



TOWARDS A RETURN OF INDUSTRIAL POLICY?
ARTNet SYMPOSIUM
25-26 JULY 2011
ESCAP, BANGKOK

Trade, Growth, Employment, and Wages in Vietnam

*Research Project: Globalization, Adjustment and the Challenge of
Inclusive Growth: Furthering Inclusive Growth and Industrial
Upgrading in Indonesia, the Philippines and Vietnam*

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Inclusive growth ? (Ifzal Ali and Juzhong Zhuang, ADBI, 2007)

- ***The concept*** itself embodies the focuses on both creating opportunities and making the opportunities accessible to all.

- ***The main outcomes*** of inclusive growth comprise of:
 - (i) high and sustainable growth;
 - (ii) abolition of institutional impediments and enhancement of access of all social groups to opportunities;
 - (iii) improvement of capacity for individuals and different social groups so that they can actively participate in the growth process and;
 - (iv) management of risks arising in the development process.

- ***Measures required*** to achieve outcomes of inclusive growth:
 - (i) related to broadening job opportunities and promoting productivity;
 - (ii) Involves strengthening capabilities in the form of human or social capital ;
 - (iii) concerns the provision of social safety nets and targeted interventions

- **Previous studies:**

focus on one or several aspects of inclusive-growth-based development strategy in combination with industrial upgrading.

- **Research objectives**

- To clarify interactions between growth, shift in economic structure, job creation, and wages in economic integration and industrial policy reform.
- whether the economic opportunities from economic policy reforms – including Vietnam's domestic economic reform and economic integration – were transformed into high growth, leading to job creation, productivity improvement, income improvement and shift of labor structure in line with industrial upgrading?

- **Research methodology**

- Qualitative approaches: cited information from other studies, and most updated information and statistics, since 1986
- Quantitative approaches: computing TFP growth in growth-accounting framework, and computing elasticity of employment to growth.

Content

1. Overview of Vietnam's economic reforms since 1986 with the focus on trade and FDI policies
2. Vietnam's economic performance in terms of growth, employment and wages
3. TFP and elasticity of employment to GDP growth in the years of 1986-2007
4. Key findings and conclusion of the research

1. Overview of VN's economic reforms

Economic reform in Vietnam can be divided into four periods:

1986-1988: The 6th Party Congress acknowledged the existence and role of the multi-sector economy, emphasized the importance of broadening opportunities and choices for everyone so as to promote economic development and to improve living standard → initial step in getting familiar with principles of mkt economy

1989-1995: Developing mkt-oriented economy, to industrialize and proactive integrate into world economy

The comprehensive reform package in 1989 includes: price liberalization; devaluation and unification of the exchange rate; reducing subsidies for SOEs; encouraging private sector, including FDI

1996-1999: Stagnant economic reform

2000-2008: Strong economic reform, with many policies to promote private sector development, liberalize investment and trade, and further integrate into world economy. Legal framework for market economy is further improved.

WTO membership in 2007 marks VN's deeper integration into world economy.

1. Overview of VN's economic reforms (cont.)

The key economic policy reforms in the past over 20 years were aimed at promoting:

- SOE reform,
 - private sector development,
 - financial and banking reform, and
 - trade reform (trade and investment liberalization)
- > ultimately accelerating industrialization and modernization as well as pro-active international economic integration.

These reforms also enhanced both the economic opportunities and risks, which produced significant impacts on economic growth, shift in economic structure, job creation, shift in employment structures, and changes in wages in Vietnam.

2. Growth, employment and wages

2.1 Growth

	1986-88	1989-96	1997-99	2000-07	2008
Economic growth (% , 1994 prices)					
GDP	4.16	7.51	6.23	7.63	6.18
Agriculture - forestry - fishery	1.83	4.11	4.36	3.90	4.07
Industry - construction	8.13	9.28	9.55	10.24	6.11
- <i>Manufacturing</i>	-	5.76	10.34	11.96	9.94
Services	3.69	8.73	4.82	7.16	7.18
Economic structure (% , current prices)					
GDP	100.0	100.0	100.0	100.0	100.0
Agriculture - forestry - fishery	41.6	33.4	25.7	22.1	22.1
Industry - construction	27.1	26.6	33.0	39.6	39.7
- <i>Manufacturing</i>	-	14.5	17.1	20.4	21.1
Services	31.3	40.0	41.3	38.3	38.2

1986-88: Performance not as expectation: high inflation, bad harvest in agr., low GDP GR

1989-96: high GR, *Supply:* Service contributed mainly (~50%), but Industrial&Service sector increased very high, key premising for important contribution to GDP GR; *Demand:* ensure food security and became rice exporter, export contributed importantly to Growth

2000-07: high GDP GR close to long-term trend; Industrial&Service sector mainly contributed to GDP GR -> positive shift of structure. Demand: invétment & export – contributed 7 importantly to GDP

2. Growth, employment and wages (cont.)

2.2 Employment: increased over time & shift of labor structure

	1986	1988	1989	1996	1997	1999	2000	2007	2008
Structure (%)									
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Agriculture - forestry - fishery	72.91	72.54	72.20	71.25	70.15	68.91	65.09	54.15	52.46
Industry - construction	13.87	14.07	13.95	11.37	11.66	11.95	13.11	19.98	20.84
- Manufacturing	-	-	-	8.00	8.29	8.59	9.44	13.50	-
Services	13.22	13.40	13.86	17.38	18.20	19.13	21.80	25.87	26.70
Additional employment (annual average)	1986-1988		1989-1996		1997-1999		2000-2007		2008
Total (thousand persons)	540		725		741		1.024		848.6
Agriculture - forestry - fishery	341		400		298		-109		-151.2
Industry - construction	103		97		140		566		524.85
- Manufacturing	-		76		114		359		153.65
Services	97		228		304		568		474.95
Contribution to rise in total employment (annual average)	1986-1988		1989-1996		1997-1999		2000-2007		2008
Agriculture - forestry - fishery	63.06		55.15		40.17		-10.65		-17.82
Industry - construction	18.98		13.38		18.87		55.21		61.85
- Manufacturing	-		10.54		15.39		35.07		18.11
Services	17.96		31.47		40.96		55.44		55.97

2. Growth, employment and wages

2.3 Income, salaries and wage

	1986	1988	1989	1996	1997	1999	2000	2007	2008
At current price, Million VND									
GDP/ Employment	0.02	0.54	0.97	8.06	9.09	11.12	11.74	25.89	32.81
Agriculture - forestry - fishery	0.01	0.35	0.57	3.16	3.34	4.10	4.43	9.72	13.82
Industry - construction	0.05	0.92	1.60	20.80	25.02	32.08	32.91	53.76	62.56
Services	0.05	1.20	2.45	19.28	21.06	23.28	20.86	38.21	46.90
	1986	1988	1989	1996	1997	1999	2000	2007	2008
At 1994 price, Million VND									
GDP/ Employment	3.99	4.21	4.34	6.33	6.70	7.12	7.28	10.44	10.88
Agriculture - forestry - fishery	1.90	1.88	1.99	2.24	2.31	2.46	2.60	3.46	3.64
Industry - construction	7.70	8.32	8.05	17.24	18.77	20.47	19.66	21.76	21.71
Services	11.59	12.51	12.84	15.54	15.92	15.59	13.79	16.33	16.63

Income of employment increased, but in Agr. income – still very low

- 1986-89: real income (1994 price) in Agr reduced, but in Service – highest income in 86-88;
- 1989-96: income increased in three sectors, however highest in Industry&const. and even higher compared to Service in 1996
- 97-99: Real income (1994 price) seems unchanged in three sectors due to the financial crisis
- 00-07: income much improved, highest GR was in Agr., then in Service. However, income of Industry&const. have been kept at highest level. Gap among sectors's income is still and widening

2. Growth, employment and wages

2.3 Income, salaries and wage

<i>Unit Thousand VND/Month at 2000 price</i>	2000	2004	2007	Growth (%) 2007 / 2000
Agriculture and forestry	665	1.117	1.804	171
Fishery	662	778	815	23
Mining and quarrying	1.104	1.927	2.505	127
Manufacturing	1.002	1.122	1.249	25
Production and distribution of electricity, gas, and water	1.682	1.962	2.094	25
Construction	868	1.050	1.389	60
Trade, repairs of automobiles, household goods	959	1.201	1.409	47
Hotel and restaurants	1.235	1.223	1.344	9
Transport, warehousing	1.446	1.654	2.162	49
Finance – banking	2.506	2.498	4.664	86
Other business services	1.739	1.928	2.129	22
Average	1.260	1.248	1.523	28

Source: Author's calculation from Enterprise's Surveys

In general: wages in agr.: high GR, while Finance – Banking: high level

2. Growth, employment and wages

2.3 Income, salaries and wage

To better analyze the relationship between export and wage increase, the manufacturing enterprises are subdivided into 4 groups (UNIDO)

- Agricultural-input-intensive industries
- Labor-intensive industries
- Capital-intensive industries;
- Machinery-intensive industries

2. Growth, employment and wages

2.3 Income, salaries and wage

Employment structure by manufacturing sub-sector

Unit: %	2000	2004	2005	2006	2007
Agricultural-input-intensive industries	16.7	14.4	14.1	13.2	12.5
Labor-intensive industries	48.8	52.1	52.3	52.7	53.1
Capital-intensive industries	25.0	23.7	23.5	23.5	23.2
Machinery-intensive industries	9.4	9.8	10.1	10.6	11.2
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Average wage by manufacturing sub-sector

Unit: Thousand dong/person/month	2000	2004	2005	2006	2007	Growth (%) 2007 / 2000
Agricultural-input-intensive industries	953	1.041	1.109	1.188	1.258	32.00%
Labor-intensive industries	842	888	932	1.032	1.064	26.30%
Capital-intensive industries	1.253	1.351	1.411	1.489	1.546	23.40%
Machinery-intensive industries	1.256	1.401	1.542	1.608	1.506	20.00%

2. Growth, employment and wages

2.3 Income, salaries and wage

Average monthly wage by gender and education level

	Average wage, '000VND/month				Income gap by gender (wage of female/wage of male) (%)		Average growth rate of wage, 1998-2006	
	1998		2006					
	Female	Male	Female	Male	1998	2006	Female	Male
Overall	410	525	731	925	78.1	79.1	7.5	3.5
By education level								6.4
No education	376	504	529	663	74.6	79.8	4.4	3.5
Primary school	408	503	663	827	81.1	80.1	6.3	6.4
Secondary school	380	485	702	827	78.3	84.8	8	6.9
High school	534	537	984	1,047	99.4	94	7.9	8.7
Technical college	379	546	1,051	1,263	69.5	83.2	13.6	11.1
Intermediate school	402	575	1,076	1,353	69.9	79.5	13.1	11.3
College	457	507	1,830	1,529	90.2	119.7	18.9	14.8
University or higher	683	951	1,918	2,880	71.8	66.6	13.8	14.9

Source: Nguyen Thi Lan Huong (2008)

The wage gap b/w male & female employees was generally narrowed, albeit slightly

2. Growth, employment and wages

2.3 Income, salaries and wage

Average monthly wage in FIEs and domestic enterprises

	FIEs			Domestic enterprises		
	2000	2007	2000-2007	2000	2007	2000-2007
Agricultural-input-intensive industries	1,317	1,871	42.0%	949	1,132	19.2%
Labor-intensive industries	971	1,155	19.0%	839	971	15.8%
Capital-intensive industries	1,911	1,918	0.3%	1,249	1,436	15.0%
Machinery-intensive industries	2,410	1,454	-39.7%	1,237	1,570	26.9%

Higher average employees' wage in FIEs was than that in domestic enterprises.

The rise in wage of FIEs was higher than that of domestic enterprises, Except for capital- and machinery-intensive industries,

2. Growth, employment and wages

2.3 Income, salaries and wage

Employees' income in manufacturing industries, 2000-2007

	Enterprises participating in export				Enterprises not participating in export			
	2000	2004	2007	2000-2007	2000	2004	2007	2000-2007
Agricultural-input-intensive industries	1,077	1,166	1,670	55.0%	1,077	875	1,252	16.2%
Labor-intensive industries	874	920	1,217	39.3%	874	744	1,066	21.9%
Capital-intensive industries	1,543	1,549	3,044	97.2%	1,543	1,237	1,544	0.1%
Machinery-intensive industries	1,462	1,483	2,022	38.2%	1,462	1,309	1,498	2.5%

Source: Enterprise Surveys in various years and authors' calculations

The pace of income improvement for employees in export enterprises was higher than that in enterprises not participating in export, particularly in capital-intensive industries

2. Growth, employment and wages

2.3 Income, salaries and wage

Additional employment per enterprise in 2004

	Overall	Enterprises participating in export	Enterprises not participating in export
Agricultural-input-intensive industries	4.8	22.3	1.8
Labor-intensive industries	21.0	44.6	5.9
Capital-intensive industries	5.6	17.5	3.5
Machinery-intensive industries	15.4	51.5	6.9

Source: Enterprise Surveys in various years and authors' calculations.

Enterprises with export created more jobs than enterprises without expxort

3. TFP and elasticity of employment to GDP growth

3.1 Total Factor productivity

Growth accounting framework:

$$\text{GR TFP} = \text{GR GDP} - (\alpha \cdot \text{GR K} + \beta \cdot \text{GR L})$$

Calculated TFP growth at economy level

	ALFA	BETA	GR GDP	GR K	GR L	GR TFP
1986	0,36	0,64	2,84	7,00	2,37	(1,20)
1987	0,37	0,63	3,63	7,81	2,53	(0,85)
1988	0,36	0,64	6,01	7,09	2,61	1,79
1989	0,35	0,65	4,68	6,89	3,45	0,02
1990	0,36	0,64	5,09	1,80	1,46	3,51
1991	0,36	0,64	5,81	1,95	2,46	3,54
1992	0,37	0,63	8,70	3,62	2,39	5,85
1992	0,39	0,61	8,08	6,48	2,34	4,13
1994	0,40	0,60	8,83	7,85	2,35	4,30
1994	0,36	0,64	9,54	8,61	2,19	5,01
1996	0,39	0,61	9,34	9,32	2,21	4,36
1997	0,40	0,60	8,15	9,56	2,17	3,00
1998	0,40	0,60	5,76	9,88	2,14	0,49
1999	0,43	0,57	4,77	7,99	2,11	0,12
2000	0,44	0,56	6,79	8,71	4,54	0,42
2001	0,43	0,57	6,89	9,12	3,02	1,27
2002	0,49	0,51	7,08	9,78	2,38	1,06
2003	0,49	0,51	7,34	10,46	2,28	1,06
2004	0,49	0,51	7,79	10,66	2,50	1,31
2005	0,54	0,46	8,44	10,64	2,26	1,68
2006	0,55	0,45	8,23	10,68	1,91	1,53
2007	0,59	0,41	8,48	12,59	1,92	0,21

TFP growth - no easily identifiable pattern, the failure of efforts to stabilize the economy

high TFP GR– reform implemented -> more efficient resource allocation

low TFP GR

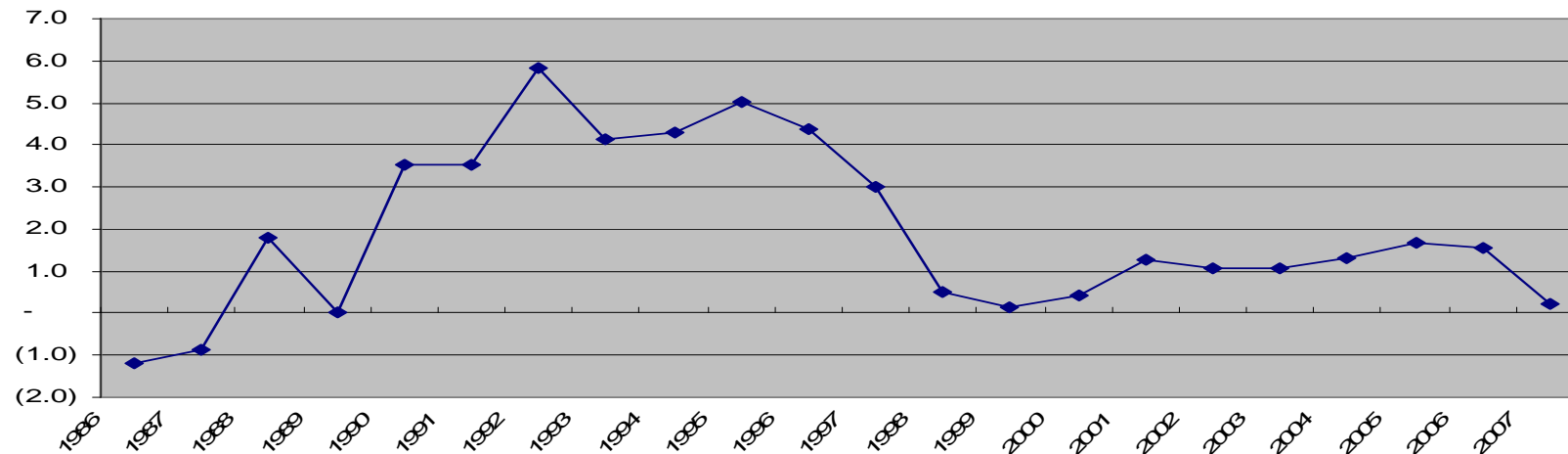
TFP GR up, but still lower than that in 1989-96.

High GDP GR mainly thanks to fixed assets

3. TFP and elasticity of employment to GDP growth

3.1 Total Factor productivity

TFP growth in the period of 1986-2007



- TFP Growth contribute to GDP GR with small percentage, ~ 15%.
- GDP GR was driven by the expansion of production scale, i.e. increase in capital stock and employees, particularly the former.

-> That indicate the unsustainability of GDP GR to some extent. The economy needs further economic reforms to realize the goal of inclusive growth.

3. TFP and elasticity of employment to GDP growth

3.2 Employment elasticity to GDP growth

Consider whether GDP growth generates additional employment in the period under consideration ?

- Use employment elasticity to GDP growth - measures quantitatively the relationship between increase in employment and economic growth :

Elasticity: > 1 implies the reduction in labor productivity,

Elasticity: < 1 implies productivity improvement along with employment expansion .

- Two methods :
 - The simple method calculates elasticity over an interval, i.e. between two different points in time, rather than at one ;
 - The econometric method

3. TFP and elasticity of employment to GDP growth

3.2 Employment elasticity to GDP growth (Econometric estimates)

	<i>Elasticity</i>	<i>t-statistics</i>	<i>R²</i>	<i>Durbin-Watson statistics</i>	<i>Sampling period</i>
The economy	0.36	6.72	0.88	1.25	1989-1996
<i>By sector</i>					
Agriculture - forestry - fishery	0.43	13.06	0.86	1.28	1989-1996
Industry - construction	0.27	3.63	0.75	2.8	1989-1996
<i>Manufacturing</i>	<i>0.28</i>	<i>40.82</i>	<i>0.99</i>	<i>2.9</i>	<i>1990-96</i>
Services	0.61	10.5	0.94	1.26	1989-1996
The economy	0.38	49.66	0.99	2.82	2000-2007
<i>By sector</i>					
Agriculture - forestry - fishery	-0.11	-5.03	0.85	2.14	2000-2007
Industry - construction	0.84	34.8	0.99	2.70	2000-2007
<i>Manufacturing</i>	<i>0.65</i>	<i>41.05</i>	<i>0.99</i>	<i>2.92</i>	<i>2000-2007</i>
Services	0.63	34.49	0.99	1.38	2000-2007

➤ Relatively low elasticity of employment, despite high GDP growth (relatively slow annual growth in employment)

4. Key findings and conclusion of the research

Over the past 23 years:

- VN gained enormous successes, including high economic growth and rapid shift in economic structure - facilitated the industrial upgrading process in line with industrialization and modernization ;
- Vietnam benefited, albeit insignificantly, in terms of job creation from policy reform and international economic integration, and of shift in employment structure by sector;
- People's income was significantly improved.
- The employment structure shifted away from the agriculture - forestry - fishery sector, towards industry - construction and services;

However,

- Economic growth rests heavily on expanding scale, particularly in fixed assets, while impacts of technological progress, and improvement of labor skills are still limited

4. Key findings and conclusion of the research

- The benefits from reforms and economic integration were uneven across different labor groups;
- Along with its international economic integration process, Vietnam's economy became more vulnerable to external shocks

So, For the period of 2010-2020, Vietnam should adopt the strategy

of inclusive growth in the directions of:

- Promoting sustainable and high-quality growth, driven by high-technology industries in combination with job creation and improvement of labor skills;
- Furthering the role of education – training
- Continuing to develop agriculture and rural areas, and improve farmers' participation in the economic process
- Establishing a social security fund to help mitigate risks from unfavorable internal and external shocks