

# **Implementing the GPRGS in Vietnam through Decent Work**

**Regional and Country Policy Coherence Report No. 1**

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*Abstract:* This paper, summarizes the analytical work carried out by the ILO in its contribution towards the Poverty Reduction Strategy Papers (PRSPs) prepared by the Government of Vietnam - the Comprehensive Poverty Reduction and Growth Strategy (CPRGS). The ILO has sought to outline a Decent Work Agenda as a fundamental poverty reduction tool in its contributions to PRSPs. The large numbers of the working poor, some half a billion globally, show that much work does not yield enough income to lift out of poverty, hence the critical emphasis, not just on generating work, but on generating decent work.

The objective of formulating policy for decent work in Vietnam leads to an analysis of a number of problems and challenges facing the economy and the people. These range from macro policy requirements to generate growth and employment, to employment policy in the labour market, sectoral policies, conditions of work in the areas of social security, wages and contractual conditions, gender considerations, deficits in rights, and finally to an evaluation of the fiscal space for poverty reduction through the prescribed policies for decent work. Methodologically, this study builds on ILO's increasing experience through the engagement in the PRSPs, in two areas, especially establishing the macro determinants of growth and employment in Vietnam, and analysing fiscal budgets to determine the space and implementation of policies for poverty reduction. Both framing of policy at the macro level, and its implementation through a Medium Term Expenditure Framework (MTEF), define the outer envelope for poverty reduction through decent work, and without which other policies no matter how correct, remain unconnected, incoherent, and unimplementable. As such macro policy and budgetary policy are crucial tools for attaining policy coherence in the Decent Work Agenda for poverty reduction.

*JEL classification:* I32, J21.

*Résumé:* Cet article résume le travail analytique du BIT effectué dans le cadre de sa contribution aux Cadres Stratégiques de Lutte contre la Pauvreté (CSLP) du Gouvernement du Vietnam, ou le CPRGS («Stratégie globale pour la croissance et la réduction de la pauvreté»). Le BIT a cherché à définir un Agenda pour un Travail décent en tant qu'instrument essentiel pour la réduction de la pauvreté. Le grand nombre de "working poor" (travailleurs pauvres) - plus d'un demi milliard à l'échelle de la planète - démontre que dans de nombreux cas le travail ne génère pas suffisamment de revenu pour surmonter la pauvreté. Par conséquent, l'accent doit porter non seulement sur la création de postes de travail mais également sur la création d'emplois décents.

L'objectif de définir une politique pour le travail décent au Vietnam passe par l'analyse d'un nombre important de problèmes et de défis touchant l'économie et la population. Ces derniers incluent un éventail des sujets: les politiques macro-économiques favorables à la croissance et à l'emploi, les politiques d'emploi dans le marché du travail, les politiques sectorielles, les conditions de travail telles que l'accès à la sécurité sociale, les salaires et conditions contractuelles, les considérations de genre, les lacunes dans le domaines des droits et, enfin, l'évaluation de l'espace fiscal permettant de réduire la pauvreté à travers des politiques favorables au travail décent. La méthodologie de cette étude se fonde sur l'expérience croissante du BIT avec les PRSPs, en particulier dans deux domaines: l'établissement des déterminants macro de la croissance et de l'emploi au Vietnam et l'analyse du budget fiscal afin de déterminer l'espace et la mise en œuvre des politiques pour la réduction de la pauvreté. Tous deux encadrent la politique au niveau macro et son exécution à travers le Cadre de Dépense à Moyen Terme (MTEF) et définissent l'enveloppe extérieure pour la réduction de la pauvreté à travers le travail décent. Ces politiques macro et fiscales sont déterminantes pour une politique cohérente en faveur de l'Agenda pour un Travail décent et la réduction de la pauvreté.

*Classification JEL:* I32, J21.

*Resumen:* Este artículo resume el trabajo analítico llevado a cabo por la OIT en el marco de su contribución a los Documentos de Estrategia de Lucha contra la Pobreza (DELP), preparados por el gobierno de Vietnam - Estrategia Integral para el Crecimiento y Reducción de la Pobreza (EICRP). La OIT ha buscado poner de relieve el Programa de Trabajo Decente como una herramienta fundamental para la reducción de la pobreza como parte de su contribución a los DELP. El gran número de "working poor", más de medio billón a nivel mundial, muestra que en la mayoría de los casos, el empleo no suministra suficientes ingresos para superar la pobreza, por tanto, debe ponerse el acento no solamente en la generación de empleo sino en la generación de empleo decente.

El objetivo de la formulación de una política para el trabajo decente en Vietnam pasa por el análisis de muchos problemas y retos a los que hacen frente las personas y la economía. Este análisis va desde los requisitos de políticas macroeconómicas para generar crecimiento y empleo hasta la política de empleo en el mercado del trabajo, políticas sectoriales, condiciones de trabajo en las áreas de seguridad social, salarios y condiciones contractuales, consideraciones de género, déficit en los derechos y finalmente a una evaluación del espacio fiscal para la reducción de la pobreza, a través de políticas prescritas para el trabajo decente. Metodológicamente, éste estudio se basa en la creciente experiencia de la OIT adquirida por su actuación en los DELP, especialmente en dos áreas: el establecimiento de los determinantes macro del crecimiento y del empleo en Vietnam y el análisis de los presupuestos fiscales, con el fin de determinar el espacio y la implementación de las políticas orientadas a la reducción de la pobreza. Ambos enmarcan la política a nivel macro y su implementación a través de un Marco de Gasto a Mediano Plazo (MGMP), definen el paquete exterior para la reducción de la pobreza mediante el trabajo decente, y sin el cual, otras políticas, independientemente de si son correctas, siguen desconectadas, son incoherentes e imposibles de ejecutar. Como tales, la política macro y la política presupuestaria son herramientas decisivas para lograr la coherencia en el Programa de Trabajo Decente para la reducción de la pobreza.

*Clasificación JEL:* I32, J21.

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# Implementing the CPRGS in Vietnam through Decent Work

## Contents

	<i>Page</i>
<b>1. The CPRGS and the Decent Work Development Agenda for Poverty Reduction.....</b>	<b>1</b>
1.1 The CPRGS .....	1
1.2 The Decent Work Development Agenda for Poverty Reduction .....	2
<b>2. The Characteristics of Poverty in Vietnam .....</b>	<b>3</b>
<b>3. Macro Policy to Generate Growth and Employment .....</b>	<b>5</b>
3.1 Growth .....	5
3.2 Investment and Demand Stimulus by the State – Counter Cyclical Macro Policy.....	6
3.2.1 Demand stimulus during the East Asian Crisis .....	6
3.2.2 Demand Stimulus to Counter the Deflation Crisis in 2000 .....	7
3.2.3 Structural Shift in the Drivers of Growth from External to Domestic.....	8
<b>4. Employment Policy .....</b>	<b>8</b>
4.1 The Recent Record on Employment.....	8
4.2 The Challenges of Reducing Unemployment and Underemployment and Raising Skill Levels .....	10
<b>5. Sectoral Policy to Generate Employment and Incomes.....</b>	<b>12</b>
5.1 Agriculture.....	12
5.2 Exports.....	14
5.3 The SOE Sector .....	15
<b>6. Conditions of Work.....</b>	<b>17</b>
6.1 Social security and the CPRGS .....	17
6.2 Wages, Incomes and Contracts .....	19
6.3 Deficits in Rights .....	20
<b>7. The Fiscal Space for Poverty Reduction .....</b>	<b>21</b>
7.1 The National Socio-Economic Plans .....	22
7.2 Policy Choice on the Impact of Investment on Employment .....	23
<b>8. Dialogue: Inclusion and Voice for Workers, Employers and MOLISA .....</b>	<b>23</b>
<b>Appendix .....</b>	<b>25</b>

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# Implementing the CPRGS in Vietnam through Decent Work

## 1. The CPRGS and the Decent Work Development Agenda for Poverty Reduction

### 1.1 The CPRGS

This is an auspicious time in Vietnam to take stock and plan the implementation of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS). The Government of Vietnam is merging the CPRGS into its National Development Planning Framework. The ILO believes that there could be no wiser step than that. The fundamental structural problem with PRSPs around the world, and now there are some 70 experiences, is that the goals of the PRSP are too loosely related to the budgetary means to enable these goals. The ambition of the goal is not matched by the size of the budget. Worse there are even inconsistencies, between the goal of supplementing income to alleviate poverty, and budgetary exigencies like the incidence of taxation actually reducing the income of the poor. However unlike these cases, Vietnam's CPRGS already contains a substantive budgetary component, and this report puts forward a number of policy suggestion on this. And the further linking of the CPRGS to the national development strategy framework can only improve the relationship between poverty goals and the budgetary means to achieve these goals. Based on the suggestions by the Ministry of Labour Invalids and Social Affairs (MOLISA) and by Vietnamese General Confederation of Labour (VGCL) and the Vietnamese Chamber of Commerce and Industry (VCCI) through a series of tripartite consultations and seminars held over 2003 and 2004, the ILO is able to contribute even more integrally to the joint CPRGS National Development Strategy and Plan framework through its Decent Work development agenda for poverty reduction.

This report outlines a Decent Work development agenda for poverty reduction in the CPRGS. The CPRGS is already a substantive analytical and policy document. The ILO has been privileged to be invited to contribute towards its implementation. To this end the Office has moved on two fronts. Foremost, we have sought inclusion. From the outset, we have sought protracted consultation with VGCL, VCCI and MOLISA to incorporate their views, priorities, and preferences in recommending policy for the implementation of the CPRGS. The tripartite seminars held in 2003 and 2004, and the accompanying bi-partite consultations have been critical stage reviews by our constituents of ILO policy recommendations. Second, based on the voices of our national constituents and in the Governing Body and the International Labour Conference, and our comparative global experience, the Office brings to bear its framework of Decent Work as a poverty reduction tool to the CPRGS.

The Report of the Director General of the ILO to the International Labour Conference in 2003 on 'The Working out of Poverty', the report of the World Commission on the Social Dimension of Globalization on 'A Fair Globalization', and the Global Employment Agenda have established this paradigm. Based on this paradigm, the work of the ILO on poverty reduction and specifically on the PRSPs in 15 countries around the world has honed an analytical framework of a Decent Work Development agenda for poverty reduction.

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## 1.2 The Decent Work Development Agenda for Poverty Reduction

The ILO holds that work is the only sustainable route out of poverty. The needs of poverty reduction, food, medicines, shelter, energy, water, and sanitation; further, even education and security, are not sustainable as infinite free goods. They have to be enabled for the most part, by work. This gives a central strategy for poverty reduction, based on work.

Further, the poor, lacking significant social protection coverage, largely work, because they cannot afford not to. So the poor are predominantly the working poor, and their dependents. The Global Employment Agenda has calculated that the world's 1.2 billion poor are supported by 0.5 billion working poor. So poverty is based on the work of the poor and the conditions and quality of their work.

But the poor have insufficient work. And they need better conditions of work. The poor need decent work. And if work gives the central strategy for poverty reduction, decent work gives the policy coherence, across a range of policies which become necessary to reduce poverty.

The poor work long hours; with little security and stability in the frequency of their work; in difficult, onerous, often hazardous circumstances; with insufficient remuneration, based on low productivity, skills and capital; negligible social protection, in work like Occupational Safety and Health (OSH), out of work like unemployment insurance, and at the end of a working life like pensions; with weak rights and voice to enable change in their working conditions; in a macro environment that threatens worse rather than improvement; and governed by institutions that have generated these very conditions.

So poverty is in large part caused by lack of work and the very conditions of work, with multi dimensional determinants, like employment, wages and incomes, productivity, training, capital, social protection, rights, dialogue, macro policy and governance. Generating work and decent work therefore requires coherence across a range of policies, macro, sectoral, social protection, rights and voice - to increase employment, raise incomes and wages, and expand social protection rights and dialogue.

Let us separate analytically policies for generating decent work into (a) policies for generating work, and (b) policies that contribute to wages, incomes, and the conditions of work.

- (a) Policies to generate work essentially involve expansionary macro policy, based on increasing demand through expenditure under a number of heads, investment, exports, government, and consumption. Policies to increase investment entail upstream policies on the savings-investment-capital environment, an important contributor to which is now recognized to be social dialogue. Exports are influenced through productivity, Unit Labour Costs (ULCs), training, technical change and the exchange rate regime. Consumption and government expenditures are based on budgetary deficits and Active Labour Market Policies (ALMPs).
- (b) Policies that contribute to wages, incomes and conditions of work, can be categorised into influencing (i) the nominal wage, (ii) self employment income, (iii) the price of wage goods, and (iv) social protection. The nominal wage can be seen as a function of bargaining power, the rights environment, and poverty pressures. Self employment income is a function of both international terms of trade for the country's exports and import, and domestic terms of trade between agriculture and industry. The price of wage goods is a function of inflation indexing, food programs, and access to public goods like education and health.

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And social protection is a function of OSH, income insurance, pensions, and transfer incomes.

So the traditional provenance of macro policy is apparent in the need to enhance demand through expenditures. But there is an equal need here, for policy to protect real wages and incomes and improve the conditions of work: on the wage, through influencing the distribution of income between wages and profits; on self-employment income by influencing the terms of trade and thereby returns to small producers; on protecting critical components of real wages and incomes like food subsidies and public goods like health and education by influencing expenditures on them; and on social protection through influencing expenditures on it.

This analytical framework sets out a broad range of factors that affect poverty through work and the conditions of work, based on a number of country experiences. Comprehensive coverage of each factor in each country, and policy on it, may neither be warranted, nor possible. What is needed is a set of priority policies that affect work and the conditions of work in each country.

This report argues that the Decent Work Development Agenda for poverty reduction in Vietnam can be based on six critical policy components:

- (i) Macro policy to generate growth and employment
- (ii) Employment policy
- (iii) Sectoral policy to generate employment and incomes
  - Prioritizing: Agriculture  
Exports  
The State Owned Enterprise (SOE) sector
- (iv) Conditions of work
  - Prioritizing: Social protection  
Wages, incomes and contracts
- (v) Fiscal space for poverty reduction
- (vi) Dialogue, inclusion and voice for workers, employers and the Ministry of Labour overseeing their interests

The report first examines the characteristics of poverty in Vietnam and then sets out the six policy components that address these characteristics.

## **2. The Characteristics of Poverty in Vietnam**

Since the Comprehensive Economic Reform of 1989 Vietnam has had good growth, albeit interrupted by the Asian Crisis from 1997 to 1999. Nominal GDP per capita has risen four fold, from under \$100 in 1990 to over \$440 by 2002 (Table 1). Just prior to the crisis, nominal GDP growth was double digit and per capita GDP growth just short of that. The crisis more than halved per capita growth by 1998-99. But the economy rebounded by the turn of the decade with nominal GDP growth of 7 per cent, and per capita GDP growth of 6 per cent, and this has been consistently maintained coming up to 2004.

This pattern of growth is mirrored in the rate of poverty reduction. Table 2 and Figure 1 more illustratively, show Vietnam's impressive performance in poverty reduction. Total poverty stood very high in 1993 at 58 per cent of the population. By 1998, over five years,



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more than 21 per cent of the population had been lifted out of poverty, the incidence dropping down to 37 per cent. With the Vietnam Living Standards Survey 3 (VLSS) we now have the most recent estimate for poverty for the year 2002. The head count has now dropped down to 29 per cent. Over the four years to 2002, poverty dropped by 8 per cent of the population. So the rate of poverty reduction has clearly decreased after the crisis. But given the crisis, a continued drop in poverty is still quite creditable compared to the challenges faced by some other crisis hit countries like Indonesia where post crisis poverty levels are still higher than pre crisis ones.

But the poverty target for the CPRGS is still quite high, with 29 per cent of the population falling below a total poverty line, and 11 per cent falling below a food poverty line. Attacking the target must be based on determining who the poor are, what their characteristics are, and therefore on the causal mechanisms that caused them to plunge into or remain mired in poverty.

The first point to note is that the poor are predominantly rural. 36 per cent of the rural population is below the total poverty line, while only 7 per cent of the urban population is below it. Similarly for food poverty, 14 per cent of the rural population is below the food poverty line, while only 2 per cent of the urban population is below it.

Another point to note is the pattern of poverty reduction over time. Table 2 shows that between 1993 and 1998, total rural poverty dropped from two thirds of the population to under a half. At the same time urban poverty decreased from a quarter of the population to 9 per cent. Then between 1998 and 2002, rural poverty dropped from 45 per cent to 36 per cent, but compared to this urban poverty dropped from 9 per cent to 7 per cent. So the slower rate in poverty reduction for the whole country between 1998 and 2002 is based on the continued concentration of poverty in the rural areas, and a slower rate of reduction in rural poverty over the entire period – halving in rural areas, but coming down to a quarter in urban areas.

This can be seen in the geographical pattern of poverty reduction in Table 2. Rural poverty is concentrated in the Northern Uplands, the North Central coast, and in the Central highlands. Some of these are also the regions where the rate of poverty reduction between 1998 and 2002 has been low. In the Northern Uplands poverty fell significantly over this period from 82 per cent to 44 per cent. But in the Central highlands poverty remained at its high of 52 per cent.

Poverty is also much higher for ethnic minorities, some 70 per cent of whom are in poverty, compared to less than a quarter of the Kinh and Chinese ethnicities, (Table 2).

Table 3 shows that the depth of poverty, as indicated by the poverty gap, is similarly much greater for the rural population, the Northern Uplands, North Central Coast, and the Central highlands, and for the ethnic minorities.

Table 4 estimates shares in total poverty, and emphasizes this observed pattern in the distribution of poverty in the country. 84 per cent of the total poverty lies in the agricultural sector, with 9 per cent in industry, and 6 per cent in services. Geographically the highest share in total poverty, of 22 per cent, lies in the Northern Uplands, followed by the North Central Coast with 20 per cent, while the Central highlands have 10 per cent.

More incriminating is the change in these shares in poverty over time. Between 1993 and 2002, all the regions decreased their shares in total poverty, except these three regions with the highest shares, the Northern Uplands, the North Central Coast and the Central Highlands.

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Half the household income of the poor comes from their own production, another 44 per cent from waged employment, with only 3 per cent coming from property, and 4 per cent from transfers (CIEM 2003).<sup>1</sup>

So a clear policy focus is needed on rural areas, on the agricultural sector, on self and waged employment, on these regions and on these ethnic groups.

The poor are also the least educated, and who have increased their shares in total poverty over time, (Table 4). They have the largest household sizes, and the highest number of children, (Table 5).

### **3. Macro Policy to Generate Growth and Employment**

#### **3.1 Growth**

Macro policy is needed to generate demand for growth of output and employment. As observed, this can be based on expenditure on a number of heads like the government, consumption, investment, and exports. Government and consumption expenditure depends on the budgetary deficit. Investment expenditure depends upon the investment environment, including monetary policy, the interest rate structure, stability and the state of industrial relations. Exports are based on competitiveness.

The East Asian financial crisis devalued currencies, reversed inflows, constrained credit and exports, raising unemployment and poverty levels. Advice accompanying the emergency lending support for the crisis was to raise interest rates to attract capital, strengthen the currency, and control inflation. The ILO argued in national and international fora that the rise in interest rates would fuel the contraction of the economy, adding to unemployment and poverty rather than reducing it (Krugman 1999, Singh 1999).<sup>2</sup> In Thailand the battle for fiscal expansion was waged over 17 Letters of Intent between the Government and donors before a budget surplus, which would have exacerbated the contraction in the economy further, could be turned into a deficit allowing reflation of the economy. In Indonesia where the PRSP has just been finalized, ILO's contribution argues for a compromise between much needed reflation of the economy and controlling inflation. These positions now have strong proponents in the global debate, with Stiglitz for instance addressing the Global Employment Conference in the ILO on the irreversibility of "hysteresis" - high interest rates shutting enterprises and raising unemployment which could later not be "unshut" (Akelrof 1996, Krugman 2003, Stiglitz 2001, Taylor 2004).<sup>3</sup>

Against this background, Vietnam's macro policy on examination appears to have been well geared towards generating the observed high growth, recovery from the crisis, and significant reduction in poverty. If anything the crisis appears to have impelled a sharper

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<sup>1</sup> Central Institute for Economic Management, Hanoi Vietnam, 2003, Study on Employment-Poverty Linkage and Policies in Vietnam, ILO.

<sup>2</sup> Krugman P. 1998, What Happened to Asia?, 1999, Balance Sheets, the Transfer Problem, and Financial Crises; Singh A. 1999, Asian Capitalism and the Financial Crisis, in Jonathan Michie and John Grieve Smith (Ed.) London 1999, Global Instability, the Political Economy of World Economic Governance.

<sup>3</sup> Stiglitz J. 2001. Employment, Social justice, and Societal Well-being, speech to ILO Global Employment Forum 1-3 November.

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focus towards growth and poverty reduction. But what appears to be missing from this effort so far is a critically needed employment strategy, which is seen in the next section.

The 1989 Comprehensive Economic Reform aimed at stabilization of the economy, its opening up, increasing choice for economic units, and a fundamental change in economic management. The result has been (as Table 6 shows) a growth rate averaging 8 per cent in the first half of the decade, 1991 to 1995, and a growth rate of 7 per cent in the second half, 1996 to 2003. The crisis at its peak in 1999 halved growth from 8 per cent to 4 per cent. But since, growth has picked back up to a trend of over 7 per cent coming up to 2004.

This high growth and recovery from the crisis, has been driven by industry growing by 12 per cent in the first half of the decade, and by 11 per cent in the second half. Services have also grown at 9 per cent and 6 per cent in these two periods. Unfortunately agriculture has only managed 4 per cent growth in both periods. In the last period's growth of 7 per cent over 1996 to 2000, industry contributed 3.5 per cent, services contributed another 2.5 per cent, while agriculture contributed only 1 per cent (Table 6). More recently this trend has exacerbated. In 2003, agriculture's contribution to the annual growth rate of 7.2 per cent fell to 0.7 per cent, while that of industry picked up to 4 per cent, and for services also increased to 2.7 per cent.

As a result there has been significant sectoral change over the past decade, (Table 7). Agriculture has shrunk from 41 per cent to 21 per cent of the GDP between 1991 and 2004. Industry has expanded from 24 per cent to 41 per cent of the GDP over this period. Manufacturing alone has expanded from 13 per cent to 21 per cent of the GDP. While services have also expanded from 36 per cent to 38 per cent of the GDP.

Manufacturing growth has been especially high in garments, textiles, footwear, food and agricultural processing. Agricultural growth while low, has nevertheless resulted in food self sufficiency, and with 36 million tons produced in 2002, large exports in rice, Vietnam now being the second largest rice exporter, after Thailand.

There has not been much change in the structure of ownership, even over the last half decade, (Table 8). The share of the state sector in GDP has barely inched down from 39 per cent in 1996 to 38 per cent in 2003. Equitisation has been slow, with only 10 per cent of the SOEs being equitised, nearly all of them very small ones. The non state sector has also reduced its share in GDP over this period, from 52 per cent to 48 per cent. The net gain has been in the foreign invested sector which has doubled from 7 per cent to 14 per cent.

## **3.2 Investment and Demand Stimulus by the State – Counter Cyclical Macro Policy**

There are three clear instances of the role of the state in stimulating demand through classical counter cyclical macro policy. One, in generating demand during the East Asian crisis. Two, in countering the deflation crisis in 2000, even if this was a more endogenously created crisis. And three, in balancing the drivers of growth from the pre crisis era of a focus on exports, to the post crisis era of also encouraging an emerging domestic market.

### **3.2.1 Demand stimulus during the East Asian Crisis**

What has driven the observed growth is a high level of investment. Table 9 shows that investment grew at 21 per cent over 1991-95 and at 10 per cent over 1996-2000. Investment levels have grown steadily from 27 per cent in 1995 to 36 per cent in 2003,

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(Table 10). Domestic savings have strongly fuelled these investment levels, rising from 18 per cent to 32 per cent over this period.

High levels of FDI have also been attracted, (Table 11). Foreign investment as a proportion of total investment peaked at 28 per cent in 1997, coming to some \$2 billion per year. The crisis lowered this to 18 per cent in 1999, because of the drop in inflows from East Asia and Japan. By 2002 FDI has nosed up again to 19 per cent.

But what is most evident is the much needed role that the state has played in stimulating demand. Prior to the crisis the state accounted for a half of total investment, (Table 11), non state investment and FDI being another quarter each. State investment is largely met through the state budget, but also through loans and ODA and SOEs. As the crisis lowered FDI from 28 per cent to 18 per cent, total investment and growth were threatened. However Table 10 shows that the state did not allow the investment share in GDP to fall below 27 per cent, and in fact began raising it above even this level to reach its current level of 36 per cent. It did this by substituting state investment for the fall in FDI. State investment rose, as Table 11 shows, from 49 per cent in 1997 to 56 per cent in 1998, and further to 58 per cent over 1999 to 2001.

The increase in the overall investment level and the increase in the state's share in investment were allowed by increases in the state budget, increased loans and ODA, and increased investment by SOEs.

So we see that the state has been using both public sector investment and attracting private sector investment and FDI to generate growth and reduce poverty over 90s. But with the advent of the crisis and fall in FDI and growth, the state has aggressively stepped in to substitute state investment for the fall in FDI, to keep total investment levels high, and to raise them even higher. Such counter cyclical macro policy has proved to be much needed to raise growth back up from the crisis, and to prevent a serious hiatus in poverty reduction as observed above. This proved to be a much needed stimulus for demand, since Table 9 shows that with the crisis, both consumption growth and export growth dropped considerably. Had investment levels not been propped up and even increased, the declines in consumption demand and export demand would have lowered aggregate demand and growth, and raised poverty.

These investment levels were raised in the form of raising the growth of Gross Fixed Capital Formation (GCFC) to 9.5 per cent per annum over the period 1996 to 2000 (Central Institute for Economic Management 2004).<sup>4</sup> This increase in GCFC was financed through the state budget, state credit, and state equitisation funds. State budgetary increases were allocated for investment in social and physical infrastructure, Human Resource Development (HRD), and operation and maintenance of public works. The state's share in investment expenditure accordingly rose to 22.9 per cent of total investment over the period 1996-2000. State credit rose to 14.8 per cent of total investment. The additional credit was allocated towards projects in electricity, cement, steel, processing, export development and infrastructure. State equitisation rose to 10 per cent of total investment, being allocated towards upgrading equipment and production lines in industry.

### **3.2.2 Demand Stimulus to Counter the Deflation Crisis in 2000**

The recovery from the crisis was upset by the deflation of 2000, possibly exacerbated by the global synchronized recession hitting the region. Food prices fell significantly. While

<sup>4</sup> Central Institute for Economic Management, Hanoi Vietnam, 2004, Employment-Poverty Linkage and Policies in Vietnam, ILO.

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food comprised 60 per cent of the consumption basket of the poor, but the falling food price resulted in a major macro crisis for farmers who still generated three quarters of the total income. Agriculture's Terms of Trade (TOT) vis-à-vis manufacturing fell from 0.89 in 1995 to 0.79 in 2000 (Central Institute for Economic Management 2004).<sup>5</sup>

The Government then stepped in to counter the deflation by stimulating rural demand. It increased expenditure on infrastructure, irrigation networks, rural roads, paddy credit, and reduced the fertilizer surcharge. Very importantly, the public sector minimum wage was also raised.

However this crisis appears to have been generated endogenously at least in part, with gradually worsening TOTs for agriculture. So the important policy corollary here is maintenance of TOTs for the major income earning sector – agriculture, to prevent an increase in poverty levels or a decline in the rate of poverty reduction especially given the observed concentration of poverty in the rural areas.

### **3.2.3      *Structural Shift in the Drivers of Growth from External to Domestic***

As a result of the state's role in counter cyclical macro policy to stimulate demand during the East Asian crisis and demand management thereafter as seen in the deflation crisis, but also as a result of structural policy, Vietnam's drivers of growth have shifted structurally. Table 11 shows that foreign investment as a proportion of total investment peaked in 1997 at 28 per cent. Domestic savings at this time were relatively low, as Table 10 shows, at 20 per cent of GDP. By 2003, foreign investment had settled at 17 per cent of total investment. But domestic savings had filled the gap, rising to 32 per cent of GDP and 70 per cent of total investment. Simultaneously there has also been a drop in the contribution of exports to GDP growth, and a rise in the contribution of both domestic consumption and investment (Central Institute for Economic Management 2004).<sup>6</sup>

Therefore aggressive state policies in demand stimulus have resulted in a structural shift in the drivers of growth from FDI and exports, to domestic savings, investment and consumption. This is a more balanced macro policy which reduces vulnerability of the economy to external crises through increasing reliance on the domestic market.

In general, the observed counter cyclical macro policy carried out by the state during crisis needs to be noted and strongly supported as a tool for poverty reduction in the implementation of the CPRGS.

## **4.            Employment Policy**

### **4.1           The Recent Record on Employment**

If Vietnam's record on using macro policy to generate growth, regenerate growth to counteract the crisis, and reduce poverty has been good over the last decade plus, its record on generating employment is perhaps more wanting. Our hypothesis of the working poor could not be more correct in the case of Vietnam. As noted in the characteristics of the

<sup>5</sup> Central Institute for Economic Management, Hanoi Vietnam, 2004, *Employment-Poverty Linkage and Policies in Vietnam*, ILO.

<sup>6</sup> Ibid.

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poor above, half of the poor households' budget comes from self employment, and another 44 per cent from waged employment. Only 3 per cent comes from property income, and another 4 per cent from transfer income. So the poor all largely work, are the working poor.

This is further reinforced by a large sample study for Vietnam which shows that if one household member becomes unemployed, the probability of the household falling into poverty increases by a third, (CIEM 2003).<sup>7</sup>

So the working poor need more work, and better conditions of work. Unfortunately this critical link of employment, between growth on the one hand and poverty on the other hand, has not been as well utilized as it could have been in the past. And this becomes a salutary policy recommendation for implementation of the CPRGS.

Vietnam's employment elasticities over the last decade and a half have been lower than those of other East Asian countries. The aggregate employment elasticity for the period 1986-92 was 0.39 (CIEM 2004).<sup>8</sup> A comparative estimate for Indonesia over the decade of the 80s for example is 0.8. Further, even this employment elasticity for Vietnam dropped down over the period 1992-97 to 0.26. Table 12 gives the most recent estimate for the period 1996-2002 to be 0.38. The employment elasticity is particularly low for agriculture at 0.26, much higher for industry at 0.83 and highest for services at 0.93.

Growth in Vietnam has been high at 7 per cent over 1996-2000, despite the crisis, and has risen to 8 per cent by 2004, as observed above in Table 6. Industrial growth has been higher, over 19 per cent during this period. But employment growth has simply not matched it over the period to 2000, as Table 13 shows, ranging between negative and plus 3 per cent. There is some evidence of employment growth picking up after the turn of the decade, but the point of concern is that the longer term pattern of GDP and sectoral growth does not show a strong correlation to employment growth.

Over this period, 1.2 to 1.3 million jobs have been created annually, and a National Employment Guarantee Program has begun working. There has been significant structural change, with the share of industry in GDP expanding from 30 per cent in 1996 to near 41 per cent by 2004; the share of manufacturing alone increasing from 15 per cent to 21 per cent, over 1995 to 2003. But as Table 14 and Figure 2 show there has not been a corresponding proportional increase in employment over this period. The share of agriculture in total employment drops from 71 per cent to 59 per cent. The share of industry in total employment remains virtually constant till 2000, barely moving from 11.4 per cent to 12.1 per cent, and then rising to 17 per cent by 2004. And the share of manufacturing in total employment also barely climbs up from 8 per cent to 10 per cent by 2003.

Table 15 shows that the sectors that have shown increase in their employment shares, but from a low base, are, construction, emerging from nothing to 4 per cent in 2002, and services, rising to 25 per cent over this period.

Table 16 shows that most new jobs have been created in the non state household sector, which by the end of 2004 accounted for 80 per cent of all employment. The development of this sector virtually overnight, between 1996 and 1997, has been enabled by the

<sup>7</sup> Central Institute for Economic Management, Hanoi Vietnam, 2003, Study on Employment-Poverty linkage and Policies in Vietnam, ILO.

<sup>8</sup> Central Institute for Economic Management, Hanoi Vietnam, 2004, Employment-Poverty Linkage and Policies in Vietnam, ILO.

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implementation of the new enterprise law. This has been largely at the expense of two non state sectors, the mixed sector and the collective sector. The mixed sector has gone from 52 per cent of total employment to nothing by 2000. The collective sector has shrunk from 35 per cent of total employment to 2 per cent by 2004. An important point to note is that the foreign invested sector remains very small with only 1 per cent of total employment while accounting for 18 per cent of investment and 14 per cent of the GDP.

Despite these large changes in employment shares within the non state sector, the overall shares of the non state and state sectors remained virtually constant over 1996 to 2004, with the non state sector at 90 per cent of total employment, and the state sector accounting for the remaining 10 per cent.

To take a recent instance is illustrative. In 2002, 1.42 million jobs were created. Of this number of new jobs, 79 per cent were in the private sector and only 15 per cent in the state sector (CIEM 2004).<sup>9</sup> Private investment is reckoned to be diffusing fairly evenly across the provinces. An estimate of 25 out of 61 provinces shows private investment to be just over \$10 per capita in 2000.

## **4.2 The Challenges of Reducing Unemployment and Underemployment and Raising Skill Levels**

### **Unemployment**

The unemployment rate is expected to be low because of the phenomena of the working poor. By the same argument, the underemployment rate is expected to be much higher, with most people working but many having insufficient work. And this indeed is the nature of the employment challenge in Vietnam.

A labour force of 43.2 million in 2004, and an employment level of 42.3 million (Table 14), give a current unemployment rate of 2.1 per cent, (Table 17). This rate of unemployment peaked with the crisis in 1997 at 6 per cent, and since has dropped significantly. But this still gives an unemployment target of 1 million.

Urban unemployment in 2004 was 6 per cent, (Table 18), having peaked with the crisis at 8 per cent in 1998. Female unemployment tended to be a half percent lower than male unemployment until the East Asian crisis, after which it has been on average a half per cent higher.

Regionally urban unemployment is evenly diffused, within a band range of 5 per cent to 6 per cent, (Table 18). It is marginally higher in the South East and the Red River Delta.

Figure 3 shows that urban unemployment is the highest amongst youth in the age group 15 to 24 years. In 2002 youth urban unemployment was 16 per cent, at least 10 per cent higher than for any other age group.

### **Underemployment**

The underemployment challenge is more serious. Underemployment rates rose with Asian crisis to 6.2 per cent in 2000, rising by 5.9 million in 1999, and by another 2.3 million in 2000. Unfortunately the upward trend has persisted, with the rate in 2003 rising

<sup>9</sup> Central Institute for Economic Management, Hanoi Vietnam, 2004, Employment-Poverty Linkage and Policies in Vietnam, ILO.

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to 6.7 per cent (Tables 19 and 21). The rate of underemployment is highest in agriculture at 5 per cent, followed by construction at 2.2 per cent and manufacturing at 1.3 per cent. Table 20 shows that 87 per cent of underemployment is concentrated in agriculture. What is worse is that agricultural underemployment shows an upwards trend in the last half decade, increasing by 10 per cent to its present level. Further, underemployment rates are seen in Table 21 to be twice as high in the Central Highlands and the North and South Central Coasts, areas which were identified as having much higher levels of poverty.

And the SOE sector is also estimated to have a labour surplus of approximately 25 per cent of its labour force.

Together unemployment and underemployment mount an even larger challenge. An unemployment rate of 2.7 per cent plus an underemployment rate of 6.7 per cent, gives an employment deficit for 9 per cent of the labour force, (Table 21). More work has to be generated for 3.7 million people.

## Education and Skills

Education and skills underlie both employment and incomes. Appropriate skills match labour market demand better and increase employment. And increasing education and training raises productivity, value added, competitiveness and incomes. Therefore if there is one policy that comes close to approximating a magic bullet for raising employment and incomes and reducing poverty in the long run, it is education and training.

Here Vietnam's record is challenged. Figure 4 gives educational attainments of the labour force. Over the last half decade illiterate workers have dropped from 6 per cent to 4 per cent. Incomplete primary school leavers have dropped from 21 per cent to 16 per cent. But finished primary school leavers have only increased from 28 per cent to 32 per cent. Finished lower secondary school leavers have actually dropped from 32 per cent to 30 per cent. While finished upper secondary school leavers have increased from 14 per cent to 18 per cent.

Table 22 gives the skill levels of the labour force. In 2004, 82 per cent of the workers were still unskilled, down just 6 per cent over the last decade. Skilled workers with certification and with vocational college training have remained almost constant in their proportions over this period, in the range of 3 per cent to 4 per cent. The increase in skill levels has come for semi-skilled and skilled workers without certification, their share rising from 4 per cent to 10 per cent over the last decade. Tertiary education too shows an increase from 2 per cent to 4 per cent of the work force over the decade.

Female unskilled labour was higher than the average at 87 per cent in 2000, (Table 22b). The sector with the lowest skill levels was agriculture, with 97 per cent unskilled labour, followed by services with 62 per cent and industry with 53 per cent, (Table 22c).

Skill levels also explain unemployment and underemployment to a great extent. Figure 5 shows that in 2002, 80 per cent of the urban unemployed were unskilled. While Table 19 shows that 87 per cent of the underemployed were unskilled.

## Policy

Vietnam's employment policy per se has been based in urban areas on the Enterprise Law promulgated in 2000, private sector development, and on improving the investment environment. This policy is credited with creating 2 million jobs. In rural areas employment generation has focused on both farm and non farm employment opportunities. Agrarian reform over the 90s has increased agricultural productivity and incomes. This has been coupled with increasing market access, information, credit, and physical infrastructure.



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But the pattern of growth in Vietnam over the last decade indicates a low employment intensity. High growth in industry and manufacturing, and resulting sectoral change has not generated commensurate levels of employment. If poverty reduction is mediated critically through employment generation, then the target of 1 million unemployed plus another 2.7 million underemployed, 80 per cent of whom are unskilled, poses the biggest challenge for the implementation of the CPRGS.

So employment for poverty reduction will have to be based on sectoral policy which follows in next section.

## **5. Sectoral Policy to Generate Employment and Incomes**

Employment and incomes have to be generated at the sectoral level to reduce poverty. Three sectors are critical for this. The first sector to be addressed is agriculture because much of the poverty is concentrated there, and its employment elasticities have become very low. The second sector is the export sector, which has demonstrated good growth and offers great potential to become a leading sector. The third sector is the SOE, whose reform has to be very prudent because it can affect large scale employment and incomes, especially in the urban areas putting serious pressures on poverty levels. But at the same time this SOE sector also offers considerable potential to transform into a more productive and competitive sector providing significant levels of employment and income.

### **5.1 Agriculture**

Poverty is concentrated in agriculture. The incidence of rural poverty has been observed to be 36 per cent, compared to 7 per cent for the urban areas, in 2002, (Table 3). 59 per cent of the population in agriculture fell under the poverty line, compared to 17 per cent in industry and 19 per cent in services, (Table 4b). So virtually two thirds of the agricultural sector is mired in poverty. 84 per cent of the total poor were in agriculture. About 22 per cent of the poverty was in the Northern Uplands, another 20 per cent in the North Central Coast, and 10 per cent in the Central Highlands.

The sector has accumulated this disproportionate, virtually predominant share in poverty because it has not done well in the past decade – it has not shared in the growth in output, employment, and incomes of the rest of the economy. 59 per cent of the population was still in agriculture by 2002, (Table 4b), but it produced only 23 per cent of the GDP, (Table 7). Over 1991-95, total GDP growth was very high at 8 per cent per annum, but with industry leading this growth at 12 per cent, and agriculture lagging very badly at 4 per cent, (Table 6). Over 1996-2000, total GDP growth was 7 per cent per annum, with industry growing at 11 per cent, and agriculture still stuck at 4 per cent. Over 2001 to 2004, agriculture's growth has fallen into a lower band range of 3 per cent to 4 per cent. In the last half decades total GDP growth of 7 per cent per annum, industry contributed some 3.5 per cent of this growth, services another 2.5 per cent, while agriculture contributed only 1 per cent towards this growth.

Weak output growth in agriculture has been accompanied by weaker employment growth. The sector still employed 58 per cent of the labour force by 2004, more than three times that in industry, (Table 14). But its employment elasticity with respect to growth of output is the lowest at 0.26, (Table 12). Compared to this the employment elasticity for industry was 0.83 and for services 0.93. Employment growth in agriculture has therefore been very weak, ranging in the last half decade between negative and 5 per cent, while manufacturing has had an upper range in double digits, (Table 13a). This poor growth of output and employment should be indicative of a vast amount of surplus labour in agriculture.

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Unemployment rates in agriculture cannot be really indicative of this surplus labour, but the underemployment rate is very revealing. In the last half decade underemployment in the sector has ranged between 3 per cent and 9 per cent, much higher than in any other sector, (Table 19). Rural underemployment is 8 per cent, double the urban underemployment rate, (Table 21). Even more significantly, 86 per cent of total underemployment was concentrated in agriculture, (Table 20).

The weak growth in output and employment translates into a weak income level for agriculture. Table 23 shows that the farm sector had 53 per cent of total employment but only 34 per cent of the total income. Compared to this, non farm self employment was 19 per cent of the total, but earned 27 per cent of the total income. This accounts for the concentration of poverty in agriculture.

Several constraints underlie the low growth in output, employment and incomes in the agricultural sector - the product mix, domestic Terms of Trade, exports, and property rights. And all these constraints appear to be interlinked.

One, growth in agriculture over the 90s has been weak, but has been based on some intensification of cropping and diversification in the cropping pattern from low to higher value added products. This has been allowed by a significant increase in investment in irrigation, averaging at about 12 per cent per annum (CIEM 2004).<sup>10</sup> Arable irrigated area thus rose to 70 per cent of total farm area by 2002. As a result total cropped area increased by one third over the decade to 1.3 million hectares, (Table 24). But cereals account for three quarters of the cropped area, while industrial crops still account for only a quarter.

But while incomes from cereal are estimated to have risen over the 90s, by some 20 per cent (CIEM 2004),<sup>11</sup> incomes from industrial crops and products like livestock and aquaculture have risen by much more. Over this period, livestock and aquaculture incomes rose by 55 per cent, fruits by 112 per cent, and perennial industrial crops by 127 per cent, leading total agricultural incomes to rise by 61 per cent. Therefore clearly the move towards higher value added, through industrial crops and products, is a demonstrated strategy and needs to be intensified. But this is linked to domestic Terms of Trade.

The second constraint on expanding growth of output, employment, and incomes in agriculture is the policy on domestic Terms of Trade. The current product mix of three quarters cereals and one quarter industrial products would work better if domestic Terms of Trade were not continuously pushed against cereals and food. It was noted above that recovery from the Asian crisis was dampened by a domestic Terms of Trade crisis caused by weakening agriculture's Terms of Trade with respect to industry. This was observed to be corrected subsequently, but the problem looms again in this decade. Figures 6 and 7 plot the price of food against industrial products and services. And they show a repeated tendency to lower food prices compared to the prices of industrial products and services. This lowers returns to the majority of producers cropping three quarters of the total area with cereals. It is also a risky strategy because it puts all the eggs in the export basket which can have high payoffs, but is volatile.

This is the third constraint on expanding growth of output, employment, and incomes in agriculture, that of exports. Table 25 shows that the major industrial crops, which are largely exported, are coffee and rubber, with some tea and coconut. Coffee and rubber account for two thirds of the perennial industrial crops. Coffee area has grown by a

<sup>10</sup> Central Institute for Economic management, Hanoi Vietnam, 2004, Employment-Poverty Linkage and Policies in Vietnam, ILO.

<sup>11</sup> Ibid.

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multiple of five over the 90s, while the rubber area has doubled. Taking the case of coffee, this increase in cropped area has been in response to the high prices for coffee prevalent globally in the late 90s. Coffee prices in 1998 were averaging \$1556 per ton. This fuelled investment in coffee in the Central Highlands region, increasing cropped area and employment. Labour was attracted to the region from the North East, the North West, and the North Central regions. This reflected in the high employment elasticity seen for the Central Highland region in Table 12. But then global coffee prices collapsed, falling to average \$448 per ton in 2002. This has led to a resurgence of poverty, and its persistence at the high levels in the mountain regions seen in Table 2. Therefore while product diversification towards industrial export crops has been demonstrated to work, and needs to be encouraged, there should not be exclusive reliance on this given the observed volatility in global prices. A more balanced strategy of intensification of both cereals and industrial exports is called for, with more supportive domestic Terms of Trade for cereals.

The fourth constraint on intensification of growth in agriculture is institutional. Private investment in agriculture requires both price incentives alluded to above, and security of investment. Most of the farms in Vietnam fall below 5 hectares (CIEM 2004).<sup>12</sup> The small farm sizes implied that they were operated to a relatively high degree compared to say South Asia, by family labour. The ratio of family to hired labour appears to be approximately a half (CIEM 2004).<sup>13</sup> Further it was also noted above in Table 22c, that 97 per cent of farm labour was unskilled. These conditions trap agriculture into a low investment strategy. Small farm sizes, using family labour, with low capital and a low skill base, produce low levels of output. Intensification implies intensification of cropping on existing farms sizes, and on expanded farm sizes, by buying or renting in more land, increasing capital investment, and hiring in more labour. Such intensification of production requires greater security of the increased investment level, especially in property rights in land. There is now a growing realization that property rights in land need to be defined and enacted better, to allow such intensification of output, employment and incomes in agriculture where the problem of poverty is strongly rooted.

## 5.2 Exports

There is a tendency to see the export sector as a panacea for growth of output, employment and incomes, and thereby responsible for major gains in poverty reduction. As the report of the World Commission on the Social Dimension of Globalization (WCSDG) on A Fair Globalization shows, seizing and realizing on the opportunities afforded by globalization can be quite difficult. In Vietnam, the export sector offers great potential, but the gains so far, and the possible strategy needs to be tempered with more realism.

The Government of Vietnam has based its export promotion strategy so far on two policies (CIEM 2004).<sup>14</sup> One, the bias of import tariffs has been reduced. Two, the business requirements for exports have been reduced. There have been short term losses, and significant longer term gains. But the impact on employment has been limited. And the future export strategy is still limited by the rate of structural transformation of the economy.

<sup>12</sup> Central Institute for Economic Management, Hanoi Vietnam, 2004, Employment-Poverty Linkage and Policies in Vietnam, ILO.

<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

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Trade liberalization has been based on reducing protective tariffs on imports. This has had a negative impact on some production sectors in the short run (CIEM 2004).<sup>15</sup> For instance as protection on sugar went down, sugar imports increased and the domestic price of sugar fell. Then sugar producers' incomes and consumption also declined.

However in the long run, exports increased in textiles, garments and footwear, and rice. There was a major take off in exports in the second half of the 90s. Exports in 1996-2000 grew at 22 per cent per annum, compared to a 7 per cent average growth rate over 1990-95. Table 26 shows that in 1996, exports were still under 30 per cent of GDP, while by 2003 they accounted for 60 per cent of GDP. Imports over this period rose from 45 per cent to 68 per cent. Total trade rose from three quarters of GDP to over 128 per cent.

While achieving this export strategy based on labour intensive industries like textiles, garments, and footwear, has been no mean feat, it is the traditional formula seen in South and South East Asia. What is even more interesting are the gains made in rice. In 1989 Vietnam was a net importer of rice. By 2002 it has become the second largest exporter of rice in the world. This increased competitiveness has been achieved by replacing quotas with tariffs, and reducing these tariffs over time.

But this export growth has not been proportionate in its impact on employment. If exports have grown by 21 per cent per annum over the last half decade, employment growth in these export sectors is estimated to be much lower at 5.6 per cent (CIEM 2004).<sup>16</sup>

Further, the future export strategy seems constrained by the rate of transformation of the economy. Table 27 shows that in 2002, manufactured exports with relatively higher value added were still 50 per cent of the total exports. Resource based exports therefore still accounted for a half of total exports. And the rate of transformation of exports from resource to manufacturing based exports, over the last 8 years, while creditable, is still slow at 20 per cent.

Reliance on exports as a leading strategy for growth of course makes the economy vulnerable to global impact. The Asian crisis as seen above reduced export growth down to 1 per cent per annum. High reliance on resource based exports makes the sector and the economy vulnerable to the volatility in their global prices. As seen above high coffee prices led to an influx of labour and increase in employment and incomes in the mountain regions, but the price crash equally reduced employment and incomes in the region. This has meant that these mountain regions concentrating on coffee exports have continued to have lower Gross Regional Products compared to the country average, despite the booms, as Table 28 shows. The North West Mountain, the North East Mountain and the Central Highlands had lower Gross Regional Products than the country average in 1995, ranging from a half to two thirds of the average, and these differentials have persisted by 2000.

### **5.3 The SOE Sector**

The state is still responsible for generating a significant level of employment and income. Reform of the SOE sector is a must to make it more competitive, to free up more resources for private investment, and thereby make for better resource allocation. Yet, precisely because of the level of employment dependent on the SOE sector, reform has to be cautious and considered. The ILO has contributed policy advice to MOLISA on SOE and

<sup>15</sup> Central Institute for Economic Management, Hanoi Vietnam, 2004, *Employment-Poverty Linkage and Policies in Vietnam*, ILO.

<sup>16</sup> Ibid.

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wage reform earlier in 2000 through a detailed analysis of published and survey data on the state sector (ILO 2000).<sup>17</sup> Here a limited number of points need to be made.

The state still accounts for 38 per cent of the GDP, (Table 8). In the non state sector, the next highest contribution is by household production and services of 31 per cent, followed by the foreign invested sector with 14 per cent, and the collective sector at 8 per cent. However a better quick cost benefit analysis is afforded by looking at sectoral investment and the employment generated. Table 11 shows that the SOE sector's annual investment averages in the band range of 9 per cent to 11 per cent of total investment, over the last half decade. To establish a relative perspective, compared to this the foreign invested sector's annual investment averaged in the band range of 18 per cent to 22 per cent over this period, double that in the SOE sector. This annual investment share of approximately 10 per cent of total investment, of the SOE sector generated on average 5 per cent of the total employment share, over the last half decade. Compared to this, the foreign invested sector generated on average under 1 per cent of the total employment share over the last half decade. Clearly the SOE sector has much lower productivity compared to say the foreign invested sector, but a much higher employment elasticity. Therefore while reform of the SOE sector is clearly called for, it has to be cautious and prudent, so as not to jeopardize the employment and incomes dependent on the sector.

A stronger argument for reform of the SOE sector is added by looking at the generation of new employment. In 2002 an estimated 1.42 million new jobs were created. Of these new jobs, the state sector only accounted for 15 per cent, while the private sector accounted for 79 per cent (CIEM 2004).<sup>18</sup> Of course most of these new jobs in the private sector have been generated by the implementation of the New Enterprise Law, as noted above. So the SOE sector as an engine of employment growth is now constrained.

SOE reform in Vietnam will be bedevilled with a number of complexities. Only 40 per cent of the SOEs are estimated to be profitable (CIEM 2004).<sup>19</sup> So the attrition rate can be made quite high. But another estimate shows that 60 per cent of the loss making SOEs can be rescued. So reform can be cautious rather than radical. And reform will need to be cautious because 25 per cent of SOE employment is estimated to be surplus. Therefore a one off radical reform of SOEs would lower employment and incomes, significantly affecting poverty.

SOE reform will also have to be cautious on financial grounds. There is reckoned to be a complex nexus between SOEs and their credit institutions the State Owned Corporate Banks (SOCBs). The SOCBs have a very large loan portfolio and hence exposure to SOEs (CIEM 2004).<sup>20</sup> Closing a large number of the greater loss making SOEs would foreclose their loans and deny repayment to the SOCBs. This would risk a financial crisis for the SOCBs, threatening loans to other SOEs, even profit making ones. Such financial contagion could threaten all SOEs and the employment and incomes they generate.

In summary, while sectoral policy to generate growth, employment and incomes and reduce poverty will have to be comprehensive, embracing each sector, but the ILO believes

<sup>17</sup> Mahmood, M. 2000, The Role of the Wage in Vietnam's Macroeconomy, Regional office for Asia and the Pacific, ILO.

<sup>18</sup> Central Institute for Economic Management, Hanoi Vietnam, 2004, Employment-Poverty Linkage and Policies in Vietnam, ILO.

<sup>19</sup> Ibid.

<sup>20</sup> Ibid.

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it should also be strategic, coming to focus on specific sectors. The agricultural sector has to be the main point of focus for policy, because of the preponderance of poverty in the sector, its weak growth and employment elasticities, and its considerable potential to increase value added. The policies recommended are a move towards a higher value added product mix, with a greater share for industrial products. Increasing the export share of industrial products is attractive because of high returns, but a balance is recommended because of the observed volatility of global prices for such products that Vietnam exports like coffee. The price incentives for agriculture have to be more sustained to attract investment for much needed technical change in the sector. And property laws in land have to be better defined and enacted to provide a more secure investment environment.

Employment policy focus is needed on exports, but tempered with realism. Export gains in textiles, apparel, foot wear and rice have been significant. But the economy has also increased its vulnerability to global downturns such as the Asian crisis, and the crash in coffee prices. The move up the value added ladder to reduce such risks is much desired, but will be slow given the observed rate of transformation of exports from natural resources to higher value added manufacturing.

Employment policy focus on SOE reform is very important, because of the significant level of employment and incomes generated in that sector. Its low productivity, and decline as an engine of growth and employment make reform essential. But precisely because of the significance of employment in the SOE sector, its reform has to be cautious, choosing between the two extremes of closing all the 40 per cent of the loss making units, and rescuing all the 60 per cent of the rescuable loss makers.

## **6. Conditions of Work**

The argument about the working poor runs - that if the poor largely work, then they are poor because of their work. The poor need more work, and they need better conditions of work. The poor need more decent work. The need for work has been examined above. The need for better conditions of work now needs to be examined.

The model of the working poor, its implication of poverty being caused by weak conditions of work, and the need to ameliorate these conditions of work in order to lower poverty, is very well supported in Vietnam. A number of weaknesses in the conditions of work can be highlighted, especially in social protection, wages and incomes, and rights.

### **6.1 Social security and the CPRGS**

Vietnam's Comprehensive Poverty and Growth Strategy outlines the country's strategy towards sustainable economic growth and poverty alleviation as agreed upon by the government, international agencies, the donor community, and NGO's. The CPRGS can be understood as a comprehensive strategy towards the achievement of the Vietnam Development Goals (VDGs), the localized version of the Millennium Development Goals as identified by the Poverty Task Force in 2001 and outlined in the CPRGS. The CPRGS is built upon existing national sectoral development strategies such as the National Socio-Economic Development Strategy, the Hunger Eradication Program (HEPR), and the Strategy for People's HealthCare and Protection.

The development of social insurance is part of the government of Vietnam's reform programme accompanying the transition from a centrally planned to a market economy. For several years, the ILO has been supporting the Ministry of Labour, Invalids, and Social Affairs in its efforts to improve social protection in Vietnam and to establish a financially sustainable social insurance scheme. Technical assistance was notably provided through

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the project Social Protection Training and Development during the period 1994 to 1999. The main focus of the project was the development of the legal framework for social insurance and the building of human and institutional capacity for improved management of the Vietnamese Social Insurance Scheme. The latter was achieved mainly through extensive training of staff and the development of an adequate computer system. In 2001 and 2002, the ILO provided policy recommendations on the draft Social Security Act, which is still under discussion.

The following considerations aim at identifying the linkages between Vietnam's Comprehensive Poverty Reduction and Growth Strategy, the Millennium Development Goals, and the development of social security in Vietnam. The objective is to highlight how the government's social security development policy and strategies (and ILO's technical assistance thereon) relate to the strategies proposed in the CPRGS.

The main elements of the government's current policy agenda in terms of social security development are to extend social security coverage to yet uncovered groups of the population through voluntary coverage, to improve access to primary health care, and to introduce unemployment insurance. The ILO supports these efforts, in particular those to extend the coverage of social security, including health care, to the uncovered groups of the population.

### Extension of coverage

The government of Vietnam plans to extend social security coverage by extending voluntary membership of so far uncovered groups of the population such as the informal economy and self-employed workers. This policy is explicitly outlined in the CPRGS. By gaining access to social security benefits, those who can afford and choose to acquire social security coverage will reduce their risk of income shortfalls due to sickness, maternity, invalidity, death of the breadwinner, and old age. The extension of social security coverage will contribute to reducing the vulnerabilities of certain target groups of the population; it is thus a consistent strategy aiming at the CPRGS objective of reducing vulnerability.

### Health care

The government's plans to extend health insurance coverage are outlined in its Strategy for People's Health Care and Protection 2001-10. The strategy aims at the extension of health insurance coverage and improved access to health care services through different measures such as free health care services for the poor, strengthened preventive care and health promotion, family coverage, and the development of community health care services. The strategy to extend the coverage of health care and improve the quality of health care services is an integral part of the CPRGS. It aims at improving the public health status, reduce morbidity and child mortality, and increase the life-expectancy and productivity of the population of Vietnam. By reducing the vulnerability of the poor, the extension of health care coverage contributes also to the achievement of the Vietnam Development Goals.

### Introduction of Unemployment Insurance

The introduction of unemployment insurance as planned by the government of Vietnam is a sound strategy to enhance income security of workers and is in line with the policies supported by the ILO. These efforts also contribute to the objective of minimizing the social and economic impacts of retrenchments due to economic disturbances and structural adjustments, an objective outlined in the CPRGS. The provision of vocational training and re-training benefits as foreseen by the planned unemployment insurance scheme as outlined in the draft social security bill, aims at enhancing income security over the long term, and at creating new opportunities for unemployed workers. Through the re-training

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of unemployed workers, the planned unemployment insurance scheme will lead to increased labour mobility, thus contributing to economic growth.

## Gender considerations

It can be shown that social security provided through a statutory scheme based on risk pooling contributes positively to gender equity, notably through maternity protection. The provision of maternity benefits by a social security fund protects female workers, from employment discrimination by employers who often favour men because of the potential costs associated with pregnancy of female employees. Maternity protection through social insurance also ensures that the financial burden of child bearing to society is divided equally between men and women. The provision of maternity benefits through social insurance is thus a sound policy towards the overarching objective of gender equality.

The planned increase of the normal retirement age from 55 to 60 for female workers in certain professions as foreseen in the planned reforms is a first step on the way to the recommended harmonization of retirement ages of men and women. An equal retirement age for men and women helps to ensure that female workers have the same right to gainful employment as men and the same opportunities to accumulate pension rights during employment. The planned partial harmonization of the normal retirement age between women and men is thus a further step on the way to achieve gender equity between women and men, as pursued by the CPRGS.

The considerations outlined above suggest that there are many ways in which the development of social security as pursued by the government of Vietnam and supported by the ILO contributes to the government's overall poverty reduction and economic growth strategy outlined in the CPRGS.

## 6.2 Wages, Incomes and Contracts

There is some evidence of wages and contractual conditions being weak, and policy must address this.

- (i) A large sample study for the country finds that hours worked are not well correlated to household income (CIEM 2003).<sup>21</sup> And in fact earned income is a better correlate to household income. This implies a weakness in the wage, a critical element of conditions of work. Another study for Vietnam attempts to explain shooting stars – households that manage to jump up two income quintiles, and sinking stones – households that drop down two income quintiles. The study finds that these shooting stars and sinking stones are better explained by income earned per hour rather than by hours worked or remittance incomes. Again weak wages are implicated.
- (ii) Much of the recovery from the crisis in Vietnam as in the Republic of Korea is attributed to the generation of more insecure jobs. In Vietnam, only a half of the new jobs created are estimated to be long term contracts, while the other half are reckoned to be temporary work (World Bank).

<sup>21</sup> Central Institute for Economic Management, Hanoi Vietnam, 2003, Study on Employment-Poverty Linkage and Policies in Vietnam, ILO.



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- (iii) The average private sector wage is estimated to be approximately 50 per cent higher than the informal sector wage. However this private sector wage is still somewhat lower than the public sector wage in SOEs (CIEM 2004).<sup>22</sup>
  - (iv) There has been a strong deflationary impact on incomes in Vietnam at the turn of the decade as noted above. This has had both endogenous and exogenous determinants. As observed, more than half the employed population earns its income from agricultural production. And they earn only a third of the total income. Compared to them 19 per cent are in non farm self employment, earning 27 per cent of the income. And 28 per cent are in waged employment – farm and non farm, earning 39 per cent of the income. So agricultural producers are the poorest earners, with their income share far lower than their employment share. In 2001 and 2002 food prices have plunged below parity compared to non food prices. In order to protect agricultural producers the state stepped in to raise food prices and tilt the terms of trade in favour of rural areas where poverty is concentrated. Implementation of the CPRGS requires closer examination of the impact of internal terms of trade on rural poverty, and avoidance of the deflationary phenomena of 2001-02.

There has also recently been a strong deflationary impact of world coffee prices on Vietnamese producers. Coffee is a major Vietnamese export, with a large number of small producers' incomes dependent on its world price.

Safeguards against such an exogenous impact on poverty require an examination of dependence on export versus domestic markets, and a judicious policy mix of the two which reduces producers' risks.

### **6.3 Deficits in Rights**

A basic weakness in conditions of work stems from deficits in rights. The need for rights is both intrinsic, and can constrain opportunity. For the ILO, a fundamental right and a fundamental constraint on opportunity is posed by forced labour. Elimination of forced labour is also necessary for Vietnam's transition to a market economy, whose labour market is driven completely by free choice and incentive rather than by command driven allocation of people's work.

The Government of Vietnam's revision of the Labour Code in 2002 has led to interest in legislation on obligation to perform work of public utility (WPU). MOLISA has expressed interest in ratification of Conventions on Forced Labour, principally Conventions 29 and 105. Identification and elimination of forced labour are seen to contribute to strengthening the rule of law in Vietnam, and very importantly facilitate the WTO accession negotiations. To this end, a Tripartite Interministerial Task Force (TITAF) has been set up to examine the scope and extent of forced labour in Vietnam. TITAF is aided by the ILO, and is to submit a report with recommendations for legislative change and ratification by the National Assembly by October 2005.

TITAF is conducting surveys of forced labour in six areas, detainees, trafficking, child prostitution, compulsory labour by professional graduates, in the military, and forced labour through administrative probation which is akin to re-education through labour. The report on prison labour did not report any evidence of systematic forced labour. The trafficking report focused on border provinces where women can be attracted to a

<sup>22</sup> Central Institute for Economic Management, Hanoi Vietnam, 2004, Employment-Poverty Linkage and Policies in Vietnam, ILO.

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neighbouring country with the prospect of employment and then forced into marriages and exploitative labour over several years before they can escape back to Vietnam. The report on child prostitution in Ho Chi Minh City found juveniles under 18 years of age in rehabilitation centers compelled to work on products with export value. The professional graduates report examined Northern areas of the country where people's committees enrol college goers for community health and education services in remote areas unable to attract professionals, for up to five years. The reports of the surveys on forced in the military and through administrative probation are pending.

TITAF's survey work on forced labour in these areas, has led to examination of a number of legal ordinances with implications for forced labour. Discussion has focused on the Criminal Code's (2000) implications for exaction of forced labour through penalties, regulations under which reformatory schools assign students to labour, and the scope of Military Ordinances to mobilize people for socio-economic development at the grass roots level. The discussion hinges very much on the purposes for which this labour can be used, and the conditions of enforcement. In addition MOLISA has requested the ILO for examples of good and practices of countries that have ratified Conventions 29 and 105, which is being formulated into a project funded by the DECLARATION department. Ratification of Convention 29 is anticipated at the end of this process, while ratification of Convention 105 may take longer.

MOLISA also feels able to proceed with the ratification of Convention 144, the Tripartite Convention on International Labour Standards. This ratification has been enabled by the adoption of the 2004 Decree on the Implementation of the Labour Code regarding consultation of the Trade Union Vietnam General Confederation of Labour and Employer representatives with respect to policies, laws and matters related to industrial relations.

Of great relevance to the decent work agenda for poverty reduction outlined here, is the Convention 122 on Employment Policy. MOLISA again has expressed interest in examining the implications of this convention. The ILO is seeking to put the discussion on this convention into the context of an examination of the implications of globalization and WTO accession for labour standards in Vietnam.

## **7. The Fiscal Space for Poverty Reduction**

All these recommended policy proposals, ultimately have to be realized through expenditure, whether they be counter cyclical macro policy, training based employment policy, targeting employment in strategic sectors like agriculture, exports and the SOE sector, extending social protection, supporting the wage, safeguarding rights, or improving contractual change. The expenditure levels required will of course vary between macro economic projects, and legislative and enforcement projects, but will be equally necessary. That is why the PRSPs are regarded as Medium Term Expenditure Frameworks (MTEFs). But ILO's experience has been that all too often, there is only a remote link between the policy commitment and budgetary commitment needed to realize the policy. So Vietnam's decision to merge the CPRGS into its National Development Planning Framework is very foresighted and to be applauded. Having said that, it is then also possible to make a quick assessment to what extent the planned budgets go towards making a significant impact on poverty. In other words, what is the fiscal space afforded by the budgetary framework for poverty reduction.

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## 7.1 The National Socio-Economic Plans

The National Socio Economic Development Plan for 2001-05 is premised on a growth rate of 7.5 per cent (CIEM 2004).<sup>23</sup> The plan expects the industrial labour force share to rise to 21 per cent, the services labour force share to rise to 26 per cent. To meet needs, the plan targets generation of 1.5 million jobs per annum. It plans to increase the skilled labour force by 30 per cent. And it plans to eliminate hunger, reduce poverty by 10 per cent, and reduce child malnutrition down by 22 per cent-25 per cent.

The macro framework to meet these targets is given in Table 29. Budget revenues rise from 20.4 per cent of GDP in 2000 to 21.5 per cent by 2005. Budgetary expenditure increases from 23.8 per cent of GDP in 2000 to 26.1 per cent by 2005. This implies a budgetary deficit rising from 3.4 per cent of GDP in 2000, peaking at 5.7 per cent in 2003, and settling at 4.6 per cent in 2005. Table 30 shows that this implies capping the inflation rate at 5 per cent by 2005.

Table 31 gives the government budget expenditure on target programs for poverty alleviation over 2001-03. The highest allocation is for the Hunger Eradication and Poverty Reduction Program of Dong 5 trillion, followed by education with Dong 2 trillion, and HIV and family planning with over Dong 1 trillion each. Important as these programs are, unfortunately the labour and employment program is among the smallest with barely Dong 0.5 trillion. If work and the conditions of work are arguably the only sustainable route out of poverty, and if poverty is indeed concentrated in agriculture, then generation of rural employment and incomes needed to be prioritized.

It is because employment, and particularly rural employment, has not been prioritized that the results from the first three years of the plan period have been mixed. Table 30 shows that the growth target has not been overly ambitious, with actual growth to 2004 approximating 7 per cent. Table 29 shows that budgetary expenditures have peaked at 27.3 per cent for 2003, revenues at 21.7 per cent, and the deficit at 5.7 per cent. This pattern of budgetary expenditure gives us the results already observed, that the employment generated has been 1.4 million jobs created in 2001, and 1.2 million jobs created in 2002, falling successively short of the projected targets (CIEM 2004).<sup>24</sup> Food poverty by 2002 had fallen to 10.9 per cent, and general poverty had fallen to 28.9 per cent.

Therefore over the first three years of the plan period, there has been some shortfall in meeting targets, based on the allocated budget and priorities.

But for the CPRGS stretching over 2003-05, an incremental spending program is, given in Table 32. The incremental expenditure is 2.2 per cent of GDP for 2003, falling down to 2 per cent by 2005. Table 33 gives the spending priorities for eight selected sectors. This allocation is better in that it coincides more with the ILO policy recommendations made in this report. What needs to be looked at is the investment program which expands capacity, rather than the recurrent program which maintains existing capacity. First sectorally, agriculture has high priority, with a Dong 6 trillion investment program. Second, rural infrastructure again has a Dong 6 trillion investment program. Third, labour and social safety nets have a smaller but still significant investment program of Dong 3 trillion. A much better impact on growth of output, employment and incomes can be expected from these spending priorities.

<sup>23</sup> Central Institute for Economic Management, Hanoi Vietnam, 2004, *Employment-Poverty Linkage and Policies in Vietnam*, ILO.

<sup>24</sup> Ibid.

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However, what must be avoided is the expenditure pattern seen over 1993 to 2002, given in Table 34. Over this decade, per capita expenditure priorities were the reverse of the policy recommendations argued for in this report. Not only was per capita expenditure on the urban population higher than on the rural population, but the gap also increased over time from 1.8 in 1993 to 2.4 in 2002. And again, not only is per capita expenditure on the richest population higher than on the poorest population, but the gap has increased over time, from 1.6 to 2.1.

## **7.2 Policy Choice on the Impact of Investment on Employment**

Investment in poverty reduction has to be based on a mix of policies, in terms of resources – that is reliant on both external and domestic resources, and in terms of ownership – that is reliant on both the private and the public sectors. The track record of external investment in Vietnam is mixed. In the last 15 years near \$40 billion FDI has come into the country. But there has been a low impact on employment and poverty as observed above. Some \$11,000 are needed to create one job, which makes FDI very capital intensive. Further, 95 per cent of the FDI has gone into the Red River Delta and the South East of the country where poverty is already quite low.

Conversely, the track record of domestic investment is quite good. Liberalization and privatization over just the period 2001-02 has created some 54,000 enterprises. These start-ups are estimated to have created some 1.75 million jobs (CIEM 2004).<sup>25</sup> Given the target of a back log of 2 million unemployed, plus new entrants into the labour force, domestic investment through SMEs seems at the moment a far more efficacious policy for generating employment and reducing poverty.

## **8. Dialogue: Inclusion and Voice for Workers, Employers and MOLISA**

This ILO contribution towards the implementation of the CPRGS for Vietnam, and its merger into National Socio Economic Development Plans for 2001-05 and the prospective 2006-10, has been based on a periodic consultation process with the ILO constituents in the country, workers, employers and MOLISA. The ILO has sought both greater inclusion for the constituents in the formal CPRGS consultative process undertaken by the Government of Vietnam, and also sought to ascertain and articulate the constituents views and priorities on poverty reduction, through consultations, a mid term seminar on an ILO draft report presented and discussed in November 2003 in Hanoi, and a final seminar in December 2004 to discuss the full ILO report. The final ILO report incorporates all the comments received.

This process of participating in the CPRGS implementation process through dialogue with the constituents has been both rich and edifying.

As part of support for the social partners in the CPRGS a three-staged approach was adopted.

<sup>25</sup> Central Institute for Economic Management, Hanoi Vietnam, 2004, Employment-Poverty Linkage and Policies in Vietnam, ILO.

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The three stages were:

- (i) Policy Review Papers: The VGCL, VCCI and MOLISA were each commissioned by the ILO to produce a policy review paper. The papers were to outline each organization's priorities within the CPRGS. There were particularly asked to focus on employment policies.
- (ii) Brainstorming Workshops: 2 brainstorming workshops were held - one with the VGCL and one with the VCCI. This was designed to assist in the preparation for the tri-partite seminars by providing each party the opportunity to discuss their own priorities.
- (iii) Tri-partite Consultative Seminars: These seminars were the culmination of the preparatory work. They were designed to build upon both the policy review papers and the brainstorming workshops. In these seminars, both common priorities and issues and divergent ones were identified and practical initiatives discussed. The social partners discussed ideas for action they could take independently and jointly. They also identified what role the ILO office could play to support their initiatives.

Four common priority issues emerged. These were:

- (a) Job creation
- (b) Vocational education and training
- (c) SME development
- (d) Social dialogue
  - At the enterprise level, in locally and foreign-owned enterprises
  - As part of the CPRGS

Additional priorities for the employers included:

- (e) Competitiveness, productivity and the sustainability of employment
- (f) A focus on the private sector for employment generation and poverty reduction

Additional priorities for workers included:

- (g) Workers' rights in the workplace

While the government stressed additionally:

- (h) Incorporating decent work into national programs

This report has accordingly been guided by all these priorities.

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## Appendix

### Summary of Issues Raised in VGCL and VCCI Brainstorming Workshops and Seminars

A wide range of issues was discussed. It was agreed by VCCI and VGCL that there were four shared priority issues for discussion at the Tri-Partite Conference. These are Vocational Education and Training, Job Creation, Small and Medium Enterprises and Social Dialogue.

#### 1. Vocational Education and Training (VET)

Both the VGCL and VCCI workshops identified vocational and education training as a critical issue for poverty reduction. The movement from a command economy to a socialist-orientated market economy has meant that there is a need to develop more effective labour market supply mechanisms. With a reliance on private and foreign investment for growth it is harder to predict skill requirements. Failure to match the skill demands of business could act as a constraint to economic growth. An appropriately trained worker increases the likelihood of gaining employment. Some of the issues discussed included:

##### Skill profile of workforce

- Generally a low skill level amongst workers with most being unskilled;
- An inappropriate skill profile in the workforce resulting in an inability to ensure appropriately skilled labour supply to meet labour demand;
- A perceived shortage of the technical and middle level skills. VET needs to be more closely tailored to employer needs;
- Inadequate training for workers who will work overseas (export labour).
- Inadequate training for those wishing to develop a SME.

##### Planning tools

- Lack of good labour market forecasting tools to identify skill requirements and plan VET services;
- Inadequate information for workers to be able to select training which is likely to lead to employment;
- Inadequate labour market information systems that are able to meaningfully guide policy and program development and its monitoring and evaluation.

##### Involvement of social partners

- A need for greater involvement of the social partners in VET policy development, planning, overseeing implementation and monitoring and evaluation.

##### Increased investment in the number and quality of VET services

- Need for increased investment in VET services;
- Need for improved staffing levels in VET services;
- Inadequate VET infrastructure including the number of training centres, their facilities, technology and equipment;
- Need to improve the professional skills of the VET training and management staff;

- Inadequate curriculum and training methodologies including an over-emphasis on theoretically-based learning as opposed to practical application of skills;
- Need for the development of consistent training outcome standards for VET training programs by skill level and occupation.

#### Access and priority

- Need to increase VET services in the poorer provinces and to develop new models of training delivery (e.g. mobile training centres);
- Need to give priority access to VET services to key target groups such as women, poor people, redundant SOE workers and farmers who have had their land appropriated for industrial zones;
- SOE redundant workers receive a lump sum payment as part of their redundancy packages for retraining. This is not always used for training or if it is, the training is often inappropriate and does not lead to further employment. Retraining for SOE workers should be more closely linked to restructuring requirements.

## **2. Job Creation**

The growth of the Vietnamese labour force together with the redundancies created through economic restructuring has made employment creation a priority. Employment creation is the heart of the CPRGS. A range of measures are directly related to employment creation strategies. These include macro-economic policies, the encouragement of foreign investment, Enterprise Law, support for SMEs, rural development initiatives and infrastructure development projects.

Different levels of employment creation:

- Foreign investment;
- SMEs;
- Household enterprises (including agricultural production and informal economy);
- Export of labour overseas.

There is general agreement that there is a need for more investment in job creation.

Loans funds are used particularly to support SMEs and household enterprises. There was more discussion in relation to these sectors than in relation to the more macro level approaches to employment creation. Some of the issues discussed included:

#### Priority to creating jobs in the poor provinces

- Priority should be given to infrastructure development in rural areas;
- Increase capital available for job creation and target to poor areas;
- Need for employment centres and labour market services in rural areas;
- Need for better product market information and access for SMEs and rural producers;
- Encourage foreign investment in rural areas;
- Provide better market information and access for products from rural areas.

#### Effectiveness of loan system in creating employment

- Need for objective evaluation of the effectiveness of discounted loans systems in creating employment;
- Develop alternative models for job creation including labour intensive infrastructure development job creation programs for poor provinces;

- Alternative model of the Ho Chi Minh City Labour Council Community Employment Program (CEP) which charges market interest rates and uses funds to ensure greater support to borrowers and a growing resource for further lending.

#### Issues of equity in access to loans

- Poor people often do not get loans under the existing schemes;
- Women have more difficulty accessing loans;
- The procedures to get loans act as a barrier to poor people and should be simplified;
- Often poor people need a series of loans which are more flexible rather than just one;
- Poor people could be further supported by further reducing the interest rates charged for loans and changing the cycles for repayment;
- There is a significant unmet demand for loans.

#### Quality of employment and social protection

- Many jobs created are in the light industrial sector and the quality of the jobs is low and insecure;
- Low skilled jobs are created through the loan and SMEs strategy;
- Need to develop social services to support women in work (e.g. childcare and domestic support);
- Need for social development to compliment investment (e.g. housing, childcare, health and education services).

In the VGCL workshop there was significant debate about the use of the discounted interest rates in the loan system. A summary of the advantages and disadvantages argued in the VGCL seminar is in the box below. No conclusion was reached. It was agreed that it would be useful for the ILO to support further research and discussion on this issue.

<b>Advantages</b>	<b>Disadvantages</b>
Poor people should be helped by reducing even further the interest rates	There is not enough money to give every one loans. It is better to charge market interest rates and build up capital in the loan fund so that more people can have access;
	Through charging market interest rates the loan scheme can afford to provide better support and ensure that borrowers are successful in creating jobs
	Because of unmet demand in the discounted loan system, most people only every get one loan. This is not very flexible. If market interest rates are charged there is no restriction on the amount of loans that people can access. This means businesses are more likely to be successful

### **3. SMEs**

The role of SMEs in employment creation is an important plank of the CPRGS. The ILO already has a project with the VCCI on supporting SMEs development. Support and strengthening the SMEs strategy is considered an important part of the social partners' agenda in the CPRGS. This issue was discussed more fully in the VCCI workshop than the VGCL workshop.



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Some issues that arose during the brainstorming session include:

#### Improve Support for SMEs

- Streamline financial and tax policies which apply to SMEs;
- Need to provide better quality training for those wishing to establish SMEs to improve viability;
- Improve the skills of banking staff;
- Unmet demand for loans to establish SMEs;
- Diversify forms of loans;
- Improve support for women wishing to establish SMEs.

#### Target SMEs support to poor

- Support SMEs in rural sector;
- Inadequate access for women to support to establish SMEs;
- Target credit policies for SMEs and micro enterprises.

#### Regulatory Environment

- Strong support for the Enterprise Law;
- Streamline business regulations;
- Need to create a more level playing field.

#### Creating more opportunities

- Distinguish between core state roles and business activities allowing for contracting out (e.g. street cleaning, garbage collection, and water services);
- Create better linkages between large scale enterprises and SMEs as suppliers;
- Improving market information and access for products – especially in rural areas.

#### Quality of jobs in SMEs

- Low skill and low quality of SMEs jobs;
- Lack of adherence to the labour code in SMEs;
- Extend effective social insurance to SMEs.

## **4. Social dialogue**

The growth of the private and foreign investment sectors has changed the dynamic of social dialogue in Vietnam. There is a broad consensus that the Labour Code provides a good legal basis for protection for workers and there is official support for social dialogue practices. At the same time there is concern about the adequacy of implementation and enforcement. This concern was particularly strong in relation to the growing private sector and foreign investment projects.

The role of social dialogue more broadly as part of the implementation of the CPRGS was discussed. There was concern that the social partners and social dialogue more generally was not integrated into many aspects of the CPRGS. Given the central role of the social partners in employment and economic growth it was felt that their role should be more strongly supported in the consultative process associated with the CPRGS and its implementation.

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Some issues which arose during the brainstorming workshops included:

Poor Enforcement of the Labour Code

- Lack of strong monitoring and enforcement of the labour code by the state;
- Workers unaware of labour code and their rights;
- Unequal power differences in the workplace due to high unemployment and fear of losing job. Workers are forced to accept low conditions;
- Unions are often not established within the 6-month period required by the Labour Code.

Poor working conditions and social protection

- Pay inequality for women;
- Slow reform of wages in the public sector contributes to low pay in the private sector. For example wages in foreign direct investment (FDI) projects are often based on state sector rates;
- Option of increasing the minimum wage at joint ventures and FDI projects;
- Extend social insurance, and in particular unemployment and retirement insurance.

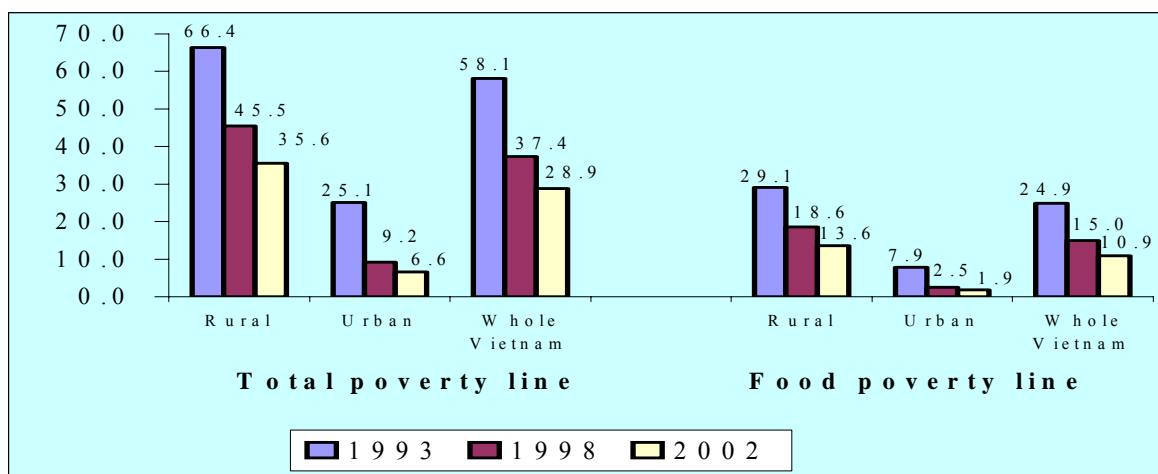
Low Capacity of unions and employers at the enterprise level including in collective bargaining

- Low capacity of employers and unions at the enterprise level;
- Need for the VGCL and VCCI to jointly promote social dialogue, the labour code and collective bargaining;
- Employers often do not want unions in the workplace;
- Need for union leaders to be paid from union dues to increase independence;
- Need for unions to improve recruitment, organization and representation of workers in the private sector;
- Need to improve the skills and capacity of union and employer representatives;
- Need to improve linkages between the enterprise level (union and employers) and the VGCL and VCCI.

Need to improve social dialogue in CPRGS

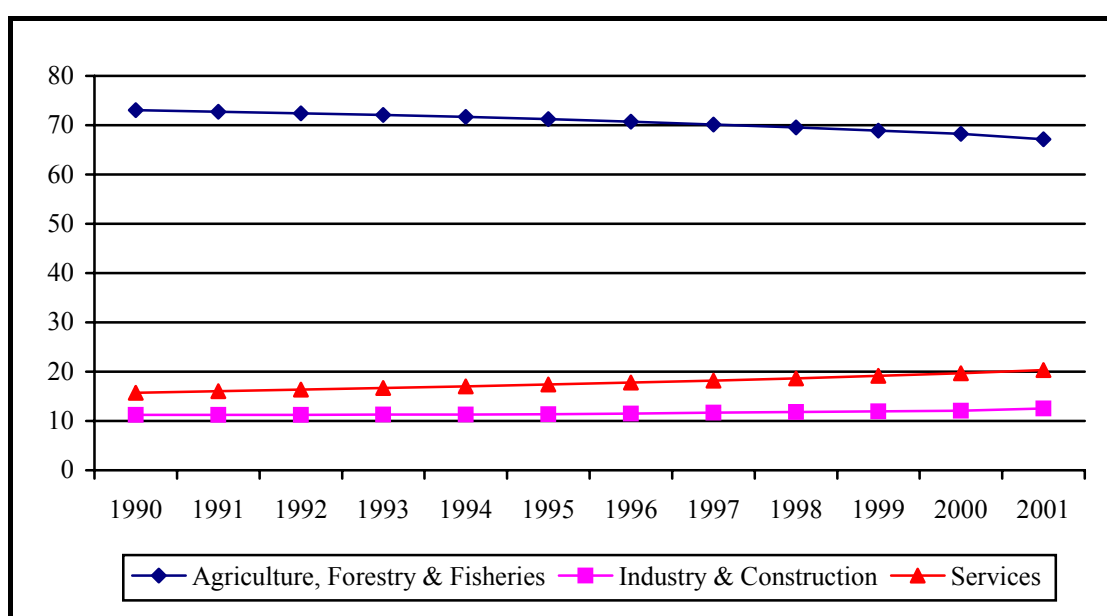
- Recognition of the role of the SP in formulating, implementing and monitoring CPRGS policies;
- Need for the social partners to contribute to the implementation of CPRGS through joint initiatives.

**Figure 1: Incidence of poverty in Vietnam, 1993 and 1998 (percentage)**



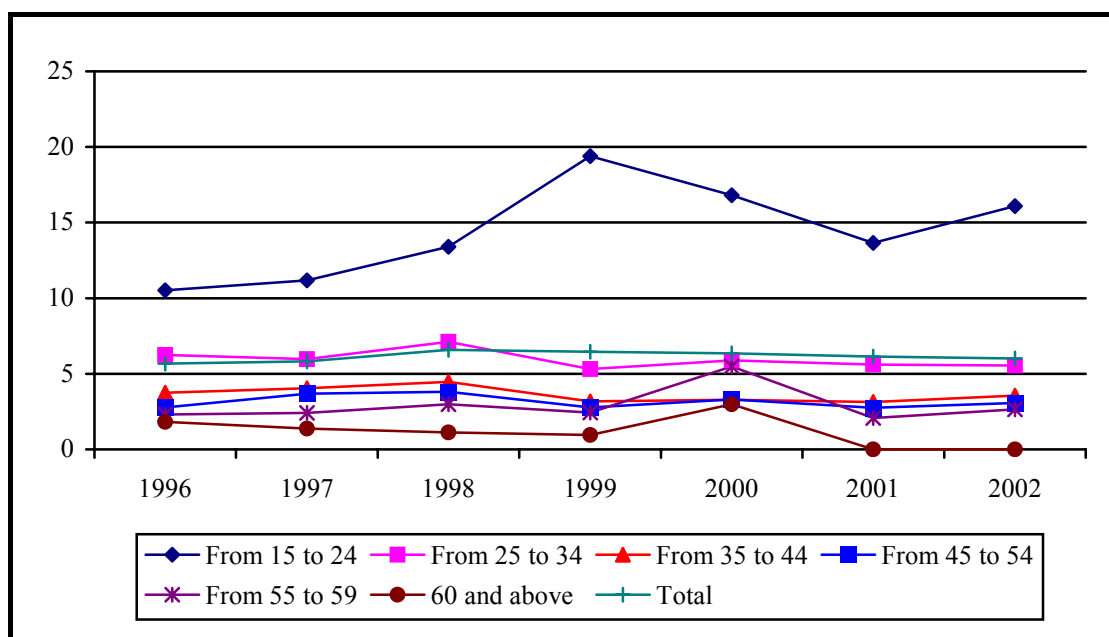
Source: Adapted from Poverty Working Group (1999), GSO (2003).

**Figure 2: Shift in sectoral employment structure, 1990-2001 (%)**



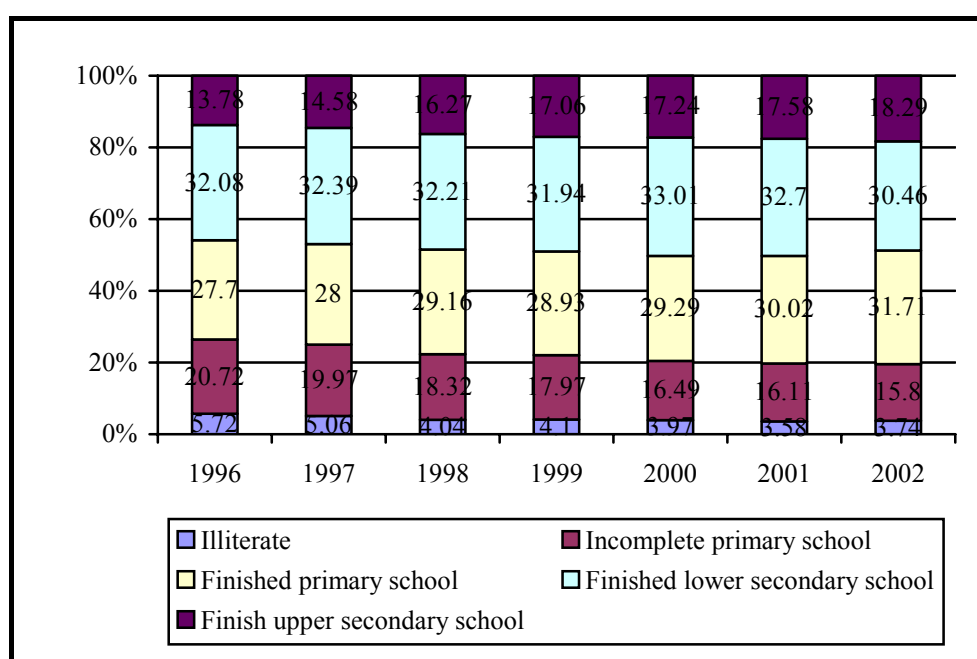
Source: GSO (2003a).

**Figure 3: Urban unemployment rate by age 1996-2002 (%)**



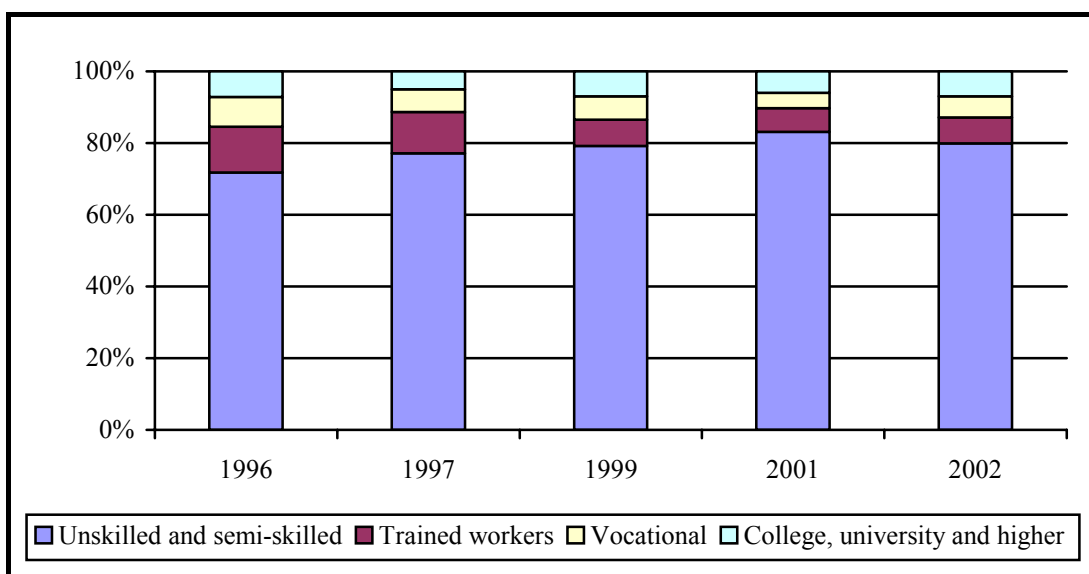
Source: MOLISA (2001a: 729-45, 2002: 468, 2003: 315).

**Figure 4: Education attainment by the labour force, 1996-2002 (% of the total)**



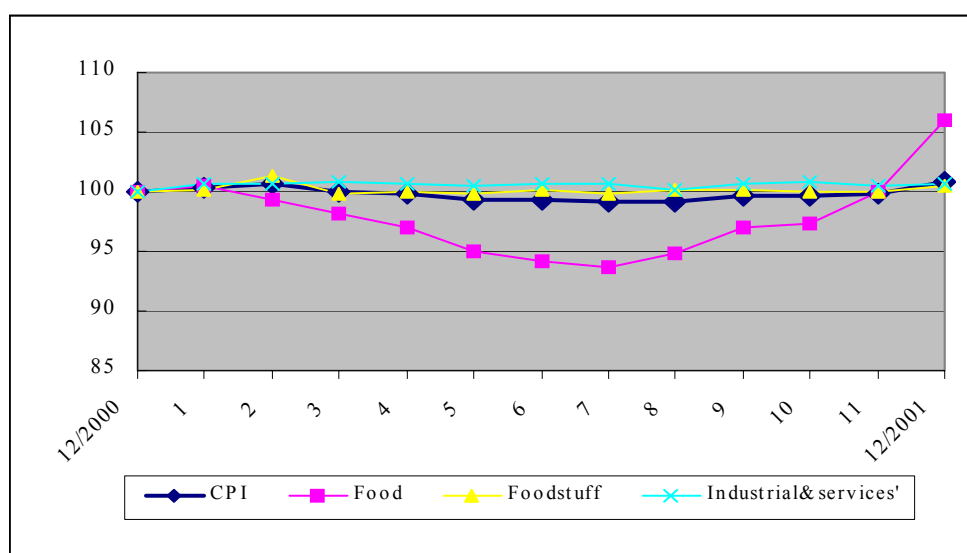
Source: MOLISA (2001a: 180, 2002: 29, 2003: 29).

**Figure 5: Urban unemployment by skills, 1996-2002 (% of total unemployment)**



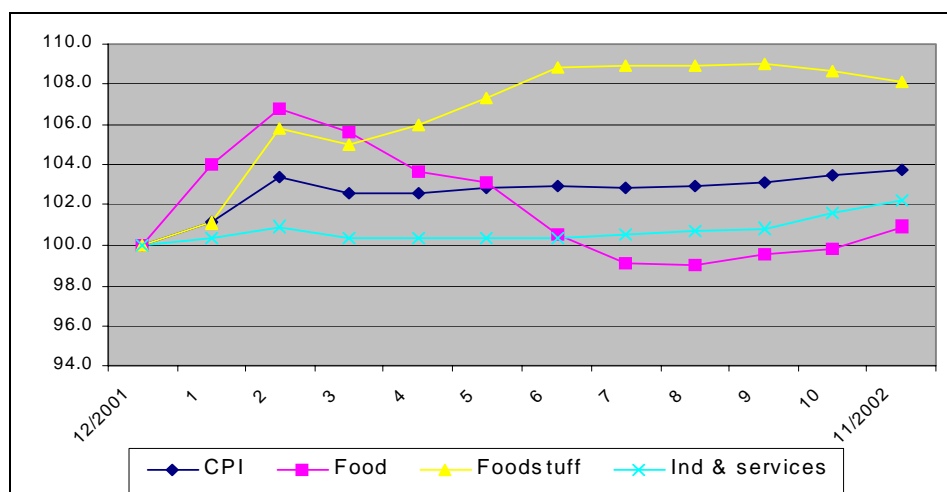
Source: MOLISA (1996: 514, 1997: 533, 1999: 583, 2001: 468, 489, 2002: 137, 327).

**Figure 6: Price movements of major CPI categories in 2001**



Source: GSO and our calculation.

**Figure 7: Price movements of major CPI categories in 2002**



Source: GSO and our calculation.

**Table 1: GDP per Capita Growth for Vietnam**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Value (US\$)</b>															
Nominal GDP per capita	98	119	145	190	228	289	337	364	354	375	402	415	440		
Real GDP per capita in PPP	1046	1086	1158	1228	1313	1414	1521	1619	1695	1741	1996	2070	2196	2332	
<b>Growth (percentage)</b>															
Nominal GDP per capita	3	4	6	6	7	8	7	6	4	3	5	6	6	6	
GDP Growth	5	6	9	8	9	10	9	8	6	5	7	7	7	7	7

Source: GSO (2005), UNDP (2002, 2003), WDI (2005).

**Table 2: Poverty incidence, 1992-2002**

	Food poverty			General poverty		
	1993	1998	2002	1993	1998	2002
<b>Total</b>	24.9	15.0	10.9	58.1	37.4	28.9
<b>Urban/Rural</b>						
Urban	7.9	2.5	1.9	25.1	9.2	6.6
Rural	29.1	18.6	13.6	66.4	45.5	35.6
<b>Ethnicity</b>						
Kinh & Chinese	20.8	10.6	6.5	53.9	31.1	23.1
Others	52.0	41.8	41.5	86.4	75.2	69.3
<b>Gender</b>						
Male	26.0	16.2	12.0	61.0	39.9	31.2
Female	21.0	10.6	6.6	48.3	28.2	19.9
<b>Region</b>						
Red River Delta	24.2	8.5	5.3	62.7	29.3	22.4
Northern Uplands	42.3	32.4	21.1	81.5	64.2	43.9
North Central Coasts	35.5	19.0	17.5	74.5	48.1	43.9
South Central Coasts	22.8	15.9	9.0	42.7	34.5	25.2
Central Highlands	32.0	31.5	29.5	70.0	52.4	51.8
South East	11.7	5.0	3.0	37.0	12.2	10.6
Mekong River Delta	17.7	11.3	6.5	47.1	36.9	23.4

Source: CIEM (2004).

**Table 3: Changes in poverty indexes, 1993-98**

	Poverty gap index			Squared poverty gap index		
	1993	1998	2002	1993	1998	2002
<b>Whole Vietnam</b>	<b>18.5</b>	<b>9.5</b>	<b>6.9</b>	<b>0.079</b>	<b>0.036</b>	<b>0.024</b>
<b>Urban/rural</b>						
Urban	6.4	1.7	1.3	0.024	0.005	0.004
Rural	21.5	11.8	8.7	0.092	0.044	0.030
<b>Ethnicity</b>						
Kinh & Chinese	16.0	7.1	4.7	0.064	0.024	0.014
Others	34.7	24.2	22.8	0.176	0.106	0.096
<b>Gender</b>						
Male	19.4	10.3	7.6	0.083	0.038	0.027
Female	15.3	6.9	4.4	0.064	0.025	0.015
<b>Region</b>						
Red River Delta	18.3	6.2	4.3	0.070	0.021	0.012
Northern Uplands	29.0	18.5	12.3	0.131	0.071	0.046
North Central Coasts	24.7	11.8	10.6	0.105	0.041	0.036
South Central Coasts	17.2	10.2	6.0	0.085	0.045	0.021
Central Highlands	26.3	19.1	16.7	0.140	0.096	0.070
South East	10.1	3.0	2.2	0.040	0.012	0.008
Mekong River Delta	13.8	8.1	4.7	0.056	0.027	0.014

Source: CIEM (2004).

**Table 4a: Contribution of the regions to total poverty, 1993-2002 (%)**

Region	1993		1998		2002	
	Share of poverty	Share of population	Share of poverty	Share of population	Share of poverty	Share of population
Red River Delta	25.5	23.7	17.9	22.9	17.1	21.9
Northern Uplands	18.9	13.5	25.2	14.7	22.2	14.6
North Central Coast	16.4	12.8	17.8	13.8	20.4	13.4
South Central Coast	7.7	9.4	7.8	8.5	7.4	8.5
Central Highlands	3.8	3.2	5.2	3.7	10.4	5.8
South East	9.6	15.1	4.9	15.0	5.3	14.6
Mekong River Delta	18.1	22.4	21.2	21.5	17.2	21.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: CIEM (2004).

**Table 4b: Poverty by main sectoral occupation for people from 15 years old or higher who have job in the past 12 months (%)**

Sector	Poverty Incidence			Share of total poverty			Share of population		
	1993	1998	2002	1993	1998	2002	1993	1998	2002
Agriculture, forestry and fishery	66.1	44.4	38.9	85.7	84.3	84.0	73.9	67.1	58.7
Mining, manufacturing and construction	37.8	20.9	15.3	7.4	8.0	8.5	11.1	12.8	17.0
Services	28.1	12.7	9.9	5.7	6.4	6.4	11.6	15.5	18.6
Others	20.8	9.1	4.9	1.2	1.3	1.1	3.4	4.7	5.7
<b>Total</b>	<b>57.0</b>	<b>34.8</b>	<b>27.6</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: CIEM (2004).



**Table 4c: Educational attainment of the poor (%)**

Maximum education completed	Poverty incidence			Share of total poverty			Share of population		
	1993	1998	2002	1993	1998	2002	1993	1998	2002
Not completed any school	66	48	40	61	63	55	54	48	39
Primary	53	33	28	20	22	26	23	25	27
Lower secondary	53	28	22	13	12	16	15	16	21
Upper secondary	36	14	9	3	2	3	4	5	8
Vocational	35	14	4	2	2	0	4	5	3
College/University	12	1	1	0	0	0	1	1	2
Master and higher	0	0	0	0	0	0	0	0.0	0.1
<b>Total</b>	<b>58</b>	<b>37</b>	<b>29</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: CIEM (2004).

**Table 5a: Other poor household characteristics**

	Male-headed households (%)			Mean age of household head (years)			Mean household size (persons)		
	1993	1998	2002	1993	1998	2002	1993	1998	2002
<b>Whole Vietnam</b>	<b>73.7</b>	<b>73.7</b>	<b>75.7</b>	<b>45.3</b>	<b>47.8</b>	<b>48.0</b>	<b>5.0</b>	<b>4.7</b>	<b>4.4</b>
<b>Urban/rural</b>									
Urban	56.9	58.4	62.3	47.3	49.7	49.3	4.9	4.4	4.3
Rural	77.8	78.5	79.9	44.9	47.2	47.6	5.0	4.8	4.5
<b>Quintile</b>									
Poorest	77.4	82.3	82.8	42.5	43.7	45.5	5.5	5.7	5.1
Near poorest	77.5	77.6	79.9	42.8	46.4	46.9	5.2	5.1	4.7
Middle	78.1	76.0	80.0	45.1	47.9	48.2	5.1	4.7	4.4
Near richest	72.4	72.5	74.2	47.6	49.4	48.9	4.8	4.3	4.2
Richest	64.5	63.4	64.2	48.0	50.2	49.7	4.5	4.1	3.9

Source: CIEM (2004).

**Table 5b: Mean number of under 15-year-old children per household**

Quintile	Whole Vietnam			Urban			Rural		
	1993	1998	2002	1993	1998	2002	1993	1998	2002
Poorest	3.0	2.8	2.4	2.8	2.6	2.4	3.0	2.8	2.4
Near poorest	2.8	2.2	1.8	2.7	2.7	1.8	2.8	2.2	1.8
Middle	2.3	1.7	1.5	2.0	1.6	1.5	2.4	1.8	1.5
Near richest	1.9	1.4	1.2	1.9	1.3	1.3	1.9	1.5	1.2
Richest	1.7	1.2	0.9	1.5	1.1	1.0	1.8	1.3	0.9

Source: CIEM (2004).

**Table 6: GDP growth by sector (%)**

	Average 1991-95	1996	1997	1998	1999	2000	Average 1996- 2000	2001	2002	2003	2004
<b>GDP Growth (% at 1994 price)</b>											
Total GDP	8.2	9.34	8.15	5.76	4.77	6.79	6.96	6.9	7.0	7.2	7.7
Agricultural sector	4.1	4.40	4.33	3.53	5.23	4.64	4.42	3.0	4.1	3.2	3.5
Industrial sector	12.0	14.46	12.62	8.33	7.69	10.07	10.63	10.4	9.4	10.3	10.2
Service sector	8.6	8.80	7.14	5.08	2.25	5.32	5.72	6.1	6.5	6.6	7.5
<b>Contribution to GDP, percentage points (%)</b>											
Total GDP		9.34	8.15	5.76	4.77	6.79	6.96	6.9	7.0	7.2	
Agricultural sector		1.15	1.08	0.85	1.24	1.10	1.09	0.7	0.9	0.7	
Industrial sector		4.33	3.95	2.72	2.57	3.46	3.41	3.7	3.4	3.9	
Service sector		3.85	3.11	2.19	0.97	2.23	2.47	2.5	2.7	2.7	
<b>Share to GDP, percentage</b>											
Total GDP		100.0	100.0	100.0	100.0	100.0	100.00	100.0	100.0	100.0	
Agricultural sector		12.36	13.30	14.79	25.93	16.23	16.52	10.1	12.9	9.7	
Industrial sector		46.36	48.51	47.18	53.82	50.96	49.37	53.6	48.6	53.3	
Service sector		41.28	38.19	38.03	20.25	32.80	34.11	36.2	38.6	37.0	

Source: GSO (various years), Statistical Yearbook, our calculation, CIEM (2004).

**Table 7: Sectoral structure of GDP (% at current price)**

	1991	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>TOTAL</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	40.49	27.18	27.76	25.77	25.78	25.44	24.30	23.2	23.0	21.8	21.0
Industry	23.79	28.76	29.73	32.08	32.49	34.49	36.61	38.1	38.6	40.0	40.6
<i>Manufacturing</i>	13.10	14.99	15.18	16.48	17.15	17.69	18.67	19.63	20.23	20.8	
Services	35.72	44.06	42.51	42.15	41.73	40.07	39.09	38.7	38.4	38.2	38.4

Source: CIEM (2004).

**Table 8: Structure of GDP by ownership (% at current price)**

	1996	1997	1998	1999	2000	2001	2002	2003
State	39.93	40.48	40.00	38.74	38.52	38.40	38.31	38.33
Non state	52.68	50.44	49.97	49.02	48.20	47.04	47.79	47.67
<i>Collective</i>	10.02	8.91	8.90	8.84	8.58	8.06	7.98	
<i>Private</i>	3.35	3.38	3.42	3.37	3.38	3.73	3.93	
<i>Household</i>	35.25	34.32	33.82	32.93	32.31	31.84	31.42	
<i>Mixed</i>	4.05	3.84	3.82	3.89	3.92	4.22	4.45	
Foreign-invested sector	7.39	9.07	10.03	12.24	13.27	13.76	13.90	14.00
<b>Total</b>	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: GSO (various years), and Central Institute for Economic Management (CIEM 2004).

**Table 9: GDP growth by demand side (% at 1994 price)**

	Average 91-95	1996	1997	1998	1999	2000	Average 96-00	2001	2002	2003
<b>Growth</b>										
GDP	8.19	9.34	8.15	5.76	4.77	6.79	6.96	6.89	7.04	7.24
C	5.19	8.92	5.72	4.34	1.79	3.25	4.81	3.42	4.98	4.85
I	21.14	14.23	9.38	12.63	1.20	2.99	9.51	3.29	3.34	4.41
Export	18.22	28.77	11.36	7.79	13.35	15.12	15.28	8.54	4.81	6.8
Import	15.31	25.59	7.14	8.95	5.62	11.45	11.75	9.13	6.72	10.95

Source: GSO, Statistical Yearbook 2001 (2002), our calculation, CIEM (2004).

**Table 10: The shares of domestic savings (DS) and investment in GDP**

	1995	1996	1997	1998	1999	2000	2001	2002	2003
% , at current price									
DS/GDP	18.20	17.21	20.10	21.49	24.57	27.12	28.82	29.23	32.3
Investment/GDP	27.14	28.10	28.30	29.05	27.63	29.61	30.88	33.20	35.9

Source: GSO, Statistical Yearbook 2001 (2002), Internal Report of GSO for 2002, our calculation, CIEM (2004).

**Table 11: Investment structure by ownership (% , at current price)**

	1996	1997	1998	1999	2000	1996-2000	2001	2002	2003
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
State investment	49.08	49.43	55.52	58.67	57.50	54.04	58.10	56.20	56.53
<i>State budget</i>	22.36	21.75	22.45	24.21	23.74	22.90	24.7	21.98	21.60
<i>Loan (including ODA)</i>	9.47	11.72	15.71	18.83	18.53	14.85	17.13	17.36	17.23
<i>SOEs' owned equities</i>	7.24	8.30	9.84	10.19	9.69	9.05	10.40	16.87	17.69
<i>Others</i>	10.00	7.66	7.52	5.44	5.53	7.23	5.85		
Non state	24.94	22.61	23.73	24.05	23.80	23.83	23.55	25.36	26.70
Foreign invested sector	25.97	27.96	20.75	17.28	18.70	22.13	18.35	18.50	16.77

Source: GSO, Statistical Yearbook 2001 (2002), MPI (2003), our calculation, CIEM (2004).

**Table 12: Estimation of employment elasticity**

	Coefficient (elasticity)	t-statistic	R-squared	Durbin-Watson statistics	Sample period
<b>Whole Vietnam</b>	0.383	9.49	0.95	1.20	1996-2002
<i>By sector</i>					
Agriculture	0.260	2.65	0.64	1.78	1997-2002
Industry	0.827	9.95	0.95	1.71	1997-2002
Services	0.932	7.11	0.91	2.04	1997-2002
<i>By region</i>					
Red River Delta	0.417	4.36	0.79	1.87	1997-2002
North East	0.342	9.23	0.96	1.75	1997-2002
North West	0.352	10.69	0.96	1.78	1997-2002
North Central Coast	0.338	5.94	0.88	0.96	1997-2002
South Central Coast	0.361	5.46	0.86	2.15	1997-2002
Central Highlands	0.617	12.24	0.97	1.81	1997-2002
South East	0.618	6.50	0.89	1.09	1997-2002

Source: CIEM (2004).

**Table 13: Annual employment growth by sector (%)**

Sector	1997	1998	1999	2000	2001	2002
1. Agriculture and forestry	-0.94	-5.62	1.65	2.69	2.87	5.16
2. Fisheries	11.46	2.82	6.24	-1.79	46.62	28.58
3. Mining and quarrying	15.32	14.09	20.38	8.29	40.86	1.95
4. Manufacturing	14.00	-2.74	2.68	4.08	11.33	8.80
5. Electricity, gas and water supply	20.59	13.81	3.37	-10.72	33.91	14.20
6. Construction	24.60	-7.60	9.29	12.16	35.33	19.80
7. Wholesale and retail trade; repair of motor vehicles, motor cycles and household goods	6.91	15.12	0.30	-1.89	-0.84	12.44
8. Hotels and restaurants	38.18	4.88	-3.33	-15.22	-0.20	10.49
9. Transport; storage and communication	19.06	12.29	6.86	-0.07	5.92	11.71
10. Financial intermediation & insurance	6.84	13.04	-20.38	-2.88	16.05	9.91
11. Scientific activity	-12.68	31.08	-21.34	17.92	53.90	-12.98
12. Real estate, renting business activity and consulting service	-47.16	81.78	4.73	24.38	23.11	53.90
13. Public administration and defense; compulsory social security	5.74	17.11	5.21	12.23	-6.62	9.34
14. Education and training	7.40	7.61	7.30	-0.39	7.47	7.97
15. Health and social relief	2.00	65.86	-27.84	-6.46	3.08	3.71
16. Recreational, culture and sporting activities	16.15	2.27	11.99	-11.23	-10.50	7.85
17. Activity of party and of membership organisations	-2.34	2.20	33.37	-0.97	-12.66	12.70
18. Community, social and personal service activities	7.85	8.58	-39.53	20.80	85.45	-32.77
19. Private household services	14.96	27.21	-52.87	2.88	59.56	39.89
20. Activity of international organisations	-53.52	24.17	7.27	38.68	-70.69	186.18
<b>Whole Vietnam</b>	<b>3.20</b>	<b>-0.88</b>	<b>0.85</b>	<b>2.21</b>	<b>6.47</b>	<b>7.19</b>

Source: GSO (2002), our calculation, Statistical Data of Labour Employment in Vietnam, various years.

**Table 14: Employment structure by economic sector**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total employment (000')	33031	33761	34493	35233	35976	36702	37676	39285	42128	42316
Agriculture (%)	71.25	70.72	70.15	69.55	68.91	68.24	62.77	60.68	59.04	57.89
Industry (%)	11.37	11.52	11.66	11.80	11.95	12.11	14.42	15.13	16.41	17.35
<i>Manufacturing (%)</i>	<i>8.00</i>	<i>8.15</i>	<i>8.29</i>	<i>8.43</i>	<i>8.59</i>	<i>8.87</i>	<i>10.09</i>	<i>10.43</i>		
Services (%)	17.38	17.77	18.20	18.65	19.13	19.65	22.82	24.20	24.55	24.75

Source: GSO, 2004, our calculation, CIEM (2004).

**Table 15: Shift in sectoral employment structure over time (%)**

Sector	1996	1997	1998	1999	2000	2001	2002	2003
1. Agriculture and forestry	67.57	64.86	61.76	62.24	62.53	60.41	59.27	59.04
2. Fisheries	1.74	1.88	1.95	2.05	1.97	2.72	3.26	
3. Mining and quarrying	0.32	0.36	0.41	0.49	0.52	0.69	0.65	
4. Manufacturing	8.35	9.22	9.05	9.21	9.38	9.81	9.96	16.41
5. Electricity, gas and water supply	0.17	0.20	0.23	0.24	0.21	0.26	0.28	
6. Construction	1.96	2.36	2.20	2.39	2.62	3.33	3.72	
7. Wholesale and retail trade; repair of motor vehicles, motor cycles and household goods	9.44	9.78	11.36	11.30	10.85	10.10	10.60	24.55
8. Hotels and restaurants	1.19	1.59	1.68	1.61	1.34	1.25	1.29	
9. Transport; storage and communication	2.21	2.55	2.89	3.06	2.99	2.98	3.10	
10. Financial intermediation & insurance	0.31	0.32	0.36	0.29	0.27	0.30	0.31	
11. Scientific activity	0.05	0.04	0.06	0.04	0.05	0.07	0.06	
12. Real estate, renting business activity and consulting service	0.19	0.10	0.18	0.18	0.22	0.26	0.37	
13. Public administration and defense; compulsory social security	1.13	1.16	1.37	1.43	1.57	1.38	1.41	
14. Education and training	2.20	2.29	2.49	2.65	2.58	2.61	2.63	
15. Health and social relief	0.66	0.65	1.09	0.78	0.71	0.69	0.67	
16. Recreational, culture and sporting activities	0.26	0.29	0.30	0.33	0.29	0.24	0.24	
17. Activity of party and of membership organisations	0.27	0.26	0.26	0.35	0.34	0.28	0.29	
18. Community, social and personal service activities	1.59	1.66	1.82	1.09	1.29	2.25	1.41	
19. Private household services	0.37	0.41	0.52	0.25	0.25	0.37	0.48	
20. Activity of international organisations	0.02	0.01	0.01	0.01	0.01	0.00	0.01	
<b>Whole Vietnam</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: GSO (2002), our calculation, CIEM (2004).

**Table 16: Structure of employment by ownership (%)**

	1996	1997	1998	1999	2000	2003	2004
Total country	100.00	100.00	100.00	100.00	100.00	100.00	100.00
State	8.74	8.71	10.12	10.34	10.25	10.11	10.26
SOEs	5.1	4.6	5.3	4.9	4.7		
Non-state	90.74	90.90	89.35	88.92	88.89	89.89	89.74
Collective	35.05	23.68	25.00	17.27	16.74	8.68	2.39
Private	3.01	2.98	1.12	2.41	2.46	3.59	5.45
Household	0.00	63.63	62.70	68.69	69.07		
Mixed	52.68	0.61	0.52	0.55	0.62	75.22	80.38
Foreign Invested	0.53	0.38	0.53	0.74	0.86	1.28	1.52

Source: GSO (2002), our calculation, Statistical Data of Labour and Employment in Vietnam (2003) (2004).

**Table 17: Unemployment by region**

	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Whole Vietnam</b>	<b>1.88</b>	<b>5.82</b>	<b>2.21</b>	<b>2.34</b>	<b>2.32</b>	<b>2.76</b>	<b>2.19</b>	<b>2.25</b>	<b>2.14</b>
Red River Delta	1.55	7.27	1.94	1.9	1.85	1.88	1.64	1.57	
North East	0.94	6.12	1.2	1.33	1.15	1.31	1.39	1.50	
North West	0.94	6.12	1.17	0.74	1.05	0.63	0.74	0.70	
North Central Coast	1.3	6.38	1.48	1.66	1.78	1.95	1.17	1.43	
South Central Coast	1.89	5.2	2.33	2.8	2.57	2.81	2.16	2.95	
Central Highlands	1.29	4.84	1.44	1.54	2	1.57	1.59	1.77	
Southeast	4.08	5.79	4.14	4.5	4.16	4.99	4.65	4.23	
Mekong River Delta	2.19	4.56	2.45	2.48	2.61	4.04	2.39	2.53	

Source: Statistical Data of Labour Employment in Vietnam, various years.

**Table 18: Urban unemployment rates by region and gender, 1996-2002 (%)**

Region	1996		1997		1998		1999		2000		2001		2002	2004
	Total	Of which female	Total	Of which female	Total	Of which female	Total	Of which female	Total	Of which female	Total	Of which female		
Red River Delta	7.25	5.84	7.34	5.70	7.98	7.28	7.56	7.19	7.19	7.12	6.93	6.81	6.62	5.87
North East	6.47	4.92	6.35	4.94	6.30	5.01	6.54	5.73	6.35	5.98	6.51	6.84	6.10	5.27
North West	4.38	3.02	4.37	2.85	5.64	3.45	5.33	4.45	6.64	5.79	5.50	4.62	5.11	5.14
North Central Coast	6.67	5.87	6.38	4.52	7.05	5.42	6.70	5.76	6.08	6.17	6.16	6.09	5.82	5.11
South Central Coast	5.05	4.69	5.30	5.50	6.33	6.28	5.97	6.52	6.10	6.91	5.92	7.27	5.49	5.41
Central Highlands	4.48	5.51	4.91	4.43	5.66	5.89	5.21	6.60	5.33	5.47	5.38	6.38	4.92	5.98
South East	5.24	5.04	5.65	5.68	6.24	6.27	6.28	7.47	6.10	5.57	5.82	6.53	6.31	5.80
Mekong River Delta	4.63	4.64	4.53	4.67	6.20	6.49	6.16	7.93	6.03	6.04	5.93	7.43	5.51	4.87
<b>Total</b>	<b>5.67</b>	<b>5.11</b>	<b>5.82</b>	<b>5.26</b>	<b>6.58</b>	<b>6.24</b>	<b>6.46</b>	<b>7.00</b>	<b>6.34</b>	<b>6.16</b>	<b>6.13</b>	<b>6.74</b>	<b>6.01</b>	<b>5.44</b>

Source: MOLISA (2001-04).

**Table 19: Underemployment rates by sector (% of total sectoral employment)**

Sector	1996	1997	1998	1999	2000	2001	2002	2003
1. Agriculture and forestry	3.05	5.74	5.33	7.65	8.75	5.28	4.93	
2. Fisheries	2.70	2.12	0.94	2.06	2.37	2.10	1.29	
3. Mining and quarrying	1.54	2.02	0.57	4.39	1.85	2.18	1.07	
4. Manufacturing	2.51	2.14	1.56	2.60	2.01	1.91	1.32	
5. Electricity, gas and water supply	0.70	1.02	0.66	1.68	1.08	1.09	0.36	
6. Construction	4.05	4.36	2.53	4.00	5.15	3.93	2.24	
7. Wholesale and retail trade; repair of motor vehicles, motor cycles and household goods	1.31	1.10	0.99	1.25	1.38	1.28	0.71	
8. Hotels and restaurants	1.05	0.89	0.92	0.81	1.46	1.05	0.65	
9. Transport; storage and communication	2.62	2.37	1.36	2.45	2.09	1.94	1.14	
10. Financial intermediation & insurance	0.43	0.22	0.27	0.10	0.08	0.34	0.73	
11. Scientific activity	0.00	0.00	1.05	0.00	0.00	0.00	0.00	
12. Real estate, renting business activity and consulting service	1.48	2.30	0.11	0.52	1.09	1.79	1.06	
13. Public administration and defense; compulsory social security	0.51	0.33	0.08	0.31	0.22	0.19	0.24	
14. Education and training	0.18	0.20	0.22	0.43	0.18	0.16	0.13	
15. Health and social relief	0.44	0.30	2.20	0.59	0.37	0.45	0.12	
16. Recreational, culture and sporting activities	1.04	3.22	0.51	1.29	1.58	1.25	1.24	
17. Activity of party and of membership organisations	0.00	0.09	0.15	0.15	0.25	0.80	0.42	
18. Community, social and personal service activities	3.41	3.04	1.76	3.73	3.92	34.15	2.59	
19. Private household services	5.67	5.95	8.72	3.63	5.95	4.67	2.36	
20. Activity of international organisations	2.03	0.00	5.13	0.00	0.00	0.00	5.96	
<b>Whole Vietnam</b>	<b>2.69</b>	<b>4.35</b>	<b>3.79</b>	<b>5.47</b>	<b>6.17</b>	<b>4.59</b>	<b>3.37</b>	<b>6.69</b>

Skills and qualification	1996	1997	1998	1999	2000	2001	2002
Unskilled workers	84.76	89.11	88.81	89.97	91.29	89.27	86.85
Semi-skilled workers	1.59	1.19	1.81	1.15	0.83	1.27	1.97
Skilled workers without certificate	3.42	2.17	1.71	1.63	1.46	2.17	2.18
Skilled workers with certificate	4.13	3.01	2.61	2.39	1.87	2.58	2.59
Vocational colleges	3.72	2.94	2.74	2.56	2.58	2.28	3.26
Tertiary education	2.38	1.59	2.32	2.31	1.97	2.43	3.15
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: Author calculation using data of LFS.

**Table 20: Sectoral structure of underemployment (% of total underemployment)**

Sector	1996	1997	1998	1999	2000	2001	2002
1. Agriculture and forestry	76.55	85.56	86.86	87.06	88.68	69.51	86.65
2. Fisheries	1.74	0.91	0.48	0.77	0.76	1.24	1.24
3. Mining and quarrying	0.18	0.17	0.06	0.39	0.16	0.33	0.21
4. Manufacturing	7.80	4.53	3.72	4.37	3.06	4.09	3.90
5. Electricity, gas and water supply	0.04	0.05	0.04	0.07	0.04	0.06	0.03
6. Construction	2.95	2.36	1.47	1.74	2.19	2.85	2.47
7. Wholesale and retail trade; repair of motor vehicles, motor cycles and household goods	4.58	2.47	2.95	2.59	2.42	2.81	2.22
8. Hotels and restaurants	0.47	0.33	0.41	0.24	0.32	0.29	0.25
9. Transport; storage and communication	2.16	1.39	1.03	1.37	1.02	1.26	1.05
10. Financial intermediation & insurance	0.05	0.02	0.03	0.01	0.00	0.02	0.07
11. Scientific activity	0.00	0.00	0.02	0.00	0.00	0.00	0.00
12. Real estate, renting business activity and consulting service	0.10	0.05	0.01	0.02	0.04	0.10	0.12
13. Public administration and defense; compulsory social security	0.22	0.09	0.03	0.08	0.06	0.06	0.10
14. Education and training	0.15	0.11	0.14	0.21	0.07	0.09	0.10
15. Health and social relief	0.11	0.04	0.63	0.08	0.04	0.07	0.02
16. Recreational, culture and sporting activities	0.10	0.21	0.04	0.08	0.07	0.07	0.09
17. Activity of party and of membership organisations	0.00	0.01	0.01	0.01	0.01	0.05	0.04
18. Community, social and personal service activities	2.02	1.16	0.85	0.75	0.82	16.74	1.09
19. Private household services	0.77	0.56	1.21	0.16	0.24	0.38	0.34
20. Activity of international organisations	0.01	0.00	0.01	0.00	0.00	0.00	0.02
<b>Whole Vietnam</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: CIEM (2003).



**Table 21: Current Unemployment and Underemployment by Region**

		2003		
		Full employment	Under employment	Unemployment
Whole Vietnam		91.06	6.69	2.25
	Urban	90.18	4.22	5.60
	Rural	91.34	7.48	1.18
Red River Delta		93.98	4.44	1.57
	Urban	90.38	3.43	6.19
	Rural	94.87	4.69	0.44
North East		94.62	3.89	1.50
	Urban	89.29	4.97	5.75
	Rural	95.77	3.65	0.58
North West		96.67	2.64	0.70
	Urban	91.29	3.68	5.02
	Rural	97.38	2.50	0.12
North Central Coast		90.70	7.80	1.43
	Urban	89.03	5.76	5.22
	Rural	90.96	8.19	0.86
South Central Coast		87.62	9.43	2.95
	Urban	90.12	4.64	5.25
	Rural	86.67	11.26	2.07
Central Highland		87.64	10.59	1.77
	Urban	86.25	9.47	4.28
	Rural	88.16	11.01	0.83
South East		91.48	4.29	4.23
	Urban	91.67	2.40	5.92
	Rural	91.25	6.43	2.32
Mekong River Delta		87.33	10.13	2.53
	Urban	89.29	5.60	5.11
	Rural	86.90	11.13	1.97

Source: Statistical Data of Labour and Employment in Vietnam (2003).

**Table 22a: Labour skills and qualification, 1996-2002 (% of total labour force)**

Skills and qualification	1996	1997	1998	1999	2000	2001	2002	2003	2004
Unskilled workers	87.69	87.75	86.70	86.13	84.36	82.93	80.28	79.01	81.90
Semi-skilled workers	1.77	1.51	1.46	1.52	1.48	1.33	3.22	6.63	
Skilled workers without certificate	2.12	2.34	2.16	2.33	2.26	4.56	3.91	2.60	10.28
Skilled workers with certificate	2.26	2.05	2.59	2.35	3.00	3.89	4.58	3.26	2.5
Vocational colleges	3.84	3.80	4.05	4.22	4.96	3.61	3.86	4.07	3.81
Tertiary education	2.31	2.56	3.05	3.46	3.95	3.67	4.16	4.44	4.02
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: MOLISA (1997: 105, 1998: 91, 1999: 113, 2000: 105, 2001: 171, 2002: 201), CIEM (2004).

**Table 22b: Female labour skills and qualification, 1996-2000 (% of total female workers)**

Skills	1996	1997	1998	1999	2000
Unskilled	90.12	89.84	89.39	88.80	87.47
Semi-skilled and skilled without certificate	3.22	3.23	3.17	3.13	3.60
Skilled with certificate and above	6.67	6.93	7.44	8.07	8.93
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: MOLISA (2001a: 306).

**Table 22c: Sectoral employment by skill in 2001 (% of the sectoral employment)**

	Unskilled	Elementary	Skilled without certificate	Skilled with certificate	Vocat. School	College/ Uni	Master/ Doctor	Total
Agriculture	97.10	0.60	0.50	0.45	1.06	0.28	0.00	100.00
Industry	52.84	2.13	21.67	15.79	3.35	4.17	0.05	100.00
Services	61.64	2.85	5.41	6.11	11.07	12.67	0.26	100.00
Whole economy	82.63	1.33	4.67	3.96	3.68	3.67	0.07	100.00

Source: MOLISA (2001).

**Table 23: Income and wage structure**

Year	Agriculture-forestry-fisheries	Non-farm self-employment	Farm wage-earners	Non-farm wage-earners	Total
<b>Income structure</b>					
1998	39.0	33.1	27.9		100.0
2002	33.9	27.2	38.9		100.0
<b>Employment structure</b>					
2002	53.1	18.6	6.1	22.3	100.0

Source: CIEM (2003).

**Table 24: Planted area of crops**

		Thous. ha					
Total		Of which					
		Annual crops			Perennial crops		
		Of which			Of which		
		Total	Cereals	Annual industrial crops	Total	Perennial industrial crops	Fruit crops
1990	9040.0	8101.5	6474.6	542.0	938.5	657.3	281.2
1991	9410.0	8475.3	6750.4	578.7	934.7	662.7	271.9
1992	9752.9	8754.4	6953.3	584.3	998.5	697.8	260.9
1993	10028.3	8893.0	7055.9	598.9	1135.3	758.5	296.0
1994	10381.4	9000.6	7133.2	655.8	1380.8	809.9	320.1
1995	10496.9	9224.2	7322.4	716.7	1272.7	902.3	346.4
1996	10928.9	9486.1	7619.0	694.3	1442.8	1015.3	375.5
1997	11316.4	9680.9	7762.6	728.2	1635.5	1153.4	426.1
1998	11740.4	10011.3	8012.4	808.2	1729.1	1202.7	4477.0
1999	12320.3	10468.9	8345.4	889.4	1851.4	1257.8	512.8
2000	12644.3	10540.3	8396.5	778.1	2104.0	1451.3	565.0
2001	12507.0	10352.2	8222.2	786.0	2154.8	1475.8	609.6
2002	12764.1	10547.5	8295.8	840.3	2216.6	1505.3	643.5

Source: CIEM (2003).

**Table 25: Planted area of key perennial industrial crops**

	Tea	Coffee	Rubber	Pepper	Coconut
	Thous. ha				
1990	60.0	119.3	221.7	9.2	212.3
1991	60.0	115.1	220.6	8.9	214.2
1992	62.9	103.7	212.4	6.4	204.1
1993	63.4	101.3	242.5	6.7	207.6
1994	67.3	123.9	258.4	6.5	182.5
1995	66.7	186.4	278.4	7.0	172.9
1996	74.8	254.2	254.2	7.5	181.1
1997	78.6	340.3	347.5	9.8	169.9
1998	77.4	370.6	382.0	12.8	163.4
1999	84.8	477.7	394.9	17.6	163.5
2000	87.7	561.9	412.0	27.9	161.3
2001	98.3	565.3	415.8	36.1	155.8
2002	106.8	531.3	429.0	43.5	147.1

Source: CIEM (2003).

**Table 26: Merchandise exports, imports, and total trade (% of GDP)**

	1996	1997	1998	1999	2000	2001	2002	2003
Exports	29.41	34.28	35.08	40.44	46.22	46.23	47.61	60
Imports	45.16	43.26	43.10	41.14	49.90	49.89	56.27	68
Total trade	74.57	77.54	78.19	81.59	96.12	96.11	103.89	128

Source: GSO (2003), GSO data, WDI (2005).

**Table 27: Structure of exports by commodity group (%)**

	1996	1997	1998	1999	2000	2001	2002	2003
Heavy & mining industry	28.74	28.02	27.87	31.78	37.16	34.86	29.00	22
Manufacturing	28.96	36.72	36.62	36.49	33.85	35.67	41.00	50
Agriculture	42.31	35.26	35.51	31.73	28.98	29.47	30.00	25
Total exports	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Le Dang Doanh et al. (2002), and Nguyen Van Chinh et al. (2002), WDI (2005).

**Table 28: Per capita gross regional products (GRP)**

	1995	1996	1997	1998	1999	2000
<i>1000 VND at current price</i>						
Total country	3179	3719	4221	4784	5221	5717
Red River Delta	3154	3630	4075	4748	5085	5517
Northeast Mountain*	1786	2058	2322	2654	2846	3141
Northwest Mountain*	1441	1626	1840	2024	2052	2225
North Central Coast*	1917	2158	2408	2685	2856	3091
South Central Coast	2315	2701	3106	3594	3819	4189
Central Highlands*	2047	2338	2432	2984	3146	3737
Southeast	7222	8528	9762	10722	12099	13549
Mekong Delta	2665	3172	3601	4130	4381	4674

Source: Nguyen Van Chinh et al. (2002).

Note: \* The region has a per capita GRP less than that of total country.

**Table 29: Macro-economic framework for the CPRGS and PIP, 2000-05 (% of GDP)**

	2000	2001	2002	2003	2004	2005, proj.
Total budget revenues	20.41	21.59	20.97	21.70	21.5	21.5
Non-refundable aid	0.46	0.42	0.37	-	0.4	0.4
Total revenues excluding aid	19.96	21.17	20.59	-	21.1	21.1
Total budget expenditure	23.77	26.96	26.33	27.3	26.0	26.1
Capital expenditure	6.67	8.36	7.52	7.76	9.3	9.2
Debt service and aid	2.99	3.10	3.79	4.47	1.9	1.9
Recurrent expenditure	13.92	15.50	15.02	15.50	14.8	15.0
Budget surplus/deficit	-3.36	-5.38	-5.36	-5.70	-4.5	-4.6

Source: CIEM (2004), IMF (2002) and authors' estimation.

**Table 30: GDP growth and inflation (actual and projected), 2001-05 (%)**

	2000	2001	2002	2003	2004	2005, planned
GDP growth rate	6.79	6.89	7.04	7.2	7.4	7.5
Inflation	-0.6	0.8	4.0	3.0	5.0	5.0

Source: SRV (2002), CIEM (2004) and authors' estimation.

**Table 31: Central government budget expenditure for poverty alleviation (Unit: Billion VND)**

N	National target programs	1996	1997	1998	1999	2000	TK96-2000	2001	2002 (estimates)	2003 (plan)	2001-03
	<b>Total</b>	<b>1,945</b>	<b>1,867</b>	<b>1,645</b>	<b>2,314</b>	<b>2,988</b>	<b>10,759</b>	<b>3,406</b>	<b>4,123</b>	<b>4,816</b>	<b>12,345</b>
			<b>96.0%</b>	<b>88.1%</b>	<b>140.7%</b>	<b>129.1%</b>	<b>111.3%</b>	<b>114.0%</b>	<b>121.1%</b>	<b>116.8%</b>	<b>117.2%</b>
1	Hunger eradication, poverty reduction (HEPR) and employment program	242	104	50	802	917	2,115	1,201	1,851	2,121	5,173
	- HEPR Program and Program 135				703	800	1,503	1,035	1,671	1,941	4,647
	- Program for labour and employment	242	104	50	99	117	612	166	180	180	526
2	Program for demographic issues and family planning	347	315	285	240	637	1,824	500	422	445	1,367
3	Program for eradication of social detrimental and epidemic diseases, and HIV/AIDS prevention				265	383	648	412	475	535	1,422
4	Health care program	376	423	388			1,187				
5	Program for clean water and rural sanitation				131	85	216	134	215	236	585
6	Cultural program	80	45	42	44	107	318	163	100	134	397
7	Education and training program	550	630	562	518	566	2,826	707	710	970	2,387
8	Project for 5-million ha forestation				314	293	607	288	350	375	1,013
9	Program for plantation of barren land hills	350	350	318			1,018				

Source: CIEM (2004).

**Table 32: Proposed financing plan for incremental costs of CPRGS public spending program, 2003-05 (% of GDP)**

	2003	2004	2005
Total incremental spending (billion VND)	11,994	12,509	12,517
<i>Recurrent</i>	<i>7,093</i>	<i>7,229</i>	<i>7,326</i>
<i>Capital</i>	<i>4,901</i>	<i>5,280</i>	<i>5,191</i>
Estimated GDP (billion VND, 2000 prices)	541,953	582,057	625,711
Incremental spending as % of GDP	2.2	2.1	2.0
<i>Recurrent</i>	<i>1.3</i>	<i>1.2</i>	<i>1.2</i>
<i>Capital</i>	<i>0.9</i>	<i>0.9</i>	<i>0.8</i>
<b>Funding sources for incremental spending</b>			
<i>Efficiency savings on existing current activities (% of GDP)</i>	<i>0.4</i>	<i>0.7</i>	<i>0.8</i>
Recurrent	0.3	0.4	0.4
Capital	0.1	0.3	0.4
<i>Anticipated funding</i>	<i>2.2</i>	<i>2.1</i>	<i>2.0</i>
From new ODA grants	0.3	0.4	0.5
From increased concessional loan disbursement	1.5	1.0	0.7

Source: World Bank's estimation and authors' calculation.

**Table 33: Projections on state social and poverty reduction spending priorities for eight selected sectors, 2003-04 (billion VND)**

	2003	2004	2005	Total 2003-05	Source of funding
<b>Agriculture</b>	<b>5,002</b>	<b>4,906</b>	<b>4,772</b>	<b>14,681</b>	
Recurrent	3,001	2,944	2,863	8,808	Haft of spending funded from existing budget, haft - incremental
Investment	2,001	1,963	1,909	5,872	Haft of spending funded from existing budget, haft - incremental
<b>Health</b>	<b>3,752</b>	<b>3,835</b>	<b>3,971</b>	<b>11,558</b>	
Recurrent	3,276	3,348	3,384	10,008	All incremental
Investment	476	487	587	1,550	Haft of spending funded from existing budget, haft - incremental
<b>Education</b>	<b>4,520</b>	<b>4,555</b>	<b>4,589</b>	<b>13,664</b>	
Recurrent	1,778	1,813	1,847	5,438	All incremental
Investment	2,742	2,742	2,742	8,226	Haft of spending funded from existing budget, haft - incremental
<b>Urban development</b>	<b>1,500</b>	<b>1,500</b>	<b>1,500</b>	<b>4,500</b>	
Recurrent	75	75	75	225	All incremental
Investment	1,425	1,425	1,425	4,275	Haft of spending funded from existing budget, haft - incremental
<b>Rural electricity (all capital expenditure)</b>	<b>1,248</b>	<b>261</b>	<b>75</b>	<b>1,584</b>	<b>All of spending funded from existing budget</b>
<b>Transportation</b>	<b>3,083</b>	<b>2,982</b>	<b>2,890</b>	<b>8,955</b>	
Recurrent	925	1,041	1,175	3,141	Haft of spending funded from existing budget, haft - incremental
Investment	2,158	1,941	1,715	5,814	Haft of spending funded from existing budget, haft - incremental
<b>Labour and social safety nets (all recurrent expenditure)</b>	<b>7,225</b>	<b>7,731</b>	<b>8,272</b>	<b>23,229</b>	<b>All of spending funded from existing budget</b>
<b>National targeted programs</b>	<b>2,000</b>	<b>2,100</b>	<b>2,205</b>	<b>6,305</b>	
Recurrent	1,000	1,050	1,103	3,153	All of spending funded from existing budget
Investment	1,000	1,050	1,103	3,153	All of spending funded from existing budget
<b>Total</b>	<b>28,330</b>	<b>27,870</b>	<b>28,275</b>	<b>84,475</b>	<b>43.8% spending incremental</b>
<b>Recurrent</b>	<b>17,280</b>	<b>18,001</b>	<b>18,719</b>	<b>54,002</b>	<b>40.1% spending incremental</b>
<b>Investment</b>	<b>11,050</b>	<b>9,869</b>	<b>9,556</b>	<b>30,473</b>	<b>50.4% spending incremental</b>

Source: SRV (2002: 108), and estimation by the World Bank Resident Mission in Vietnam.

**Table 34: Real annual per capita expenditure and annual growth, 1993-2002**

Region	Real annual per capita expenditure (thousand VND)		Annual growth in per capita expenditure (%)		
	1993	1998	2002	1993-98	1998-2002
<b>Whole Vietnam</b>	1936	2764	3229	7.4	4.0
<i>Urban/rural</i>					
Urban	3013	4829	5812	9.9	4.7
Rural	1669	2166	2447	5.4	3.1
Gap (urban/rural)	1.8	2.2	2.4	na	na
<i>Quintile</i>					
Poorest	854	1099	1197	5.2	2.2
Near poorest	1233	1632	1796	5.8	2.4
Middle	1582	2125	2386	6.1	2.9
Near richest	2098	2929	3401	6.9	3.8
Richest	3911	6032	7363	9.1	5.1
Gap (richest/poorest)	4.6	5.5	6.2	na	na
<i>Ethnicity</i>					
Kinh & Chinese	2041	2968	3454	7.8	3.9
Others	1245	1524	1655	4.1	2.1
Gap (Kinh/others)	1.6	1.9	2.1	na	na
<i>Gender</i>					
Male	1849	2603	2981	7.1	3.4
Female	2237	3349	4189	8.4	5.8
Gap (female/male)	1.2	1.3	1.4	na	na

Source: CIEM (2004).



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