CHAPTER 8. EXECUTIVE SUMMARY AND CONCLUSION

MACROECONOMIC BACKGROUND

Macroeconomic Balance. Vietnam has had impressive achievements in economic growth and macroeconomic stability since its renovation process started. The GDP growth rate increased from the low rate of 4% in 1987 to an annual rate of over 7.2% during the 1990s and remains at high rate since 2000. The inflation rate was under control in 1989 and has experienced very low rate of change, even negative, until 2003. The targeted fiscal deficit is 5% of GDP and has been maintained until present, even during the demand stimulation policy. The current account deficit is widening but foreign reserves climbed to about US$ 4.6 billion in 2003 from US$ 3.7 billion in 2002 because of strong capital inflows. The ratio of total external debt over GDP is 40% and the debt services over exports ratio of less than 10% suggest that external debt remain sustainable.

Saving and Investment. The domestic saving to GDP ratio increased rapidly from 10.1% in 1991 to 29.3% in 2003, facilitating an increase in the GDP to investment ratio from 15.0% to 34.6% over the same period. Increased investment during 1990s came mainly from state and FDI sectors. The share of the domestic, non-state sector in total investment declined from 50.5% in 1991 to only 19.5% in 2000, and recovered to 26.9% in 2003 as a result of implementation of the Enterprise Law. Most investment, especially those from state and foreign sources, are in capital-intensive industries and led to decreasing investment efficiency as reflected in an increase in ICOR from 2.8 to 6.2 in 1999 and then 4.7 in 2003.

Labour Development. Over the period 1991-2003, the total labor force has increase from 30.572 million people to 41.179 million people. Over the same period, the labour share of the agricultural sector declined while the share for industry and services increased. Presently, 59% of the labour force is in agriculture, 24% in services and the remaining 17% in industry. However, these changes in sectoral composition of labour force are not in proportion to changes in the GDP shares of these sectors. Most new jobs have been created by the domestic private sector during the past years. At the end 2003 the domestic private sector, excluding those in agricultural production, accounted for 17% of the total labor force, while the foreign-invested and state sectors absorb less than 12%.
**Sector Development.** Over the period 1991-2000, industry and construction have grown at the fastest rate by more than 11%; meanwhile service and agriculture sectors grew at 7% and 4%, respectively. This sectoral pattern of growth implies that both the service and industrial sectors have assumed greater importance in total output, while agriculture, though still the dominant sector of the economy, has contracted substantially as a share of total production. The success of the agricultural sector relaxed pressures and anxieties of ensuring national food security and the most impressive success of the agriculture sector is the huge boost in food production. The high growth rate of industry contributed to the change in economic structure, dramatic increase in export, and strong development of some high tech and information technology industries. The growth rate of the service sector is from the private sector and many new types of services they provide.

**Reforms in the Agricultural Sector.** Many reform measures have been introduced in the agricultural sector. Two crucial reforms among them are Resolution No. 10 in 1988 and the Land Law in 1993, which recognise the household as the main unit of agricultural production and to grant extended land use rights to household. Additionally, the Government allocated significant funds from the state budget for investing the rural infrastructure system, such as irrigation and road systems. However, this sector still faces many difficulties such as fluctuations in the world markets for agricultural products and asymmetry between agriculture sector versus the industry and service sectors.

**The Policy of Modernization and Industrialization.** Although the industry sector has the highest growth rate and made a significant contribution to exports, it is still at the early stages of development. Industrial activities in Vietnam suffer from slow structural changes, weak competitiveness, and low labour absorption. These limits are consequences of massive state investment in protected and inefficient industries, backward technologies, low value added and domestic content, and limited split over effects of FDI.

**Enterprise Sector.** The number industrial enterprises has increased rapidly, but most are small scale with average employees of 155 and average capital of VND 3.4 billion. Enterprises with capital under VND 10 billion and VND 5 billion are 78% and 90% or total enterprises. The small scale of firms is the major obstacle to improvement of competitiveness. The state general corporations are failing to achieve their expected purpose of being able to compete internationally and instead have a monopoly position in the domestic market and impede the development of private enterprises. Unexpectedly, a large portion of foreign invested enterprises have operated in protected industries, served the domestic market (rather than export market), and, therefore are not large in scale. The dynamic private enterprises, mainly the small and medium enterprises, contributed significantly to the country's development in terms of GDP and job creation, but still face
discrimination in favour the SOEs and have very limited capacity in collecting market information, upgrading technologies and developing human resources.

Science and Technology. Science and technology is considered as a critical factor and has top priority in Constitution in Vietnam. However, total expenditure for R&D in Vietnam accounted is only 0.4%, a low level as compared with the country of same development level. Seventy percent of R&D expenditure is financed from the state budget and only 10% of research results are practically applied. By the end of 1990s, the number of scientists per 100,000 people in Vietnam was about 60, much lower than other ASEAN countries and China. The S&T supporting and service system in Vietnam is still underdeveloped. The government’s incentives system does not encourage enterprises engaging in R&D activities, as reflected by the fact that the large SOEs spent only about 0.2% of total revenue and private sector carries out hardly any R&D. In general, industries are using the technologies two or three generations behind the state-of-the-arts technologies. The medium and high-tech export goods account for about 8.2% of total manufacturing exports in 1999. Enterprises prefer to import new technologies rather than have long-term investment required for R&D activities.

Credit and Financial System. The financial sector has had significant development as reflected in an increase in the ratio of money supply to GDP from 20% in 1990 to 60% in 2002 and total assets of the banking system reached 70% of GDP at the end of the year 2002. However, comparing to other developing countries in the regions, Vietnam’s financial sector was still far behind. The banking system is facing structural problems that require strong reforms.

Government and Economic Policy. Since 1989 Vietnam adopted radical and comprehensive economic reforms, including price liberalization, a large exchange rate devaluation and unification of the exchange rate, a positive real interest rate, substantial reduction in subsidies to the SOEs, agricultural reforms, encouragement of the private sector, removal of domestic trade barriers and creation of a more open economy, and liberalization of investment climate. Facing new challenges, the Government once again hastened the economic reforms during the beginning of new century. The new wave of reforms started with the implementation of a demand stimulus policy, and then stronger commitments to structural reforms, international economic integration, and administrative reform. The reforms are accelerated but with uneven performances.

Development Strategy. The overall goal of the Strategy for Socio-Economic Development 2001-2010 is to accelerate the industrialization and modernization process in order to bring the country out of underdevelopment and create a foundation so that by 2020 Vietnam will basically become “a modern-oriented industrialized country”.

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Vietnam expects to achieve high economic growth with poverty elimination during the next ten years.

**External assistance and commitments.** Since 1993, a large amount of overseas assistance from the international donor community has poured into Vietnam with the target of supporting Vietnam’s socio-economic development. These funds have played an important role in generating opportunities for the nation to attain the desired economic growth, alleviate poverty and improve the Vietnamese people's living standard. Nevertheless, there remain certain problems to be tackled to better use and manage ODA resources in Vietnam, especially with regard to the stages of project preparation, implementation, monitoring and evaluation.

In 2001 the Government negotiated with the International Monetary Fund a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) for the period from 2001 to 2004. The goal of this program was to put Vietnam’s economy on a higher growth path, for a lasting reduction in poverty. The PRGF provides a systematic set of structural reforms to achieve these goals. Additionally, Vietnam has been implementing the international commitments under the framework of AFTA, the US-VN bilateral trade agreement.

**TRADE AND FDI**

**International Trade.** Merchandise trade values as a percentage of GDP have been growing rapidly and steadily, making Vietnam one of the most open economies in terms of trade per GDP despite its mixed trade regime. Exports increased almost tenfold over the period 1991-2003 and the import growth rate was 37.5% during the period 1991-96, slightly higher in 1997-1999, and at 20% during 2000-2003.

The structure of export goods has changed rather significantly. While the shares of agricultural component in total export value is still important, its significance has been declining in recent years. The role of manufacturing has become more important and its share in total exports increased fast. Crude oil, textile and garment, marine products, and footwear are the main export goods with export revenue worth more than US$ 1 billion a year. However, Vietnam is still heavily dependent on raw commodity exports and hence, is very vulnerable to the fluctuation in commodity prices. The export market has been diversified with encouraging increases in export shares to the US, European countries and other developed countries. The import composition has not changed much with main imported items of intermediary inputs, machinery, equipments that are directly used for productive activities.
Trade liberalization, including liberalisation of trading rights and replacement of non-tariff barriers with tariffs, has been a key component of Vietnam’s economic reforms, facilitating Vietnam’s integration into the world markets. However, the trade regime is still in favour of heavy import-substituting industries with limited job-creation and value added capacity. There has also been many implicit, non-tariff barriers making the trade regime complicated, uncertain, and hence, costly.

**Foreign Direct Investment.** Since the Foreign Investment Law was introduced in 1987, there has been 4426 foreign invested projects granted licenses with a total registered capital of US$43 billion, and implemented capital worth US$26 billion. The FDI sector is playing an increasing important role in the economy, accounting for 13.3% of GDP, 35.5% of industrial products and 23.1% export values in 2002. FDI comes from 73 different countries and territories with Asian investors accounting for 64% of total FDI. The FDI in Vietnam mainly invests in manufacturing and processing industries (58% of projects and 35% of committed capital) and oil and gas industry (10% of registered capital). All 61 provinces and cities in Vietnam have attracted FDI but foreign investors concentrate their investments geographically in key economic developed provinces. Vietnamese contribution is usually in the form of land use rights. The share of loans have been larger than that of equity contributed by foreign investors in FDI in Vietnam since 1994.

**Expected policy reforms.** With accelerated international integration process, trade policy of Vietnam will certainly need to be reformed in order to be consistent with international laws and convention. Domestic markets will be opened more to the foreign exporters and manufacturers. Lower tariff rates will be granted to foreign goods and services. This means that domestic producers will no longer be protected by the governments previous import-substitution policy. Vietnam is involved in the 8th round of negotiations with WTO members. A more level playing field for both domestic and foreign investors will be established by preparing a common investment law. In the coming years, the Government will use the many measures to promote trade and foreign direct investment in the period 2001-2005, such as the creation of the legal system that is more transparent, accountable, predictable and consistent with international commitments; up-grading of physical infrastructure and implementation of administration reform, training and re-training Vietnamese labour forces, and development of a system of investment promotion.

**EMPLOYMENT**

*Economic Growth and Employment.* The annual economic growth rate of 7.2% has been generated new employment by 2.2% a year over the 1990s total jobs in Vietnam. The
employment growth rates in all three aggregate sectors of agriculture, industry and services have been positive but not in proportion to the sectoral GDP growth rates. The changes in GDP shares of agriculture, industry and services are –17.3%, 14.6%, and 2.7%, respectively while the their corresponding changes in employment shares are 12.8%, 2.0% and 10.8% over the period 1991-2001, indicating that the service sector made larger contributions to the creation of new jobs than industry and absorbed a significant percentage of the labour released from the agriculture. Given 60.5% of labour forces still working in agriculture in 2001, these changes in employment structure cause widening gaps in labour productivity and incomes between the labour-intensive sectors of agriculture and services and capital-intensive sectors of industry as well as between urban and rural areas.

The labour force in the Central Highlands and Red River Delta has been growing most rapidly, resulting in their increasing share in the total labour force. However, most regions have maintained an unchanged share of the labour force over time. The Red and Mekong River Deltas still account for the largest population in the work force (22.7% and 21.2% of the total respectively) while the North West and Central Highlands have the smallest number of the labour force. The share of urban employment has been increasing slowly from 22.1% in 1996 to 23.8% in 2002, suggesting urbanisation in Vietnam.

**Employment Composition.** The occupational profile has been rising slowly and unskilled workers still dominate the labour force as reflected in the moderate decline in unskilled worker shares from 87% to 80% over 1996-2002 period. The skill mix of female workers has been lower and slowly improved than that of their male counterparts. The agriculture is in the most disadvantaged position, having unskilled workers over its total labour force ratio of 97.1% (as compared with 61.4% in services and 52.9% in industry), accounting for 73.8% of unskilled workers of the whole economy, and experiencing much slower improvement in qualification and skill. Skilled and trained labour is highly concentrated in large cities and urban areas, while rural and remote areas are in a huge shortage of skilled workers.

**Underemployment.** The number of underemployed workers have risen at an annual average rate of 20.5% between 1996 and 2001, making the overall underemployment rate rise from 16.6% in 1996 to 31.4% in 2001. The underemployment rate in agriculture almost doubled over the period 1996-2001 from 19.4% to 37.2% while ratios in industry and services sector were only 1%. The sectoral structure of underemployment has not changed much, with agriculture sharing about four fifth, while industry and construction, and services, each accounting for nearly one tenth of the total under-employment.
The unskilled workers account for between six seventh and nine tenth of the total underemployees during the period 1996-2002. Underemployment has been more severe for unskilled female workers than their male counterpart, and lower for the remaining qualifications. Underemployment is still more prevalent for young groups and tends to decline as workers get older but their underemployment share declined during the period 1996-2001 from more than one third to one fourth of the number total employed. At the same time, the share of under-employment has been rising for the age group between 35 and 44 years from 20.0% in 1996 to 26.4% in 2001, reflecting the fact that that the younger labour force has been declining, while the middle-age group has been increasing in real and relative terms.

Among all regions, under-employment is usually highly concentrated in populous plains such as the Red River Delta, the Mekong River Delta and the North Central Coast, sharing on average 24.7%, 19.2% and 17.1% of the total under-employment in Vietnam over the period 1996-2001, respectively. But in terms of under-employment severity the North East, North Central Coast, South Central Coast and Red River Delta are more prominent, with their under-employment shares far exceeding their population shares.

**Urban Unemployment Composition.** Unemployment in Vietnam is an urban phenomenon. Overall urban unemployment deteriorated between 1996 and 1998 and then gradually eased since then; nevertheless it remained relatively stable within a range from 5.7% to 6.6%. The unskilled and semi-skilled labourers are overwhelmingly dominant among unemployed people, with its share increasing gradually between 1996 and 2001, indicating that that lacking skills is the most significant impediment for workers to finding a job. The unemployment rates are very high for the young group, and gradually go down along age maturity with the highest unemployment rate; for ages between 15 and 24, ranging from 10.4% to 19.4% by province. The unemployment gaps between male and female were not considerable and tended to narrow down in the North, while it more serve in the South.

**Technology and employment.** Although there is some evidence on technological innovations made during the last decade, especially in information and communication technology, the change in technological progress has remained modest in Vietnam. Employment growth in manufacturing has very often been correlated with level of technology and jobs have increased in high-technology based industries, stagnated in medium-technology sectors, and declined in low-technology manufacturing; but it is still too early at this stage to say wheather there is a positive impact of the technological progress on employment within the economy.
Labour market regulations and policy. The Labour Code has officially reaffirmed the eligibility of the new labour market, employment relationship, job definition and provided legal foundations for many other important issues such as vocational training, labour contract, wage and salary, working discipline, social insurance that ensure rights of labourers in having equal opportunities to employment. Regulations have clearly specified roles and functions of Employment Services, unemployment reserve funds, negotiation and voluntarily cooperation in respect of mutual benefits, vocational training and entrepreneurship, and liberalization of labour market relations.

Labor Market Policy. During more than a decade of Doi Moi, a number of labor market policies have been formulated and effectively implemented. These labour market friendly policies have been designed to cover a relatively wide range of income support schemes (unemployment assistance), measures to mitigate the pressure of excessive labour supply (early retirement) as well as active measures directly stimulating new job creation and promoting employment (public works, support of self-employment), or improving employability of job applicants through employment promotion or assistance provided by employment services. However, there still is a great need for an integrated system of labour market information which covers both the demand and the supply side of the labour market and a much more sound vocational training policy should be formulated to include minority groups and other poor people in mountain areas.

INCOME DISTRIBUTION AND POVERTY

Vietnam has achieved impressive outcomes with regard to poverty reduction and improved living standards over the 1990s. Nevertheless, the country has been experiencing slightly increasing income inequality during the same period.

Absolute Poverty. The proportion of the population living below the poverty line declined from 58% in 1993 to 37% in 1998 and 29% in 2002. The proportion of the food-poor fell from 25% in 1993 to 15% in 1998 and 11% in 2002. The depth of poverty has also been reduced for all different groups of the population. Ethnic minorities continue to have substantially higher poverty rates, witnessed much smaller reductions over the 1990s and faced the most serious poverty. Male-headed households in Vietnam have a higher poverty rate than female-headed households. Poverty is strongly associated with farming households whose poverty incidence were still more than double than that of manufacture sector workers and about four times than those working in services. The poverty reduction for farmers should rely significantly on other sources such as rural non-farm activities and requires another round of agricultural reform. Presently, 84% of the working poor were engaged in agricultural activities, only 8.5% were workers in manufacturing and 6.4% earned their income from services.
**Characteristics of the Poor in 2002.** The poor in 2002 have very similar characteristics as those five years ago. The overwhelming majority of them lived in rural areas and their major source of income was agriculture. Poverty incidence was more prevalent and more persistent among ethnic minority people, the majority of whom lived in the uplands (the Northern Mountains and Central Highlands) and infertile cross-lands in the north central coastal areas. The poor also have low levels of educational attainment. The poor still are those that have both largest household size and number of dependent children compared with better-off households.

**Income Distribution.** The overall income level in Vietnam is not high, but it has improved significantly over the 1990s. Household income and expenditure in both urban and rural areas, in all regions, and for every income quintile has been improved over the period 1998-2002. Nevertheless, the expenditure gap between the richest and the poorest quintiles, between the most developed and the least developed regions, between urban and rural population, between majority (Kinh and Chinese) and minority ethnic groups has been gradually widening. That, in its turn leads to moderate deterioration of income equality during the 1990s and Gini index rose slightly from 0.34 in 1993 to 0.35 in 1998 and 0.37 in 2002.

**Rural versus Urban Inequality and Poverty.** The overall progress in poverty reduction was impressive, and all populations shared its benefits, but they were not equally distributed. The urban poor now are very few, while more than third of the rural population still in poverty in 2002. Throughout the 1990s, poverty remained a rural phenomenon with above 90% of the poor in Vietnam living there. The poverty gap in 2002 for rural areas was 8.7, while that for the urban poor was just 1.3. The per capita expenditure of urban households was 1.8 times of that for rural households in 1992-93 and 2.4 times in 2002. The urban and rural income inequality accounts for 21% of overall inequality in 1993 and 35% in 2002, being the major source of increases in income inequality over the period 1993-2002.

**Regional Disparities.** Poverty has declined in all regions of Vietnam over the 1990s but progress levels and accomplishments differed. The region with the largest number of the poor was the Northern Mountains, accounting for 22.2% of all the poor in Vietnam in 2002, followed by the North Central Coast, Mekong River Delta and Red River Delta. Although all regions in Vietnam have enjoyed income growth, the benefits have not been spread equally, leading to widening the gap between the rich and the poor. The poorest regions are the Central Highlands, the North Central region and the Northern Uplands while the Southeast region is the richest region.
The informal sector in Vietnam. In early 1990s, the informal sector contributed to absorbing a great deal of labourers sacked by the state sector. The informal non-agriculture sector created about 74% of total non-agricultural employment in 1994. The informal sector also became a resort for new labourers and a promising complementary income source for people working in the formal sector. The income of the informal sector is almost twice higher than the minimum wage set by the government for the formal sector, and therefore the income in the informal sector is not really lower than that of the formal sector.

National Policies for Poverty Alleviation. Vietnam has also declared its commitment to reach the Millennium Development Goals (MDGs) and poverty reduction objectives that had been agreed upon in the National Summit in September 2000. The combination of poverty reduction and economic growth have been considered in national, sectoral and provincial economic plans. Vietnam’s poverty reduction strategy paper that elaborates all general objectives, institutional arrangements, policies and solutions of all above-mentioned strategic documents into a detailed specific action plan and a road map for implementation.

Trade and Employment. Trade liberalisation has had positive impacts on employment in Vietnam during the past years. It encourages private enterprises, especially the ones in the labour intensive export industries to engage in trading activities, leading to the Vietnamese export composition in favour of employment creation. The high export growth rates of labour intensive industries have mitigated the problem of labour surplus in the country.

Foreign Direct Investment and Employment. The FDI in Vietnam has increased in terms of number of projects and invested capital, but concentrated mostly on certain key business centres and focused on capital intensive industries. Therefore, its impact on direct employment creation is rather limited. In fact, foreign investment enterprises created less employment per unit of output than the other firms, even compared with SOEs. Foreign invested enterprises using the domestic resources, inputs or distribution networks have contributed to employment creation. Additionally, through transferring knowledge and skills to the local employees, foreign investment firms have made a significant contribution to building local human capital and by that way facilitated the enhancement of the likely employability of labour at the marketplace.

FDI, income distribution and poverty. The impact of FDI on poverty reduction in Vietnam has been moderate. The jobs created by the FDI sector accounts for only 1% of the total labour force and not in favour of the poor because of high requirements of education and skills. FDI in the agriculture sector, where most of the poor live is only 5-
6% of total FDI investment. Furthermore, 83% of FDI capital flows in Vietnam are located in the South East and Red River Delta, of which 50% of capital injected into Hanoi and Ho Chi Minh City, suggests the poorest regions in the country do not attract FDI. Other indirect impacts of FDI on poverty reduction through the tax contribution is limited as their contribution to the state budget remain small.

CONCLUSION

In the last nearly 20 years, Vietnam has achieved impressive progress in overall economic development, including high economic growth and macroeconomic stability, as well as poverty reduction. During this period Vietnam exercised the highest GDP in the region with growth rates at about 7% per annum. This is a consequence of the high savings and investment rates, respectively 30% and 40% of GDP.

TRADE AND INVESTMENT LIBERALIZATION

Trade liberalization, including liberalisation of trading rights and replacement of non-tariff barriers with tariffs, has been key components of Vietnam’s economic reforms, facilitating the Vietnam’s integration into the world markets. Vietnam has been one of the most open economies in terms of trade per GDP. Exports value increased tenfold in the period 1991-2003 with more diversified exports items and an increasing share of manufacturing. The export markets have been expanded with encouraging increase to US, EU, Japan and other developed countries, while in absolute terms exports to ASEAN courtiers have been soaring. Imports structure remained unchanged with 90% of intermediate goods.

Since the Foreign Investment Law was introduced in 1987, FDI inflows into Vietnam increased substantially. There has been 4,426 foreign invested projects granted licenses. Total registered capital reached USD 43 billion, meanwhile the total implemented capital reached USD 26 billion. There have been more than 500 projects applied for increasing capital worth USD 6 billion. Although the registered capital fluctuated widely, the implemented capital was more stable during the past years. Especially in 1999 and 2000, implemented capital was larger than registered capital.

EMPLOYMENT AND POVERTY

Up to 2000, poverty reduction was not the direct target of government policies although there were targeted programs. Any way the success was outstanding due to fast economic growth. In September 2000 Vietnam declared its commitment to realize the Millennium Development Goals (MDGs) and poverty reduction objectives. The combination of
poverty reduction and economic growth has been considered in national, sectoral and provincial economic plans. Vietnam’s poverty reduction strategy paper that elaborates all general objectives, institutional arrangements, policies and solutions of all above-mentioned strategic documents into a detailed specific action plan and a road map for implementation.

The proportion of the population living below the poverty line declined from 58% in 1993 to 37% in 1998 and 29% in 2002. The proportion of the food-poor fell from 25% in 1993 to 15% in 1998 and 11% in 2002. The overall income level in Vietnam is not high, but it has improved significantly over the 1990s. Household income per expenditure in both urban and rural areas, in all regions, and for every income quintile has been improved over the period 1998-2002. There was moderate deterioration of income equality during the 1990s and Gini index rose slightly from 0.34 in 1993 to 0.35 in 1998 and 0.37 in 2002.

The poverty gap in 2002 for rural areas was 8.7, while that for the urban poor was just 1.3. The per capita expenditure of urban households was 1.8 times of that for rural households in 1992-93 and 2.4 times in 2002.

There is widening gap in regional economic growth. The increasing economic growth disparity among the regions has caused higher income gaps and improvement in living standard in these regions. Up to 2000 poorer regions, usually the mountainous and remote ones have tended to gain less from growth than richer regions, as reflected in a lower per capita expenditure growth rate. But since 2000 the growth rates in regions have tended to be aligned better, resulting in the decreasing regional expenditure gap.

Over the 1990s the annual economic growth rate was much larger than new employment creation (7.2% and 2.2% respectively). The shift in employment structure has been much slower than the shift in sectoral GDP. Industry has grown the fastest, but job creation effect is not as much as agriculture and services; agriculture remains an important employment for the poor. The service sector made larger contribution to the creation of new jobs than industry and absorbed significant proportion of the labour released from the agriculture. The urban employment has been increasing slowly from 22.1% in 1996 to 23.8% in 2002. Employment growth in manufacturing has very often been correlated with levels of technology; jobs have increased in high-technology based industries, stagnated in medium-technology sectors, and declined in low-technology manufacturing.

The poor have experienced much slower improvements in qualifications and skills. The skill mix of labour forces has had some initial improvements during the past years, but unskilled labour remains a major part of the country’s labour force. 97.1% of agriculture’s labour force are unskilled workers (as compared with 61.4% in services and 52.9% in industry), which account for 73.8% of unskilled workers of the whole economy. Skills and trained labour is highly concentrated in large cities and urban areas, while rural and remote areas are in a huge shortage of skilled workers.
The overall underemployment rate increased from 16.6% in 1996 to 31.4% in 2001. The underemployment rate in agriculture almost doubled over the period 1996-2001 from 19.4% to 37.2% while the ratios in industry and services sector were only 1%. The sectoral structure of underemployment has not changed much, with agriculture sharing about four fifth, while industry and construction, and services, each accounting for nearly one tenth of the total under-employment. The unskilled workers accounted between six sevenths and nine tenths of the total under-employed during the period 1996-2002.

The informal sector contributed to absorbing a great number of labourers sacked by the state sector. The informal sector is also a resort for new labourers and a promising complementary income source for people working in the formal sector. The income of the informal sector is almost twice higher than the minimum wage set by the government for the formal sector.

IMPACT OF TRADE LIBERALISATION ON EMPLOYMENT AND POVERTY

The trade liberalisation has had positive impact on employment in Vietnam in the past. Greater integration to the international trade market has generated new jobs for workers, particularly in some manufacturing sub-sectors, like textiles and shoes industries. It encourages enterprises in the labour intensive export industries to engage in trading activities, leads the Vietnamese exports in favor of employment creation. The high export growth rates of labour intensive industries have mitigated the problem of labour surplus in the country.

Reducing protection had positive impact on poverty thanks to its impacts on household consumption pattern. And scaled down protection on consumer goods pushed domestic prices lower to meet world prices.

Trade expansion has increased the gap in income distribution. Richer and more developed regions tended to gain more in terms of reducing poverty, while income disparity widened. So was the situation in cities and with ethnic majorities. But increasing inequality in Vietnam has not been a threat for economic growth as its extent is small. The increasing income inequality is seen as an impulse for economic activeness while disparity between the regions is not welcome. Rural households gained relatively more than the urban populations in both terms of income and price effects, narrowing the gap between urban and rural incomes. Income equity among rural household groups was also improved.

IMPACT OF FDI ON EMPLOYMENT AND POVERTY

The direct impact of FDI on poverty can be expected from the employment effect. The FDI’s direct impact on employment creation is moderate because their projects are capital intensive rather than labour intensive. Jobs created by the FDI sector are not in favor with
the poor because of high requirements of education and skills. The FDI in the agriculture, where most of the poor live is only 5-6% of total FDI investment. The poorest regions in the country do not attract FDI. Therefore, FDI may make income inequality more severe.

Transferring knowledge and skills to the local employees, foreign invested firms have made a significant contribution to building the local human capital and by that way facilitated enhancing the likely employability of the labour in the market.

The indirect impact of FDI on poverty reduction is through economic growth. FDI is one factor determining the economic growth and subsequently indirectly reducing poverty in Vietnam. This capital inflow significantly helps to establish, expand, and modernize several sector of the economy such as oil, electronics, motorbike, chemistry, fertilizer, textile, agro-product process. The growth of exports by the FDI sector reached 65% per year from 1991-2000 that account for 25% total exports of the country.

Foreign invested enterprises have contributed to employment creation in indirect ways through backward and forward links with the economy, by using domestic inputs and distribution networks. Moreover they have facilitated labour shifts from agriculture to manufacturing, which helped to ease under-employment in rural areas.

Other indirect impact of FDI on poverty reduction is tax contribution. Their contribution to government budget increases over time at an annually rate of 13% that facilitates government programs on poverty reduction.

FDI enterprises may have positive effect in terms to put more pressure on the competition that forces domestic enterprise to renovate their technology, to increase their capital formation, rationalize their activities and increase labor productivity. Spillover effects and technology transfers of FDI to the host country is widely mentioned.