“Vietnam’s Labour Market in Transition”

Draft paper presented at
Law and Labour Market Regulation in Asia conference**,**
University of the Philippines, November 12, 1999.

By Adam McCarty
Institute for Social Studies
The Hague

Introduction

VN developing country (dual economy), in transition, Asian. Legal transplanting history.

July 11, 1998: Decision No. 126/1998/QD-TTg of Prime Minister on approving the national target program for employment till the year 2000 (Official Gazette No. 25, Sep 10, 1998, p. 36).
Objectives:
Create 1.3-1.4 new jobs for laborers each year
Reduce unemployment rate in urban areas to 5%.
Raising the rate of useful working time in rural areas to 75% by the year 2000.
Funds: VND 4800 billion dongs

Employment structure and structural change, 1986-1999

Vietnam's population is now about 78 million persons, having doubled in the past three decades. Only 8 percent of Vietnam’s population is 60 years or older while 38 percent are under 15 years old. During the 1991-1996 period, the working age population was increasing by 2.8 percent a year, or an increase of about 1.1 million new entrants each year.

Higher urban growth rates are attracting rural workers to the cities. Government forecasts suggest that the urban population will increase throughout the 1996-2000 period, with 45 percent of the new labour market entrants finding employment in the urban areas. This would increase the share of urban workers from 20 to 25 percent of the workforce.[1]

Vietnam is a poor developing country in “transition” from central planning to a mixed-market economy. It is a poor rice-based economy with a small and largely state-owned industrial sector. Liberalising economic reforms, which began in the late 1980s, precipitated a decade of high growth rates and large inflows of foreign direct investment. Throughout this period economic forces led to structural change in Vietnam’s dual labour markets. Rural workers began migrating in increasing numbers to urban areas, a phenomenon typical of fast growing developing countries. Stronger markets also revealed the deficiencies of the state enterprises, forcing them to shed workers. This process of effectively privatising industrial employment slowed by the mid-1990s, although many state enterprises continue to be so in name only.

During 1989-91 Vietnamese state enterprises shed workers due to the collapse of CMEA trade, and because of a tightening of state enterprise budget constraints during the 1989 stabilisation period. At about the same time, however, removal of internal trade barriers and official Decrees supporting the development of the private sector created incentives and opportunities for Vietnam’s household businesses. This process of coordinated reform allowed state enterprise employment to fall from 8.7 percent of total employment in 1989 to 6.2 percent in 1991, but without a huge rise in unemployment as the private sector created jobs for 4,369,000 workers (Table 1).

Table 1: Employment trends by sectors, 1989-91 (thousands of persons)

	1986	1989	1990	1991
Total employed labour force	27,398	28,941	30,294	30,974
State sector	*4,027*	*3,801*	*3,421*	*3,144*
Co-operatives	*19,730*	*19,750*	*20,414*	*18,071*
Private	*3,641*	*5,390*	*6,459*	*9,759*
State enterprises	2,658	2,506	2,180	1,916
Central	*1,278*	*1,188*	*1,091*	*1,018*
Local	*1,380*	*1,318*	*1,089*	*898*
Share of total employment (%)				
State sector	14.7	13.1	11.3	10.2
State enterprises	9.7	8.7	7.2	6.2

Source: World Bank (1995)., *Vietnam: Poverty Assessment and Strategy*. Washington, DC.

Table 2 shows that most of Vietnam’s labour force is still employed in agriculture. The state sector employs only nine percent of Vietnam’s workforce, but that percentage varies

[1] National Population Committee - Population forecast in the 1990-2000 period, reported in Tran Van Luan, *Labour and Employment in Urban Areas,* Vietnam’s Socio-Economic Development, A Social Science Review, No. 12, Winter 1997.

considerably across economic sectors. About one-quarter of industry sector workers have been employed by the state throughout 1991-97. In commercial service areas, however, the share of state employment has halved from 26 percent in 1991 to 13 percent in 1997. It has also fallen, but less quickly, in other sectors.

Table 2: Employed population by sectors and employer, 1991 to 1997 (thousands of persons and percent)

	1991	1992	1993	1994	1995	1996	1997 est.
Total	**30,974**	**31,815**	**32,718**	**33,664**	**34,590**	**35,792**	**36,994**
Percent state sector employees	***10.1***	***9.4***	***9.0***	***8.7***	***8.8***	***8.8***	***8.9***
Agriculture, forestry & fisheries	23,122	23,160	23,425	23,565	24,106	24,776	25,444
Percent state sector employees	*1.7*	*1.5*	*1.4*	*1.3*	*1.2*	*1.0*	*1.0*
Industry	3,736	3,847	4,140	4,326	4,493	4,629	4,634
Percent state sector employees	*27*	*25*	*24*	*23*	*23*	*23*	*25*
Trade, transport, hotels, services	2,485	2,833	3,033	3,363	3,493	3,773	4,291
Percent state sector employees	*26*	*21*	*18*	*16*	*15*	*15*	*13*
Health and education	1,010	1,094	1,143	1,218	1,259	1,287	1,295
Percent state sector employees	*85*	*75*	*73*	*68*	*69*	*71*	*72*
Others	623	881	975	1,191	1,238	1,327	1,334
Percent state sector employees	*41*	*30*	*27*	*23*	*25*	*24*	*27*

Sources: MOLISA, (1997)., *Statistical Yearbook of Labour-Invalids and Social Affairs, 1996*. Statistical Publishing House, Hanoi [for data to 1994].
GSO (1998)., *Vietnam Statistical Yearbook*. Statistical Publishing House, Hanoi [1995-97 data].

Despite the slowly falling share of total employment, the number of persons in the state sector has risen during 1991-97. The workforce increased by 6 million persons during 1991-97, of whom the state sector absorbed 155,000 (3 percent), and the non-state sector the remaining 5,865,000 – mostly in agriculture (2 million), but also in industry (898,000), trade (1.38 million), and across most other sectors.

In terms of employment, therefore, the state sector has been stagnating. This is despite priority still being given to state sector development, and a reported marginal rising state sector share of GDP in recent years (Table 3). The state sector and its enterprises, even with protection and access to state funds, foreign investment, land, and bank credit has failed to produce jobs.

Table 3: GDP by ownership (US$ and percentages)

	US$millions*			**Percentage shares**	
	1995	1996	1997 est.	1995	1997 est.
Total	**20,076**	**22,488**	**22,855**	***100***	***100***
State	7,535	8,574	8,887	*37.5*	*38.1*
Household	7,547	8,280	8,309	*37.6*	*36.8*

Collective	2,168	2,301	2,217	*10.8*	*10.2*
Private	615	751	791	*3.1*	*3.3*
Mixed	888	948	983	*4.4*	*4.2*
Foreign invested sector	1,321	1,634	1,709	*6.6*	*7.3*
(dong per US$)	*(11,100)*	*(11,500)*	*(12,938)*		

Sources: GSO (1998)., *Vietnam Statistical Yearbook*. Statistical Publishing House, Hanoi
World Bank (1998)., Vietnam: Rising to the challenge. Hanoi. [exchange rate data].
* Current GDP data divided by average exchange rate.

Total employment in firms with foreign investment in 1996 totalled about 146,000 persons. Foreign invested firms therefore account for about a quarter of industrial output while employing about 5 percent of the industrial labour force. This is partly because of much higher productivity in the foreign invested firms, but also because much of the foreign investment has gone into capital intensive activities such as heavy industry or oil and gas exploration, rather than labour intensive light industry. For instance, light industry accounts for 60 percent of employment in foreign invested firms but only 17 percent of foreign investment implemented up to 1996.

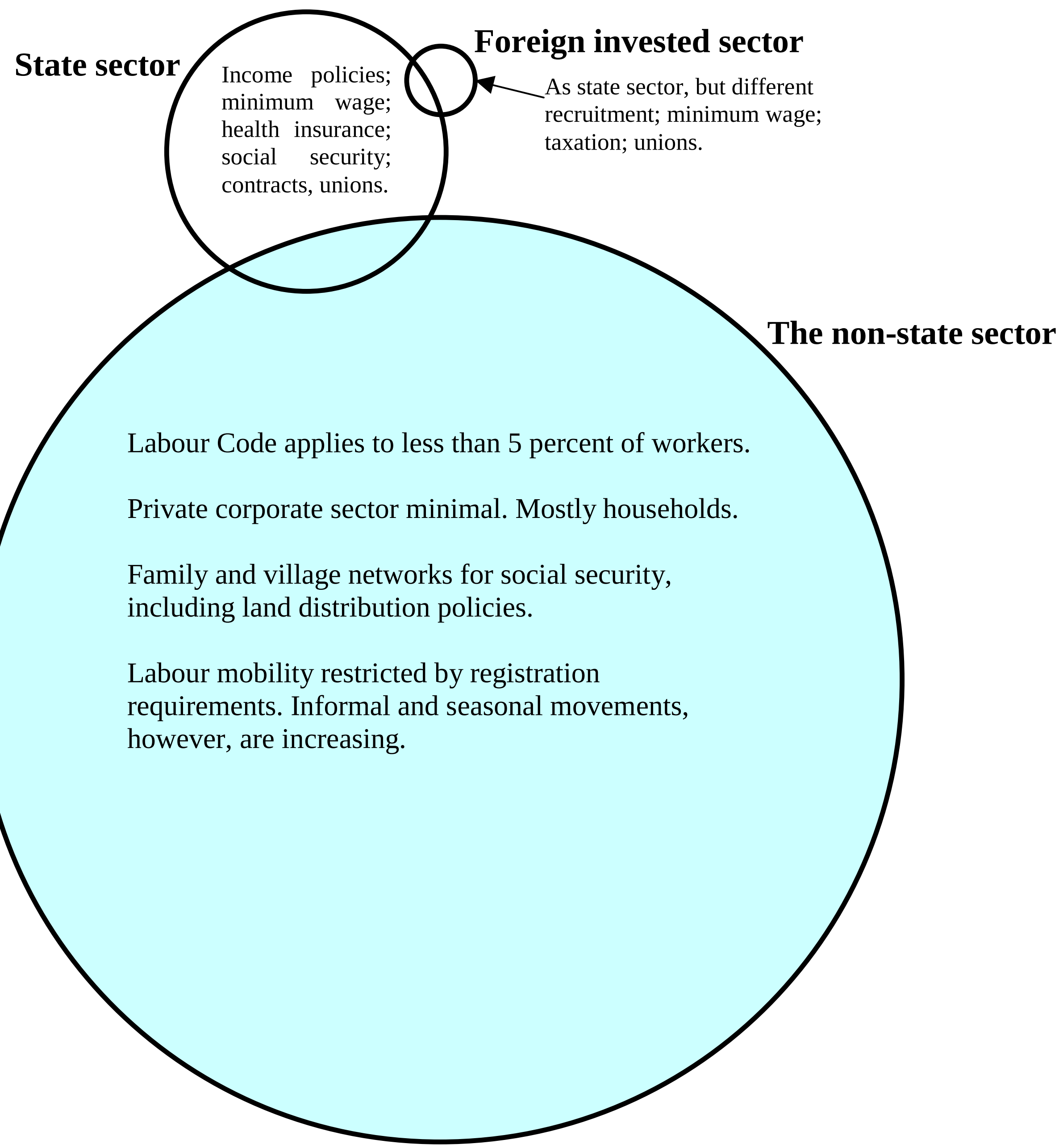
Towards an Understanding of Vietnam's Labour Market Regulations

The dual economies

The typical rural-urban dual economy conceptualisation applies to Vietnam, but the division of economic activity by form of ownership, rather than location, is more relevant. In terms of ownership, Vietnam certainly maintains a dual economy – a moribund state sector alongside a vigorous mostly-household private sector. Government policies are divided between each sector and labour market policies are no exception. A third division, policies applying to foreign invested enterprises, may also be added. Figure 1 illustrates the employment shares of these three parts of the Vietnamese economy. The coverage of formal labour market policies, the subject of this paper, is therefore very limited.

Figure 1: Vietnam's dual economy in perspective

(volume of circles represents employment shares of total labour force)



Vietnam's state enterprise labour market policies are, like other state enterprises policies, focused mainly on controlling economic activity to ensure that a reasonable share of profits (or economic rents) accrue to the government. State enterprises, if left on their own, would be "leaky buckets" requiring continuous subsidisation from the state. For this reason controls on management, trade, production, investment, expenses and wages are imposed to micro-manage state enterprises and to try and make them net contributors to government revenue. From this perspective, protection is viewed as a useful mechanism for helping state enterprises make a profit (or at least to cost the state less). The challenge, it would seem, is to "step by step" expand production in all sectors such that everybody can be employed. While, of course, perfecting the mechanisms of micro-management.

This vision of industrial development is wrong and completely incapable of producing a competitive industrial sector. A minority of priviledged workers may be employed in this state enterprise sector to the extent that government support can afford it. In Vietnam, with limited resources and weak domestic demand, this "welfare state pocket" employs only about 6 percent of the workforce. Ongong protection might squeeze this figure up to 8 percent, but only at the cost of removing incomes and opportunities from the other 92 percent of workers in Vietnam.

Vietnam's labour market policies remain focused mainly on controlling state enterprises. There is also a drive to extend the welfare and "workers paradise" aspects of state enterprises throughout the economy: labour contracts, union dictatorship, generous social security benefits, etc. Policies to promote a competitive and flexible labour market are notable in their absence.

The limits of regulation

Emporer's rule ends at the village gate.

Labour Regulation

The revised 1992 Constitution of the Socialist Republic of Vietnam laid the foundation for the formulation of a new Labour Code, which came into effect on 1 January, 1995. The Labour Code is designed to provide a framework by which:

- "The State carries out the unified management of human resources, and administration of labour through legislation, and formulates policies to develop, allocate human resources, and to develop various forms of labour utilisation and employment services.

- The State provides guidance for workers and employers to establish

> harmonious and stable labour relations and mutual co-operation for the development of undertakings"[2].

The labour code and a long list of implementing decrees and regulations amount to a very comprehensive regulatory framework for the state management of the labour market.

While the regulatory framework is comprehensive *on paper*, only parts of the system can be supervised or enforced *in practice*. The following assessment therefore includes not only an evaluation of the underlying logic of the labour market regulatory framework but also of its actual impact given the very limited scope for enforcement

At present the capacity for implementing this framework is very limited and focused mainly on the state enterprises, their joint ventures with foreign firms and the very limited number of private sector firms that employ more than 10 workers and that have registered under various company laws[3]. Some of the most important regulatory issues concern labour contracts and control of contract termination processes, the use of placement services, and the control of expatriate labour.

Contracts

All workers are to be employed on contracts that clearly specify the terms and conditions of employment. Contracts can be for an indefinite term, from one to three years, or less than one year for seasonal employment activities. The law prohibits the use of short-term contracts to fill jobs that are "of a permanent character lasting more than one year" (Article 27)[4]. Other terms of the contract include: hours of work, place of work, working conditions, social insurance provisions, and duration of contract.

A 1994 survey of state enterprises found that 42 percent of their staff were still considered lifetime employees, although only 33 percent were on indefinite contracts, 16 percent on fixed-term contracts, and the remainder on short-term contracts. Table 6 presents some more recent data from another survey of 2,682 state enterprises in 1996. Only 79 percent of workers covered by the survey were on labour contracts, although 92 percent of workers in joint-ventures were contracted. Indefinite time period contracts were signed with 49 percent of all workers (57 percent of central state enterprise workers), an apparent increase on the 1994 survey finding.

---

[2] Ministry of Labour, Invalids and Social Affairs, Labour Code of the Socialist Republic of Vietnam, The Bioi Publishers, 1995, Article 10.

[3] It is not the case that the Labour Code applies to only firms with 10 or more workers. Only some articles of the code are restricted this way, mainly those requiring such firms to participate in the collection and management of the social insurance fund, to keep labour records, wage records and social security records.

[4] Decree 198/CP (31/12/94) states that "full-time state enterprise workers will sign labour contracts with indefinite terms". This is the only aspect of the Labour Code which provides discrimination by form of enterprise ownership. It should be removed.

Table 5: Labour in surveyed state enterprises and joint-venture enterprises, 1996.

	No. of state enterprises	No. of labour in 1 October 96		Signed labour contracts			
		total	Of which: female	Unlimited	From 1 to 3 years	Under 1 year	No contracts
Central	693	319,863	131,828	181,170	63,643	16,320	58,730
Local	1,859	324,162	146,805	139,332	75,574	29,774	79,482
Joint venture	130	14,493	6,068	3,072	6,818	3,427	1,176
Totals	**2,682**	**658,518**	**284,701**	**323,574**	**146,035**	**49,521**	**139,388**

Source: MOLISA, (1997)., Statistical Yearbook of Labour-Invalids and Social Affairs, 1996. Statistical Publishing House, Hanoi.

Unions

The Labour Code has also formalised and greatly strengthened the role of labour unions in Vietnam. It not only protects the right of workers to form unions, but it requires unions to be formed within six months in all enterprises (Article 153). Further provisions include:

- Workers can only be retrenched "after consultation and agreement with the Executive Committee of the trade union of the undertaking" (Article 17).
- Disputes incur a protracted process of conciliation and arbitration (Article 38) which can ultimately entail a strike.
- Enterprises must provide a "loss of employment allowance" of one month's salary for each year of employment to retrenched workers (Article 17).
- Termination of contracts for disciplinary or poor performance reasons still requires agreement from the trade union (Article 38).
- Penalties are prescribed for illegal termination of contracts by employers (Articles 41 and 42).
- "The employer shall not impose penalties by way of deductions from workers wages" (Article 60).
- "If stoppage is due to the fault of the employer, the worker shall be paid wages in full" (Article 62).
- "In the event of the employer's bankruptcy, ... labour contracts shall be treated as a privileged debt and must be settled as first priority." (Article 66).
- "When proceeding with disciplinary action, the employer must bring proof of the fault of the worker" (Article 87).
- "Workers are exempted from court expenses ...." (Article 166).

The prescribed role of unions, and the requirement to pay social security contributions, explain much of the reluctance towards adopting the Labour Code throughout Vietnam. By 1995, most state enterprises were unionised, compared to only 1,200 of 18,000 large and medium sized non-state enterprises[5]. Recently, however, it was announced that 150,000 non-state workers had labour contracts, up from 75,000 in 1997 (these would mostly be in foreign-invested enterprises). In 1996, MOLISA announced that half of all joint-venture enterprises had established trade unions[6], although a more recent report stated that only 25 percent of Hanoi joint-venture enterprises had unionised[7].

The rights of workers and labour users to enter contracts and the rights of workers to form unions needs to be respected. However, detailed regulations forcing such rigid contracts are counterproductive. Such contracts reduce the flexibility of firms to deal with changing labour market conditions, raise costs to firms of formalised labour relations and discourage enterprise formation and growth. In particular, such regulations increase the costs to the expansion of employment to levels where firms become subject to such regulations. While the contract and labour union regulations are not specifically restricted to medium or large sized firms, it is impractical to enforce these decrees for small firms. These contract and labour union regulations are disincentives to enterprise formation and growth. Even if such regulations benefit some workers in established firms, they tend to limit the opportunities of much larger numbers of workers in the informal sector of the economy.

Incomes policy

Under the centrally planned economy, the wage levels in the state enterprises were centrally controlled to capture profits for the state budget. Even with central planning, workers were able to find ways to share in the profits of the successful enterprises[8]. With reform, these state enterprises were given more autonomy and hence there was a further erosion of control over SOE resources, including payments to workers.

Enterprises can avoid profits tax by increasing apparent or even actual expenditures. Most do it legally, some illegally. In many cases, the regulations are unclear or not detailed enough to decide if an action is strictly illegal. In 1993, the government passed two resolutions aimed at putting "the payroll and wage fund under strict state management"[9]. These resolutions specified the exact "basic wages" to be paid to all state sector employees calculated based on a multiple of the minimum wage rate. At the same time, all monetary non-wage income has been abolished, including compensation for higher electricity prices, education and training cost payments,

[5] EIU (1995)., Country Report: Vietnam, 1st Quarter 1995. The Economist Intelligence Unit, London.
[6] VN Economic News, No. 32, 1996. p.23
[7] VN Economic News, No. 13. 1996, p.31.
[8] See Fforde & de Vylder, From Plan to Market: Vietnam in Transition,1996. p.262.
[9] Resolutions 25/CP and 26/CP [23/5/93].

transport costs, and annual holiday payments. Performance-related bonus payments were allowed of up to six months (50 percent) of the annual basic wage.

The “basic wages” used to be calculated using 72 different wages tables, each of which presented a matrix of different salaries based on skill levels and grades (typically reflecting years of experience and skills). Salaries were calculated as a multiple of the minimum wage, set at 144,000 dong per month. Of the 72 wages tables, 21 were for the "direct production sector" and 24 were for the "trade and service sector". One table applied to "enterprise management", and this is presented as an example in table 7.

Table 7: Salary Table for Enterprise Managers

	Categories of enterprises: “Special”	Type 1	Type 2	Type 3	Type 4
Director: coefficient	6.72-7.06	5.72-6.03	4.98-5.26	4.32-4.6	3.66-3.94
Salary (‘000 dong)	*806-847*	*686-724*	*598-631*	*518-552*	*439-473*
Vice-Director, or Chief Accountant: coefficient	6.03-6.34	4.98-5.26	4.32-4.6	3.66-3.94	3.04-3.28
Salary (‘000 dong)	*724-761*	*598-631*	*518-552*	*439-473*	*365-394*

Source: MOLISA, 1997.
Note: The coefficient is the multiple of the minimum wage, which was 120,000 dong per month until January 1997.

The attempt to centrally determine both absolute and relative wages has not proved practical. The system was modified in January 1997[10];

- to raise the minimum wage to 144,000 dong[11] (to rise to 157,000 dong in 1999);
- to allow production enterprises more freedom in setting their own enterprise specific minimum wage as determined by productivity performance within the enterprise.

The relaxation of minimum wage controls on state enterprises was a decisive act of deregulation. There had been pressure to do so for some time, particularly from the more successful state enterprises. Wage and bonus controls had pushed profitable enterprises to seek alternative mechanisms for increasing worker remuneration, such as providing health and education services, or clothing and food.

State enterprises have managed to negotiate the right to use a minimum wage in calculating the "basic wage" that is up to 1.5 times the economy wide minimum wage (Decree 28/CP; 28 March, 1997). The attempt now is to try and maintain the aggregate wage fund in line with enterprise profits, i.e. increases in profits are the key to increasing wages. While this would appear to be a possible basis for a constraint system that allows for reasonable incentives, such a system is easily manipulated when there is easy access to credit and when accounting practices are lax.

The wage matrices used in determining relative rewards should ideally account for skill, knowledge and productivity differences within the workplace as wells as for changing supply and demand conditions for different skills. This is difficult to do at the economy wide level. Enterprises have been able to establish the right to set there own enterprise specific matrices for calculation of the different 'basic wage' for different skills. Again, this may provide the flexibility needed for getting relative rewards to reflect relative contributions to the operations of the SOE, but this flexibility can easily slide into even less efficient outcomes if the process becomes highly politicised or corrupted.

Many of the SOE's are operated on a system where the enterprise's main target is a level of contribution to government revenue. Most of the enterprises are unable to make much of a contribution. Some 360 enterprises (out of a total of about 6000) account for some 80% of SOE contributions to the budget[12]. The major determinant in wages within the SOE's is the level of profits being achieved. Wages for similar skilled labour can differ by thousands of dollars per year in different enterprises

[10] Resolution 06/CP [21/1/97]

[11] The 20 percent increase in the nominal minimum wage only partially compensated for increasing consumer prices, which had risen by 36 percent since May 1993.

[12] World Bank, "Vietnam: Deepening Reform for Growth", Report No 17031-VN, Oct. 31, 1997 p. 36.

depending on their profitability[13]. The dispersion of wages is also much greater in the more successful SOE's relative to that in the unprofitable ones[14]. A 1995 survey of 360 state enterprises found that average worker incomes were 1.1 million dong, and that many were already applying a minimum wage of 350,000 dong [15].

The conditions are now more favourable for increasing worker shares of economic rents. State enterprise workers are already a small minority of workers, accounting for nine percent of the total labour force. If one excludes those employed in educational institutions, this is reduced to seven percent. If we focus only on state manufacturing enterprises, the 608 thousand in 1995 were only 1.7 percent of total employment. With a restructuring program that divested or privatised loss making enterprises, the privileged minority in joint ventures between state enterprises and foreign investors and in the three or four hundred highly profitable SOE's would be below 1 percent of the working population. This privileged minority of workers is, however, likely to have a disproportionate influence on maintaining the many forms of protection and preferential treatment for these enterprises.

Incomes policy applies mainly to state organisations, including commercial state enterprises. However, article 57 in the Labour Code does not specifically limit incomes policy to just the state sector. Article 4 of Decree 197 (Dec. 31, 1994) also states that "the Ministry of Labour, War Invalids and Social Affairs, based on the State's salary policies, shall make guidance on the implementation of salary regime in enterprises and production, business or service organisations belonging to the other sectors of the economy". The rational for controls on non-state salaries is to ensure that worker and management costs are not inflated to reduce reported profits and the profits tax due to the state. This is impossible to enforce given the many other mechanisms open for "hiding" profits. In practice, non-state enterprises seem to have full autonomy to set salaries above a specified minimum as detailed in the Labour Code. So do foreign direct investments, including joint ventures, except again for a specified minimum wage.

The attempt to control incomes by linking them to the minimum wage rate has not been very successful. Wage distortions have made it more difficult for state owned enterprises to operate more efficiently. Efforts to allow more flexibility have eroded controls aimed at assuring an adequate return on state assets. Inflated wages in potentially highly profitable SOE's will make it more difficult to generate support for 'equitisation' or to progressively reduce barriers to competition by domestic or foreign investors or by imports..

The direct linkage between the minimum wage rate and incomes throughout the state sector (and pensions paid by the Social Insurance Fund) means that adjustments in

---

[13] See Le Thanh Nghiep, "The Determinant Factors of Wage Incomes in the Public Enterprises of Vietnam", in *Renovation of Financial and currency Policy and Control of the inflation in Vietnam,* National Political Publishing House, Hanoi, 1997 p. 143-170.

[14] See Osamu Nariai, "Wages and the International Competitiveness of Vietnam", ibid, p. 174.

[15] Labour and Social Affairs Journal, Sep. 1997. p.16.

minimum wage rates have important implications for government finance. Any adjustment in the minimum wage rate implies an general increase in all incomes and payments linked to the minimum wage. The commitment to adjust the minimum wage rate for inflation may require a substantial expenditure to adjust all of the state incomes and other payments linked to the minimum wage. This may imply tax increases or budget reallocations that will slow the development process and imply burdens on much larger and lower income groups elsewhere in the economy[16].

Dec 31, 1998: Joint circular No. 18/1998/TTLT-BLDTBXH-BTC guiding the determination of **wage funds** to be paid by state enterprises when they fail to achieve the budget and profit remittance norms. (Official Gazette No 7, Feb 22, 1999, p. 3)

April 4, 1998: Circular No. 4/98/TT-BLDTBXH guiding the setting of grade promotion criteria and examinations for **professional officials** in state enterprises (Official Gazette No. 18, June 30, 1998, p. 22)

April 15, 1998: Decision No. 83/1998/QD-TTg on the regime of wages and allowances for members of managing boards and control commissions of the state corporation and the large-size independent state enterprises (Official Gazette No 15, May 31, 1998, p. 3)

April 9, 1998: Decision No. 79/1998/QD-TTg on the establishment of the state steering committee for wages and salaries: Task

- Direct the formulation of state wage and salary policy
- Study the socio-economic policies related to wage and salary policies proposed by ministries and branches before submitting them to Prime Minister.
- Organizing the implementation of state wage and salary policies and direct the periodical review and evaluation of implementation of state wage and salary policy.
- Proposed measures to promptly settle problems arising in the course of implementation of state wage and salary policies.

(Official Gazette No 14, May 20, 1998, p. 12)

Taxation

Social Security

[16] The VND2,500 billion earmarked to account for the impact of the adjustment of the minimum wage from VND120,000 to VND144,000 per month reportedly was 30% higher than the total anticipated increase in revenues in 1997, even though this adjustment made up only two thirds of the fall in real wages. See Vietnam Investment Review, “Budget Strained by Salary Crisis”, Ministry of Planning and Investment, April 11, 1996.

Health care, retirement, housing, child-care, education and other benefits have traditionally been linked to state enterprises. This linkage is of concern because such linkages make it more difficult to restructure SOE's, and interfere with the ability of workers to take advantage of alternative employment opportunities and with the general development of flexible labour markets. The social insurance scheme is the most important aspect of the formal mechanisms for social security, and its problems warrant examination in detail.

The Social Insurance System

The social insurance system is funded by obligatory payment of social insurance premiums by the employer (15% of the wage fund) and the employee (5% of the wage) in all enterprises with 10 or more employees. For all other arrangements involving hired labour, the social insurance allowances shall be included in the salary paid by the labour user so that the worker can join a social insurance scheme of his choice or look after his own insurance.

The social insurance fund provides pensions for workers as well as benefits for childbirth, sickness, disabilities related to work-related accidents or occupational diseases. We focus on the pension benefits and return to the other benefits financed by the pension fund and employers below. Workers become eligible for pensions at the age of 60 for men and 55 for women if they have paid social insurance premiums for at least 15 years. The benefit is equal to 45% of the salary earned in the past 5 years with an additional 2% payable for every additional year worked (up to 30 years). The maximum pension is therefore 75% of the salary in the past five years. More favourable pension benefits are available to the disabled and to those in especially heavy or noxious jobs[17].

Workers not qualified for pensions but who have had contributions to the system are entitled to a onetime payment set by Government, currently one month of salary for each year of contributions.[18] Some 146,000 of the 236,000 retirees receiving benefits in 1996 were handled with lump sum payments. This might be because they were retrenched without rights to a normal pension. Reportedly, many workers preferred to obtain the one time payoff, even in cases where there were rights to a pension. This might be expected when discount rates are high or when there are risks attached to claims for future payments.

The coverage of the social insurance system is limited by the unwillingness of many employers and employees to make the required payments. Such payments can be legally avoided if the employment is in enterprises or operations with less than 10 employees, a category that accounts for the vast majority of enterprises in agriculture, fisheries and private sector operations in all other sectors of the economy. It is estimated that the vast majority of workers - 30 million out of a workforce of 37 million - fail to

[17] Workers with 61% disability (in heavy or noxious jobs) can get pension benefits 10 years earlier (at any age) if they have had 20 years of contributions.

[18] The monthly salary is calculated as the average of the past five years of employment

pay insurance.[19] In 1995, the turnover on Social Insurance premiums was US$315 million [20].

There are two important issues that need to be addressed with respect to the social insurance system:

- the level of benefits and financial viability of the social insurance fund;
- effects on labour mobility and the growth in employment opportunities, particularly through the expansion and growth of small private sector firms.

Financial Viability:

A sound social security system should be financially sustainable over the long run without becoming a drain on budgetary resources. In many countries, the savings generated by the pension funds make a significant contribution to aggregate domestic saving.

Even though the Government is covering the costs of the benefits provided to state workers with qualifying years of employment prior to the start of contributions, the long-term financial viability of the existing social security system needs further examination for several reasons:

- The levels of benefits relative to contributions are claimed to be generous by Asian standards, more comparable to developed countries such as Canada and the United States[21].

- The system is vulnerable when the average wage over the past five years is well above the average wages during which payments into the system were collected (or would have been collected given the coverage being provided to workers based on years worked prior to the introduction of the system).

- The system is vulnerable when payments can be claimed in circumstances that may be difficult or costly to control (as, for example, with sickness allowances to be paid by the social insurance fund on the basis of a doctor's certification).

- The surplus funds now being accumulated are deposited with state banks at a very low interest rate of 0.3% per month[22].

---

[19] Vietnam Investment Review, Issue 277, March 2, 1997.
[20] NQH & Associates, (1997)., Preliminary Report on Health and Personal Line Insurance Market Survey in Vietnam. Unpublished, April, p.137.

[21] OECD (1996)., Labour market aspects of State Enterprise reform in Viet Nam. Technical Paper No. 117, Paris, p. 34.
[22] Molisa interview.

There has already had to be *ad hoc* adjustments to the system to take account of unanticipated problems with the design of the system. For instance, the use of the average wage over the past five years criteria has been set aside for workers in joint ventures between the SOE's and foreign investors where wages are much higher than those previously earned. Instead, the wage is taken as the average wage over the entire life of employment. Because of inflation, wages in the earlier years are calculated using the present minimum wage times the matrices that are supposed to be used to calculate basic wages[23].

It would seem that workers in non-state enterprise which has just joined the social insurance system will never get a pension if they have less than 15 years before they retire. The benefit from joining would therefore seem questionable for such enterprises and their workers (except the youngest workers - who would not be the decision makers). This may be another explanation for the slow adoption of the Labour Code outside the state sector.

[23] See the section above on incomes polices.

Effects on Labour Mobility and Employment Opportunities

Without nation-wide coverage, the social security system can become a substantial barrier to labour mobility. And as with any factor of production, allowing workers to move from less productive to more productive employment is an important ingredient in making markets efficient and the economy strong. Workers, however, are unlikely to move to another enterprise of they are unable to transfer pension rights and other benefits. In practice this problem is sometimes circumvented by "leasing" workers. For example, many Vietnamese full-time employees in foreign companies remain officially employed by their former state enterprises. These workers still get their official state sector salary and other benefits, and in return the foreign company pays a "tax" to the state enterprise. This is a cumbersome and inefficient mechanism for resolving labour mobility problems, and is only viable with regard to highly skilled workers. More generally, labour mobility between the state and non-state sectors is considerably constrained by the lack of a universal social insurance system.

A related concern is the continued enterprise-specific provision of land or housing as long-term employment benefits. The extent to which this continues remains unclear. It is possible that most of the available land has been distributed. The ongoing frequency of house construction for workers is also unclear, but is likely to be much less as it was closely linked to land distribution. The government has also been discouraging the practice, which has often been illegal. It may, therefore, be a problem which is solving itself. Nevertheless, it should be something which is surveyed and studied in detail. Such payments, or even expectations of possible payments, hinder labour mobility.

Policy Implications:

Many of the problems with the social insurance system would be greatly moderated if the system was based more directly on past contributions, and if the rights to these pension funds were fully vested with the worker. This would solve both the financial viability and constraint on labour mobility problem.

Social insurance accounts could be set up based on these contributions. If the individual moved out of a job covered by the social insurance system, the worker would still retain a claim on the funds accumulated in this account at the time of his retirement. Contributions up to 20% percent of wages could still be invested in the fund if the worker were employed in a firm with less than ten workers. This would eliminate the disincentive to leave jobs in covered sectors of the economy for fear of loosing all benefits (if the worker left prior to having been covered for 15 years) or having to take a lump sum payment rather than a pension if the worker left prior to reaching retirement age.

This would also eliminate some of incentive of new workers unlikely to reach the prescribed 15 eligibility requirement and their prospective employees from entering the system, by evasion of the regulations or by remaining a small enterprise with less than 10 employees.

If progress can be made in developing a sound financial system, much of the benefits from pensions would arise due to positive returns to saving in the pension accounts. This would also give ordinary Vietnamese a strong self interest in the development of such a system.

Decree No. 93/1998/ND-CP on November 12, 1998 on changing some articles in Social Security Rule.[24]

Jan 9, 1999: Circular No. 02/1999/TT-BLDTBXH guiding the implementation of Decree No. 93/1998/ND-Cp of Nov 12, 1998 Official Gazette of government amending and supplementing a number of articles of the regulations on social insurance issued together with Decree No. 12-Cp of January 26, 1995 of government. (Official Gazette No 9, March 8, 1999, p. 24)

Foreign Invested Enterprises

Table 4.1: Legal capital implementation of currently operated foreign direct investment projects 1988 - 1996 by economic activities.

	Number of projects	Registered legal capital (mill. USD)	Implemented legal capital (mill. USD)	Of which: Vietnam (mill. USD)	Of which: Foreign counterpart (mill. USD)	Labour force (Person)	Investment per job* (USD)
Agriculture, Forestry	109	382	168	40	128	9,208	13,912
Fishery	33	62	25	6	19	2,203	8,761
Oil and gas industry	30	1,231	2,016	0	2,016	613	3,289,233
Heavy industry	295	1,773	1,753	190	563	18,083	31,112

[24] *Lao dong* (Worker) Newspaper , November 23, 1998, p. 2

Light industry	476	2,051	1,815	193	889	87,281	10,182
Construction	160	1,037	498	153	345	5,747	60,084
Hotel, Tourism	141	1,361	955	315	640	12,696	50,378
Services	151	2,280	446	218	228	2,642	86,260
Transport, Commctn.	81	1,174	478	164	314	5,785	54,296
Finance, Banking	23	180	155	17	139	727	190,646
Culture, Health, Eductn.	45	127	26	8	19	1,849	10,114
Totals (*average*)	**1,544**	**11,656**	**6,611**	**1,303**	**5,299**	**145,834**	***36,337***

Source: GSO, 1997.

* Investment per job is implemented capital minus the Vietnamese contribution (which is mostly land), divided by labour force. The implication that these are new jobs created by the investment is debatable, and investment per *new job created* is probably much higher.

Some of the issues can be illustrated with respect to labour utilisation in firms with foreign investment. Some basic data on these investments, and on the employment associated with these investments, is given in table 4.1. It might be noted from the data in the table indicate that;

- after US$5.3 billion of implemented foreign investment, only 146,000 workers are employed in joint-venture and 100 percent foreign invested enterprises;
- the average "investment per job" has been US$36,337, although excluding the oil and gas sector it is US$22,452;
- investment required per job in the heavy industry sector was almost three times that in that light industry sector;
- 60 percent of foreign investment-related employment is in the light industry sector, which accounts for only 17 percent of implemented foreign counterpart capital.

These numbers do not however indicate very much.

For instance, the investment per job in the oil and gas sector is 90 higher than the average investment per job across industry (146 times higher if oil and gas is excluded from the average) while the average in heavy industry is 3 times greater than in light industry. This does not mean that investment in light industry is more beneficial than investment in oil and gas or heavy industry. Returns from foreign investment for the domestic economy may be very high in activities that are very capital intensive (such as oil and gas exploration and production). Nor does it mean that special incentives should be given to export oriented labour intensive light industry. With special incentives (tax breaks, subsidised infrastructure, access to duty free imported inputs that might discourage the *efficient* use of domestic alternatives), the returns to labour intensive industries chosen for special treatment could turn out to be very low.

However, something can be said if the biases that are known to exist in trade policies are taken into account. As indicated in the main report, many of the heavily protected industries are capital intensive import substituting industries. If this protection were eliminated, it could be expected that this policy change would lead to a shift in investment away from such sectors. Since the cost of labour is very low in Vietnam, it can also be expected that less distortionary trade policies would result in relatively more investment going into labour intensive sectors that are not highly protected. An efficient labour market and non distortionary trade policies will allow market forces to operate to increase efficiency in the economy. It would be a mistake to try and replace one set of distortionary policies favouring capital intensive industries with another set of distortions intended to favour labour intensive industry based on a 'more jobs per unit of investment' rationalisation. Such an approach would badly misinterpret the factors resulting in a poor utilisation of labour (including unemployment).

A similar point can be made with respect to other changes in the policy environment. A lot of labour is now being used very inefficiently or being seriously underutilised in SOEs. While considerable strides have been made in developing a market for land use rights, the market for land is still restrictive and poorly developed. In addition, large amounts of land are also inefficiently utilised or held under utilised in SOEs. Again, there is a need to emphasise the importance of creating a neutral policy environment with competition for use of factors of production.

Share in economy/employment?

Recruitment

Article 18 of the Labour Code allows the Ministry of Labour, Invalids and Social Welfare to "exercise unified State management of the job-seeking service organisations throughout the country". Article 132 requires all firms operating under the law on foreign investment to use the employment service system set up by Article 18. This often results in attempts to influence the enterprise with respect to the source and number of workers used (often so as to give preference to workers from the joint venture partner or other state organisations with excess labour). The labour code does state that;

> "If the employment service introduces or recruits labourers who do not meet their requirements, these businesses, or organisations are entitled to directly recruit their labourers but they must notify the labour office at the provincial level

or another authorised office". (Article 132)

In practice, employment options for foreign-invested enterprises (and state enterprises) remain highly restricted. This can be a serious burden on their ability to operate competitively. There is no need to restrict any employer in their search for the best person for a particular job. To do so can turn an employment service into just another obstacle for investors.

Taxes and the use of Expatriate Labour

Given the shortage of management and technical skills in the Vietnamese economy, the control of access to ex patriate workers is an important issue. Both firms with direct foreign investment and local firms have the right to hire foreign workers and overseas Vietnamese. However, this right is limited in time and tightly regulated. The maximum period of employment for an individual worker is limited to three years.

Firms with direct foreign investment have to set out their requirements for foreign labour in their initial investment plan or feasibility study. The plan must be approved by the Ministry of Planning and Investment. Foreigners can be hired for a given period of time in line with these approved plans, but these firms must also have an approved plan or program of training so that a Vietnamese may soon carry out this job and replace the foreigner. The threat of 'forced localisation' of skilled labour positions imposes further uncertainties and costs on investors and is in many cases impractical.

Access to foreign expertise is also a serious problem for state enterprises and other domestic firms. The labour code allows all domestic firms to employ foreign workers as long as they are properly licensed. The implementing decree[25] sets out the procedures and conditions for obtaining the license, and the subsequent labour permit. The procedures are however unnecessarily complex and restrictive. State owned enterprises also have salary controls, and controls on their overall wage fund, which impose further constraints on their ability to recruit foreign expertise.

The regulatory constraints and costs on the use of foreign labour are a very inefficient method of encouraging firms to develop and use local skills. The lower cost of Vietnamese labour provides a better incentive if it is not distorted by tax disincentives operating against the use of local highly skilled staff. Unfortunately, there are significant tax disincentives operating against greater use of high skilled (and therefore high wage) Vietnamese. The disincentives to using high skilled Vietnamese results from the higher tax rates applied to incomes earned by Vietnamese relative to the rates applied to incomes earned by non-resident foreigners. This results because;

- the threshold for taxable income is lower for Vietnamese than for foreigners (2 million dong per month versus 5 million);
- the tax rate rises progressively to a higher rate for locals at a lower income

[25] Decree 58/CP, October 3, 1996.

level (60 percent bracket for incomes over 10 million dong per month for Vietnamese compared to a rate that increases to a highest bracket of 50 percent at incomes of 70 million dong per month for foreigners);
- a surcharge tax is imposed on high income Vietnamese at a 30% rate for incomes over 8 million dong per month.

The effect of the surcharge on high incomes of locals is that the effective marginal tax rate becomes 72 percent at a monthly income of 12 million dong (the marginal rate for the foreigner at this level of income is just 20 percent).

The implications of the income tax system for the firm can be illustrated with an example. If a firm were to provide a 24 million dong per month *after tax* income to a high skilled employee, it would cost the firm 26.6 million dong if the employee was a non resident foreigner, and 70 million dong if he was a Vietnamese resident.

It would be better to avoid restrictive regulation of the use of ex patriate workers, remove the tax disincentives to using local versus foreign labour and rely on normal market forces and competition to encourage firms to search for lower cost workers in the local economy.

Minimum wage policy

The government sets a minimum wage rate intended for "the labourer doing the simplest work in normal working conditions". The minimum wage rate is intended to allow the labourer to both meet basic needs and to permit savings to finance some accumulation of human or physical capital.[26] The minimum wage is supposed to be periodically adjusted for changes in the cost of living.

Minimum wage rates are justifiable on social and political grounds, although they can have negative net welfare effects on the economy. The minimum wage rate might raise the wages of workers effectively covered by the legislation but, by discouraging employment, create or worsen an unemployment problem. In Vietnam, the minimum wage of 144,000 dong is very low, but it is used to calculate the complex matrix of state enterprise (and foreign invested enterprise) wages for skilled workers. The negative employment impact may, therefore, be substantial.

The minimum wage is different for joint venture and 100 percent foreign-owned enterprises based on some perception of what Vietnam can reasonably charge given wage rates in countries competing for foreign investment. This wage rate is considerably higher than the minimum wage for domestic labour users. It is at present set at US$45 per month in Hanoi and Ho Chi Minh City; US$40 in other specified cities; and US$35 in the rest of the country in comparison to the domestic minimum wage of VND144,000 (about

[26] This is interpreted to be the meaning of article 55 in the Labour Code which states that the minimum wage must be sufficient to allow the worker "to recuperate his simple labour and also to accumulate for the reproduction of expanded labour".

$10 per month at current exchange rates).

The minimum wage for foreign-invested enterprises is defined as "the wage paid to the doer of the simplest jobs (untrained labour) in normal labour conditions and environment"[27]. Firms with foreign investment, "are allowed to work out and apply their own wage scales and wage brackets" to determine wages for more skilled work or in more difficult conditions or environments, but these wages cannot be lower than would be given by the wage guidelines (wage matrices) that are applicable to domestic enterprises. While the wage guidelines for domestic firms have been relaxed to allow more flexibility in setting incomes in domestic firms (discussed below), this means that there is not only a minimum wage rate for untrained labour but also a higher minimum wage rate for all higher skilled workers. The only exception to this is "for newly founded enterprises which still meet with difficulties in production and business activities and which cannot apply immediately the system of wage scales and brackets prescribed by the State"[28].

Making Vietnam's Labour Markets Efficient

Removing the legacy of central planning

Labour mobility issues

Vietnam's economic history features the steady migration of people from the crowded Red River Delta down towards the less densely populated Mekong Delta. Under central planning, many state interventions have worked to control movements that would respond to economic incentives in favour of centrally dictated allocations[29]. For instance, controls on housing and residence have tended to restrict movements towards areas with increasing income and employment opportunities.

Central planning tended to segment the labour market and discourage labour

[27] MOLISA, Circular No. 11/LD TBXH-TT, May 3, 1995 on "Guiding the implementation of decree No. 197/CP of the Government concerning the wages of Vietnamese labour in foreign-invested enterprises, and foreign or international agencies and organisations in Vietnam".

[28] MOLISA, Circular No. 11/LD TBXH-TT, May 3, 1995, *ibid*.

[29] For example, government sponsored migration schemes have moved people from the northern delta area into sparsely populated uplands regions. During the first Five Year Plan, 1976-1980, 706,000 people were moved in formal migration schemes with a further 420,000 during the Second Five Year Plan, 1981-1985.

mobility. State employment was lifetime employment, and generally in the same organisation or enterprise. *Doi moi*, and associated structural change, has begun to erode labour market segmentation. Rural-urban migration - much of it informal and seasonal - has increased markedly, as development increased the income gap between cities and villages. Further, with increased opportunities in the private sector and in joint ventures, there has been increased flows between the state and non-state sectors. Nevertheless, there still are significant barriers to developing an efficient labour market in Vietnam.

Getting a Job

Under central planning, a job in the state sector meant a job for life, and in such a distorted policy environment, education and skills were secondary qualities to personal contacts and family background. The mechanisms for recruitment were non-transparent. The non-state sector offered few jobs outside of household enterprises. Most people stayed in their villages, and the populations of urban areas remained stable.

With the *doi moi* reforms, opportunities for "informal" non-state sector employment in urban areas have increased considerably, including shop assistants, domestic helpers, motorbike taxis (*xe om*), and construction workers. State sector employment, after an initial sharp fall in numbers, is rising slowly again. Foreign investment is creating some jobs.

The approach to getting a job in 1999 can therefore range from the traditional (state sector connections) to the international (joint-ventures), as a recent article outlined:

> "Presently, graduates can also find jobs by taking advantage of family relations or friends, or by taking part in examinations. And a little bribery doesn't go astray in either case. Students who have relatives working in ministries or other state bodies are often given priority posts after graduation. Students from wealthy or influential families also find advantage through spending sometimes millions of VND to procure a job in a successful company…However, many businesses, especially foreign invested companies, use their own entrance examinations in selecting staff. This way, students compete for jobs fairly, and successful ones are encouraged to improve themselves by further study and training, so that they can work well in different positions in the company." [30]

It seems that the process of entry to the public service has changed little during *doi moi*. Moves to establish a more professional public service, including encouraging mobility between ministries and organisations, are needed. The process of getting jobs in state enterprises is a mix of the old and the new. Some have retained old habits, such as employing the sons and daughters of retiring workers, because incentive structures discourage change. Others have introduced examinations and interviews, and cut back on the arbitrary power of their Personnel Departments in an effort to choose the best persons for new jobs.

[30] Vietnam Economic News, Oct. 17, 1997. p.47.

More emphasis needs to be given to increase the scope for competition in the search for jobs. For example, all public service job vacancies should be advertised in a single bi-weekly government gazette. The job terms of reference and its conditions would be specified. All public servants would be able to apply for the job, from which the personnel department of the relevant organisation would select a short-list of candidates. A panel of officials would interview the short-listed candidates and choose one. A similar transparent and public system is required for selecting persons to enter the public service.

Leaving a Job

Labour mobility can be encouraged by removing constraints to leaving jobs, helping people to find and move to new jobs, and by ensuring that long-term benefits (notably pension claims) are transferable from one job to another. Much of the discussion in this report focuses on achieving these objectives. For example, the recommendations to cease long-term payments of land and buildings to workers and to allow workers to maintain their rights to pensions even if they leave sectors covered by the Social Insurance system are intended to eliminate constraints on labour mobility.

"Permission to leave" is apparently still required in some state organisations. Such restrictions should be abolished. Similarly, restrictions on taking up new jobs must be minimised. For example, it is reportedly very difficult to change residency from one city to another, and this is required before a house can be purchased. Vietnamese citizens should be able to purchase buildings throughout Vietnam, irrespective of their official place of residence.

Conclusion

Vietnam's labour policies remain focused on control of state enterprises: who they employ, how many, and what they pay them. The Labour Code of 1995 saw a move to extend state worker priviledges throughout the economy. This is a futile exercise to establish a welfare state in a country with minimal resources to support one. What it does do, however, is stifle competition and mobility in the labour market wherever it is implemented.

State enterprise restructuring must include a fundamental shift in labour policies to be effective. State enterprise restructuring will create unemployment, but the numbers will be small in relation to Vietnam's total workforce. Further, restructuring aimed at stimulating development of the private corporate sector would create jobs in excess of the numbers lost from Vietnam's modest state enterprise sector.

Without "change friendly" labour and other policies, Vietnam will remain trapped with an allocation of resources which grows less relevant by the day.

Bibliography

Fforde, A. & de Vylder, S. (1996)., From Plan to Market: The Economic Transition in Vietnam. Westview Press.

Freeland, J. & Grannall, R. (1996)., Vocational and Technical Education in Vietnam: A Framework and Options for Renovation. project report, Hanoi.

General Statistics Office [GSO] (1998)., Statistical Yearbook, 1997. Statistical Publishing House, Hanoi.

Government Gazette (various issues), Government of Vietnam

International Labour Office (ILO) (1:1994)., Viet Nam: Labour and social issues in a transition economy. ILO Regional Office, Bangkok.

International Labour Office, (2:1994)., Viet Nam: Report to the Government on social protection and reform. ILO/TAP/Viet Nam/R.19, Geneva.

Kunzi, P., Bowland, D. & Iseli, P. (1993)., Strengthening of Vocational Training Centres in Ho Chi Minh City, Vietnam. Report of Swiss Development Cooperation mission.

Ministry of Education and Training (MOET) (1995)., Vietnam Education and Training Directory, Education Publishing House. Hanoi.

Norlund, I. (1995), "Labour laws and the new labour regimes: A Comparison of Vietnam and China", paper for Vietnam: Reform and Transformation conference, Stockholm.

NQH & Associates, (1997)., Preliminary Report on Health and Personal Line Insurance Market Survey in Vietnam. Unpublished, April.

OECD (1996)., Labour market aspects of State Enterprise reform in Viet Nam. Technical Paper No. 117, Paris.

Ronnas, P. & Sjoberg, O. (1994)., Economic reform, employment and labour market policy in Viet Nam. ILO Labour Market Paper No.9.

The Saigon Times, (1995-97)., various issues.

Viet Nam News, (1996-97)., various issues.

Appendices

Table 2: Employed population by sectors and employer. 1991 and 1997 (thousands of persons)

	Total employment		State sector employment	
	1991	1997 est.	1991	1997 (est.)
Total	**30,974**	**36,994**	**3,136**	**3,291**
Agriculture and forestry	22,841	24,814	371	243
Fishery	281	630	12	9
Industry	3,736	4,634	999	1,160
Of which:				
Mining	*325*	*211*	*89*	*99*
Manufacturing	*2,727*	*3,293*	*560*	*672*
Electricity, gas and water supply	*104*	*153*	*48*	*61*
Construction	*579*	*977*	*302*	*328*
Wholesale and retail trade, repairing.	1,292	2,672	278	209
Hotels and restaurants	519	519	44	45
Transport, storage and communication	533	856	191	208
Finance, credit	73	126	74	52
Science and technology	45	41	45	33
Property business and consulting services	23	77	14	31
State management, defense and social security*	295	411	144	252
Training and Education	770	999	674	768
Health and social work	240	296	186	170
Culture and sporting activities	56	96	28	33
Activities of party, mass organisations	82	100	57	59
Activities of personal and public service	135	595	24	19
Others**	55	132	0	0

Sources: same as Table 1.
* The total employment data for "State Management, Defense, and Social Security" differs between sources. MOLISA (1997, p.35) data is reported to 1995, and GSO (1998) thereafter. These two sources overlap in reporting 1995 data for this sector. MOLISA reports 307,200 persons, while GSO report 392,500 persons. Similar changes in the data for "Activities of Party and Mass Organisations" account for the difference, so it would seem that some employment groups under the latter heading are now counted as state employees.
** What MOLISA (1997) decribes as "others" [data to 1994] is explained as mostly as "Private households with employed persons" by the GSO (1998).

Time to shake up paradise?

Policies aimed at stimulating industrialisation have had little impact on employment levels and wages[31]. Further, there remains excess labour and low productivity in many state owned enterprises. Available data does not allow a precise answer concerning ongoing surplus labour in state enterprises. A survey in 1994, reported surplus labour in 22 of 67 Hanoi state enterprises, and in only five of 81 Ho Chi Minh city state enterprises[32].

The enterprise surveys on excess labour generally do not account for the less demanding working conditions in most state enterprises relative to joint venture enterprises or the private sector. The comments of Nguyen Thi Hang are typical of those to be found in the media:

> "To earn US$100 per month, which is relatively higher than what is offered by a State run enterprise, requires hard work. We work 8 hours everyday, sometimes even more. I'm always tense, which hardly happens in a Vietnamese company ... Employees in JVs with foreigners must fulfil their assigned job, otherwise they will get sacked." (Vietnam Economic News, No. 13, 1997. p. 30)

Tran Dinh Hoan, Minister of Labour, Invalids and Social Affairs, has observed that "employees in foreign enterprise have to work harder under labour requirements similar to those of enterprises abroad" (Vietnam Economic Times, March 1996. p.15).

If labour in SOEs worked at a similar intensity as observed in the joint ventures, it is arguable that some 30-40% of the labour force in these enterprises could be released without a net loss in output.

Investments in Job Creation

The Government runs a credit program designed to create employment, established in 1992 based on the Council of Minister's Decision 120/H§BT and thus called the 120 Program. Loans, attached to a specific project, at preferential rates (currently 0.9%/month with maturities of 1, 2, or 3 years) are given to three types of borrowers:

- Private entrepreneurs with collateral value 150% of the loan size.
- Local governments who underwrite the total project loan and sub-lend portions to households at the same rate, no collateral is necessary.
- Mass organisations who underwrite the total project loan and re-lend it to households at the same rate, no collateral is necessary.

---

[31] Including foreign direct investment which created, by 1996, 146,000 jobs from US$5.3 billion of disbursed foreign partner capital (US$36,000 per job).

[32] OECD, Labour Market Aspects of State Enterprise Reform in Viet Nam, Technical Paper No. 117, 1996, Paris, p. 25.

Under all three schemes, the stated requirement is that a demonstration must be made that jobs are being created at a cost below the VND 5m per job. Projects for private borrower loans are capped at VND 150m ($13,600), those from the second two schemes at VND 500m ($45,450). Based on a national count, 30% of the project loans approved have been for the first scheme, 40% the second, and 30% the third. Two other programs, funded by German and Czech donors operate in a similar fashion.

Table 4.2: National Data for 120 Program Loans.
(Including German and Czech Republic cooperation programs [in VND millions])

Year	**Total Reported Lending (in VND million)**	**Total Reported Jobs Created**	**Cost per "job created" (dong)**
1992	174,497	232,377	750,922
1993	299,179	231,836	1,290,477
1994	362,663	305,259	1,188,050
1995	502,341	331,872	1,513,659
Total (as of August 1996)	*1,649,000*	*1,200,000*	*1,374,167*

Sources: Statistical Year Books of Labour-Invalids and Social Affairs, 1992 & 1993 and *Nhan Dan* August 22, 1996.

Although this program is supposed to be focused on job creation, its character is hardly different from a government-implemented micro-finance scheme at preferential rates. Such programs may have a role to play in opening up business opportunities for groups without access to credit, either because the transactions costs for servicing small loans are too high or because it is difficult to assess credit worthiness of small sized loan recipients. These constraints also affect, or more correctly, undermine the effectiveness of government programs. While there have been some success in developing group lending activities where there are mechanisms for encouraging responsible behaviour and repayment, there have also been many failures due to high costs of operating these programs, the need to use tax revenues to cover losses due to low repayment on loans and disruptions to the development of commercially viable financial markets.

While these programs are occasionally successful in easing credit constraints to worthwhile micro investments, they should not be judged from the point of view of job creation. The job creation and cost per job figures reported in table 7 have little meaning.

Funds made available to these investments obviously due result in some jobs connected with activities carried on by the beneficiaries. However, other jobs would have resulted from alternative use of these funds. The level of unemployment in the economy is more likely to a result of use of labour time to try and gain access to favoured segments of the market (i.e. jobs in joint venture firms paying above market wage rates, favoured positions in successful SOE's, negative impacts) and the negative effects on employment of other distortions in the market (i.e. minimum wage laws discouraging the use of low skilled workers) than on whether or not there are special credit programs financed by government on international development agencies.

The 120 program provides cheap capital for local governments and mass organisations who can re-loan it to families of their choice. It also provides an opportunity for private entrepreneurs to borrow at fixed periods under preferential interest rates, albeit with additional costs: additional reporting on "job creation", insecurity on approval amount, and time spent to get the loan. The operation of this scheme constitutes a substantial expense for the Government, and its continued operation should be critically evaluated. Financial support for selected enterprises is an inadequate response to the problem of unemployment. It creates the impression that something is being done to address this "social problem" without actually addressing the underlying distortions in labour markets that might be resulting in a poor utilisation of labour, including but not limited to unemployment.

Vietnam's labour market policies, as in many countries, are a mix of attempts to create an efficient factor market while addressing social concerns about the rights of workers and the need to create jobs for the unemployed. A degree of unemployment is evident in any market economy, but severe and sustained high unemployment is typically the consequence of distortionary policies. In other words, a major cause of unemployment is the policy environment. Allocating funds to "create jobs", and other MOLISA initiatives, has only a marginal (and potentially a counterproductive) effect compared to changes in key macroeconomic and sectoral policies. MOLISA should be much more active in researching and pointing out the employment effects of government policies, particularly concerning trade and industrialisation. High unemployment is not an inevitable feature of a poor but rapidly developing economy.

Investments in Training

A much better investment of financial resources is to provide tax deductions and scholarships for VOTECH training. There may be an sub optimal investment in such training by firms because the training may not be firm specific and the gains from the expenditure on training may not be captured by the firm financing the training. There may be an under investment in such training by workers because they do not have access to funding for such training or because they realise that even developing these skills may not assure success in a market where jobs are allocated more on the basis of ‘connections’ than ‘skills’. There may also not be enough investment in providing information on the skills that are needed, since such information is a form of a “public good” where returns can not be adequately captured by those investing in developing such information.

A VOTECH training system which is knowledgeable about and responsive to employer demands is an important aspect of an "employment friendly" policy environment. Labour-creating investments are encouraged if appropriate numbers of workers with required skills are available. It is also an important mechanism for increasing labour productivity.

The state-sponsored VOTECH system in Vietnam could certainly benefit from an injection of funding support. More important, however, is the continued rationalisation of the present system and other related policy reforms. In particular, promoting increased competition by allowing students freedom of choice, and training institutions freedom to charge fees and set curriculum are crucial. Regulations restricting or proscribing the non-state sector's role in VOTECH, particularly concerning fee structures and curriculum should be revoked. Public VOTECH institutions should also have full discretion in setting course fees. Welfare concerns for poor students could be addressed by a system of government-financed VOTECH institution scholarships.

In general, government financial support for VOTECH should focus on providing full or partial scholarships to persons wanting to undertake particular courses, rather than funding institutions directly. These scholarships would be awarded through a transparent and competitive process for training in a specified VOTECH area. These "VOTECH areas" would be relatively broad to allow students a good choice of approved training institutions at which to use their scholarship. There may, for example, be ten "VOTECH areas" covering the whole system. The scholarships would be for a specific value of training, and renewable on an annual basis (for training more than one year) conditional on passing exams.

A nation-wide system of scholarships could be readily adopted as a mechanism for linking retraining to enterprise development or restructuring schemes. For example, VOTECH retraining scholarships could be linked to soft-loan schemes and state enterprise restructuring.

The returns from investments in VOTECH training can be considerable. Students, however, often suffer an opportunity cost aside from fee payments. That is, the loss of income from not working during the training periodˆ . State funding support, and encouraging funding for VOTECH training by enterprises, can therefore be economically justified on the grounds that individual workers (or potential workers) would "under invest". Enterprises, which know best about training needs, should receive tax deductions for all VOTECH expenditures, which includes the salaries of workers when undertaking training.

Financial support for VOTECH training should be complemented by improved information collection, analysis and dissemination about present and future training needs. This is an area where the government should take a leading role. Regular systems for collecting information are required: both about employers and training institutions. MOLISA should establish and regularly update a public register of VOTECH institutions with details about courses, and performance and quality indicators. The scholarship approach to supporting VOTECH institutions could be designed to ensure a consistent flow of data from VOTECH institutions. Manpower planning forecasts would be useful guides to highlight employment trends for training institutions.