

Walking on a Knife-Edge: The Development of Vietnam's Economy and Labour Market

UWE BLIEN, MICHAEL VON HAUFF, PHAN THI HONG VAN¹

1. Introduction

In the years since the start of a phase of reforms in 1986 the Vietnamese economy has showed a remarkably stable development with very high growth rates. For a major part of the population the consumption level has greatly improved. Vietnam is still a very poor country, but there are hopes for a better future.

This development process is now in danger, since strains are rising from internal and external factors. The major external risk is the crisis affecting other countries of the South-East Asian region. The tiger countries are the most important foreign investors in Vietnam. The losses and turbulent developments on the stock markets in 1997 and 1998 and the subsequent withdrawal of international capital are producing a scarcity of financial resources in the region which is affecting Vietnam unfavourably. The rates of foreign investment in Vietnam are decreasing and the consequences for the growth rate in the country are already visible.

But it is crucial that Vietnam's economy reveals high growth rates. Phases of stagnation will lead to severe imbalances in the labour market, because of the high rates of population growth and of induced technical progress in the firms of the formal sector of the economy. Leading international economic experts assess the general prospects for the country as good. But a single crisis may ruin these prospects. Therefore, Vietnam's development may be compared to a walk on a knife-edge.

In this paper the general situation and more recent history of Vietnam's economy is first analysed. In the second part a closer look is taken at the Vietnamese labour market. It is shown that the living standard even for workers in a comparatively favourable situation is still very low. There are

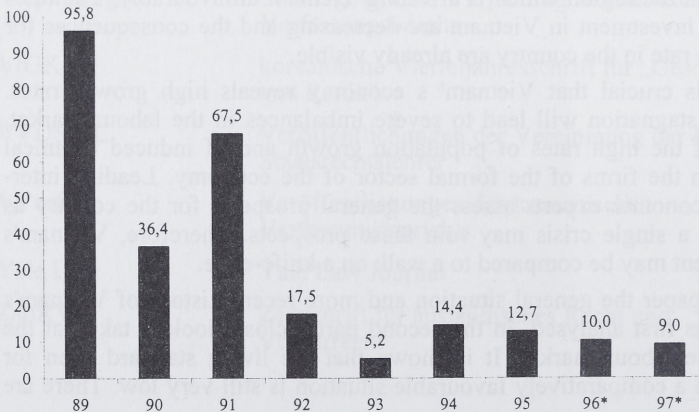
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great differences in the labour market conditions of various segments and areas of the economy. The special risks evolving in the development of the labour market are highlighted.

2. Vietnam's Economy in Transformation

The Communist Party in Vietnam started economic reforms as early as the beginning of the eighties. It was already obvious that the country had severe problems. Not enough food was produced to nourish the increasing population. The common problems of centrally planned economies, which are not able to motivate the economic subjects, were visible. The problems were severely aggravated by the isolation of the country. Macroeconomic imbalances such as high inflation rates (with a peak in 1986 of 590%, for later years cf. figure 1) and high budget deficits generated disequilibrium and supply bottlenecks in the economy as a whole. From 1986 on the maxim of *doi moi* ("new thinking") fundamentally and explicitly strengthened the reform process. After the collapse of the Soviet Union in 1991, the process of transformation received a further boost from outside, and this supported the trend towards the liberalization of the domestic economy and foreign trade (see Vokes/Palmer 1993: 176 ff.). The agricultural sector was also included in the reform process (see Dahm et al. 1998).

Figure 1: Rates of inflation (%)



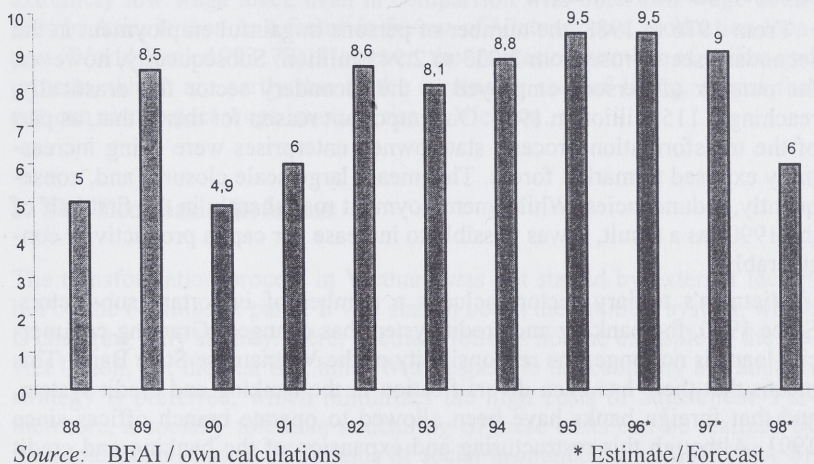
Source: BFAI

* Estimate/Forecast

(It is important to note that the Vietnamese official statistics have to be interpreted with care. Their reliability might not be comparable to those of western countries.)

In 1993, GDP amounted to approx. 125 trillion Dong at current prices. That is the equivalent of a per capita GDP of roughly US \$ 200-250. However, this low level of per capita GDP is relativized when one considers that currency parity led to a distortion of purchasing power in Vietnam, and that subsistence economy is widespread in agriculture (approximately three-quarters of the population live from agriculture). Even so, Vietnam is currently one of the poorest developing countries in Asia. The high rate of economic growth in the first half of the 1990s, which can be seen in figure 2 below, has thus to be seen in the context of the extremely low starting point.

Figure 2: Growth rates of real gross domestic product (%)



It is conspicuous that the distribution of persons in gainful employment in the various sectors of the economy remained largely constant between 1984 and the beginning of the 1990s. The primary sector's share of persons in employment was 72%, while the secondary and tertiary sectors had approx. 14% each (see Diehl 1993b: 239). By contrast, the relative contribution of the primary, secondary and tertiary sectors to the GDP clearly shifted during the same period. Ever in the years between 1989 and 1995 the contribution of the primary sector to GDP fell from approx. 40.5% to 27.2%, while the contribution of the secondary sector rose from 23.3% to 30.3%, and that of the tertiary sector from 36.2% to 42.5% (General Statistical Office of Vietnam 1996).

In view of the large number employed in the primary sector, this sector remains extremely important in Vietnam. One of the great successes of the reforms, for example, is that Vietnam has changed from a net importer to an

internationally significant exporter of rice. Even so, given the relatively low average area of land farmed by each family, there are signs that significant rural exodus can also be expected in the future.

From a labour-market policy point of view, the increasing relative and absolute significance of the secondary sector in terms of the GDP indicator leads one to ask how great the absorptive capacity of this sector is. It has to be borne in mind that a great number of workers and/or school-leavers are streaming into the labour market, not only as a result of exodus from rural regions, but also because of the high birth rate, and that the reduction in military personnel from approx. 1.2 million to 500,000 involves a further strain on the labour market.

From 1976 to 1988, the number of persons in gainful employment in the secondary sector rose from 2.033 to 2.945 million. Subsequently, however, the number of persons employed in the secondary sector fell drastically, reaching 2.115 million in 1991. One important reason for this is that, as part of the transformation process, state-owned enterprises were being increasingly exposed to market forces. This meant large-scale closures and, consequently, redundancies. While unemployment rose sharply in the first half of the 1990s as a result, it was possible to increase per capita productivity considerably.

Vietnam's tertiary sector includes a number of important sub-sectors. Since 1990, the banking and credit system has changed. Granting commercial loans is no longer the responsibility of the Vietnamese State Bank. This means that there has been diversification in the banking and credit system, and that foreign banks have been allowed to operate branch offices since 1991. Although this restructuring and expansion of the banking and credit system is clearly relevant for the labour market, it is felt that it only has minimal potential for easing the problems of labour market policy.

The transport sub-sector in Vietnam is strongly affected by poor infrastructure and the country's geographical peculiarities. For example, the Vietnamese road network consists of a total length of approx. 105,000 km of roads, only about 10% of which are asphalted. The tourism sub-sector, by contrast, is going through a relatively rapid phase of expansion. While only about 100,000 tourists came to Vietnam in 1990, this figure had already reached 670,000 in 1993. Here, too, however, the infrastructure that is needed for further expansion is lacking. Finally, Vietnam's telecommunications sector shows great potential for growth. Although the development of this sub-sector is extremely important, especially in order to attract foreign investors in the secondary sector, there is still no infrastructure to allow a rapid development of telecommunications.

Summing up, it has to be said that, in the foreseeable future, the development of the three sectors of the economy will not lead to any appreciable relief for the labour market, as there is insufficient absorptive potential, particularly in the secondary and tertiary sectors. A further increase in unemployment is more than likely. However, this quantitative over-supply of labour stands in contrast to a lack of skilled and managerial personnel with know-how in data processing, finance, production and tourism.

Vietnam's high literacy rate (88%) compared with many other countries such as Indonesia (77%), Malaysia (78%) or India (48%) has to be seen as a comparative advantage, especially for foreign investors. In addition, the extremely low wage level, even in comparison with other low-wage countries in Asia, is seen as a factor in favour of Vietnam as a production location (World Bank 1993: 72). However, the increasing number of strikes and protests, which are partly due to the increasing cost of living, means that one can also expect wage levels to rise in Vietnam.

3. The Economic Reforms

The transformation process in Vietnam was not started by external factors but by the communist party. It was started not in the political system, which is changing only slightly. Here, Vietnam follows not the example of the Soviet Union, but the that of China. With respect to the economy a gradualist strategy is preferred, which minimizes the high costs of adjustment. Furthermore, a socially tolerable structuring of these costs can be realized by the rapid establishment of systems of social insurance (von Hauff 1994: 8). In the transformation process in Vietnam one can see reform measures aimed at decentralization and privatization. Up to now, however, there does not seem to be any clearly identifiable aim or ideal model (see Wischermann 1994: 3ff.). In official statements the communist party still adheres to the old aim of socialism. The introduction of market forces, private ownership of the means of production, 'capitalist' structures etc. during the transformation process are regarded officially as a means to fulfill this aim.

The transition from central planning to market coordination began with the product contracting system, which was introduced in 1979 in certain provinces, and then, without any legal basis, in the country as a whole from 1981 on (see Vo Tuan Anh 1993: 5). This system guaranteed that the cooperative would purchase a certain part of each farmer's produce at fixed prices. If agricultural production exceeded the quota, the farmer could sell these products independently on the market. As regards the industrial sector, the 3 Plan System, introduced in 1981, should be mentioned. Under

this system, enterprises provided the state with a predetermined quantity of products in return for subsidized production factors. This led to a short-term improvement of factor allocation and use of industrial over-capacity. It did not lead to any sustained increase in production (see Vokes/Palmer 1993: 174).

In 1985, the Vietnamese government attempted to remove this monetary imbalance by means of a programme of macro-economic stabilization. As part of a currency reform, the Dong, which had been legal tender up to that time, was replaced by the "New Dong". While cash was exchanged at a rate of 10:1, bank deposits created before 1981 could be exchanged at a rate of 2:1 up to a maximum of 20,000 Dong. Furthermore, the official rate of foreign exchange was altered from 12 Dong per US\$ to 100 Dong per US\$. This was intended to combat the black market in US dollars, which had long since developed into a parallel currency.

Finally, government fixed wages were also raised. However, as state enterprises were not confronted with budget restrictions, and the hoped-for monetary discipline did not materialize, the stabilization measures failed. So it was that the reformers in the Communist Party could win the day at the Sixth Vietnamese Communist Party Conference, and the above-mentioned wide-ranging radical reforms were introduced. The reforms carried out between 1986 and 1988 concentrated on the following points: acceptance and encouragement of private-sector activities; decentralization and deregulation of state enterprises; reorganization of the banking sector; liberalization of foreign investments.

From the above, it is clear that the progressive political actors did their best to put the above-mentioned principles into practice in a consistent way. Above all, for example, rights of private ownership of the means of production were given more recognition, and the transfer of ownership rights via inheritance was made possible. However, land ownership by private persons continued to be excepted from this rule. Nevertheless, indirect ways of selling utilization rights to land were permitted. In spite of the restraints on utilization rights, land prices in Hanoi and Ho Chi Minh City (formerly Saigon) have already reached levels corresponding to those of Western city centres. However, a thorough implementation of the reforms was boycotted by opponents of reform in the Communist party and the government economic administration who felt disadvantaged by the transformation process. This had a negative effect on the investments of private enterprises, and it has so far proved impossible to implement a privatization scheme for state-owned enterprises. This is also an important obstacle to transformation.

In 1988, the government passed a new law regulating foreign investments in Vietnam. Although every sector of the economy was in principle open to

foreign investors under the regulations of this law, it included a series of restrictions and priorities, which meant that investment projects tended to be forced into certain channels (see Wolff 1997, chapter 5.3.). Between 1988 and 1990, the reforms finally led to the desired consolidation of the government budget and to a stabilization of the monetary sector. In 1992, inflation fell to approx. 9% and has since remained stable on this level. In 1996, the rate of inflation was 10.0% (BFAI 1995: 3).

The legal provisions of the economic reforms were significantly improved in 1992, when a new constitution was passed which set down the legal foundation for the private ownership of the means of production and the coordination of local production decisions by markets. This marked the accelerated privatization of state-owned enterprises. As they were not adequately prepared for privatization and trade with company shares, both the banking sector and public administration have proved to be obstacles to the success of the programme (see Jeffries 1993: 222 ff.).

The continuing reforms have led to a change in the distribution of workers employed by companies in the private and state sectors, the share of state-owned enterprises is falling, while the share of privately owned companies is rising.

The result of the reforms is an almost complete restructuring of the economy (see Nørlund et al. 1995; von Hauff 1996; Diehl 1993b). Anyone visiting Hanoi or Ho Chi Minh City after an absence of only a few months will see significant changes. A booming private sector has led to a gold-rush atmosphere in individual sectors. A minority of Vietnamese can put into practice what the General Secretary of the Communist Party offers them: "The state protects and encourages all citizens to enrich themselves by lawful means" (Do Muoi 1995: 99). As concerns the process of transformation, the at least gradual implementation of the three basic principles outlined above is not only empirically obvious but also visually evident.

4. Labour Market Development

In the following section it will be argued that open unemployment is not the main problem in Vietnam, unlike in other countries undergoing a process of transformation. Rather, many persons who would be unemployed in other countries are working in the informal sector in Vietnam. On the one hand, this has a cushioning effect, softening the impact of the transformation process as a whole by providing a refuge for workers who have been made redundant. On the other hand, the income that can be earned in this sector is generally so low that there is a constant danger of absolute poverty. The

main problem is therefore one of underemployment, which is marked by unproductive work and concomitant low incomes. There is also manifest unemployment.

The process of transformation in the Vietnamese economy has been accompanied by several waves of redundancies in state-owned enterprises. The total number of workers to lose their jobs in this way is estimated at around 1.5 million (see de Silva/Jamal 1994: 7f.). Since there is as yet no unemployment insurance, the loss of a job puts great pressure on those affected. To compensate for this loss, they often have to take up jobs in the informal sector of the economy or (if possible) to found a "proper" privately-owned enterprise. Accordingly, the informal sector has grown considerably in recent years. It profits from networks based on trust and tradition (see Fforde 1995: 26).

The informal sector consists above all of great numbers of persons working as micro-entrepreneurs, who are either not officially registered at all or are subject solely to lump-sum taxation. Criteria for registration of firms are employment of at least 10 employees or a capital investment of a considerable size. Family enterprises or self-employed persons are not registered. As examples, one could mention roadside soup vendors or rickshaw drivers. The trade sector has grown enormously, as the 1994 total of 1.9 million persons in gainful employment in the cities shows (see MOLISA 1995b). The informal sector is included in this figure. The official statistics show no separate figures for the informal sector.

It is difficult to judge the extent of unemployment. Unemployed persons are not officially registered. The transition to employment in the informal sector is obscure. As the pressure to safeguard a livelihood is very high, almost every Vietnamese affected by unemployment takes up some kind of work in this sector. In 1992, official Vietnamese sources registered 2.16 million unemployed (see Viet Nam 1993). That is the equivalent of an unemployment rate of some 6%, which is also to be found in a World Bank report (World Bank 1993: 65). A survey of the Vietnamese Ministry of Labour revealed that urban unemployment stood at 13% in 1989, and at 6.2% in 1994 (Le Dang Doanh 1995: 7), while other sources quoted an unemployment rate of 5.81% (MOLISA 1995b).

A considerable proportion of those workers living in the countryside are not adequately employed. The working hours of this section of the working population are mainly spent unproductively or devoted to tasks serving subsistence. A study of the rural economy estimates that, even if present production methods were kept, the current level of production could be achieved with roughly 70% of the workforce. This shows the extent of

underemployment in rural areas (see Tran Dinh Thien /Phi Manh Hong 1995: 8).

As will be discussed in more detail below, the income of the overwhelming majority of workers in agriculture and the urban informal sector is so extremely low that there is only enough for a meagre existence. In many cases, there is not even enough to ensure physical survival. Low rural incomes increase the pressure to migrate to the cities. The urban manpower pool is constantly being refilled by an influx from the countryside, although rigorous registration laws and restrictions on migration have hitherto prevented the emergence of any appreciable slums in the cities. The high rates of growth currently recorded in the Vietnamese economy have gone some way towards assuaging these problems, but have not eliminated them.

While it may be true that part of Vietnamese employment potential is not being fully exploited, this is not to say that work is easy for most of those in employment. In many jobs, extremely hard working conditions are the general rule. Road construction, for example, is mainly done manually. In tropical heat, which is made even worse by the boiling tar, the workers (many of whom are women) move heavy loads. Even after a short period of time, this extreme strain must lead to physical damage. Another specific example of unbearable working conditions is provided by the following passage from the *Vietnam Economic Times* (1994/2: 11): "The 10,000 people that used to work in Hieu Lam gold field ... were no strangers to death. They worked in terrible conditions and their numbers fell drastically over the years ... Pit owners got rich fast while employees never made it big. Pity those who lie there underground. We can smell death at Hieu Lam gold field." (see Nørlund 1997 for additional examples) However, it cannot be ascertained how often working conditions such as these are to be found, since Vietnam has no reliable statistics or surveys relating to the frequency of occupational illness and occupational accidents.

While one section of the working population faces the problem of over-exploitation of its working potential, another section (in the retail trade, for example) only works effectively for a few hours, and receives a correspondingly low income for that work. According to a survey of persons in gainful employment carried out by the Ministry of Labour, a working week of approximately 50 hours is the rule in most areas of the economy (see MOLISA 1995b). In many cases, however, these working hours are not spent productively. Such differences in living conditions are typical of present-day Vietnam.

Before the reforms began to take effect, the distinction between urban and rural population was crucial for Vietnam, and it is still important today. Incomes within each of the two population groups hardly differed, and

everyone was poor. Today, a small proportion of the population is slipping still further behind, another group is maintaining its original level, while a third group is making enormous gains in income and prospects. Many of the new self-employed belong to the latter group. In a poll of 800 families in Hanoi, approximately half of those interviewed stated that their living standard had improved over the previous five years. One quarter described their situation as unchanged. That leaves a further quarter for whom no information was given. It can be assumed that living conditions have worsened for this latter group. Le Dang Doanh (1995: 7) states that studies carried out by the Vietnamese Statistical Office show that the poverty rate in Vietnam declined from 50% in 1989 to 19.9% in 1993, but does not define this rate (see Trinh/Mai 1994).

With regard to wage levels, the transformation process first had contradictory effects. According to ILO estimates, the wages and salaries of government servants and workers in state-owned enterprises fell by about 60% between 1985 and 1991 (de Silva/Jamal 1994: 10f.). As a result of the problematic nature of Vietnamese official statistics, this estimate may have been too high. However, it would seem certain that wages were cut as a result of government policies. These cuts meant that many workers were no longer in a position to feed their families. They had to seek additional sources of income in the informal sector (see Mutz 1995: 12).

In addition, falling wage levels have meant a rapid decline in the quality of many services provided by the state, as good employees leave the sector or do their jobs only perfunctorily. This decline is particularly evident in health and education, which up to quite recently had given Vietnam an advantage over other countries in the region. Today, teachers specializing in subjects in short supply, such as English, can earn many times the rate paid by the state if they give private lessons.

This distortion in income ratios is explained by the fact that central government sets the levels of wages to be paid in state-owned enterprises and government offices. These wages are calculated as a fixed multiple of the 1995 minimum wage of 120,000 Dong (approx. \$ 10.80; \$ 13.60 from July 1996 on, with some regional variations). An engineer with three years' working experience, for instance, will earn 2.8 times this amount. Workers employed in joint ventures will receive far more. In and around Hanoi and Ho Chi Minh City, for example, the minimum wage in joint ventures is \$ 45.00 (see Bartsch 1996: 9). Even unskilled workers often earn \$ 100 in joint ventures. According to a survey carried out in Hanoi, average monthly earnings in Taiwanese companies stood at approximately \$ 150, at approx. \$ 250 in German companies and at approx. \$ 300 in Japanese ones (source: internal data of the Vietnamese Ministry of Labour).

The average wages of various sectors can be seen in figure 5. These figures only apply to registered private and state-owned companies. According to a survey carried out in Ho Chi Minh City, the wages paid by private companies in 1995 were lower than those paid by state-owned industrial enterprises (see Economic Intelligence Unit, 1995/4:21). Admittedly, the purchasing power of these wages is much higher than these extremely low figures would suggest. The Hanoi-based Institute of World Economy (1995) quotes World Bank and UNDP data showing that the purchasing power of average annual per capita GDP stood at \$1100 in 1991. Nevertheless, even this figure is very low.

Table 1: Average monthly wages (in \$) of workers from registered private and nationalized firms according to industries (1994)

| | |
|---------------------------|------|
| Light industry | 53.2 |
| Food processing | 54.5 |
| Textile industry | 56.4 |
| Energy production | 54.1 |
| Transport & communication | 72.7 |
| Construction | 50.0 |
| Trade | 61.8 |
| Agriculture | 29.1 |
| Forestry | 27.7 |

Source: MOLISA (1995a)

There are at present no reliable figures for wages in the informal sector. Two facts are certain, however. First, there is an enormous differential in incomes. There are people who become rich working in this sector. Second, average incomes are without doubt lower than those reported for the formal sector. As even these wages are very low, there is evidently a huge problem of absolute poverty. There is no question that incomes are below the subsistence level in many cases.

The following tables 2 and 3 show the distribution of wages according to qualifications and property form of the respective firm for three urban areas. The tables are based on our own analyses of microdata from the labour force survey carried out in the municipal regions in 1994.

Wages are clearly highest in Ho-Chi-Minh city. Joint ventures pay better than other firms, as could be expected. Higher levels of qualification show a significant return. The wages of female workers are lower.

The figures for monthly wages have to be regarded with caution. They may include only a part of wage premiums and bonuses, which are frequent in Vietnam. The reported wages are so low that even in a country with low prices they would not secure the living of a single worker. In many cases these workers have more than one source of income. Thus, there is a large difference between wages and income.

According to a study on poverty, the income limit for absolute poverty is \$6.40 per month in rural areas and \$9.10 in the cities (see Tran Thi Que 1996: 65). By this measure, some 20% of Vietnam's population live below the poverty line. Other studies, such as an investigation carried out by the Swedish International Development Agency (see Weggel 1995: 379), claim that 51% of the population are "poor". It is not known how many of these people work in the informal sector (as opposed to being unable to work because of age or illness). It is likely, however, that many of these people work in the informal sector for extremely low wages.

For this reason, underemployment is regarded as the main problem of the Vietnamese labour market. Underemployment here refers to gainful employment which, because of low productivity, yields an income which is not sufficient for subsistence. This is a problem of the "labouring poor" (see Mutz 1996: 6). The exact extent of underemployment cannot be stated, as official statistics do not provide any data which correspond with this definition. However, the reasons given above suggest that it is a widespread phenomenon.

We have seen that enormous differentials have developed within the working population in the course of a few years (see also Irwin 1997, Part V). To an as yet unknown degree, these wage differentials are mutually reinforcing. In the various sectors of the economy, subsistence production, production with obsolete technology and production with modern technology coexist. Demands of workers and of labour productivity differ accordingly. The modern resp. traditional sectors require completely different qualifications. The transition from one area to the other is difficult. As a result, high segmentation barriers are being created in the labour market. (The higher wages paid to Vietnamese working in the modern sector of the economy are not only due to the higher productivity generally found there. The efficiency wage hypothesis was originally put forward for the situation in developing countries (see Yellen 1984; Stiglitz 1976). Many jobs can only be performed by persons who are healthy and physically fit. This presupposes the payment of wages which exceed a certain minimum level.)

Table 2: Monthly wages and qualifications in Hanoi, Ho Chi Minh City, and Da Nang City

| | Number of People in sample | | | Average wages in US \$ | | |
|-------------------------------------|-------------------------------|--------|-------|---------------------------|--------|-------|
| | Male | Female | Total | Male | Female | Total |
| HANOI | | | | | | |
| Without education | 228 | 231 | 459 | 28,0 | 25,6 | 26,8 |
| Vocational education without degree | 65 | 57 | 122 | 27,4 | 24,3 | 25,9 |
| Vocational education with degree | 205 | 97 | 302 | 30,1 | 27,4 | 31,9 |
| Vocational higher education | 123 | 256 | 379 | 33,7 | 27,5 | 29,5 |
| University | 444 | 324 | 768 | 39,9 | 33,9 | 37,4 |
| Doctoral degree | 65 | 12 | 77 | 46 | 43,2 | 45,6 |
| HO CHI MINH CITY | | | | | | |
| Without education | 830 | 669 | 1499 | 40,2 | 36,5 | 38,5 |
| Vocational education without degree | 142 | 83 | 225 | 48,4 | 40,0 | 45,3 |
| Vocational education with degree | 127 | 19 | 146 | 50,7 | 30,5 | 48,1 |
| Vocational higher education | 72 | 125 | 197 | 42,2 | 36,0 | 38,3 |
| University | 197 | 151 | 348 | 50,6 | 42,1 | 47,0 |
| Doctoral degree | 16 | 3 | 19 | 72,5 | 209,1 | 94,0 |
| DA NANG CITY | | | | | | |
| Without education | 158 | 126 | 284 | 25,3 | 20 | 22,9 |
| Vocational education without degree | 41 | 15 | 56 | 31,0 | 20,7 | 28,2 |
| Vocational education with degree | 47 | 7 | 54 | 29,7 | 22,2 | 28,7 |
| Vocational higher education | 47 | 57 | 104 | 33,6 | 24,5 | 28,7 |
| University | 54 | 41 | 95 | 37,9 | 31,5 | 35,2 |
| Doctoral degree | 1 | 0 | 1 | 25,5 | | 25,5 |

Source: Own analyses of microdata from the 1994 Labour Force Survey

Table 3: Average monthly wages in firms with differing property forms

| | Number of People in sample | | | Average wages in US \$ | | |
|--------------------------|-------------------------------|--------|-------|---------------------------|--------|-------|
| | Male | Female | Total | Male | Female | Total |
| HANOI | | | | | | |
| <i>State owned firms</i> | | | | | | |
| In joint venture | 44 | 46 | 90 | 41,2 | 42,6 | 41,9 |
| Other | 942 | 845 | 1787 | 35,1 | 29,0 | 32,2 |
| <i>Cooperatives</i> | | | | | | |
| In joint venture | 1 | 0 | 1 | 90,9 | 0 | 90,9 |
| Other | 26 | 20 | 46 | 33,4 | 24,4 | 24,5 |
| <i>Private firms</i> | | | | | | |
| In joint venture | 7 | 4 | 11 | 69,5 | 67,1 | 68,6 |
| Other | 53 | 30 | 83 | 35,6 | 21,4 | 30,5 |
| HO CHI MINH CITY | | | | | | |
| <i>State owned firms</i> | | | | | | |
| In joint venture | 141 | 151 | 292 | 52,2 | 44,0 | 48,0 |
| Other | 574 | 522 | 1096 | 43,5 | 36,0 | 39,9 |
| <i>Cooperatives</i> | | | | | | |
| In joint venture | 16 | 7 | 23 | 50,8 | 46,7 | 49,6 |
| Other | 38 | 16 | 54 | 44,4 | 40,6 | 43,2 |
| <i>Private firms</i> | | | | | | |
| In joint venture | 41 | 34 | 75 | 51,5 | 52,3 | 51,8 |
| Other | 406 | 210 | 616 | 44,4 | 34,1 | 40,9 |
| DA NANG CITY | | | | | | |
| <i>State owned firms</i> | | | | | | |
| In joint venture | 6 | 7 | 13 | 26,8 | 66,0 | 47,9 |
| Other | 178 | 192 | 370 | 25,2 | 30,2 | 28,1 |
| <i>Cooperatives</i> | | | | | | |
| In joint venture | 0 | 2 | 2 | | 59,1 | 59,1 |
| Other | 2 | 9 | 11 | 16,8 | 28,7 | 26,6 |
| <i>Private firms</i> | | | | | | |
| In joint venture | 3 | 2 | 5 | 20,5 | 20,5 | 20,5 |
| Other | 28 | 93 | 121 | 19,2 | 28,1 | 26,0 |

Source: Cf. table 2

One central characteristic of autonomous and induced structural change is that it results in an increased movement of labour from the primary to the secondary and tertiary sectors, and that this development is reinforced still further. It can be expected that this structural change will take place far more quickly than in the Western industrialized nations. Many workers will be required to show great mobility, especially as regards vocational training-related demands. The resulting problem of structural unemployment can already be seen clearly today.

This problem is compounded by the persistently high rate of population growth, which brings with it a high annual influx of new workers on to the labour market. Frictional unemployment will thus be created alongside structural unemployment. In the future, it can be expected that the transformation process will further reinforce market-based structures, and that the frequency of cyclical and seasonal fluctuations will increase. Cyclical unemployment will aggravate or become superimposed on the above-mentioned causes of unemployment. These labour market problems, which already partly exist today, will become more pronounced in the future (for the various types of unemployment, see Blien/Koller 1994). Vietnam is thus faced with the problem of finding an efficient concept for labour market policy.

5. Vietnam's Prospects for the Future

In general, international analyses regard Vietnam's development prospects as favourable (see Riedel 1993; Diehl 1993a; Dollar 1994; Harvie/Tran 1997). Compared with other countries undergoing a process of transformation, and especially with the countries of the former Soviet Union, it has hitherto been possible to avoid a profound transformation crisis. As we have seen, important economic indicators (such as economic growth, inflation, the development of external trade) are showing a positive trend. Admittedly, there was some discord as to the further course of action in the run-up to the seventh party congress of the Vietnamese Communist Party (in June 1996), but the results of that party congress suggest that future developments will be stable (see Mutz 1996: 11).

The combination of a comparatively high level of education and low wages means that Vietnam is partly assuming the earlier role of the first and second generation "tigers" in Southeast Asia. As average wages are far lower than in Thailand, for example, there is a tendency to relocate particularly labour-intensive production processes to Vietnam. Foreign investment in Vietnam is booming correspondingly, particularly by the first gen-

eration "tiger" economies (Singapore, Hong Kong, Taiwan and South Korea) (see Mutz 1995: 8). Up to April 1996, the total value of approved investment projects had reached the \$ 18 bn mark (see Vietnam Economic Times 1996/24: 11). This ties in with the general direction of Vietnamese policy, which regards high foreign investment as a crucial precondition for development (see Andreff 1993: 527).

In the recent past, the elasticity of employment with respect to the growth of the economy has been low. At only approx. 0.25 (see de Silva/Jamal 1994: 18), growth of employment was only a quarter of CDP's increase. The gap between these two rates is tied up with the fact that enterprises in unproductive state-owned industries were overmanned. Since the reforms started they have been able to reduce their workforces while keeping output at a constant level, or indeed increasing it. In addition, productivity is generally so low that even the rudimentary application of modern production techniques can save a great deal of labour. In part, therefore, the high rates of economic growth and productivity have to be attributed to the low level from which they started. In this respect, we are seeing growth catch up with the productive solutions developed by the industrialized nations.

However, it cannot be assumed, as de Silva and Jamal do, that this elasticity of growth is a stable quantity. Generally, economic growth is dependent on the development of productivity in the economy as a whole. A reverse causality applies in Vietnam, however. As new workplaces are created as part of the process of growth, unproductive employment in agriculture, the informal sector and industry disappears. In the case of industry, this process takes the form of redundancies. In the case of agriculture and the informal sector, jobs are abandoned voluntarily as they only provide extremely low incomes. The productivity of the economy as a whole then increases as a reaction to growth.

This flexibility of the elasticity of labour is one of the "secrets" of Vietnam's advantage over other transformation economies. The informal sector acts as a buffer, which has to a great extent prevented any increase in manifest unemployment. The goods and services produced by this sector of the economy augment supplies to the population as a whole and allow investments to be made that are necessary for further growth. However, this only displaces some of the problems of further development, but does not solve them. Underemployment, which is characteristic of large areas of the informal sector, can only be reduced if the rates of economic growth remain high.

Vietnamese experts regard 4% growth in agricultural production as realistic (see Institute of World Economy 1995: 66). High rates of growth cannot be permanently maintained in this sector. Growth here will scarcely

be linked with increased employment, as particularly high underemployment is typical of precisely this sector. Unless action is taken to counter this development, it will make itself felt in a high annual increase of people seeking jobs in the cities.

The relatively low rate of growth in agriculture means that rates in urban sectors have to be relatively high if unemployment and underemployment are to be reduced. The population is currently growing at a rate of more than 2% (see figure 1 above). Between 1985 and 1995, the average rate of population growth was 2.4%, and estimated growth for 1996 was 2.1% (see BFAI 1996: 3). In fact, however, far higher rates of economic growth will be required in order to absorb the growing numbers of job-seekers. If one bears in mind that only about 25% of workers are employed in the urban sector, and that no further jobs will be created in the agricultural sector, then a 10% increase in employment is needed in order to compensate demographic developments. If progress in productivity were added to this calculation, this would necessitate rates of urban economic growth of around 20%. As the urban share of production as a whole is more than 50%, this would mean rates of economic growth of more than 10%. If such high rates are not attained, urban labour markets will be unable to absorb the influx of labour. The result would be increasing rates of unemployment and underemployment, together with growing destitution of the working population.

The contradictory situation with facing the Vietnamese government is therefore clear. Extremely high rates of growth are needed in order to avoid the above-mentioned problems. However, these rates of growth can only be achieved through action that will in itself aggravate the problems on the labour market. In particular, the government must rely on large-scale foreign investment. As a result of this investment, enterprises are created that are highly productive by Vietnamese standards, but which employ only relatively few workers and are overpowering competition in many areas, especially for state-run industry, but also for many microenterprises. If the latter cannot hold their own, there will be a further increase in underemployment and unemployment.

Further action is therefore necessary in order to cushion the effect of these huge problems. Even if the dictates of humanity were not sufficient reason for the Vietnamese government to act, mass destitution would be intolerable for the governing communist party, which still gives verbal support to the socialist idea. Destitution would mean the danger of hunger riots, which themselves would necessarily have a detrimental effect on the desired process of development.

The described internal risks of development are aggravated by international influences, by the new and severe problems in the Southeast Asian region. This part of the world changed during 1996/97 from a stage of success to a scene of crisis. Thailand's currency, for example, was devaluated and the country had to introduce stabilization measures according to an IMF plan. The stock exchanges in other countries revealed a steep fall in prices and chaotic developments. General signs of recession and crisis could be seen.

International capital is presently leaving the region. Domestic saving in Vietnam has increased much, from 5.0% of the GDP in 1989 to 16.6% in 1994 (Harvie/Tran 1997:67), but foreign investment is still urgently needed. The new lack of capital is affecting Vietnam unfavourably, since the main foreign investors are those countries affected by the symptoms of the Southeast Asian crisis. Therefore, the rate of foreign investment declined in Vietnam by ca. 30% between 1995 and 1997 and the expectations of high growth have to be corrected. Growth will be slightly lower in 1997 than in previous years (cf. figure 2). For 1998 the government only expects an increase of ca. 6%, but this seems to be overoptimistic. This means that the labour market problems of Vietnam are increasing.

Additional problems are arising: A consequence of the devaluation of the Baht, Thailand's currency, is a lower rice price. Therefore, Vietnam's revenue from agricultural production is also reduced. In general, the competition between the countries in this region will increase and the problems of economic development will sharpen.

There remains hope, however, that Vietnam will overcome these problems and take off into a brighter future.

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