DIFFERENT ASPECTS OF GLOBALIZATION AND DIFFERENT FORMS OF POVERTY ALLEVIATION IN VIETNAM

NOVEMBER 2004
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**Acronyms**

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB</td>
<td>Asia Development Bank</td>
</tr>
<tr>
<td>CCFD</td>
<td>Conseil Contres la Faim et pour le Developement</td>
</tr>
<tr>
<td>CIEM</td>
<td>Central Institute for Economic Management</td>
</tr>
<tr>
<td>DFID</td>
<td>Department for International Development</td>
</tr>
<tr>
<td>FAO</td>
<td>Food and Agriculture Organization</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GEF</td>
<td>Global Environment Facility</td>
</tr>
<tr>
<td>GSO</td>
<td>General Statistics Office</td>
</tr>
<tr>
<td>HCMC</td>
<td>Ho Chi Minh City</td>
</tr>
<tr>
<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>MOLISA</td>
<td>Ministry of Labor, Invalids, and Social Affairs</td>
</tr>
<tr>
<td>MPI</td>
<td>Ministry of Planning and Investment</td>
</tr>
<tr>
<td>NASA</td>
<td>National Aeronautics and Space Administration</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Government Organization</td>
</tr>
<tr>
<td>ODA</td>
<td>Official Development Assistance</td>
</tr>
<tr>
<td>OPEC</td>
<td>Organization of the Petroleum Exporting Countries</td>
</tr>
<tr>
<td>SOEs</td>
<td>State-Owned Enterprises</td>
</tr>
<tr>
<td>T&amp;G</td>
<td>Textile and Garment</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>UNDCP</td>
<td>The United Nations International Drug Control Programme</td>
</tr>
<tr>
<td>UNDP</td>
<td>The United Nation Development Program</td>
</tr>
<tr>
<td>UNFPA</td>
<td>The United Nations Population Fund</td>
</tr>
<tr>
<td>USA</td>
<td>The United States of America</td>
</tr>
<tr>
<td>USD</td>
<td>U.S. dollar</td>
</tr>
<tr>
<td>VLSS</td>
<td>Vietnam Living Standard Survey</td>
</tr>
<tr>
<td>VND</td>
<td>Vietnamese dong</td>
</tr>
<tr>
<td>VUFO</td>
<td>Vietnam Union of Friendship Organizations</td>
</tr>
<tr>
<td>WB</td>
<td>The World Bank</td>
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<td>WHO</td>
<td>World Health Organization</td>
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</table>
1. INTERNATIONAL TRADE

Of the many dramatic policy changes from Vietnam’s doi moi, opening trade activities is interpreted as a critical element in stimulating the on-going growth and poverty reduction. It is believed that among the factors actively affecting poverty reduction success, trade has appeared to be one of the most important (if not say the decisive one) through income and expenditure level increase. Lower barriers to international trade and capital flows have affected the Vietnamese economy in several dynamic ways. By decreasing the cost of critical imports from developed nations, Vietnam has been able to access new technologies for advancing production and productivity. However, the more critical aspect for this analysis is the advancement in the export sector. Vietnam’s low costs compared to world prices has created entire new sectors of the economy and given millions of Vietnamese citizens the incentives and means of climbing out of poverty. It is observed that over the last 10 years increased trade has accompanied poverty alleviation both across sectors and regions. According to available statistical evidence, from 1993 to 2002 the national food poverty rate fell from 13.3% to 9.96%, while the total incident poverty reduced from 37.4% to 28.9% (approximately by 1/3). Over this same period, exports increased from USD 2.55 billions up to USD 16.7 billions and imports increased from USD 2.54 billions up to USD 19.7 billions by the year 2002. Within these mechanisms are the increased mobility of capital, as remittances from Viet Kieu (overseas Vietnamese), foreign direct investment (FDI), and Official Development Aid begin to flood the society. While these changes cause aggregate changes in the national income, the question at the center of this research is are these changes affecting Vietnam’s poor.

The effects of international trade to alleviate poverty will be examined through both directly and indirectly. Direct effects are revealed though cross region and cross sector comparisons of trade and poverty reduction. Specifically this analysis will look at household expenditure and trade at a regional and provincial level. Indirect effect will be examined through job turnover and correlation with trade value and import composition. This study will not use econometric modeling and regression analysis as the data on poverty is inconsistent for such an analysis. Poverty data will be taken from the Vietnam Living Standard Surveys (VLSS) conducted in 1992-1993, 1997-1998 and 2001-2002 on household income, expenditure and the firm’s wages. In addition to the VLSS, this study will look at the results of the enterprise census from April 2001.
1.1. Trade effects by geographic regions and between urban and rural areas

To begin examining the effects of trade at regional level on poverty alleviation (food poverty reduction and incidence poverty reduction) we will focus on rate of trade growth over the period 1996-2000. Table one lists several key indicators for this analysis.

Table 1. International trade value and poverty rates cross-regions

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Red River Delta</td>
<td>19.6</td>
<td>19.7</td>
<td>4</td>
<td>0.75</td>
<td>6</td>
<td>6.06</td>
<td>3</td>
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<tr>
<td>North - East</td>
<td>2.6</td>
<td>15.7</td>
<td>5</td>
<td>2.93</td>
<td>3</td>
<td>19.41</td>
<td>1</td>
</tr>
<tr>
<td>Central coastal</td>
<td>5.2</td>
<td>10.6</td>
<td>6</td>
<td>2.3</td>
<td>5</td>
<td>3.69</td>
<td>4</td>
</tr>
<tr>
<td>Central highland</td>
<td>3.8</td>
<td>23.0</td>
<td>2</td>
<td>3.68</td>
<td>1</td>
<td>0.6</td>
<td>6</td>
</tr>
<tr>
<td>South-East region</td>
<td>55.9</td>
<td>25.1</td>
<td>1</td>
<td>2.95</td>
<td>2</td>
<td>3.08</td>
<td>5</td>
</tr>
<tr>
<td>Mekong Delta</td>
<td>12.9</td>
<td>20.6</td>
<td>3</td>
<td>2.65</td>
<td>4</td>
<td>13.72</td>
<td>2</td>
</tr>
<tr>
<td>The whole country</td>
<td>100.0</td>
<td>22.0</td>
<td></td>
<td>3.37</td>
<td></td>
<td>8.47</td>
<td></td>
</tr>
</tbody>
</table>

Note: (direct export value\(^1\) of enterprises under the provincial authority), poverty indicators for the year 1997 and 2002.

The table above shows that there is a noticeable correlation between trade activity and poverty alleviation at a regional level. The South-East region, where Ho Chi Minh City is located, has the highest level of trade and the lowest poverty levels (both in terms of food poverty at 2.2% and total incidence poverty which is 10.7%). The Northern mountainous region is the most isolated, least active in trade and characterized by the highest level of poverty (68.7% and 26.6% respectively). The more moderate case of the Red River Delta region has poverty rates and trade activity slightly better than with the national figures.

Over the period 1996-2000, the effect of trade on poverty reduction shows similar picture. The South-East and central highland regions had the highest growth in trade and ranked first and second in food poverty reduction. Regarding total poverty rate reduction, correlation with trade activity effect shows slightly different dynamic; the North-East mountainous and Mekong Delta regions showing the highest rate of reduction, whereas South - East and Central highland got a lowest regional drop in total poverty rate. Apparently, an increase of trade activity does not equally affect food poverty reduction and incidence poverty reduction—even with the apparent the overall improvement in the standard of living standard. Trade’s impact on food

\(^1\) To avoid the case of overlapping, direct export-import figures taken instead of total trade reported by the provinces.
Poverty reduction is clear at a regional level where trade activity has increased, and is apparently more effective in poorer regions.

Trade activity shows a greater effect on poverty reduction in rural areas compared to that in urban areas. Urban areas have a significant concentration of trade value. The 4 biggest cities - Hanoi, Ho Chi Minh, Hai Phong and Da Nang- accounts for 15% of population and 42% of local direct trade value. These cities have a food poverty rate as much as 1/3 and a total incident poverty rate as much as 1/6 of that of rural areas. However, the overall decline in the incidence of poverty has declined faster in rural areas. From 1998 to 2002, rural areas experienced a 3.9% decline in poverty compared with 1% in urban areas. Similarly, growth in trade in rural areas (32.8%) has been far greater than urban trade growth (24.7%). This positive correlation between trade growth and poverty reduction is apparent across regions. The rural areas higher levels can be both a function of a lower starting point (and thus less development needed for higher percentage growth) or perhaps trade has a marginally diminishing impact on poverty reduction.

**Table 2. Trade activity and poverty reduction in urban and rural areas**

<table>
<thead>
<tr>
<th></th>
<th>Urban</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Value</td>
<td>2.7bln*</td>
<td>3.8 bln</td>
</tr>
<tr>
<td>Food poverty (%)</td>
<td>4.6</td>
<td>15.9</td>
</tr>
<tr>
<td>Total incidence poverty (%)</td>
<td>9.4</td>
<td>44.8</td>
</tr>
<tr>
<td>Trade Growth (%)</td>
<td>32.8</td>
<td>18.7</td>
</tr>
<tr>
<td>Food Poverty reduction (%)</td>
<td>1</td>
<td>3.9</td>
</tr>
<tr>
<td>Poverty Incidence reduction (%)</td>
<td>2.8</td>
<td>9.1</td>
</tr>
</tbody>
</table>

*Source: GSO *Figures for four largest cities only.

1.2. **Trade effects by income and expenditure**

**Income level across regions**

While the impact of trade on poverty between regions shows greater growth in poorer regions, looking at trade’s effect income within regions by income group shows a different effect. The gap in the level of income between income groups is influenced also by the factor of trade, the more trade active the region the larger the gap between the lowest income group and highest income group. This gap between income groups is also much higher in urban areas compared with the less trade active rural area.
Table 3. Level of income and gap between income groups in relation to the trade value

<table>
<thead>
<tr>
<th>Regions</th>
<th>Monthly income per capita (1000 VND)</th>
<th>Monthly income comparison (rural =1 and North-West region =1)</th>
<th>Gap between 10% lowest and highest income groups (1000 USD)</th>
<th>Trade Value (1000 USD)</th>
<th>Trade value comparison (North - West region’s trade value =1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban area</td>
<td>625.85</td>
<td>2.3</td>
<td>14.22</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural area</td>
<td>274.91</td>
<td>1</td>
<td>9.44</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Red river Delta</td>
<td>323.26</td>
<td>1.6</td>
<td>10.9</td>
<td>645984</td>
<td>72.4</td>
</tr>
<tr>
<td>North - East</td>
<td>269.16</td>
<td>1.4</td>
<td>9.2</td>
<td>316693</td>
<td>35.5</td>
</tr>
<tr>
<td>North - West</td>
<td>195.92</td>
<td>1</td>
<td>8.98</td>
<td>8923</td>
<td>1</td>
</tr>
<tr>
<td>Northern Central</td>
<td>235.49</td>
<td>1.2</td>
<td>9.1</td>
<td>245428</td>
<td>27.5</td>
</tr>
<tr>
<td>Coastal Central</td>
<td>306.03</td>
<td>1.6</td>
<td>9.49</td>
<td>543435</td>
<td>60.9</td>
</tr>
<tr>
<td>Central highland</td>
<td>239.67</td>
<td>1.2</td>
<td>10.79</td>
<td>406041</td>
<td>45.5</td>
</tr>
<tr>
<td>South-East region</td>
<td>622.95</td>
<td>3.2</td>
<td>15.22</td>
<td>1706138</td>
<td>191.2</td>
</tr>
<tr>
<td>Mekong Delta</td>
<td>373.2</td>
<td>1.9</td>
<td>11.91</td>
<td>1352256</td>
<td>151.5</td>
</tr>
</tbody>
</table>

As can be seen from the table, the largest regional monthly income gap is between the Southeast region and North-West Region. These Southeast region monthly income is 3.2 times the value for the Northwest and trade is greater by a factor of 191.2. Regarding the gap between income groups, the largest gap, 15.22 times is in the richest, Southeast region compared with the narrowest gap of 9 times in the North West Region and the poorest region. In addition, the gap appears to be greater in urban areas compared with rural areas, by a factor of 2.3 and within income groups by 14.22 times in urban area, compared with 9.44 in rural area. The relative terms of poverty become much more magnified in wealthier areas.

There is an apparent positive correlation between trade levels income and inequality. Trade activity has the predicted effect or raising incomes. However, his raise income raises relative poverty in a comparison of income groups. Again, it is important to note that this dynamic is most likely a factor of Vietnam’s low starting point. While there is evidence of inequality existing, the opportunities for income growth via trade related income generation far out weighs the rise in relative inequality. Productively is certainly growing in this process. While the pie my not be equally sliced, the overall pie is growing in size.

**Income level across sectors**

The effect of trade activity on wages is also differentiated across regions and between urban and rural areas. We will select Ho Chi Minh City as our case study for a trade active region, while Son La will represent a relatively trade inactive region. The effect of trade on a firm’s wages appeared to be stronger in the urban area than it is in the rural area and is also differentiated by the overall trade activity on a city by city basis..
Table 4. Differences in incomes between the urban and rural areas

<table>
<thead>
<tr>
<th></th>
<th>Ho Chi Minh City</th>
<th>Son La</th>
<th>Differences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>1273.4</td>
<td>493.4</td>
<td>2.6</td>
</tr>
<tr>
<td>Trade and service</td>
<td>1330.4</td>
<td>563.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Government</td>
<td>1511.0</td>
<td>564.8</td>
<td>2.7</td>
</tr>
<tr>
<td>Non-Government</td>
<td>998.7</td>
<td>539.5</td>
<td>1.9</td>
</tr>
</tbody>
</table>


It is observable that there is a very large difference between the most trade active province and the least trade active province in term of wages across sectors. The net affects of trade is overall higher incomes in both urban and rural areas.

For comparison of trade effect on wage in rural area, selected Ninh Binh province (rural trade less active) and Ca Mau province (rural trade more active). As can be seen from the table below, cross sector wage differences ranges from a factor of 1.3 to 2.0. This observation is clearly lower than that in urban area (2-3 times differences) in the above demonstrated case (table 8)

Table 5. Difference in firm’s wages in rural area between trade more active province and trade less active province

<table>
<thead>
<tr>
<th></th>
<th>Ninh Binh</th>
<th>Ca Mau</th>
<th>Differences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>530,0</td>
<td>864.3</td>
<td>1.6</td>
</tr>
<tr>
<td>Trade and services</td>
<td>385.7</td>
<td>790.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Government</td>
<td>547.6</td>
<td>804.9</td>
<td>1.5</td>
</tr>
<tr>
<td>Non-Government</td>
<td>455.9</td>
<td>849.3</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Source: Results of enterprise census at 1st April 2001

The table above shows the same pattern of trades activity correlating to higher income. In the case of Ninh Binh higher incomes in manufacturing are partially due to ownership factors; SOEs in manufacturing have higher wages than private enterprises. The case of Ca Mau shows the dynamism of both FDI and private enterprises creating the “virtuous cycle” of income growth.

The wage gap between sectors appears to be more severe in areas most active in trade, particularly the South East Region compared to the North West Region. There is also significant difference within these regions between the provinces most active trade and province with limited trade. In Table 6, we look at this dynamic within the most trade active region, the South-East—the provinces of Ninh Thuan and Ho Chi Minh City.
Table 6. Wage differences within the most trade active region
(South East Region)

<table>
<thead>
<tr>
<th></th>
<th>Ho Chi Minh City</th>
<th>Ninh Thuan</th>
<th>Differences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>1273.4</td>
<td>448.8</td>
<td>2.8</td>
</tr>
<tr>
<td>Trade and service</td>
<td>1330.4</td>
<td>712.0</td>
<td>1.9</td>
</tr>
<tr>
<td>Government</td>
<td>1511.0</td>
<td>672.0</td>
<td>2.2</td>
</tr>
<tr>
<td>Non-Government</td>
<td>998.7</td>
<td>683.5</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Source: Results of enterprise census at 1st April 2001.

Cross sector wage differences varied by a factor 1.2 and 5.5, showing higher values for trade and services. Again, the positive effect of trade on incomes is supported. In the table below, we show this same structure for the two provinces in the region least active in trade. In this case, the more trade active province (Hoa Binh) shows little difference from the least trade active province in the region (Son La). The values here are much lower than for the South East Region.

Table 7. Wage differences in the less trade active region
(North West Region)

<table>
<thead>
<tr>
<th></th>
<th>Hoa Binh</th>
<th>Son La</th>
<th>Differences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>441.6</td>
<td>493.4</td>
<td>1.1</td>
</tr>
<tr>
<td>Trade and service</td>
<td>446.8</td>
<td>563</td>
<td>1.3</td>
</tr>
<tr>
<td>Government</td>
<td>433</td>
<td>564.8</td>
<td>1.3</td>
</tr>
<tr>
<td>Non-Government</td>
<td>630.6</td>
<td>539.5</td>
<td>0.9</td>
</tr>
</tbody>
</table>

Source: Results of enterprise census at 1st April 2001

In short, although we cannot determine the degree that trade contributes income generation, we can at least see the positive correlation between increases in trade and increases in income.

**Income structure**

We will assume that income structure is more reflective of the overall economic structure and prevailing conditions than from trade activity dynamics. At the national level, salaried earnings, Agriculture and self-employed non-farming activities each account for approximately one-third of the total value of GDP per capita. From 1992-2002, income structure shifted toward non-agriculture and salary as the manufacturing and service sector is expanded. For the Mekong Delta, where agriculture dominates, income contribution from the agricultural sector reduced slowly from 40.7% to 37.3%. Contrarily, Red River Delta had a much sharper decline by 15%. This dynamic is contrary to the assumption that trade would induce moving incomes off -farm. In addition, the salaried income for the Red River Delta doubled from 16.6% up to 33.3%, while the Mekong Delta percentage of salaried income increased by approximately 2%.
Table 8. Change in the income structure over the last 10 years

<table>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban area</td>
<td>32.4</td>
<td>43.9</td>
<td>4.9</td>
<td>4.4</td>
<td>54.8</td>
<td>51.7</td>
</tr>
<tr>
<td>Rural area</td>
<td>16.6</td>
<td>24.8</td>
<td>51.6</td>
<td>35.9</td>
<td>28.1</td>
<td>39.3</td>
</tr>
<tr>
<td>Red river Delta</td>
<td>16.6</td>
<td>33.3</td>
<td>39.9</td>
<td>24.9</td>
<td>36.5</td>
<td>41.8</td>
</tr>
<tr>
<td>North - West</td>
<td>11.1</td>
<td>24.1</td>
<td>63.1</td>
<td>50.2</td>
<td>19.7</td>
<td>25.7</td>
</tr>
<tr>
<td>Northern Central</td>
<td>12.2</td>
<td>22.9</td>
<td>46.9</td>
<td>37.6</td>
<td>34.1</td>
<td>39.5</td>
</tr>
<tr>
<td>Coastal Central</td>
<td>28</td>
<td>39.8</td>
<td>21.1</td>
<td>25.9</td>
<td>45.8</td>
<td>34.3</td>
</tr>
<tr>
<td>Central highland</td>
<td>19.9</td>
<td>25.3</td>
<td>64.5</td>
<td>49.3</td>
<td>14.4</td>
<td>25.4</td>
</tr>
<tr>
<td>South-East region</td>
<td>32.7</td>
<td>45.4</td>
<td>11.3</td>
<td>11.6</td>
<td>50.7</td>
<td>43</td>
</tr>
<tr>
<td>Mekong Delta</td>
<td>22.9</td>
<td>24.7</td>
<td>40.7</td>
<td>37.3</td>
<td>33.5</td>
<td>38</td>
</tr>
<tr>
<td>Country</td>
<td>21.8</td>
<td>32.6</td>
<td>36.3</td>
<td>28.4</td>
<td>36.8</td>
<td>39</td>
</tr>
</tbody>
</table>


The share of salaried incomes (including the service and manufacturing sector) shows a clear affect of the dynamics of increased trade activity. While the change over this period shows that the first period has a higher rate of change, still the share of salaried incomes in the South-East region is significantly higher than the Red River Delta, 45.4% and 33.3% respectively. The North West region’s share of salaried income at 24.1% and dependence on agriculture follows the trend of being only marginally active in trade.

The data also illustrates that trade has a greater influence in the urban areas than in rural. Salaried incomes in urban areas increase by 11.5% compared to an 8.2% increase in rural areas. As has been indicated in the table above, the share of income from salaried earnings doubled in the Red River Delta and increased by one-third in the South East region, while the Central Coast and Mekong delta experienced only 5% and 2% growth in salaried incomes.

**Expenditure structure**

Changes in household consumption patterns have also been significantly altered by trade dynamics. Expenditures in regions of high trade have shifted toward non-food products as trade activity increases. This trend is more predominant in regions with low overall levels of trade activity. The Red River Delta and North East Region experienced a 5% and a 3% reduction on food expenditure. However, the Central Highlands and North-West Region showed much smaller changes of 1.9% and 2.7%.

The values shown in Table 4 have significant problems in depicting expenditure as items of food and non-food basket are not similar between the point 1992, 2002. the results show are perhaps slightly deflated by this point. However, the data still shows a clear picture of expenditure structure changes and one that fits with the overall understanding on trade
dynamics and income growth. Overall, the share of non-food expenditures increased more rapidly in more trade active regions (South-East region).

Table 9. Cross-region change in the expenditure structure of the households in the period 1992-2002

<table>
<thead>
<tr>
<th>Region</th>
<th>Trade growth rate over 1997-2000</th>
<th>Food</th>
<th>Non-food</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban area (4 big cities)</td>
<td>32.8</td>
<td>56.1</td>
<td>51.5</td>
</tr>
<tr>
<td>Rural area</td>
<td>18.7</td>
<td>63.1</td>
<td>60</td>
</tr>
<tr>
<td>Red river Delta</td>
<td>19.7</td>
<td>58.3</td>
<td>53.8</td>
</tr>
<tr>
<td>North - East</td>
<td>15.7</td>
<td>66.9</td>
<td>64.2</td>
</tr>
<tr>
<td>Coastal Central</td>
<td>10.6</td>
<td>59.5</td>
<td>56.4</td>
</tr>
<tr>
<td>Central highland</td>
<td>23.0</td>
<td>60.8</td>
<td>58.9</td>
</tr>
<tr>
<td>South-East region</td>
<td>25.1</td>
<td>55.4</td>
<td>52.6</td>
</tr>
<tr>
<td>Mekong Delta</td>
<td>20.6</td>
<td>64.5</td>
<td>60.5</td>
</tr>
<tr>
<td>Country</td>
<td>26.3</td>
<td>56.6</td>
<td>43.4</td>
</tr>
</tbody>
</table>


Regarding the effect of trade activity on the expenditures, we should observe the same correlation as we see with income. The overall level of expenditure should be significantly higher in regions with more active (Red River Delta and South East Region) and lower in region with less trade (Northern Central and Central Highland). In addition, we can see in table 10 that the expenditure gap between the income groups is also higher in regions more active in trade (Red River Delta and South East Region).

Table 10. Cross-Region Expenditure by Income Group in 2002

<table>
<thead>
<tr>
<th>Region</th>
<th>As the whole</th>
<th>Group 1</th>
<th>Group 5</th>
<th>Gap 5/1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
<td>268.3</td>
<td>122.5</td>
<td>547.1</td>
<td>4.5</td>
</tr>
<tr>
<td>Urban area</td>
<td>459.7</td>
<td>195.5</td>
<td>881.2</td>
<td>4.5</td>
</tr>
<tr>
<td>Rural area</td>
<td>210.4</td>
<td>115.8</td>
<td>355.6</td>
<td>3.1</td>
</tr>
<tr>
<td>Red river Delta</td>
<td>270.2</td>
<td>131.7</td>
<td>554.5</td>
<td>4.2</td>
</tr>
<tr>
<td>North – West</td>
<td>178.9</td>
<td>89.2</td>
<td>353.7</td>
<td>4.0</td>
</tr>
<tr>
<td>Northern Central</td>
<td>192.8</td>
<td>108.2</td>
<td>344.7</td>
<td>3.2</td>
</tr>
<tr>
<td>Coastal Central</td>
<td>247.6</td>
<td>124.7</td>
<td>459.4</td>
<td>3.7</td>
</tr>
<tr>
<td>Central highland</td>
<td>201.8</td>
<td>101.1</td>
<td>373.8</td>
<td>3.7</td>
</tr>
<tr>
<td>South-East region</td>
<td>447.6</td>
<td>185.6</td>
<td>909.9</td>
<td>4.9</td>
</tr>
<tr>
<td>Mekong Delta</td>
<td>255.8</td>
<td>142.2</td>
<td>434.2</td>
<td>3.1</td>
</tr>
</tbody>
</table>

Source: Living Standard Survey 2002

1.3. International Trade’s effect on job creation and destruction
Given the link between trade activity, income level, and expenditure, poverty alleviation within a region should also have a positive correlation with these factors. Increased trade activity should boost job creation and thus reduce a region’s poverty level. The most trade active regions (Red River Delta Region and South East Region) in fact have the largest number of new jobs created during the period 1995-2002, and the least trade active region (North West Region) has a lowest number of new jobs created.

It can be seen from the table 11 below, over the last 7 years the total number of new job created amounted to approximately 5.2 million. The Red River Delta created largest number of new jobs, accounting for 23.6% of the total, followed by the Mekong Delta (21.8%), and the South – East Region (12.8%). The North West Region created the fewest new jobs is at only 2.9%. The service sector created the highest number of new job (42%), followed by the agriculture sector (38.8%). Trade activity has obviously been influential in service and agriculture sectors, where more trade active regions experience more dramatic changes--Red River Delta 23.6%, Mekong Delta 21.8%, and 12.8% job growth in the South – East Region. For the past ten years, it is apparent that trade has had a positive effect in expanding new sectors of employment and creating greater opportunity for higher wages.

### Table 11. Job creation across sectors and regions during the period 1995-2002

<table>
<thead>
<tr>
<th>Region</th>
<th>Total</th>
<th>Agriculture</th>
<th>Manuf. and Contr.</th>
<th>Manuf.</th>
<th>Services</th>
<th>National Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Red River Delta</td>
<td>1226.1</td>
<td>478.5</td>
<td>242.4</td>
<td>176.6</td>
<td>505.2</td>
<td>23.6%</td>
</tr>
<tr>
<td>Share within region</td>
<td>100.0%</td>
<td>39.0%</td>
<td>19.8%</td>
<td>14.4%</td>
<td>41.2%</td>
<td></td>
</tr>
<tr>
<td>East - West</td>
<td>554.3</td>
<td>305.8</td>
<td>71.4</td>
<td>48.6</td>
<td>177.1</td>
<td>10.7%</td>
</tr>
<tr>
<td></td>
<td>100.0%</td>
<td>55.2%</td>
<td>12.9%</td>
<td>8.8%</td>
<td>32.0%</td>
<td></td>
</tr>
<tr>
<td>North - West</td>
<td>152.8</td>
<td>49.4</td>
<td>20</td>
<td>12.5</td>
<td>83.4</td>
<td>2.9%</td>
</tr>
<tr>
<td></td>
<td>100.0%</td>
<td>32.3%</td>
<td>13.1%</td>
<td>8.2%</td>
<td>54.6%</td>
<td></td>
</tr>
<tr>
<td>Northern Central</td>
<td>635.7</td>
<td>326.8</td>
<td>72.6</td>
<td>47.9</td>
<td>236.3</td>
<td>12.2%</td>
</tr>
<tr>
<td></td>
<td>100.0%</td>
<td>51.4%</td>
<td>11.4%</td>
<td>7.5%</td>
<td>37.2%</td>
<td></td>
</tr>
<tr>
<td>Coastal Central</td>
<td>548</td>
<td>165</td>
<td>118.9</td>
<td>96</td>
<td>264.1</td>
<td>10.5%</td>
</tr>
<tr>
<td></td>
<td>100.0%</td>
<td>30.1%</td>
<td>21.7%</td>
<td>17.5%</td>
<td>48.2%</td>
<td></td>
</tr>
<tr>
<td>Central highland</td>
<td>274</td>
<td>146.3</td>
<td>19</td>
<td>14.3</td>
<td>108.7</td>
<td>5.3%</td>
</tr>
<tr>
<td></td>
<td>100.0%</td>
<td>53.4%</td>
<td>6.9%</td>
<td>5.2%</td>
<td>39.7%</td>
<td></td>
</tr>
<tr>
<td>South-East region</td>
<td>663.4</td>
<td>29.2</td>
<td>278</td>
<td>271.9</td>
<td>356.2</td>
<td>12.8%</td>
</tr>
<tr>
<td></td>
<td>100.0%</td>
<td>4.4%</td>
<td>41.9%</td>
<td>41.0%</td>
<td>53.7%</td>
<td></td>
</tr>
<tr>
<td>Mekong Delta</td>
<td>1135</td>
<td>513.1</td>
<td>175.9</td>
<td>143.7</td>
<td>446</td>
<td>21.8%</td>
</tr>
<tr>
<td></td>
<td>100.0%</td>
<td>45.2%</td>
<td>15.5%</td>
<td>12.7%</td>
<td>39.3%</td>
<td></td>
</tr>
<tr>
<td>National</td>
<td>5196.3</td>
<td>2016.8</td>
<td>999.5</td>
<td>812.5</td>
<td>2180.1</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>100.0%</td>
<td>38.8%</td>
<td>19.2%</td>
<td>15.6%</td>
<td>42.0%</td>
<td></td>
</tr>
</tbody>
</table>
For the last decade, the structure of Vietnamese imports has predominantly been materials and machinery, roughly 90% of the total imports. Vietnam’s use of non tariff barriers, such as foreign exchange controls, restricts imports to goods and commodities that can not be locally produced. These market barriers might perhaps insulate infant industries from global competitions, but it is difficult to measure the net welfare effect and labor market distortions. With increased trade and a greater opening up of local markets in line with a future WTO accession, such policies will have limited roles in shaping future import consumption.

1.4. Globalization and changes in prices:

Table 12 shows the consumer price index in relation to levels of international trade (imports plus exports divided by GDP).

<table>
<thead>
<tr>
<th>Year</th>
<th>International trade/GDP (%)</th>
<th>Consumption price index (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>50.6</td>
<td>17.5</td>
</tr>
<tr>
<td>1993</td>
<td>54.3</td>
<td>5.2</td>
</tr>
<tr>
<td>1994</td>
<td>57.1</td>
<td>14.4</td>
</tr>
<tr>
<td>1995</td>
<td>65.44</td>
<td>12.7</td>
</tr>
<tr>
<td>1996</td>
<td>74.58</td>
<td>4.5</td>
</tr>
<tr>
<td>1997</td>
<td>73.72</td>
<td>3.6</td>
</tr>
<tr>
<td>1998</td>
<td>70.51</td>
<td>9.2</td>
</tr>
<tr>
<td>1999</td>
<td>79.89</td>
<td>0.1</td>
</tr>
<tr>
<td>2000</td>
<td>94.04</td>
<td>-0.6</td>
</tr>
<tr>
<td>2001</td>
<td>95.16</td>
<td>0.8</td>
</tr>
<tr>
<td>2002</td>
<td>104.57</td>
<td>4.0</td>
</tr>
<tr>
<td>2003</td>
<td>109.38</td>
<td></td>
</tr>
</tbody>
</table>

Source: International trade: CIEM; Price index: GSO

Trade openness defined as the ratio of total international trade as a share of GDP increased steadily for the last ten years, from 50% in the early 90 up to about 110% in 2003. However, the CPI shows no clear trend in price changes over this period. To identify the effect of trade on the prices, we will have a look on the price dynamics of tradable goods, specifically import goods (fuel and fertilizers), and export goods (rice and coffee) in their relationship to non tradable goods (services) under the overall framework of changes in living standards. Prices indexes over three periods are shown in the table 13 below.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total index</td>
<td>21.7</td>
<td>3.2</td>
<td>12.1</td>
</tr>
<tr>
<td>Goods</td>
<td>23.9</td>
<td>2.7</td>
<td>12.8</td>
</tr>
<tr>
<td>Food</td>
<td>18.60</td>
<td>1.1</td>
<td>9.5</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>18.40</td>
<td>3.3</td>
<td>10.6</td>
</tr>
<tr>
<td>Services</td>
<td>24.00</td>
<td>5.0</td>
<td>14.1</td>
</tr>
</tbody>
</table>

Foreign Exchanges rates | 15.4 | 5.0 | 7.0 |

Source: Price committee

Since 1990, when price liberalization occurred, the prices of tradable goods have been more or less linked to the international market. In the period 1990-1995, prices of many commodities changed significantly. Some changes were due to Government policy to eliminate subsidies and include all costs in the prices; this specifically occurred for the price of electricity, cement, steel, fertilizers, post tariffs and domestic airfares. Market forces are the driving change in commodities such as rice, meat, sugar, and clothes. In the period 1996-2000, prices were more stable and trade was more open than the previous period. From 1990 to 2000 higher rates of the CPI for non-tradable goods and services than those of tradable goods may be consequences of other factors, such as monetary policy, rather than trade expansion. In general in the CPI has shown no correlation with trade openness over the past 10 years.

Vietnam began exporting rice and coffee in the late 80s. Vietnam has shown remarkable competitiveness in international markers and has become the world’s second largest exported in both coffee and rice. Since the moment Vietnam began exporting coffee, trade barriers have been limited. Coffee trade liberalization began in the early 90s, when trading rights (the right to export) were granted to a larger number of the firms, both state owned and private.

Coffee is primarily produced for export; roughly 90% to 100% of the production is traded on the international market. Vietnam exports total 41.3% of the world market for Arabica coffee. Coffee exports accounts for 6 to 10% of the total value of Vietnam’s exports. Domestic coffee prices are very competitive with world market prices.

From 1991 to 1995, coffee export prices more than tripled from USD 791/tonn to USD 2.401 /ton. This resulted in domestic prices to increase by a factor of 5. As a result many, coffee producers and exporters leaped from one of the poorest agricultural sub-sectors to one of the wealthiest. The high land regions particularly benefited from this transition. From 1995 to 1999, Daklak, a major province for coffee production, saw average incomes grow by 22%--a value comparable to the highest growth figure of 24% in Ho Chi Minh City.
After 1996 prices of coffee decreased significantly, from 1.213 USD/ton in 1999 to the lowest level for the past decades of 300 USD/ton and stayed at a level of one quarter of the previous period. The fall in domestic market prices could cover only 60% of the production costs. Since 2003, the tendency reversed and world prices reached the break even point of 690-700 USD/ton and a domestic market VND 9,000,000 – 10,000,000 (USD 780-860) per ton.

The fall in world coffee prices affected all coffee producing households -- above-middle income household is fell to the middle income group and the middle income group dropped to lower income group. In Daklak province 45% of coffee producing households suffered from food scarcity, 66% became heavily indebted and 45% give up their own production to find new employment.

Unlike coffee, which requires a significant time investment, rice provides high levels of security for its specific growth cycles and from special attention by central and local government. Although there are no tariffs charged on rice exports, there are fixed quotas on rice exports at 3.5-4 million tons per year. The demand for Vietnamese rice exports, especially in China have been rising over this period. For security reason rice exports were liberalized after other commodities. The foreign exchange earnings from rice have experienced an overall declined, despite a continuous volume for rice, as world prices for rice have fallen.

For the past decade the international market price for rice has been down with not nearly the volatility as seen in the coffee market. However, the domestic market has experienced a different dynamic in rice prices. Until to 2001, domestic rice prices closely followed the world prices; after 2001 the government intervention has created a strong divergence. The government has enacted policies to stabilize rice prices specifically to protect peasants from severe losses. In addition to the quotas on the export volume, there is a set floor price. When prices drop below floor prices and they are not effective, preferential loans purchase rice surpluses for national reserves. The policy to divert domestic market prices is focused on avoiding exogenous price shocks from the international market. Vietnamese rice currently has a very diversified range of export destination countries and is strongly influenced by global trends.

Farmers’ reaction to this policy and from international market is to increase overall quality of rice. Total volume of rice production has remained constant however total value has increased from the investments in better qualities of rice. As a consequence, the farmer’s revenues have remained relatively constant and prices have not fallen far below cost level. Overall, the rice market has been stable with limited volatility from any world price driven shocks. In general rice exporters have benefited from this price stability, allowing overall increases in investment and significant gains from export earned surpluses. Many farmers have experienced raising incomes and have been lifted out of poverty. However, their position is quite vulnerable to changes in the world market and could easily fall back into poverty from a sudden fall in price.
Fuel is currently the most imported item for Vietnam. Every year Vietnam imports roughly 1 billion USD of oil products. Similar to rice, fuel is considered as a strategic good having a large impact on the overall national economy. For this reason the government follows a policy to keep fuel price affordable for most consumers. The primary consumers of oil during the late 1990s have been state firms (the private sector has not developed yet) and peasants (for irrigation and fishing). The government uses foreign exchange to import fuel and subsidizes from directly from the fiscal budget. When there is a rise in the price of fuel in the international market, the government manages to keep fuel prices unchanged. This contributes significantly to overall fiscal budget deficits-- an exchange of long-term macro-economic stability for the short-term benefits of the consumers, particularly the poor. In early 2004, fuel prices were not fixed by the Government, but still subject to a 10% ceiling on price volatility. As a result, the retail prices grew by 6-8% causing a serve impact on expenditure patterns for the poor. The poor suffer a much greater impact in terms of real incomes as fuel prices increase.

Fertilizers imports are similar to fuel imports with some minor distinctions. Vietnam imports all nearly all fuel consumption; however, domestic fertilizer producers meet 10% of local demand. Fertilizers are a critical input for agriculture production especially for rice. Prices on fertilizers have been artificially kept at the low based on the import prices. Licensing for fertilizers importation is restricted to state firms specialized to serve the domestic agriculture sector, who in addition must meet specific import quota restrictions. By 1997, quota restrictions were removed. After this liberalization, prices on fertilizers have been maintained under special consideration by the government. There have been instances of spikes in fertilizer prices, or “fertilizers fevers” but the import market has responded fast enough to increase supply.

The consumer price index for Vietnam is primarily determined changes in the price on food. Food products accounted for 40-60 % of the basket for goods used during the 1990s. Unlike experience during the 80s, the consumer price index volatility have not correlated with changes in the prices on foreign exchange (USD) or the exchange rate, even as the Vietnamese economy has become much more exposed to dollar-to-dong fluctuation through foreign exchange reserves and the use of dollars in settlement of international transactions.

As shown in the table 13, during the past decade the price of services increased at a higher rate than the change in the price of goods, even though many of these activities are non-tradables and unexposed to international markets. These increases have been accompanied by increased demand in services, diversification of service related activity, and constraints on skilled labor supply. In general, opening the economy has been a driving force by introducing new services and an overall increase in living standards.

Globalization and international trade affect the services sector differently. In the case of telecommunication, telephone charges have declined significantly with the coming of the new
operators. Other than the incumbent firm, the first mobile phone firm began operations in 1997. As a result, the fees for installing of fixed phone lines and Internet charges have declined. As other mobile phone firms receive licenses, the charges for international calls have incrementally declined. Internet fees have also followed such tendency with a current rate 1/20 of the charges at the time when the Internet became available in Vietnam.

Table 14. Telecom charges in 1999 – 2003 (in USD)

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2001</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Fee for fixed phone installation</td>
<td>110.33</td>
<td>93.07</td>
<td>84.75</td>
</tr>
<tr>
<td>2. Monthly fee for fixed phones</td>
<td>1.86</td>
<td>1.79</td>
<td>1.76</td>
</tr>
<tr>
<td>3. Fees for international calls (3 minutes to Japan)</td>
<td>7.92</td>
<td>6.93</td>
<td>6.93</td>
</tr>
<tr>
<td>4. Basic mobilephone fees (monthly)</td>
<td>82.75</td>
<td>56.5</td>
<td>39.11</td>
</tr>
<tr>
<td>5. Mobile phone monthly fees</td>
<td>13.79</td>
<td>9.97</td>
<td>9.78</td>
</tr>
</tbody>
</table>

Source: CIEM, 2003
2. FOREIGN INVESTMENT

Since the enactment of the Law on Foreign Direct Investment in 1987, there has been a significant volume of FDI flowing into Vietnam. As of the end of 2002, there have been 4426 foreign invested projects granted licenses. The total registered capital is USD 43 billion and the total implemented capital is USD 26 billion. During the period from 1988 to 1990 there were 219 projects with registered capital of USD 1.6 billion. There were 1,398 projects registered in the period 1991-1995 with the total registered capital of USD 16.24 billion. And in the period 1996-2002, there were 2809 projects with the total capital of 25.16 billion registered.

The outstanding achievement of Vietnam to reduce poverty in the past decade raises a very interesting question regarding the role of FDI and poverty alleviation. In the following section, we will consider the liberalization of foreign investment as a component of overall globalization in Vietnam in a broader framework.

The contribution of FDI to poverty reduction in Vietnam can be seen both indirectly and directly. FDI directly impacts poverty in Vietnam by perhaps increasing opportunities, particularly providing jobs and training to local workers, which all contribute to overall income generation. FDI may reduce unemployment or underemployment by providing people with higher income earning potential thereby directly contributing to poverty reduction specifically for green-field investment and when foreign capital does not replace total local investment.

The indirect impact of FDI on poverty reduction can be found primarily through FDI’s influence on GDP growth and productivity. The flow of FDI in general creates increased flexibility and position regarding a nation’s balance of payments bottlenecks. Increased capital and new technologies and business techniques increases overall national competitiveness. With the additional logistical network needed to feed international investor demand for returns alters the structure of the economy with increased back ward and forward linkages.

In terms of direct effects, FDI in Vietnam absorbed 447,630 laborers by the end of 2002, equivalent to only 1.1% of overall employment. The total contribution of FDI in employment is quite low. Even in using Carl Aaron’s method to determine labor indirectly involved in FDI activities (a ratio of 1 to 6), FDI would still only contribute 1.76% of total employment. This
can perhaps be best explained to do the nature of FDI in Vietnam being primarily for capital intensive projects.

**Table 15. FDI employment generation (1,000 persons)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>33667</td>
<td>33978</td>
<td>34352</td>
<td>34800</td>
<td>35680</td>
<td>36205</td>
<td>39489</td>
<td>40694</td>
</tr>
<tr>
<td>FDI employment</td>
<td>134.67</td>
<td>203.87</td>
<td>240.46</td>
<td>243.60</td>
<td>285.44</td>
<td>289.64</td>
<td>355.40</td>
<td>447.63</td>
</tr>
<tr>
<td>Share of FDI employment in total employment</td>
<td>0.4</td>
<td>0.6</td>
<td>0.7</td>
<td>0.7</td>
<td>0.8</td>
<td>0.8</td>
<td>0.9</td>
<td>1.1</td>
</tr>
</tbody>
</table>

*Source: MOLISA (2002); MPI (2003)*

The direct effects of FDI in terms of income creation are quite positive in absolute terms. The Institute of World Economy (2002) reported that in the textile and garment industry, foreign invested enterprises have the highest average wages in comparison with domestic private enterprises and state-owned enterprises. In 2000, the average wages of workers in FDI enterprises working in textiles and garments was 165% higher than the average wages of workers in domestic private enterprises and 160% higher workers in state-owned enterprises in the same sector. Another positive impact of FDI is that it helping to create a more flexible, competitive labor market in Vietnam.

**Table 16. Average wages per worker in textiles and garments industry by ownership types**

<table>
<thead>
<tr>
<th></th>
<th>FDI</th>
<th>Private</th>
<th>SOE</th>
<th>Total T&amp;G</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual wage (mil. VND)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>13.82</td>
<td>8.04</td>
<td>8.47</td>
<td>9.34</td>
</tr>
<tr>
<td>2000</td>
<td>14.79</td>
<td>8.95</td>
<td>9.23</td>
<td>10.22</td>
</tr>
</tbody>
</table>

*Source: Institute of World Economy, 2002*

With regard to indirect employment in vertically related sectors, including backward linkages to suppliers, subcontractors, service providers and forward linkages like distributors, service agents, FDI’s implication on poverty reduction is more complicated. It may raise employment in backward-linkage entities when it purchases raw materials, spare parts, components and services from them and help them to extend operations. On the contrary, FDI may have no effect or even negative effects when it relies on imported inputs. Similarly, FDI may have a positive or negligible impact on employment in forward-linkage entities when using local distributors. In regard to indirect employment in horizontally related entities like local
enterprises competing in the same market with foreign affiliates, FDI may have a negative impact when it outbeats the local firms.

The impact of FDI on poverty reduction has shown to be positive. A study by Hemmer and Hoa (2002) reported that the interviewed FDI funded enterprises in their sample showed most firms to use domestic partners for supplying inputs, distributing outputs, and marketing. Nevertheless, this same report concluded that even with the gains in income and employment from FDI, the overall affect on poverty alleviation is insignificant. Their regression results show that the coefficient for FDI’s direct impact on poverty to be “insignificant even at the 10% level”.

This result can be interpreted in several ways. Firstly, the FDI sector accounts for a meager share (only 1.1% in 2002) of in total employment. The FDI sector is a capital-intensive sector of the Vietnamese economy, where the cost for creating a new job is higher in compared to other sectors of the economy. Secondly, it is argued that FDI sector primarily employs higher skilled workers, who generally are not ‘the poor.’ Thirdly and more importantly, FDI enterprises are usually located in urban and more developed areas. Most of the foreign investment projects concentrate on provinces in the South East region and the Red River Delta like Ho Chi Minh City, Hanoi, Dong Nai, Binh Duong, Ba Ria-Vung Tau, where infrastructure is in a better condition. Moreover, according to Hemmer and Hoa (2002), implementation of foreign invested projects in the poor areas seems to be more difficult and costly than elsewhere.

![Figure 1. Accumulated Registered FDI in Vietnam by Regions, 1998-2002](source: GSO, 2003)

Most analysis agrees that FDI has had an indirect impact on poverty reduction in Vietnam. An IMF report (1999) points out that the driving force for rapid economic growth in Vietnam during the 1990s was private consumption and FDI. Dollar and Kraay (2001) state clearly that, economic growth is the most important contributor to overall poverty reduction. Conclusively
FDI sector is playing an active and important role in the Vietnamese economy. The increasing role of the FDI in the economy implies it has had a remarkable role in poverty reduction in Vietnam.

Table 17. Share of FDI in Macroeconomic Aggregate Indicators

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>Investment</th>
<th>Export</th>
<th>Industrial output</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>n.a</td>
<td>14.30</td>
<td>2.49</td>
<td>12.70</td>
</tr>
<tr>
<td>1992</td>
<td>n.a</td>
<td>21.00</td>
<td>4.34</td>
<td>15.20</td>
</tr>
<tr>
<td>1993</td>
<td>n.a</td>
<td>25.20</td>
<td>9.01</td>
<td>15.40</td>
</tr>
<tr>
<td>1994</td>
<td>n.a</td>
<td>30.40</td>
<td>8.68</td>
<td>15.20</td>
</tr>
<tr>
<td>1995</td>
<td>6.30</td>
<td>32.33</td>
<td>6.17</td>
<td>25.10</td>
</tr>
<tr>
<td>1996</td>
<td>7.39</td>
<td>28.60</td>
<td>10.86</td>
<td>26.70</td>
</tr>
<tr>
<td>1997</td>
<td>9.07</td>
<td>31.28</td>
<td>19.49</td>
<td>28.90</td>
</tr>
<tr>
<td>1998</td>
<td>10.03</td>
<td>24.97</td>
<td>21.17</td>
<td>32.00</td>
</tr>
<tr>
<td>1999</td>
<td>12.24</td>
<td>18.19</td>
<td>22.07</td>
<td>34.70</td>
</tr>
<tr>
<td>2000</td>
<td>13.26</td>
<td>18.57</td>
<td>22.79</td>
<td>35.20</td>
</tr>
<tr>
<td>2001</td>
<td>13.80</td>
<td>18.30</td>
<td>23.69</td>
<td>35.30</td>
</tr>
<tr>
<td>2002</td>
<td>13.90</td>
<td>18.50</td>
<td>27.22</td>
<td>35.32</td>
</tr>
</tbody>
</table>

Source: GSO, 2003; Rhys Jenkins, 2002

Figure 2. Economic Growth and FDI as percentage of GDP

Source: GSO, 2002

FDI increased as in total share of GDP from 6.3% in 1995 to 13.9% in 2002. FDI contributed 35% of the total industrial output of the country. The growth rate of FDI by share of industrial output is consistently higher than the domestic sector and higher than the total GDP growth rate. Therefore, it can be concluded that, FDI is an engine of the industrial sector in particular and the economy in general.
Table 18. Growth Rate of Industrial Output (%)

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<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>14.2</td>
<td>13.8</td>
<td>12.5</td>
<td>11.6</td>
<td>18.4</td>
<td>14.2</td>
</tr>
<tr>
<td>Domestic sector</td>
<td>11.7</td>
<td>10.4</td>
<td>7.7</td>
<td>7.2</td>
<td>16.0</td>
<td>15.4</td>
</tr>
<tr>
<td>FDI sector</td>
<td>21.7</td>
<td>23.2</td>
<td>24.4</td>
<td>21.0</td>
<td>23.0</td>
<td>12.1</td>
</tr>
</tbody>
</table>

Source: CIEM

FDI contributes to the growth of a country by fueling the economy with capital. For a country like Vietnam, where unemployment and lack of capital is common, FDI inflows increase productivity and overall output. There is a clear association between FDI inflows and economic growth of Vietnam from 1988 to 2001 (see Figure 2 above). As can be seen in Table 18, FDI capital constituted nearly one-fifth of total investment. The total share of FDI to GDP showed a rapid increase during the past years of reforms. FDI plays a critical role of filling the saving-investment and foreign exchange gaps, ensuring rapid and sustainable growth rates. FDI can fill the shortfall between available domestic savings and investment and to maintain the balance of payments (see Table 20).

Table 19. The two gaps of Vietnam

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Saving-Investment Gap</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I/GDP (%)</td>
<td>27.1</td>
<td>28.1</td>
<td>28.3</td>
<td>29.0</td>
<td>27.6</td>
<td>29.5</td>
<td>30.1</td>
<td>32.08</td>
</tr>
<tr>
<td>S/GDP (%)</td>
<td>18.2</td>
<td>17.2</td>
<td>20.1</td>
<td>21.5</td>
<td>24.6</td>
<td>27.0</td>
<td>29.0</td>
<td>29.0</td>
</tr>
<tr>
<td>S – I Gap</td>
<td>-8.9</td>
<td>-10.9</td>
<td>-8.2</td>
<td>-7.6</td>
<td>-3.1</td>
<td>-2.5</td>
<td>-1.1</td>
<td>-3.08</td>
</tr>
<tr>
<td>Foreign Exchange Gap</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E/GDP (%)</td>
<td>26.21</td>
<td>29.41</td>
<td>32.59</td>
<td>31.64</td>
<td>39.8</td>
<td>45.6</td>
<td>46.2</td>
<td>47.5</td>
</tr>
<tr>
<td>M/GDP (%)</td>
<td>39.23</td>
<td>45.17</td>
<td>41.13</td>
<td>38.87</td>
<td>40.09</td>
<td>48.44</td>
<td>48.96</td>
<td>56.68</td>
</tr>
<tr>
<td>M-E Gap</td>
<td>-13.02</td>
<td>-15.8</td>
<td>-8.54</td>
<td>-7.23</td>
<td>-0.29</td>
<td>-2.84</td>
<td>-2.76</td>
<td>-9.18</td>
</tr>
</tbody>
</table>

Source: Vo Tri Thanh, 2003

The overall contribution of FDI to exports is also increasing. As can be seen in Table 2, the contribution of FDI to exports increased by a factor of 10 between 1991 and 2002 (2.49% to 27.22%). This is another aspect of FDI’s contribution to growth and overall poverty reduction in Vietnam. The aforementioned positive indirect effects of FDI on economic growth and thus poverty reduction in Vietnam are confirmed by Hemmer and Hoa (2002) in their quantitative study. Hemmer and Hoa (2002) found out that FDI has positive effects on provincial growth, and this growth in return helps to reduce poverty. Their regression shows that, as economic growth increases by 1%, the headcount poverty index will decline by 0.835%, other things being the same.
FDI also supports government spending programs, which is seen as having positive impact on poverty reduction. The share of FDI sector in the state budget was 5% in 2002, which is relatively small in comparison to its share of the economy in terms of industrial output, exports, or GDP.
3. OFFICIAL DEVELOPMENT ASSISTANCE (ODA)

Since the early 1990’s when Vietnam normalized its relations to international financial institutions, Official Development Assistance (ODA) and the number of donors providing support has increased significantly, from USD 1.83 billion in 1993 to USD 2.53 billion in 2002. Growing cooperation among the Government of Vietnam and its development partners has focused primarily on poverty reduction.

According to the Ministry of Planning and Investment, by the end of 2002, total committed ODA to Viet Nam reached USD 22.5. From this total USD 19.5 billion was contracted, USD 15.5 billion came in soft loans and the remaining of USD 4 billion in grants. The international donor community committed USD 2.53 billion to Vietnam for 2003, compared to USD 2.5 billion committed for 2002. The total disbursed ODA was equal to USD 11.067 billion, accounting for 56.75% of the total committed ODA.

<table>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ODA</td>
<td>1.81</td>
<td>1.94</td>
<td>2.26</td>
<td>2.43</td>
<td>2.40</td>
<td>2.20</td>
<td>2.21</td>
<td>2.40</td>
<td>2.40</td>
<td>2.50</td>
<td>2.53</td>
</tr>
</tbody>
</table>

Source: Ministry of Planning and Investment (MPI)

The three top donors are Japan, the World Bank, and the Asian Development Bank-- accounting for 74.23% of the total committed ODA to Vietnam. The top ten donors cover over 90 percent of total ODA, which include UN agencies, the EU, France, Germany, Australia, Sweden, Denmark.

The form of ODA shifted from aid to debt financing with most assistance now in the form of soft credits. In 1993 the proportion of soft credits was accounted for only 10 percent of total ODA instruments, by 1996/7 this figure rose to 56 percent, and in 1999 was 69 percent. The trend continues with new commitments. Although these credits increase the overall future debt burden these debts should reach maturity coinciding with decreased government spending for the poor. In general, these instruments will instill increased incentives for fiscal discipline and prudent development loan funded projects. The preferred type of assistance is capital investment projects, over 71 percent of total ODA disbursements. This figure is result of lending strategy by the top three donors - Japan, ADB and WB.
### Table 21. ODA commitment by the donor in 2002

<table>
<thead>
<tr>
<th>Donors</th>
<th>Commitments (USD mil.)</th>
<th>Donors</th>
<th>Commitments (USD mil.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>WB</td>
<td>488.05</td>
<td>Japan</td>
<td>546.74</td>
</tr>
<tr>
<td>ADB</td>
<td>245.71</td>
<td>France</td>
<td>144.53</td>
</tr>
<tr>
<td>UNFPA</td>
<td>22.94</td>
<td>China</td>
<td>95.16</td>
</tr>
<tr>
<td>IFAD</td>
<td>20.91</td>
<td>U.K</td>
<td>35.80</td>
</tr>
<tr>
<td>UNDP</td>
<td>12.11</td>
<td>Australia</td>
<td>31.72</td>
</tr>
<tr>
<td>OPEC</td>
<td>10.00</td>
<td>Germany</td>
<td>27.24</td>
</tr>
<tr>
<td>GEF</td>
<td>4.50</td>
<td>Korea</td>
<td>0.50</td>
</tr>
<tr>
<td>WHO</td>
<td>3.57</td>
<td>Singapore</td>
<td>0.50</td>
</tr>
<tr>
<td>UNDCP</td>
<td>2.60</td>
<td>U.S.A</td>
<td>18.00</td>
</tr>
<tr>
<td>FAO</td>
<td>1.05</td>
<td>Netherlands</td>
<td>19.22</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Italy</td>
<td>16.25</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Other</td>
<td>26.96</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total (Institutions and Countries)</td>
<td>1,775</td>
</tr>
</tbody>
</table>

*Source: MPI of Vietnam*

Although ODA benefited all regions of the country, there are still some clear regional disparities. For example, if we take three regions, where 2/3 of the poor live, - i.e. the Mekong Delta, Northern Central Coast and Northern uplands - two of these regions have the lowest ODA per capita in Vietnam. Furthermore, UNDP statistics show that ODA tends to focus on the better-off areas of Vietnam. The only exception is the already-mentioned Northern Uplands, which has managed to increase ODA per capita radically from about USD 3 to over USD 20 in five years. Currently this region is the largest recipient of ODA per capita in Vietnam.

The attitude of the donors has changed through the Consultative Group process in recent years. To reduce the regional disparities in ODA, the donors now pay more attention at the poor regions rather than to concentrate in the big cities and more developed regions. Forty-three percent of the ODA disbursement has been poured in are for the Northern mountains, north-central coast and Mekong Delta provinces, where 70 per cent of population is living below the poverty line.
Table 22. ODA by the regions

<table>
<thead>
<tr>
<th>Regions</th>
<th>The share in the total contracted ODA (in %)</th>
<th>ODA per person (in USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Central</td>
<td>5.2</td>
<td>83.96</td>
</tr>
<tr>
<td>Red River Delta</td>
<td>18.4</td>
<td>167.76</td>
</tr>
<tr>
<td>Coastal Central</td>
<td>14.1</td>
<td>127.04</td>
</tr>
<tr>
<td>Central highland</td>
<td>4.63</td>
<td>178.05</td>
</tr>
<tr>
<td>South-East region</td>
<td>11.1</td>
<td>173.02</td>
</tr>
<tr>
<td>Mekong Delta</td>
<td>9.03</td>
<td>91.00</td>
</tr>
</tbody>
</table>

Source: MPI of Vietnam

ODA is still heavily oriented towards infrastructure development. Table 23 presents ODA by sector in 2002.

Table 23. ODA by sectors (in USD 10 thousand)

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Total</th>
<th>Loans</th>
<th>Aids</th>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>18076.97</td>
<td>14430.23</td>
<td>3646.74</td>
<td>100%</td>
</tr>
<tr>
<td>Transportation</td>
<td>4384.01</td>
<td>4112.09</td>
<td>271.92</td>
<td>24.25%</td>
</tr>
<tr>
<td>Energy</td>
<td>3579.28</td>
<td>3464.74</td>
<td>114.54</td>
<td>19.80%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>2974.17</td>
<td>2255.15</td>
<td>719.01</td>
<td>8.85%</td>
</tr>
<tr>
<td>Municipal Infrastructure</td>
<td>1599.17</td>
<td>1176.50</td>
<td>422.67</td>
<td>8.30%</td>
</tr>
<tr>
<td>Sciences, Education and Environment</td>
<td>1501.02</td>
<td>882.17</td>
<td>618.85</td>
<td>8.30%</td>
</tr>
<tr>
<td>Healthcare, Culture</td>
<td>1351.45</td>
<td>594.97</td>
<td>756.48</td>
<td>7.48%</td>
</tr>
<tr>
<td>Budget Support</td>
<td>1274.66</td>
<td>1014.52</td>
<td>260.14</td>
<td>7.05%</td>
</tr>
<tr>
<td>Industry, Telecommunication</td>
<td>677.19</td>
<td>604.25</td>
<td>72.94</td>
<td>3.75%</td>
</tr>
<tr>
<td>Governance, Administration Reforms</td>
<td>471.17</td>
<td>233.33</td>
<td>237.84</td>
<td>2.61%</td>
</tr>
<tr>
<td>Other</td>
<td>264.86</td>
<td>92.51</td>
<td>172.35</td>
<td>1.47%</td>
</tr>
</tbody>
</table>

Source: MPI of Vietnam

2 The actual disbursement per capita is much lower than the number shown in the table. the Northern Central: USD 53.86 per person, the coastal central: USD 55.16, Central highland: USD 59.12, Mekong Delta: USD 47.11.
Indeed, it seems clear that most international donors are shifting focus from urban infrastructure towards poverty alleviation in rural and remote areas. The private sector is more inclined to take the leading role for investments in urban and better-off areas.

The most significant programs and projects targeting the poor are the WB and Great Britain’s DFID funded rural infrastructure, Northern Mountains Poverty reduction, and Central provinces poverty reduction. In addition is the ADB supported program for rural transportation and the My Thuan Bridge construction with support of the Australian Government.
4. NON-GOVERNMENT ORGANIZATIONS

The contribution by Non-Governmental Organizations to Viet Nam’s socio-economic development, particularly to poverty reduction in key localities, is particularly significant. The comparative advantage of NGOs is that their activities are of a people-to-people, flexible nature. NGOs are able to work directly with beneficiaries, and can respond rapidly with tailor made projects. The diversity of their methods in providing assistance, the range of local counterparts, and their geographic and sector focus cannot be generalized easily.

In Viet Nam there are currently 514 NGOs in operation, up quite significantly from the 183 NGOs in 1992. NGOs working in Viet Nam come from North America, Western Europe, as well as from the Asia-Pacific region.

Most NGO activities are focus on poverty alleviation. Large sector focused components which concentrate on capacity building and technical expertise in agriculture, forestry, the environment, community development, and integrated rural development also have a poverty alleviation and human resources focus. Some various activities of NGOs are:

- Economic development, including micro-credits, income generation and poverty reduction (25%)
- Health (25%): reproductive health, HIV/AIDS, primary health care, nutrition, disability, etc.
- Education and training (20%): pre-school institutions, primary and secondary schools, universities, and vocational training, etc.
- Disaster preparedness and relief (5%)
- Environment (5%)

According to preliminary statistics provided by the Vietnam Union of Friendship Organizations (VUFO), over the past 10 years NGOs have donated more than USD700 million to more than 16,000 projects in Viet Nam. Their aid has been increasing in recent years, from $80 million in 1990 to $100 million in 2003.
Table 24. AID by NGOs (in USD million)

<table>
<thead>
<tr>
<th>Years</th>
<th>91</th>
<th>92</th>
<th>93</th>
<th>94</th>
<th>95</th>
<th>96</th>
<th>97</th>
<th>98</th>
<th>99</th>
<th>00</th>
<th>01</th>
<th>02</th>
<th>03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aid</td>
<td>20.35</td>
<td>24.89</td>
<td>40.82</td>
<td>63.24</td>
<td>75.75</td>
<td>79</td>
<td>71.3</td>
<td>79.78</td>
<td>80.91</td>
<td>88</td>
<td>100</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Unlike ODA, NGO outreach covers all of the provinces of Viet Nam, focuses on the poor and targets remote and mountainous provinces. In addition, they work directly at the provincial, district and commune and village levels. NGOs in Vietnam were particularly effective in targeting activities at the community level. The most successful projects were those managed and delivered through existing local and community structures, promoting a sense of ownership with active participation of the targeted groups.

Quang Binh, one of the poorest provinces in the central Vietnam, can be taken for analysis. With support of NGOS, many development projects have been implemented in Quang Binh province and met urgent demands of people. From 1995 to 2000, Quang Binh province has received aids from the organizations such as ICCO, SNV, CIDSE, OXFARM- Hong Kong, OXFARM-England, and North Ireland, APS, Action Aid, WWF, GVC, NEXUS, GOAL, IDE BfW, and others. According to the statistic data of the projects, total capital spent during the last five years in the whole province was 5,897,333 USD.

NGO projects have helped people with employment creation and income generation through key investments. NGOs provide a partial funding in key areas in order to encourage local people to mobilize their own resources for a variety of projects, from roads to irrigation schemes to electricity grid.

Among the projects funded by NGOs, ICCO ones have longer duration with quite encouraging results. Annually, ICCO manages a fund of 500,000 - 1,000,000 USD. The ICCO project activities concentrate on job creation, income generation, native knowledge improvement, health care and nutrition for people living in difficult areas and investment in roads and irrigation schemes in order to facilitate increases in agricultural production.

The lives of impoverished people in various Mekong Delta provinces have been given an enormous boost thanks to programs funded by Non-Governmental Organizations. Provinces such as Can Tho, Vinh Long and Dong Thap have received assistance from hundreds of Non-Governmental Organizations (NGO) funded programs in education, health care, and rural credit.

The UK relief agency Oxfam has contributed to improving community health by building water supply systems and toilets for two new residential areas built for flood victims in Dong Thap Province’s Tan Hong and Thap Muoi districts. Oxfam has also provided VND350
millon ($22,435) to build a water supply station in Binh Phu Commune (Tan Hong District) that has been supplying clean water to 111 households at a cost of VND1,500 per cubic meter.

The French charity *Conseil Contres la Faim et pour le Developement* (CCFD) has been implementing a community development project on clean water supply, developing orchards, fishing ponds, irrigation networks, rural credit schemes, education and health care in Dong Thap Province’s Tan Hong and Tam Nong districts. In the first half of 2003, CCFD provided Dong Thap residents with VND2.5 billion in financial support as part of a 3-year, VND10 billion ($650,000) poverty alleviation project.
5. THE ROLE OF OVERSEA VIETNAMESE

5.1. Overseas Vietnamese – Vietkieu

Before the “doi moi” period, most of Vietkieu (overseas Vietnamese) turned their eyes to their homeland. However, due to difficulties in transportation and communication, the embargo imposed by the US government, and the closed economic policy of Vietnam, Vietkieu had a limited economic connection with their homeland and families. Doi moi’s strong national economic development targets and the realization of greater integration with the global economy created a base for more open economic policy. In many official resolutions and statements, the Vietnam Communist Party has affirmed that the communities of Vietnamese people overseas have been an integral part of development. Vietkieu are an important “internal resource” in terms of capital, human, technology, experience resource, etc. The State and related agencies continue to create more favorable conditions for these resources, so that they may contribute to the national economic development. The State of Vietnam issued several policies for Vietkieu and foreigners permanently residing in Vietnam, affirming to protect their life, property and legal rights to invest in Vietnam in accordance with Vietnamese laws.

5.1.1. Resources

At present, there are no official figures on the number of Vietnamese people living in foreign countries. However, it was estimated that around 3 million Vietkieu have been living in nearly 100 countries. The most populated places are the United States (approximately 1.5 million Western and Northern Europe (over 400,000 people with 300,000 in France and nearly 100,000 in Germany) and Eastern Europe (approximately 200,000 people). Most of Vietkieu living in European and American countries left Vietnam after 1975; Vietkieu in some Eastern

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3 Decision 122/CP issued by the State Council on 22/4/1977; Resolution 8 issued by the Political Bureau of Party Central Committee on 2/11/1993 regarding policies and activities over Vietnamese overseas; Decree 29/CP of the Government (on 16/4/1993) regarding measures to encourage Vietnamese who permanently reside overseas to invest in Vietnam
4 The Committee for Vietnamese living in foreign countries estimated that there were 2.7 people; the Oversea Vietnamese Committee of HCMC estimated 2.5 million. We believe that this number should be nearly 3 million, because the above figures were calculated 3-4 years ago, meanwhile we continued signing Agreements with many countries, which facilitates the free migration and investment abroad.
Europe countries are those who “have stayed” after completion of their working contracts as per agreements among governments.

Within the Vietkieu community, about 300,000 people have tertiary education degrees or high professional qualifications. They are trained in industrialized countries and had access to advanced technology. Vietkieu have developed a strong presence in major high tech fields such as mechanics, IT, medicine, biology, physics, training and even aeronautics (about 200 people are working for NASA).

Two thirds of Vietkieu are employed and many have sufficient capital to run their own business⁵. The establishment of Vietkieu owned businesses in those countries only boomed in the last 5-7 years. However it seems that they mainly operate in trading industry and serve the Vietkieu community (such as restaurants, stores/outlets selling Asian food, clothing stores, etc).

According to some informal source of information, the annual income of Vietkieu is estimated at about USD 25 – 30 billion. The Vietnamese embassy in Washington reported that the average income of a Vietkieu in the USA was USD 12,000/head/year (the average income of a US person is USD 20,000/year). The proportion of people who are at poor is about 20%. A survey of 418 oversea Vietnamese people living in the Orange district (conducted by an American organization) showed 36% of households to have annual income of less than USD 15,000; 30%, USD 15 – 35,000; 26%, USD 35 – 75,000 and only 8%, more than USD 75,000. As a result, the average income of a Vietkieu household in this district is USD 20 – 25,000/year, well below the average income per head in this district (USD 63,500/year⁶).

5.1.2. Transfer money to Vietnam

Although the income of Vietkieu is not high, the amount of money sent to Vietnam has increased remarkably through years thanks to encouragement policies of the State⁷. Money transferred through the banking system mainly comes from Vietkieus living in the America, France, Canada, Australia, and so on. A smaller amount comes from those who live in Eastern Europe and some Asian countries (they work in those countries under existing labor export contracts signed by the Vietnamese government). Vietkieu currently account for 70-80% of all passengers arriving at the International Airport Tan Son Nhat in Ho Chi Minh City.

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⁵ Most of market areas of Asian people are run by Chinese, Korean, Israeli, and Turkish people. Vietkieu’s companies are mainly trading entities and sale agents.

⁶ The study on “Current situation and solutions to attract investment of Vietnamese living in foreign countries” by the Committee for Vietnamese living in foreign countries - 2002.
Table 25. The frequency of Vietkieu people landed at Tan Son Nhat international airport

<table>
<thead>
<tr>
<th>Year</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>190,000</td>
<td>220,000</td>
<td>262,000</td>
<td>295,000</td>
<td>308,000</td>
<td>342,000</td>
</tr>
</tbody>
</table>

In recent years there has been a rapid increase in Vietkieu’s money transfer. The branch of the State Bank of Vietnam in Ho Chi Minh City estimated that in 2003 the amount of foreign currencies transferred by Vietkieu to Vietnam reached USD 2,500-2,600 million. An estimate by the East Asia Joint Stock Bank anticipate a 60% increase in remittances compared to 2002.; Commercial Bank for Non-state sector (VP Bank) expect an increase by 30%. The figures in the table 26 do not include hundreds of millions of dollars (it was estimated to be USD 1,500 million) that Vietkieu transferred via other channels such as individuals and other organizations.

Table 26. Remittances to Vietnam by Vietkieu
(Unit: million USD)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfers</td>
<td>141</td>
<td>250</td>
<td>258</td>
<td>469</td>
<td>400</td>
<td>950</td>
<td>1,200</td>
<td>1,300</td>
<td>1,800</td>
<td>1,100</td>
<td>2,587</td>
</tr>
<tr>
<td>Export earnings</td>
<td>2985.18</td>
<td>4054.64</td>
<td>5448.79</td>
<td>7255.9</td>
<td>9185</td>
<td>9360.3</td>
<td>11540.0</td>
<td>14482.7</td>
<td>15027.0</td>
<td>16530.0</td>
<td>19500.0</td>
</tr>
<tr>
<td>Comparisons (Million/Ex in %)</td>
<td>4.72</td>
<td>6.17</td>
<td>4.73</td>
<td>6.46</td>
<td>4.35</td>
<td>10.15</td>
<td>10.40</td>
<td>8.98</td>
<td>11.98</td>
<td>6.65</td>
<td>13.27</td>
</tr>
</tbody>
</table>

5.1.3. Spending of money transferred

At present, there is no comprehensive study on money transfer, spending, or returns on investment by Vietkieu. Consequently, it is difficult to assess the contribution of Vietkieu, on poverty reduction. However, it can be seen that a strong power of intelligence and a quite large sum of money were transferred to the country, making a considerable contribution to the

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7 There was a period that the Government imposed a certain fee on money transfer and requested to change foreign currencies into domestic currency.

8 The Nguoi Lao Dong newspaper on 12/11/2003
recover and development of several traditional industries\textsuperscript{9}. Money transferred from Vietkieu was used for various purposes and has helped their families to overcome financial difficulty. At the same time, several enterprises have assisted Vietnamese companies to access new technology, advanced management practices and so on. Many enterprises are established with capital from overseas Vietnamese.

In 2000 there have been 136 Vietkieu’s enterprises in operation with the total investment capital of VND 190,400 million, equal to USD 12,700,000. These figures account for nearly 1\% of the total transfers to Vietnam (USD 1,300 million) and 15\% of total investment capital of enterprises registered under the Law on Enterprises in 2000 (VND 13,780 billion). As a result, the families of Vietkieu are able to access considerable capital for investment. Given the total investment capital of enterprises established in 2000 came from Vietkieu (USD 8-900 million), the data suggest another USD 400-500 million accessible to Vietkieu’s relatives for indirect investment. It is estimated that the most of this capital is used by Vietkieu’s relatives to establish small businesses or purchase land and houses; other uses include daily expenditures (home appliances, tuition fees, catering, clothing,…), savings at bank accounts and so forth.

\textbf{5.1.4. Investment by Vietkieu in Vietnam}

When preparing the first economic laws, the State of Vietnam considered Vietkieu as a target groups for promoting investment. At present, Vietkieu have an option of which law their investments will be guided:: the Law on Foreign Investment in Vietnam or the Law on Domestic Investment Promotion. The second law provides preferential provisions and greater incentives. For instance, an enterprises established by a Vietkieu under the Law on Domestic Investment Promotion is subject to State inputs prices similar to those for domestic enterprise. If the investment operates under the Law on Foreign Investment in Vietnam, it is subject to prices (i.e. land rent, electricity charge, water supply charge, transportation cost, etc) applicable to foreign invested companies.

Since 1995 there have been 1,200 Vietkieu invested projects capitalized at VND 2,200 billion to operate under the Law on Enterprises and Law on Domestic Investment Promotion. The average capital per project fluctuated from VND 50 million to VND 15 billion. This figure cannot demonstrate the full investment capital of Vietkieu as many enterprises do not register total capital investment (only investments required for registration). It would be expected that most investment capital much higher than the legal capital\textsuperscript{10}. According to the Central Institute for Economic Management (CIEM), in 2003 the average registered capital is around VND 1.5

\textsuperscript{9} Silk and tussore textile, royal clothes sewing in Ha Tay, Thai Binh, Thua Thien-Hue provinces

\textsuperscript{10} Study on “Current situation and solutions to attract investment of Vietnamese living in Foreign Countries” - 2002. Pages 89-90
billion/enterprise showing significant growth of VND 1 billion/enterprise from 2000 and 1.2 billion/enterprise in 2001. Regarding Vietkieu’s enterprises operating under the Law on Domestic Investment Promotion, the average investment capital is VND 1.4 billion -- HCMC VND 1.547 billion and Hanoi VND 0.7 billion/enterprise. According to data from the Committee for Vietnamese living overseas, since 1988 Vietkieu have funded 74 projects worth USD 540 million.

Table 27. Number of Vietkieu enterprises by legal status

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Law on Foreign Investment</td>
<td>9</td>
<td>10</td>
<td>8</td>
<td>8</td>
<td>9</td>
<td>5</td>
<td>9</td>
<td>7</td>
<td>4</td>
<td>11</td>
<td>5</td>
<td>1</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Law on Domestic Investment Promotion</td>
<td></td>
<td></td>
<td>42</td>
<td>70</td>
<td>108</td>
<td>110</td>
<td>135</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Committee for Vietnamese living overseas

The values in table 27 can be considered as only a small portion of Vietkieu’s investment in Vietnam. In reality, the number of enterprises invested by Vietkieu must be much higher. Based on a survey on Vietkieu in several provinces conducted by (CIEM) in 1999, a significant amount of enterprises are operating under the management (or even the ownership) of Vietkieu or foreigners but registered under the name of a Vietnamese citizen. It is estimated that more than 1,200 Vietkieu’s enterprises exist with a value of VND 2,200 billion (USD 540 million) employing approximately 300,000 Vietnamese citizens.

Areas attracting the highest number of Vietkieu investments are HCMC, Khanh Hoa, Ba Ria-Vung Tau, and Hanoi. In HCMC, there are 994 companies and representative offices owned by Vietkieu with the total capital value of VND 1,925 billion (another source estimates 871 companies capitalized at VND 1,773 billion). Currently 300 scholars are involved in research, training and technology transfer and 98 programs and projects have the participation of 150 Vietkieu scholars.¹¹

The Department of Planning and Investment in Danang reported that 18,000 Vietnamese people permanently residing in foreign countries (including more than 400 scholars) have blood relationship with Danang citizens. As of 2002, the city had 12 investors who are

¹¹ Figure of the Committee for Vietnamese overseas of HCMC.
Vietnamese people residing in foreign countries and 2 investors who are foreigners permanently residing in Vietnam. Their projects have a capitalized value of VND 23.73 billion.

5.1.5. Supporting activities to Vietnam

In some countries, the overseas Vietnamese community has established associations with many useful activities. In 2003 the Association of Vietnamese in France organized the 10th Conference in Paris with the participation of more than 200 representatives of 300,000 Vietnamese people living in France. The Conference demonstrated that the Association of Vietnamese in France has made valuable contribution to the homeland. In particular Vietkieu lead charity activities and provided nearly Euro 20,000 and to patients of Agent Orange and domestic people affected by flood. Dr. Thu Trang gave VND 17 million to Hoa Binh orphan village on her trip to homeland.

In Britain, the Association of Vietnamese people living in the UK also organizes annual conferences. In 2003, the Association raised GBP 1,000 for the Fund for the poor. Two other Vietnamese overseas contributed over VND 13 million. On the anniversary of Vietnam National Day (2/9/2003), the Vietnam Kungfu Association in Russian Democratic Federation organized a Vietnam Kungfu Performance and contributed USD 1,000 from ticket sale to the Fund for the poor. The Association of Vietnamese people and the Association of Vietnamese enterprises in the Czech Republic supported the program “the month for the poor” and raised Kroner 23,000 (equal to VND 120 million) for the Fund for the poor.

With the support from several German universities, the Association for Vietnamese Women and Youth in Germany (ViFi) assisted raising tuition fees for 70 Vietnamese students studying in Germany. It was proposed by ViFi to have German universities to welcome 15 – 20 Vietnamese students every year under this program. In the 2003 summer, ViFi, the Association of Solidarity Initiatives with Vietnam and the German Development Support Fund visited Vietnam. The delegation offered VND 128 million to Vu A Dinh Fund, supported the construction of a school for Khmer pupils in Soc Trang province, and offered VND 110 million to build a vocational training center for the Association of the Blind in Hoai Duc district, Ha Tay province. After their visit to Vietnam, ViFi organized a program on raising money for constructing a school and 10 playgrounds for primary schools as well as providing regular scholarship for Vietnamese pupils in mountainous areas via the Vu A Dinh Fund.

In a seminar on the assessment of contribution to the USA from Asian rooted people in scientific area organized by the Vietnamese – American Association on technology, mechanics and computing in the US, it was recognized that the Vietnamese community has made
contribution to many areas in the US. There are about 1.5 million Vietkieu in the USD with 10.7% classified as specialists and 15.9% have earned university degree holders. Vietkieu have over 280 scientific patents with 72 patents attributed to a single Vietnamese-American. The health care industry employs 2,500 Vietkieu including Dr. Trinh Duc Phuong who has been recognized as one of leading doctors of the US for many years. In the aeronautic industry, Dr. Eugene Trinh is an astronaut specialized in scientific experiments in the space. Dr. Doan Lien Phung graduated from the Massachusetts Institute of Technology and established a company with seven branches in the US and 300 engineers and many other scientists. He and his wife established a Study Encouragement Fund worth more than USD 1 million to provide 500 scholarships for Vietnamese per year.

It can be said that in recent years, associations of overseas Vietnamese positively influenced Vietnam’s socio-economic development. By strengthening the solidarity within their countries of citizenship and contributing to the homeland via money raising programs for the poor (more than VND 3 billion), victims of Agent Orange, people affected impacted by floods and other disasters, Vietkieu are a unique element of Vietnam’s globalization. Remittances of foreign currency to Vietnam have improved the living standards for their families. Vietkieu’s relatives are able to use such money to establish businesses to jump start virtuous cycles of productivity and societal advancement.

5.2. Dynamics in Vietnam’s International Labor Migration

Like many of its neighbors in the region, Vietnam has significant numbers of its labor pool working abroad. Skilled Vietnamese workers experience both push and pull factors to seek out and gain employment abroad. During the early 1980’s, when labor migration became an issue in the post war period, labor migration was very much “push” based, as the domestic labor market was in a very immature state. In the 1990’s, as Vietnam’s society began receiving significant returns from investment in education, many Vietnamese workers felt the ‘pull’ of higher wages abroad. Based on these factors we are able to divide Vietnam’s labor migration into three periods.

5.2.1. Labor Migration from 1980 to 1990

Labor migration during the 1980’s was dominated by official agreements between the Government of Vietnam and the industries of other countries. The Government not only signed the agreements, but organized the process. During this period, there were approximately 300,000 laborers migrated to four former socialist countries, 7,200 laborers went to African countries (including Libya, Algeria, Angola, Mozambique, Congo and Madagascar) to work as
specialists, 18,000 laborers went to Iraq to work in construction, and 23,713 laborers to Eastern Europe to work as interns and vocational training.\(^\text{12}\)

According to Department of International Labor of the Ministry of Labor, War Invalids and Social Affairs (MOLISA), light industry (including mainly textile, leather and garment) accounted for the largest share (40%) of the total labor abroad. Industrial and civil construction, mechanics, and other sectors accounted for 26%, 20% and 14%, respectively, of the total labor abroad.\(^\text{13}\) Vietnamese laborers’ average monthly income in former socialist Eastern European countries ranged from 160-180 rubles in the former Soviet Union, 800-900 East German marks, 1800-2000 koruna in Czechoslovakia, and 160-180 levs in Bulgaria.\(^\text{14}\) After deducting contributions and daily living expenditures from income, workers could save about 3,000-5,000 rubles excluding non-wage incomes after completing 4-5 year labor contract. Meanwhile, a specialist can save from USD 1,500 to USD 2,000 after concluding 2-year labor contracts. In the construction industry, a skilled worker can save USD 5,000 after two years working in Libya, while unskilled workers can save USD 3,500.\(^\text{15}\)

Budget revenues from migrant labor from 1980 to 1984 included social insurance paid by the host countries and contribution fees to develop the host country (from 10% to 12% a monthly laborer’s income). During period from 1985 to 1990, after signing amended and additional agreements, these countries paid Vietnam 450-600 rubles per laborer each year as non-commercial payments.\(^\text{16}\) According to MOLISA, during 1980-1990, labor exports earned for the Government 482 million rubles as non-commercial payment and more than 60 million USD. Of the 482 million rubs, 288.7 million rubs was cash and 9.6 million rubles were used to import consumer goods. In addition, laborers used their savings to buy goods to send to their families – at a value VND 720 billion (at current exchange rate) -- and sent back more than USD 7 million in cash remittances.\(^\text{17}\)

\textbf{5.2.2. Labor Migration from 1991 to 1999}

By the end of the 1980s, there were a numbers of events strongly affecting Vietnam’s international movement of labor. The collapse of former socialist Eastern European countries, economic crises in African countries and the first Gulf war all hindered international demand


\(^{13}\) Journal Labor and Society [Tap chi Lao dong va Xa hoi], Issue No. 2, 1990, page 8.


\(^{16}\) Foreign Economic Relations Department, Central Economic Committee, Document No. TL.609, Institute of Economics.

\(^{17}\) Exporting Laborers following market mechanisms – Opening new prospective. Saigon Giai phong Newspaper (dated 29 April 1997), Nguyen Hong Chanh.
for Vietnamese labor. Moreover, the domestic reforms and transition to socialist-oriented market economy created a stronger local demand for labor. Since 1991, labor migration has changed dramatically in Vietnam. The Government still managed contracts with several host countries; however, private economic agents were allowed to receive licenses to arrange international labor contracts.

With the private sector taking a role in arranging labor migration, Vietnamese laborers began reaching new markets in North East Asia, South East Asia, the Middle East and North Africa. The number of workers and specialists gradually increased over years with more than 90,000 laborers working abroad in jobs across 30 sectors (in particular industrial and civil construction, light industry, services, maritime transportation, fishing and seafood processing, healthcare, education and agriculture). As Vietnamese labor gained access to new markets net earnings have shown a marked improvement.18

### Table 28. Number of Vietnamese workers sent abroad in the period 1991-1999

<table>
<thead>
<tr>
<th>Years</th>
<th>Number of the workers (unit: person)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>1.022</td>
</tr>
<tr>
<td>1992</td>
<td>810</td>
</tr>
<tr>
<td>1993</td>
<td>3.960</td>
</tr>
<tr>
<td>1994</td>
<td>9.230</td>
</tr>
<tr>
<td>1995</td>
<td>10.050</td>
</tr>
<tr>
<td>1996</td>
<td>12.660</td>
</tr>
<tr>
<td>1997</td>
<td>18.470</td>
</tr>
<tr>
<td>1998</td>
<td>12.240</td>
</tr>
<tr>
<td>1999</td>
<td>21.810</td>
</tr>
<tr>
<td>Total</td>
<td>90.252</td>
</tr>
</tbody>
</table>


On average, Vietnamese workers abroad sent home about USD 220 million. High point years included 1996 and 1997 (USD 350 million), 1998 (USD 547 million), and in 1999 (USD 1

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billions). Approximately 20,000 laborers stayed in former Soviet Union and Eastern European countries and sent home USD 1 billion per year.

5.2.3. Labor migration since 2000

The positive results from changes in the labor market have continued to show yearly increases. Table 29 presents these results.

Table 29. Vietnamese labor abroad and transfers from 2000 to June 2003

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of labor export (person)</th>
<th>Earnings from labor export (in USD billion)</th>
<th>Average remittance by each laborer per year (in USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>31,000</td>
<td>1.25</td>
<td>4,646</td>
</tr>
<tr>
<td>2001</td>
<td>37,000</td>
<td>1.3</td>
<td>4,333</td>
</tr>
<tr>
<td>2002</td>
<td>46,000</td>
<td>1.4</td>
<td>4,046</td>
</tr>
<tr>
<td>First 6 months of 2003</td>
<td>35,000</td>
<td>1.1</td>
<td>2,887</td>
</tr>
<tr>
<td>2003 - projected</td>
<td>50,000</td>
<td>2.0</td>
<td>5,050</td>
</tr>
<tr>
<td>Total (from 2000 to end of June 2003)</td>
<td>145,000</td>
<td>5.05</td>
<td>...</td>
</tr>
</tbody>
</table>

Source: CIEM

By the end of June 2003, total Vietnamese laborers abroad increased to about 381,000 across over 40 countries and type of employment. Primary occupations include: construction, mechanics, electronics, garment, textile, aquatic and seafood processing, maritime transportation, fishing, services, health care, education, agriculture, and home care.

Earnings from overseas workers and average remittances have steadily increased each year. Remittance rose from USD 1.25 billions in 2000 to USD 1.4 billions in 2002, equivalent to 70% of Vietnam’s seafood exports (ranked third globally).

In the first six months of 2003, the labor leaving Vietnam totaled 35,000, accounting for 83% of the total in 2002. Remittances reached USD 1.1 billion, 78.5% of the 2002 figure and reached 55% of the 2003 forecasts. This boost is a result of the continued trend in rising remittances per laborer over the past few years —now at more than USD 4,000 annually. If this high level is maintained, by end of 2003, remittances will have a 40% increase compared to 2002.
Major labor destination markets are:¹⁹

**Malaysia** has the fastest growing market with more than 56,000 Vietnamese laborers (as of end September 2003). The average monthly wage is USD 150 – 250. Most Vietnamese work in industry, construction and services such as airports, supermarkets, and farms.

**Taiwan** is the largest market for Vietnamese labor with more than 45,000 laborers (as of June 2003). Many Vietnamese do housework and house care with average monthly income not less than USD 300 (excluding bonus and overtime allowance). Vietnamese also work in manufacturing, industry, sailing, construction, mechanics, electronics, garment, textile, and nursing. Wages, average from USD 600 per month or higher (USD 800-1,200 per month).

**South Korea** is another large market for Vietnamese migrant workers. By the end of June 2003, there were about 21,000 Vietnamese employed laborers and 12,000 trainees. Wages in South Korea are quite high and stable, ranging from USD 400-500 per month in the first year to USD 600 – 800 per month in the second and third years.

**Japan** currently has 6,500 Vietnamese trainees working in manufacturing, industry, construction, mechanics, electronics, garment, textile, and nursing. Average monthly wages are USD 1,000.

The **Middle East** and **Africa** currently employ 3,500 Vietnamese laborers in construction, petroleum and gas, mechanics, garment, textile, public service, and housework. Average monthly wages are USD 800.

### 5.2.4 Some remarks on labor migration during period 1980-2003

According to general data from this period labor migration has contributed significantly to the country. Overall, skilled labor becomes more diversified in terms of occupations and more knowledgeable of global markets.

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¹⁹ Report on “Some main characteristics of Vietnam’s labor export”. The data on labor export are updated from
Table 30. Remittance by Vietnamese laborers abroad

<table>
<thead>
<tr>
<th>Years</th>
<th>96</th>
<th>97</th>
<th>98</th>
<th>99</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remittance</td>
<td>350</td>
<td>547</td>
<td>1,000</td>
<td>1,250</td>
<td>1,300</td>
<td>1,400</td>
<td>2,000*</td>
<td></td>
</tr>
<tr>
<td>Exports value in USD mil.</td>
<td>7,255.9</td>
<td>9,185</td>
<td>9,360.3</td>
<td>11,540</td>
<td>14,482.7</td>
<td>15,027</td>
<td>16,530</td>
<td>19,500</td>
</tr>
</tbody>
</table>

Note: It is estimation for 2003

Income from working abroad is much higher than similar employment domestically. From a survey in 2001-02:

- A Vietnamese laborer who does housework with primary skill in Taiwan and Malaysia earns USD 300 and USD 150-250 per month respectively, or 5-10 times higher than the laborer with similar skills in Red River Delta with incomes of VND 471,000 per month (approximately USD 30).

- Workers in processing industries such as garment, footwear and leather who graduated from high school in the Southeastern of Vietnam at FDI enterprises earns VND 500,000 per month (approximately USD 35) while the similar laborer earns USD 600 per month abroad. The deference is 14-15 times.

- Workers in construction in Southeastern of Vietnam at state-owned enterprises earn VND 660,000 per month (approximately USD 44) while similar laborers earn USD 800 per month in Africa. The gap in this case is 18 times.

Based on this data, the average remittances from workers abroad in 2001 was four times higher than the average incomes for the highest quintile living in urban/South East regions. This value is 15 times higher than the average national income per capita. Vietnamese labor abroad is therefore able to greatly advance their family members from surpluses gain abroad. Vietnamese labor with international experience also gain long term financial benefits from exposure to new skills and modern management techniques.

After returning to Vietnam at the completion of their contract, only a small portion will return to jobs abroad. Most returned use their savings to open small businesses such as buying fishing equipment, raising shrimp, opening small shops to sell consumer goods or contributing the source of Table 4.
to build local infrastructure such as schools, village clinics, or electricity transmission network. Evidence from Vietnam’s labor mobility shows a clear net gain to poverty alleviation and hunger eradication from these contributions.\footnote{The case of Cuong Gian commune, Nghi Xuan district, Ha Tinh province was introduced in Report “On labor export during 2000-2001 and solutions towards 2005” which was quoted in page 4.}
6. CONCLUSION

This report is prepared to supplement the major report on globalization and poverty reduction. In addition to trade and foreign investment, four aspects of globalization are captured here: ODA, NGOs, Vietnamese overa, and labor migration. Some of these dynamice, such as Vietkieu may not have a direct effect, but its catalytic effect is enormous. Other factors cause incremental gains for the poor.

Trade

The impact of international trade activity on living standard improvement is obvious and evident. The correlation between income and trade is a clear phenomenon across countries, across regions, and even within regions. This has resulted in a severe decrease of abject poverty in rural areas. We have investigated these factors through detailed analysis from a variety of datasets and at different levels of the economy. Our findings show:

- Trade activity is important to income generation. The positive correlation between trade and incomes is found in most cases. Trade active regions have significantly higher income than other areas. In regions with limited trade less active there is limited income growth and opportunity.

- The negative affect on domestic goods competing with imports is limited. Most imports meet critical domestic demand for capital inputs and increased productivity.

- Household expenditure rises as trade activity increases

- Household non-food item expenditure increase with greater trade activity

- The expenditure gap between the income groups is higher as regions become more active in international trade.

- The CPI has experienced change over the last 10 years, but this is not directly linked to trade openness. Price and other policies have stronger effect on the CPI than trade liberalization (due to a goods basket weighted towards food). The poor have benefited from globalization in terms of expansion in export markets (the case of rice and coffee)
and did not suffer much from import supply shocks due to government subsidies (the case of fuel) and intervention (the case of fertilizers).

**Foreign Direct Investment**

Foreign Direct Investment has had a positive effect on poverty reduction in Vietnam via employment and income creation, but the direct effect is limited. This effect is limited because FDI flows mainly into capital intensive projects. FDI enterprises primarily require skilled workers, who are usually not the poor. Furthermore, FDI enterprises are usually located in urban and developed areas where good infrastructures can lower total per unit costs. The performance of FDI enterprises in remote and difficult areas is also limited. The main channel of impact of FDI on poverty reduction in Vietnam is by stimulating economic growth. FDI contributes importantly to the rapid growth of the Vietnamese economy by providing capital and to support the balance of trade. FDI is also a major component of total social investment. FDI is particularly important in maintaining internationally competitive manufacturing and export markets.

**Official Development Assistance**

The impact of Official Development Assistance on poverty reduction is significant mainly through indirect affects. Infrastructure projects like bridges, roads and so forth are not targets of private investors or government budget because they do not have sufficient capital or projects’ rates of return are small. The impact has increased when donor countries changed their focus. Since 2000 ODA flows began targeting rural and mountainous provinces with infrastructure, education, governance and administration reforms projects.

**Non-Governmental Organizations**

NGOs have direct positive impact on the lives of the poor. Complementing large ODA projects, NGOs micro-projects meet the specific needs of the people in the rural areas with flexible projects in irrigation, schools, animal husbandry and so forth. With relatively limited funds in comparison with the major bilateral and multilateral donors, NGOs mostly concentrate on poverty alleviation in rural and mountainous areas. NGO projects are effective in not only providing credits, but also technical skills with strong potential for sustainability.

**Oversea Vietnamese**

Three million Vietkieu abroad contribute significantly to the overall poverty reduction in Vietnam. Their transfers to relatives contribute significantly to the ability of many Vietnamese to have economic security and also increase net savings and investment. These bank transfers are 5% to 10% of total export earnings. The number of the projects invested by Vietkieu are on the rise, and although limited today, could become significant in the future. However, it is
important to note that with limited investment incentives targeting *Vietkieu* very few are officially registered. *Vietkieu* also assist domestic firms to get better access to international market, technology, and better management practices. Overseas Vietnamese also provide significant charity works for the poor, scholarships for students and disaster assistance.

**International Labor Migration**

Labor exports have contributed significantly to poverty alleviation and hunger eradication by reducing pressure on the domestic labor market. Remittances from labor abroad provide significantly to capital accumulating allow significant room for investment when they return to their home country.
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## ANNEX 1. COFFEE EXPORTS FROM 1991 TO 2002

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports volume (1000 ton)</th>
<th>Export to production ratio</th>
<th>Export value (USD million)</th>
<th>Average export prices (USD/ton)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>93.5</td>
<td></td>
<td>74.0</td>
<td>791.4</td>
</tr>
<tr>
<td>1992</td>
<td>116.2</td>
<td>116.2</td>
<td>92.2</td>
<td>793.5</td>
</tr>
<tr>
<td>1993</td>
<td>122.6</td>
<td></td>
<td>110.2</td>
<td>898.9</td>
</tr>
<tr>
<td>1994</td>
<td>177.2</td>
<td>98.4</td>
<td>328.2</td>
<td>1852.1</td>
</tr>
<tr>
<td>1995</td>
<td>248.3</td>
<td>113.8</td>
<td>595.5</td>
<td>2398.3</td>
</tr>
<tr>
<td>1996</td>
<td>283.5</td>
<td>89.4</td>
<td>420.6</td>
<td>1483.6</td>
</tr>
<tr>
<td>1997</td>
<td>383.5</td>
<td>91.2</td>
<td>420.6</td>
<td>1260.7</td>
</tr>
<tr>
<td>1998</td>
<td>381.8</td>
<td>93.2</td>
<td>593.8</td>
<td>1555.3</td>
</tr>
<tr>
<td>1999</td>
<td>482.5</td>
<td>94.7</td>
<td>501.5</td>
<td>1213.1</td>
</tr>
<tr>
<td>2000</td>
<td>733.9</td>
<td>105.1</td>
<td>379.2</td>
<td>683.3</td>
</tr>
<tr>
<td>2001</td>
<td>931.0</td>
<td>110.3</td>
<td>391.0</td>
<td>420.0</td>
</tr>
<tr>
<td>2002</td>
<td>713.7</td>
<td>95.1</td>
<td>263.3</td>
<td>368.8</td>
</tr>
</tbody>
</table>

*Sources: Ministry of Trade, for 2002: Vicofa*

## ANNEX 2. INTERNATIONAL COFFEE PRICES

(US CENT PER KG)

<table>
<thead>
<tr>
<th>Year</th>
<th>Robusta in London</th>
<th>Arabica in New York</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ 1980</td>
<td>450.0</td>
<td>481.0</td>
</tr>
<tr>
<td>+ 1985</td>
<td>386.0</td>
<td>471.0</td>
</tr>
<tr>
<td>+ 1990</td>
<td>118.0</td>
<td>197.0</td>
</tr>
<tr>
<td>+1995</td>
<td>233.0</td>
<td>280.0</td>
</tr>
<tr>
<td>+1998</td>
<td>172.0</td>
<td>281.0</td>
</tr>
<tr>
<td>+ 1999</td>
<td>148.9</td>
<td>229.1</td>
</tr>
<tr>
<td>+ 2000</td>
<td>91.3</td>
<td>192.0</td>
</tr>
<tr>
<td>+ 2001</td>
<td>67.2</td>
<td>147.9</td>
</tr>
</tbody>
</table>

*Source: The World Bank*