estimates do show that exports have made the largest contribution to job growth, but once the negative impact of import penetration (a good part of which has been due to high and rising import intensity of exports) is taken into account, their contribution is not as large (see Table 5.2 in Lim, 2010).

What is particularly disappointing to note in this context is a decline in the share of labour-intensive industries in Vietnam's manufacturing exports. They constituted 49 per cent in 2000, increased to 52 per cent by 2003, but after that saw a decline, and made up only 47 per cent of total manufacturing exports in 2009. In comparision, the share of capital-intensive industries increased from 5.5 per cent in 2000 to13.47 per cent in 2009, and that of technology intensive industries from 10 per cent to 13 per cent (VIE, 2010 Table 3.4.4).



It seems that one cannot fully depend on exports for employment generation. The fact that the per capita income of the Vietnamese people is rising at an average of 5.5 to 6 per cent per annum (barring during 2008 and 2009), clearly suggests that the growth of aggregate demand is significant enough to give production for domestic demand a boost. While export led strategies may continue, policymakers would do well to see that production for the domestic market, particularly in employment-intensive sectors, is not placed at a policy induced disadvantage vis a vis production for exports.

## Promotion of Growth of Private Enterprises Specially SMEs

In this context, it is particularly important to focus on the development of the domestic private sector (non-state domestic enterprises). This sector produces goods and services for mass domestic consumption and also employs the largest number of workers. It is true that in recent years, the foreign-owned enterprises have registered the fastest growth in employment, but private enterprises have also shown reasonably high employment growth. These enterprises, including households, employed 87 per cent of all workers in 2009. Their share in total employment has declined only marginally from 90 per cent in 2000, but has remained constant at 87 per cent since 2006. Foreign-owned enterprises have increased their employment but they still account for only about 3.5 per cent. The share of the SOEs has been declining, and is now less than 10 per cent. It is likely to decline further in the process of restructuring of state enterprises, as many of them still continue to be overstaffed (Lim, 2010, p.48). Thus, it is the changes in the number of jobs in the private sector that is going to make the major impact on the employment situation.

The capital investment required per unit of employment (capital–labour ratio) is the lowest in the non-SOEs . On the basis of GSO on-line data, the investment required was estimated to be 250 million VND in 2005. This was 30 per cent of the amount required in SOEs and 61 per cent of that in foreign-owned enterprises (Lim, 2010, Table 6.1).

Similar differences were observed in average fixed assets and long-term investment per worker in 2007. Based on a survey by GSO, the figure for SOEs was the highest at 511 million VND, that for foreign-owned enterprises 231 million VND, and for non-SOEs 150 million VND. It may be noted that differences in productivity, in terms of revenue per worker, were not very high among the three categories of enterprises. The revenue per worker was 640 million VND, for SOEs, 450 million VND for foreign-owned enterprises, and 427 million VND for non-SOEs (Lim, 2010, Table 7.5). However, profitability was low in non-SOEs, the profit to revenue ratio being 2.79 while it was higher, at 6.24, for SOEs, and much higher, at 13.11, for foreign enterprises.

It appears that policies discriminate against the non-SOEs vis a vis SOEs, and especially vis a vis foreign-owned enterprises. As a result, they are able to earn a much lower profit in spite of the small differences in revenue per worker. Amongst the several constraints faced by non-SOEs, particularly the small and medium sized enterprises (SMEs), which make up 95 per cent of all enterprises, is the difficulty in accessing credit. According to a survey in 2007, the inability to access credit is the most severe constraint faced by small and medium enterprises. It is hard for them to obtain credit from banks and other formal institutions, this, in turn, forces them to resort to more costly informal credit markets.



Nearly 80 per cent of SMEs resort to these channels (CIEM, 2008). Under a special action plan introduced in 2008, provision for special access of SMEs to funding sources was made, but its coverage has been low as it is primarily meant for export-oriented and high value adding enterprises. There has also been international assistance for funding operations of SMEs. As a result, a larger proportion of them are now in credit relationships with banks.

The major problem is their inability to provide substantial collateral. This problem still persists and has led to higher interest rates (Lim, 2010). It appears that a special window for funding these enterprises, with provisions, for example, of credit guarantee, is necessary to ensure their better access to bank credit.

## Extension of Social Protection Coverage

A faster growth of productive employment that is expected to result from the strategic and policy measures is not likely to either do away with the need for social protection coverage or lead to its provision by itself. Social protection coverage is the provision for protection to the workforce from risks and vulnerabilities of life and work. The challenge of social protection, as noted earlier, might even increase if the present trend of the increasing share of informal employment continues. The traditional social protection provided by families and communities, on the other hand, will get reduced with modernization, urbanization and the consequent decline of the joint family system and the increase of the nuclear family system. Vietnam, like any other country, should aim at providing universal coverage against the basic risks such as sickness, unemployment and old age. In the meantime, social security among the workers must be strengthened and extended.

As reported earlier, the coverage of both compulsory insurance and unemployment insurance schemes has increased, but not all eligible are yet covered. Full coverage of the presently eligible should be expedited and, at the same time, extension of the schemes to the informal workers should be initiated. With rising wage and productivity levels, workers' and employers should be able to share the cost of social security measures to a larger extent. However, it would be necessary for the state to provide larger budgetary support, particularly for social protection to the poor – including the employed poor. It is disappointing that government spending on social protection – social security, social assistance, area-based and labour market programmes – as a percentage of the state budget declined from 10.5 in 2004 to 9.3 in 2008. (MoLISA 2010c, p.21). This obviously needs to be corrected and the state spending on social protection increased from a mere 3 per cent of GDP presently.

## Focus on Poor Regions

The problem of regional imbalances in development as indicated by differences in the incidence of poverty between the Northern Mountains and Central Highlands, on the one hand, and coastal and river delta areas, on the other, seem too large to be addressed by some budgetary provision under social protection and poverty reduction programmes. It requires a much larger developmental effort. The effort should be not so much to create jobs, but rather to raise productivity and diversify economies of the underdeveloped areas. These areas suffer from high incidences of poverty, and not with high rates of unemployment or underemployment. It would be necessary to devise regionally focused strategies based on the comparative advantage of specific regions.

## Targetted Programmes for Ethnic Minorities

In so far as the problems of regional and ethnic poverty coincide (See VASS, 2011, Table 10), regionally focused development strategies will also help alleviate the conditions of the ethnic minorities. In the case of some of the ethnic minorities, the problem is so acute that programmes specially targeted to individual households may be necessary, in addition to the development of infrastructure and productive potential of the areas they live in.

It is found that the gap in income between the ethnic minorities and the Kinh-Hoa group is equally caused by the differences in endowments and returns on them (Baulch, 2009). Therefore, "interventions should be directed towards raising both their endowments and returns from their endowments" (VASS, 2010, p.66).

Education and training can contribute to both. Improving access to services, inputs and wage employment would strengthen their endowment base. It is observed that a single process of reducing language barrier, by providing them language skills in Vietnamese, can improve returns on their endowment (Ibid.), as it likely to lead to an improvement in their access to jobs, services and markets. More of such crucial gaps need to be identified and interventions devised to meet them.

## Skill Development: Public Private Partnership

As noted earlier, shortages of skilled labour is likely to be a major bottleneck in sustaining high growth, particularly in exports, as the unskilled labour advantage of Vietnam is not likely to continue for long. Training in skills that are increasing in demand is also particularly important so as the youth, who make up 45 per cent of the unemployed, find productive and sufficiently remunerative employment. The technical and vocational education and training (TVET) has expanded many fold in the past decade both in terms of the number of institutions, capacity and enrolment. It, however, still falls short of the requirements of the growing economy both in quantity and quality. A much larger programme, based on realistic assessment of the trends in labour demand, is urgently required. It must be recognized here that the most effective way of developing vocational training capacity and programmes is through a public-private partnership which, on the one hand, makes the users share cost and, on the other, is expected to ensure demand-based capacity building and training output.

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TOWARDS AN EMPLOYMENT-ORIENTED GROWTH STRATEGY FOR VIETNAM

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