

URBANIZATION AND ACCESS TO LABOUR MARKET IN VIETNAM: WEIGHT AND CHARACTERISTICS OF THE INFORMAL SECTOR

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The growth model embraced by Vietnam during the last two decades, in an urbanization context, has prompted deep social economic transformation. The private sector has been thriving with the transition of a command economy towards a “socialist-oriented market economy” since the Doi Moi (Reform) launched in 1986. Economic growth has helped reduce poverty considerably, but in the mean time, spark increasing social inequality. The gap within a region and between urban and social areas has widened (Cling *et alii*, 2009). Market freedom, meanwhile, paved the way for the development of an informal economy.

To understand on-going trends better, it would be necessary to seek to study the mechanisms which cause different growth impacts on the living conditions of households in cities and rural areas. If the growth appears to be most favourable to urban dynamics, which type of household would most benefit from it? What are the characteristics of these households in terms of their access to the jobs and sectoral market? Knowing that private investment obviously pours into two of the country’s economic hubs, namely Ho Chi Minh City (HCMC) and Hanoi, which, on their own, attract 90% of foreign investment, how would that dynamic be seen in periurban and rural areas? In this context, how would the informal sector evolve and what is its role on the labour market? An analysis of the sector’s characteristics will help focus on the job opportunities offered to the households. Our study is part of a research programme on the informal sector in Vietnam jointly conducted by the Research Institute of Development (Development, Institutions and Globalization Division) and the General Statistics Office¹.

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¹ The published Cling *et alii* (2010), as part of this programme, reveals for the first time specific statistical information and in-depth economic analysis on the informal sector in Vietnam.

In order to study the concurrent impact of the private sector's growth and that of urbanization, we will distinguish in our analysis different types of areas according to their urbanization level. To this effect, we use official definition of rural and urban zones in Vietnam. According to this definition, an urban commune must meet three criteria at the same time¹: the off-farm labour force accounts for more than 65% of the total labour force; the commune's total population is more than 4,000; finally the density is higher than 2,000 people/km². Rural communes are those which do not meet those criteria. We will analyse hereafter the results of official surveys conducted by GSO (the General Statistics Office), which are all based on that definition. Therefore, our approach is constrained by the limits of urban/rural division in those surveys.

However, like in many developing countries, an official checklist based on a urban/rural division would make it completely inappropriate to understand the urbanization process. Cour (2005), for instance, calls for a more operational classification, around the concept of a urban central regions with high intensity of services exchange (RUCHES), rather than a binary division which ends up in providing little information.

In the case of Vietnam, some zones defined as rural may probably be considered urban in other countries, especially those in the major cities' peripheral areas. Official definition of periurban zones, however, was not provided. To make up for this shortcoming, we consider here, the rural areas of Hanoi and HCMC periurban zones, which allows us to distinguish 4 categories of zones depending on their urbanization level: Hanoi and HCMC urbans; other urban centres; rural Hanoi and HCMC; and other rural areas. We will take a comparative approach aimed at clarifying the features of these urban, periurban and rural areas.

This study is made in two parts. In the first part, we study the urbanization trends and labour market from the late 1990s. Major facts observed in the labour market in the on-going urbanization process will be explored, so will be the effects of restructuring as a result. Special attention will be paid to the dynamic and role of the informal sector given its weight in the job market.

In the second part, we analyse compared characteristics of the informal sector in urban and periurban areas, with examples in Hanoi and HCMC. The aim is to identify the characteristics of informal activities in each area, focusing on the activity type, working conditions and performance in this sector. The way in which these activities integrate into the remainder of the economy is also be diagnosed. Finally, to complete the panorama, an analysis of production units in the informal sector would help better understand the informal sector's perspectives.

¹Government Decree N^o 72/2001 dated October 5, 2001 on the classification of urban centres.

I. URBANIZATION AND RECENT DRIVING FORCE ON THE LABOUR MARKET

We propose to explore the nature and range of on-going evolutions on Vietnam's labour market using data obtained by VLSS and VHLSS (Vietnam Household Living Standards Survey). The available comparable surveys (VLSS 1998, VHLSS 2002, 2004 and 2006) facilitate an analysis of the driving force with a focus on the "job and income", topic of this national survey. We will study the changes that happened during this period: in terms of job opportunities (regarding the sectors: public, domestic formal private, foreign private, and informal) as well as the conditions of activity.

The comparison of labour market evolutions in these different sectors will help bring out the driving force typical to each area. Our aim is to identify the on-going restructuring and to pinpoint its range.

At first, we're interested in the significant facts of the labour market: What are the changes and diversification of household income sources? Notably: what type of job does the workforce move to? What happens to multi-activities? Given the fact that the country is increasingly engaged in the urbanization and industrialization process, is there a salary raise? What is the development pace of the off-farm private sector in urban and rural areas?

We will then look at the evolution of sectoral job distribution. Special attention will be paid to the periurban area as we seek to find out whether the proximity to a major urban centre (Hanoi or HCMC) would help to benefit from a specific dynamic¹.

1. Key facts of the labour market

A diminishing agricultural sector

The first notice is a direct outcome of urbanization phenomenon in Vietnam, which is the decline of farm activities. An analysis of the sector's weight on the labour market shows the scale of on-going changes. The decline is seen in both urban areas, where it plummets to a tiny portion and rural areas where job opportunities in the agricultural sector become increasingly a scarcity. In this way, the percentage of farm jobs dropped from 65% in 1998 to 48% in 2006.

¹Our analysis is conducted based on the surveys performed prior to the administrative extension of Hanoi, which took place in August 2008. According to the 2009 population census, based on the "Greater Hanoi", the capital population (6.5 million) is now close to that of HCMC (7.1 million) with 60 % considered rural population (GSO and UNFPA, 2009; Fanchette, 2010).

Table 1.
Ratio of farm jobs (main jobs)

| | 1998 | 2002 | 2004 | 2006 |
|----------------------|-------|-------|-------|-------|
| Other rural areas | 78.0% | 78.0% | 62.4% | 60.2% |
| Rural Hanoi and HCMC | 58.4% | 58.4% | 30.3% | 21.7% |
| Other urban areas | 21.0% | 21.0% | 19.1% | 17.0% |
| Urban Hanoi and HCMC | 4.3% | 4.3% | 2.8% | 2.0% |
| | | | | |

Sources: VLSS 1998, VHLSS 2002, 2004 and 2006; authors' calculation

The decline of farm activities can also be seen if multi-activities pattern (households would take several manufacturing, trading or services activities together with farm work at the same time) is taken into account. Considering workers who undertake farm activities as their second job, the percentage of farm jobs decreased from 76% in 1998 to 63% in 2006. The decline is seen in every area.

One would wonder if farm households might diversify their income sources, taking up wages-paid jobs or creating individual business while maintaining their farm activities. However, the opposite trend is seen in urban and especially periurban areas, where fewer people combine agricultural activities with other activities. The percentage plunged from 33% in 1998 to 19% in 2006. Focusing again on a unique activity appears to gain the upper hand¹. Although the proportion of those who combine agricultural work with other activities is obviously higher in rural areas, the expected growth of multi-activities pattern didn't happen.

Table 2
Ratio of multi-activities

(Proportion of workers combining farm activity with another type of activity)

| | 1998 | 2002 | 2004 | 2006 |
|----------------------|-------|-------|-------|-------|
| Urban Hanoi and HCMC | 3.3% | 0.8% | 1.7% | 1.0% |
| Other urban areas | 14.9% | 15.4% | 16.0% | 12.7% |
| Rural Hanoi and HCMC | 32.7% | 20.1% | 25% | 19.2% |
| Other rural areas | 33.3% | 32.5% | 35.6% | 34.8% |
| Total | 28.9% | 27.7% | 29.7% | 28.1% |

Sources: VLSS 1998, VHLSS 2002, 2004 and 2006; authors' calculation

¹This remark confirms and might explain the diminution of seasonal migrants from rural areas during agricultural low season period (Henaff, 2004).

To benefit the non-agricultural private sector

The country's opening and encouragement of private initiatives since the launch of Doi Moi have facilitated a robust growth of jobs created by private (national and foreign) enterprises nationwide. Though the number of jobs is obviously limited in rural areas, it is rising strongly (the annual average growth rate is 16% in Hanoi's and HCMC's periurban areas, and 14% in rural areas, against 7% and 9.6% in the two metropolitan provinces and other cities respectively). This reflects entrepreneurs' choice to increasingly settle in cities' peripheral (periurban) areas and even in rural areas.

Table 3
Number of jobs in large private enterprises
 (Formal enterprises including foreign businesses)

| | 1998 | 2002 | 2004 | 2006 | Annual average growth rate |
|-------------------|-----------|-----------|-----------|-----------|----------------------------|
| Urban Hanoi HCMC | 491 074 | 415 393 | 908 652 | 835 135 | 6.9% |
| Other urban areas | 375 092 | 298 460 | 615 717 | 781 872 | 9.6% |
| Rural Hanoi HCMC | 59 345 | 101 360 | 103 059 | 196 923 | 16.2% |
| Other rural areas | 647 013 | 685 848 | 1 394 446 | 1 832 140 | 13.9% |
| Total | 1 572 524 | 1 501 061 | 3 021 874 | 3 646 070 | 11.1% |

Sources: VLSS 1998, VHLSS 2002, 2004 and 2006; authors' calculation

The share of salary-paid jobs in private enterprises remains much higher in the urban labour market than in the rural one. In the two metropolises of Hanoi and HCMC, it represents almost a quarter of the total jobs in 2006 (from 15% in 1998). It is also noteworthy that the share of these enterprises is greater in the periurban Hanoi and HCMC (17.6% in 2006 from 6% in 1998) than in other urban areas (9% in 2006). Proximity to the two metropolises is an advantage to rural households as average remuneration in private enterprises is higher than that in other enterprises (excluding the public sector).

However, while the growth of job opportunities offered by private enterprises has been a significant phenomenon, it is needed to emphasize that the weight of private enterprises has been reduced in terms of work force engaged in small enterprises (whether self-employed worker or wage earners).

Table 4
Workforce in individual enterprises
 (Self-employed workers and wage earners)

| | 1998 | 2002 | 2004 | 2006 | Annual average growth rate |
|------------------|------------|------------|------------|------------|----------------------------|
| Urban Hanoi HCMC | 1 728 895 | 1 359 135 | 1 594 376 | 1 647 470 | -0.6% |
| Other urban | 3 106 254 | 3 483 952 | 3 830 919 | 4 417 217 | 4.5% |
| Rural HN HCMC | 262 299 | 488 242 | 481 013 | 539 767 | 9.4% |
| Other rural | 5 172 265 | 9 297 090 | 9 787 496 | 10 027 115 | 8.6% |
| Total | 10 269 713 | 14 628 419 | 15 693 804 | 16 631 569 | 6.2% |

Sources: VLSS 1998, VHLSS 2002, 2004 and 2006; authors' calculation

The number of jobs in this type of enterprises tends to stay unchanged in two major urban centres (Hanoi and HCMC). This is attributed to the possibility of households to join larger enterprises. The smaller enterprises, by contrary, have generated many jobs in other urban centres, particularly in the periurban Hanoi and HCMC, and to a lesser extent, in rural areas (the average annual growth rate of jobs created by small, individual enterprises in these areas stood at 12.5%, 27% and 25% respectively in the 1998-2006 period).

Sharp rise of people on the payroll (wage earners)

Vietnam's impressive economic growth during the last decade is characterized by a sharp rise of people on the payroll, which is one of the most remarkable facts recorded on the labour market evolution over recent years. It jumped from 18% in 1998 to 33% in 2006. The rate, quite different at the beginning of the period, rose in all areas (urban, periurban and rural). Salary-paid jobs are available the most in the two metropolises (65%), which are followed by other urban areas (48%), Hanoi and HCMC periurban areas (46%) and lastly in the remainder of the country (26% in the rural area).

Table 5
Ratio of people on the payroll (main jobs)

| | 1998 | 2002 | 2004 | 2006 |
|----------------------|-------|-------|-------|-------|
| Urban Hanoi and HCMC | 54.3% | 63.5% | 64.2% | 64.6% |
| Other urban areas | 35.7% | 44.8% | 46.5% | 48.5% |
| Rural Hanoi and HCMC | 24.6% | 44.3% | 46.2% | 45.9% |
| Other rural areas | 11.0% | 21.9% | 23.8% | 25.8% |
| Total | 17.5% | 28.6% | 31.0% | 33.1% |

Sources: VLSS 1998, VHLSS 2002, 2004 and 2006; authors' calculation

However, if multi-activities pattern is taken into account, the rate of people on the payroll in the rural area could rise significantly (26% are wage earners on their main job, but the rate will rise to 39% if people having a second job paid with a salary are also considered). This shows that agricultural households are resorting to salary-paid jobs to enhance their farm income.

In any case, the number of salary-paid jobs is on the rise throughout the country, regardless of the area, even if there is considerable imbalance. The gap tends to be narrowed as a catching-up process is in place (particularly in periurban areas where the growth of people on the payroll is the strongest).

Urbanization: a phenomenon found in every city in Vietnam

Urbanization finally is not limited to the two largest cities in Vietnam. Looking at the evolvement of each area in terms of jobs, one could see that other urban areas are characterized by a continuous and strong growth of the work force. Over the last few years, more migrants have been moving from rural areas to urban areas other than the two largest cities of Hanoi and HCMC.

Table 6
Shares of different areas in jobs

| | 1998 | 2002 | 2004 | 2006 |
|----------------------|--------|--------|--------|--------|
| Urban Hanoi and HCMC | 7.0% | 6.1% | 7.4% | 7.1% |
| Other urban areas | 12.9% | 15.4% | 16.2% | 17.8% |
| Rural Hanoi and HCMC | 2.2% | 2.8% | 2.3% | 2.3% |
| Other rural areas | 78.0% | 75.8% | 74.1% | 72.8% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

Sources: VLSS 1998, VHLSS 2002, 2004 and 2006; authors' calculation

This is attributed to restriction on migration to the two largest cities but also to a density which had already been very high here. Rural migrants thus have more chances to integrate into the urban economy of other cities¹.

2. Urbanization: an rapid restructuring in the two metropolises' neighbourhoods

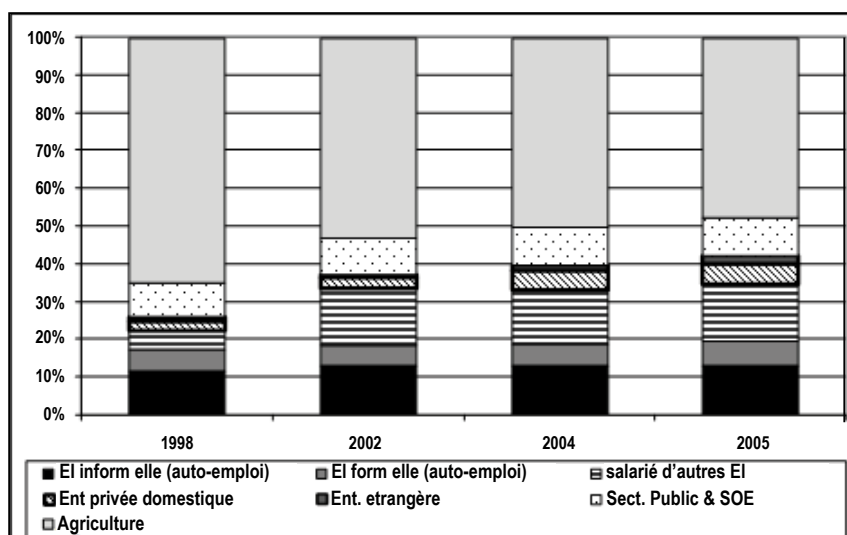
This part is aimed at clarifying the on-going restructuring on the labour market by analyzing the development of labour market shares of various sectors (agricultural, public, national private enterprises, foreign businesses, small (individual) enterprises,

¹It should be noted that a number of migrants might fail to register in the two largest cities, which, at least partly lead to these results (Pincus et Sender, 2007).

self-employed in formal small enterprises, self-employed in informal small enterprises and wage earners in small enterprises¹). The comparison of changes in these areas (two largest cities, other cities, Hanoi and Ho Chi Minh City periurban areas and rural areas) helps identify the dynamics relevant to each zone. The analysis only relates to the worker's main job.

Overall, the development of private enterprises nationwide (including small enterprises) at the expense of the informal sector, which we have underlined above, is obvious (see Chart 1). The rise of jobs in "large" national and foreign private enterprises is also noted (from 3.5% in 1998 to 7.6% in 2006). But the emphasis is laid on the rising share of small individual enterprises, a result not of self-employment but of the rising number of recruited wage earners.

Figure 1: Developments of employment distribution by sector in Vietnam (%)



Sources: VLSS 1998, VHLSS 2002, 2004 and 2006; authors' calculation

Comparing the different geographic areas, relatively different developments are found.

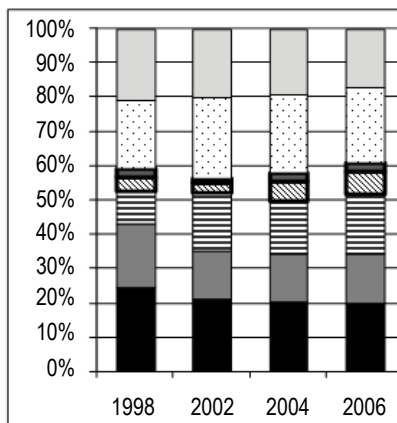
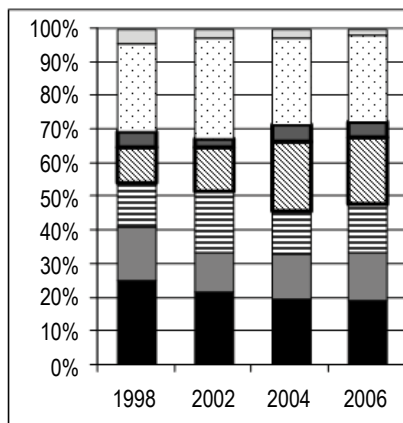
- In the two largest cities, the share of formal and informal small enterprises is shrinking (even if they still hold an important position), with more job opportunities being offered by national or foreign private enterprises.

¹VHLSS was not able to identify and distinguish wage earners in informal individual enterprises (IE) and those in the formal IE.

Figure 2: Changes in sectoral employment distribution by area (%)

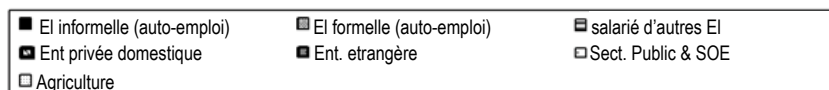
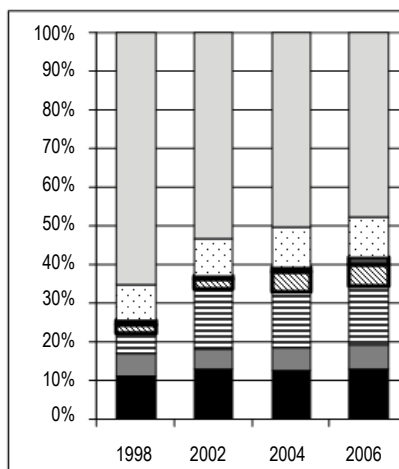
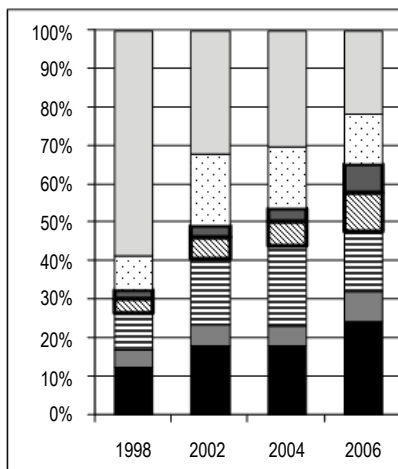
Two largest cities Hanoi and HCMC

Other urban centres



Periurban Hanoi and Ho Chi Minh City

Remaining rural areas



Sources: VLSS 1998, VHLSS 2002, 2004 and 2006; authors' calculation

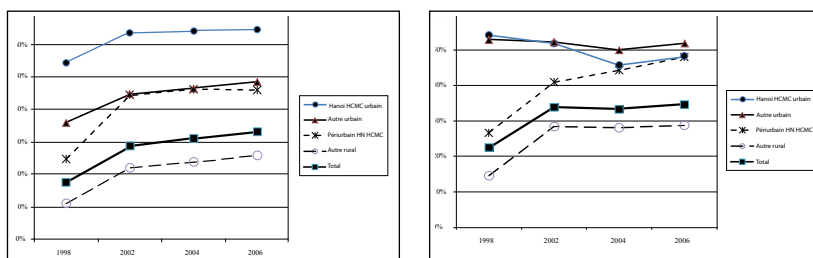
- In other urban centres, the labour market structure is generally stable. The agricultural sector did experience a light decrease (from 21% in 1998 to 17% in 2006) while national private enterprises represent more jobs in the total market (from 4% to 6.7%). However, the share of small enterprises stays almost unchanged. The remarkable fact is the rise of wage earners due to the increase of self-employed jobs at small individual enterprises.
- Conversely, the rapid restructuring of labour market now taking place in Hanoi and HCMC periurban areas is quite clear. The share of agricultural sector slumped (declining from 58% in 1998 to just 22% in 2006) while national and foreign private enterprises were gaining ground (from 6% to 17.5%). Also noteworthy is the addition of jobs with individual enterprises (self-employed jobs or wage earners), particularly informal enterprises (for Hanoi, see Fanchette, 2010).
- Finally, in rural areas, changes occurred but at much slower pace: domestic private enterprises are created in the same way but to a minor extent as individual enterprises while self-employed opportunities were few. The notable change was recorded in the transformation of part of the agricultural labour force into wage earners in individual enterprises.

One could suppose that the labour market's different structures in different geographic areas, demonstrate, to some extent, the different stages of urbanization in Vietnam. Initially, in rural areas, farm jobs largely dominated and private enterprises barely existed. Then came the stage of second jobs (about 20% of work force would combine two jobs at the same time) in other urban centres, where individual enterprises became a key source of job creation with the rise of either self-employed or wage earning jobs. Finally, in major cities, the agricultural sector disappeared and smaller enterprises diminished, facilitating jobs in larger enterprises.

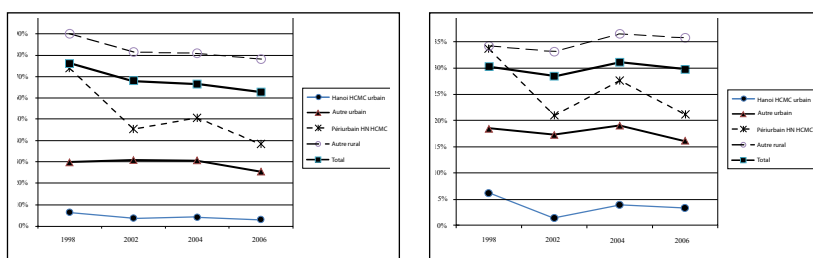
The irregular pattern in periurban areas of Hanoi and Ho Chi Minh city on one hand is characterized by the rapid pace of restructuring and growth of jobs in larger enterprises (even if compared to other urban areas) and on the other, shows a locally specific phenomenon. This is resulted from job opportunities offered by enterprises settled in peripheral areas, the changed role of urban product and services markets as well as the facilitated daily transport to major cities for work (sales of services).

The following charts illustrate the job surge in periurban zones, and the typical rapid transformation from rural areas into periurban areas.

Figure 3: Share of wage earners in various areas



Share of farm jobs Share of multi-activities (Main and second jobs) (various types: agriculture, IE, wage earners)



Sources: VLSS 1998, VHLSS 2002, 2004 and 2006; authors' calculation

3. Position and role of informal sector in urbanization context

We are aware of the important role of individual enterprises in the urbanization process due to the fact that agricultural households seeking to diversify their income sources or to escape from agricultural hardships would often turn to this sector. As most of individual enterprises are made of informal units, in this part, we will look at the weight and specific role of the informal sector.

This analysis differs from the two previous sections in the way we use information on production units in VHLSS surveys (individual enterprises). In this way, the total labour force (including wage earners) working in informal units can be clearly identified.

Expansion of informal sector in periurban areas and other urban centres

While the informal sector experienced a fast expansion in periurban zones (the number of establishments growing by 16% between 2004 and 2006) and in cities other than Hanoi and HCMC (+ 7%), it is sluggish, not to say regression, both in terms of production units and of jobs.

Table 7
Number of enterprises and jobs in the informal sector

| | Number of enterprises | | | Number of jobs | | |
|----------------------|-----------------------|---------------------|---------------------|----------------|---------------------|---------------------|
| | 2006 | Growth 1998-2006 | Growth 2004-2006 | 2006 | Growth 1998-2006 | Growth 2004-2006 |
| Urban Hanoi and HCMC | 637 096 | -6% | -6% | 940 511 | -21% | -2% |
| Other urban areas | 1 770 922 | 17% | 7% | 2 694 674 | 11% | 8% |
| Rural Hanoi and HCMC | 218 045 | 55% | 16% | 407 200 | 73% | 61% |
| Other rural areas | 4 677 396 | -6% | -5% | 6 855 213 | -18% | -6% |
| Total | 7 303 459 | 0% | -2% | 10 897 598 | -11% | -1% |

Sources: VLSS 1998, VHLSS 2002, 2004 and 2006; authors' calculations

Two characteristics of the informal sector can be seen from the table:

- On one hand, the sector develops in areas where the formal sector is relatively under-developed and unable to employ all the available labour force. Hence, in the two metropolises where job opportunities with larger enterprises rise, the informal sector diminishes. The informal sector, for most of its workers, is just a refuge while they're awaiting a chance to access the formal sector.
- On the other, the informal sector's development depends on the dynamic of urban economy, which can be seen in its slow development in rural areas. The proximity to these two metropolises, on the contrary, strongly affects growth. The pulling impact of urbanization could be via various channels: the demand effect (due to population density); the migration of rural residents seeking a job in the informal sector; an articulated interconnection of the sector's activities with the urban economy. These various assumptions will be further analysed in the second part of this study.

Informal sector: First off-farm source of employment

The informal sector is currently the first off-farm job provider in Vietnam. This is valid in every area of the country. In spite of the falling numbers of establishments and of jobs generated by this sector in the two metropolises, it represents 30 % of the total jobs. In the rural area, it is the main off-farm source of employment. But it is necessary to stress the weight of the informal sector in periurban areas of Hanoi and HCMC. Given its weight and role, the sector is worth special attention, which will be the focus of the study's second part.

Table 8
Distribution of employment by institutional sector

| Institutional Sector | Urban Hanoi HCM | Other urban | Rural Hanoi HCM | Other rural | Total |
|-------------------------------------|------------------------|--------------------|------------------------|--------------------|--------------|
| Public business | 25.5% | 23.7% | 13.5% | 6.0% | 10.7% |
| Foreign enterprise | 5.5% | 2.5% | 7.6% | 1.3% | 2.0% |
| Domestic private enterprise | 19.4% | 8.2% | 10.7% | 3.5% | 5.7% |
| Formal individual enterprise | 16.9% | 16.8% | 6.9% | 4.7% | 7.8% |
| Informal sector | 30.3% | 31.9% | 36.9% | 20.4% | 23.5% |
| Agriculture | 1.3% | 16.5% | 24.1% | 64.0% | 50.0% |
| Total | 100% | 100% | 100% | 100% | 100% |

Source: Employment survey 2007, GSO; authors' calculation
The total is less than 100% because of non-respondents (0.3%)

II. COMPARED CHARACTERISTICS OF INFORMAL SECTOR IN URBAN AND PERIURBAN AREAS: THE CASES OF HANOI AND HO CHI MINH CITY

The survey of informal sector's individual enterprises (HB&IS2007) covers all the non-agricultural production units¹. Excluding agricultural activities and formal individual enterprises, the total numbers of informal individual enterprises were 321,000 and 749,000 in Hanoi and HCMC respectively.

1. Activity type and enterprise size

Services prevail in urban areas and so does industry in periurban areas

In the two metropolises, the sectoral structure of informal activities is highly diversified depending on their geographic location. This Specialization is obvious, even when the overall list classified in three economic sectors, namely manufacturing (including construction), trade and services is considered.

¹For further details on the survey methodology, refer to Duy, Razafindrakoto and Roubaud (2008).

Table 9
Informal production units and employment by economic sector

| Sector | Urban zone | | | | Periurban zone | | | |
|---------------|---------------|------------|----------------|------------|----------------|------------|----------------|------------|
| | Number of IPU | Struct. % | Number of jobs | Struct. % | Number of IPU | Struct. % | Number of jobs | Struct. % |
| Hanoi | 184657 | 100 | 253124 | 100 | 136512 | 100 | 210092 | 100 |
| Manufacturing | 26733 | 14.5 | 54958 | 21.7 | 31627 | 23.2 | 73944 | 35.2 |
| Trade | 51306 | 27.8 | 61581 | 24.3 | 68440 | 50.1 | 89213 | 42.5 |
| Services | 106618 | 57.7 | 136585 | 54.0 | 36445 | 26.7 | 46935 | 22.3 |
| HCMC | 612712 | 100 | 913965 | 100 | 136646 | 100 | 202911 | 100 |
| Manufacturing | 122794 | 20.0 | 260698 | 28.5 | 41058 | 30.0 | 70035 | 34.5 |
| Trade | 194170 | 31.7 | 253611 | 27.7 | 47329 | 34.6 | 66448 | 32.7 |
| Services | 295748 | 48.3 | 399656 | 43.7 | 48259 | 35.3 | 66429 | 32.7 |

Source: Survey on individual enterprises and informal sector (HB&ISS), Hanoi and Ho Chi Minh City (2008), GSO-ISS / IRD-DIAL, authors' calculation

As such, services alone (mainly culinary, repair and transport services) rank first in urban areas with half of informal individual enterprises and jobs created and with their share in Hanoi being larger than that in HCMC. The opposite is found in periurban areas where services rank bottom with only 22.3% of jobs created in Hanoi and 32.7% in HCMC. Periurban areas are closer in this respect to rural areas where most people eat at home and sales services are still at the embryo stage while these services can be "outsourced" in urban areas.

In the opposite direction, the share of two other sectors (manufacturing and trade) is much larger in the periurban area than in the urban area¹. Manufacturing activities represent more than one third of the jobs (35.2 and 34.5%) in periurban areas while their workforce shares are a little bit lower in urban areas (21.7 and 28.5%). The activities mainly consist of the processing of key consumer goods (food and garments). Finally, trade (retail sales of raw and processed products) represents 42.5% of jobs in the informal sector in periurban Hanoi and 32.7% in periurban HCMC and 24.3% and 27.7% in urban areas respectively.

Self-employment is the norm

The informal sector is made up of micro-units averaging 1.5 jobs per unit regardless of the informal individual enterprises' location (but the size does vary among economic sectors). Self-employment is the rule with 73% of individual production units having a single member of staff (self-employment). Paid workers account for a tiny share of 15% (which rises to 38% in the informal manufacturing sector). Most workers in the informal sector do not have access to social insurance.

¹Those activities are often very close to services provision (for instance, a tailor working at home makes clothes for his/her neighbours).

2. Work uncertainty

Increasingly difficult working conditions in periurban areas

The informal sector is characterized by a serious precariousness of working conditions. Only 16% of informal individual enterprises have appropriate professional working premises (separate from home) and 40% do not have fixed premises (12% in Hanoi and 37% in HCMC), which seriously affect their access to public services (water, electricity and wire telephone) and Internet connection barely exists. Although the proportion of informal individual enterprises having professional premises in urban areas is lower than that in periurban areas, the number of informal individual enterprises without fixed premises (mobile office, etc.) is very high, which is attributed to the high price of real estate and the increasing difficulty in finding workshops in town.

Even access to utilities is higher in cities than in periurban areas; the fact that a higher proportion of informal individual enterprises in cities are without fixed premises means that access to public services is finally equal in both urban and periurban areas with respect to electricity and telephone. Conversely, informal individual enterprises in periurban areas barely have access to safe water (12.7% in Hanoi and 24% in HCMC) while half of such enterprises (53.7% in Hanoi and 47.6% in HCMC) enjoy water access in urban areas.

Poorer earnings due to lower qualification and productivity

In spite of longer hours of working and longer job seniority (averaging 6 years in Hanoi and more than 7 years in HCMC), the earnings are smaller. Average earning is estimated at 2.5 million VND and median earning at 1.5 million VND in Hanoi (2.4 million and 1.4 million in HCMC respectively), or almost 50% less than in other sectors, including informal individual enterprises. However, informal sector is by far the most heterogeneous, with a majority offering poorly-paid jobs and small minority well-paid jobs. A steep gradient is seen in earnings between urban and periurban areas.

In any city and sector, the earnings are clearly lower in the periurban area (about 20% on average) where the education level is also lower. Workers employed in the informal sector in the periurban area have a schooling period of a year shorter than their peers in urban areas regardless of the city and sector. On the contrary, no significant difference in the proportion of wage earners is seen in the two areas, which shows no big gap in earnings: the proportion of wage earners is 15% in Hanoi's urban area and 16% in periurban area. The proportion in HCMC is 17% and 15% in HCMC respectively.

Data collected during the survey have facilitated our calculation of indicators on productivity of informal individual enterprises. Work productivity in urban areas is systematically higher than that in periurban areas, regardless of the sector (with an exception for manufacturing in Hanoi where both salaries and productivity lag behind).

Therefore, a linkage between salary gap and productivity can be established. The urban informal individual enterprises perform better (workers better qualified, higher population density, hence more clients, and better working organization), and therefore can pay their workers better. The gap in production costs may exist among the studied geographic areas, which helps explain the higher sales prices and salaries in urban areas while the purchasing power may not be very different. This aspect needs to be researched in order to evaluate the importance of two factors affecting the salary gap.

Table 10
Informal sector's economic performance by area

| Economic activities | Urban | | | Periurban | | |
|---------------------|---------------|----------------------------------|-------------|--------------|----------------------------------|-------------|
| | Added value | Work productivity (1,000 VND) | | Added value | Work productivity (1,000 VND) | |
| | | VA/L1 | VA/L2 | | VA/L1 | VA/L2 |
| Hanoi | | | | | | |
| Formal | 8,879 | 3,863 | 16.3 | 6,642 | 3,181 | 16.5 |
| Informal | 3,570 | 2,604 | 12.1 | 3,332 | 2,165 | 11.0 |
| Manufacturing | 4,745 | 2,308 | 10.2 | 5,534 | 2,367 | 11.3 |
| Trade | 3,605 | 2,403 | 11.4 | 2,764 | 2,121 | 10.7 |
| Services | 4,745 | 2,814 | 13.3 | 2,485 | 1,930 | 10.9 |
| HCMC | | | | | | |
| Formal | 11,271 | 4193 | 16.8 | 7,298 | 3363 | 13.2 |
| Informal | 3,488 | 2338 | 10.7 | 2,808 | 1885 | 8.8 |
| Manufacturing | 4,337 | 2043 | 9.3 | 3,153 | 1848 | 9.0 |
| Trade | 2,874 | 2200 | 9.5 | 2,908 | 2050 | 9.0 |
| Services | 3,539 | 2619 | 12.4 | 2,417 | 1756 | 8.3 |

Source: Survey on individual enterprises and informal sector (HB&ISS), Hanoi and Ho Chi Minh city (2008), GSO-ISS / IRD-DIAL; authors' calculations
L1: Number of paid workers. L2: number of working hours

A high rate of migrants employed in HCMC

Lastly, employment in the informal sector is characterized by a high ratio of migrants in HCMC (not in Hanoi). About 20 percent of the workforce is migrants. As they are not in the possession of a permanent residence license (but probably also because of their low qualification level), many of migrants end up in the informal sector (particularly in manufacturing)

Most of migrants are self-employed (work for themselves or assist with family tasks). The fact that just a few of them work as wages earners shows that they struggle to integrate into the economy of the two metropolises.

Table 11
Weight of migrants in the informal sector employment

| | Urban | | | | Periurban | | | |
|-----------------|-------------|------------------------------------|-----------------------------------|----------------|---------------|------------------------------------|-----------------------------------|----------------|
| | Migrant % | Residential registration | | | Migrant % | Residential registration | | |
| | | Temporary Card 6 months and longer | Temporary Card less than 6 months | Not registered | | Temporary Card 6 months and longer | Temporary Card less than 6 months | Not registered |
| Hanoi | 8.7 | 53.5 | 35.0 | 11.5 | 2.6 | 68.2 | 7.4 | 24.4 |
| 1 Manufacturing | 21.9 | 41.0 | 45.5 | 13.5 | 2.6 | 87.6 | 12.4 | 0.0 |
| 2 Trade | 3.7 | 38.2 | 61.8 | 0.0 | 1.0 | 50.2 | 0.0 | 49.8 |
| 3 Services | 5.6 | 77.7 | 10.6 | 11.7 | 5.2.76 | 32.0 | 0.0 | 68.0 |
| HCMC | 17.4 | 46.6 | 38.5 | 14.8 | 18.2 | 62.0 | 37.1 | 0.9 |
| 1 Manufacturing | 30.0 | 35.4 | 47.4 | 17.2 | 21.2 | 69.6 | 30.4 | 0.0 |
| 2 Trade | 7.8 | 63.0 | 30.5 | 6.5 | 24.0 | 37.0 | 63.0 | 0.0 |
| 3 Services | 15.0 | 57.7 | 27.9 | 14.5 | 10.6 | 89.9 | 6.0 | 4.0 |

Source: Survey on individual enterprises and informal sector (HB&ISS), Hanoi and Ho Chi Minh city (2008), GSO-ISS / IRD-DIAL; authors' calculations

3. An informal sector struggling to integrate into the economy

Households are the informal sector's first target

Exclusively geared to domestic market, the informal sector's major target is to meet the demand of households. Most of the demand comes from households, including both their own consumption and an intermediary consumption to serve the production of other individual enterprises. Only informal individual enterprises in the manufacturing sector sell part of their production to larger enterprises: in Hanoi, the proportion of the informal individual enterprises located in periurban areas is 11.8%; in HCMC, this type of enterprises occupies a relatively important niche in the urban area (10.8%) and periurban area (8.4%); the share of trade enterprises in the informal sector is 16.7% in HCMC.

Conversely, a large share of the informal sector's intermediary consumption market comes from non-informal enterprises, particularly in Hanoi where the share is 49.4% for informal individual enterprises in periurban areas, and HCMC only 5.5%. The share is high in manufacturing, trade and services. In urban areas, 29.5% of buying by informal individual enterprises in Hanoi for their intermediary consumption comes from larger enterprises and that in HCMC is 39.4%.

If these purchasings are excluded, the informal sector and individual enterprises in general have little to do with the formal sector (foreign enterprises excluded) and subcontracting represents a marginal share, in stark contrast to general assumption (2-3% in the informal manufacturing sector with the only exception to Hanoi's periurban areas where the ratio is 7.8%).

Subcontracting is key in the informal manufacturing sector

The role of subcontracting is highly important. The activity is described as having raw materials supplied by a client for processing with the end-product sent back to him. With this definition, subcontracting is only relevant to the manufacturing sector. As shown in the table 3.21% of the informal individual enterprises located in the urban area of Hanoi are involved in this activity and the ratio is 28% in the periurban area. In HCMC, the ratio is even higher without much discrepancy between urban and periurban areas (41% and 43.5% respectively).

Most processors work for households and just a tiny share of them work for the formal sector (maximum 19% of processors in urban Hanoi). In this city, this is true with “craft villages” which produce intermediary commodities (steel industry) and consumer goods (furniture and garments) traded through the formal sector (Fanchette, 2007). However, our survey was conducted in Hanoi only (excluding neighbouring provinces) thus the results cover just a small number of informal individual enterprises located in those villages. A strong ratio of processors (45.1%) is recorded in the construction sector in Hanoi’s peripheral areas. In HCMC, a majority of processors work in the garment sector.

Table 12
Share of subcontracting in the informal sector (% of informal production units)

| | Urban | | | | | Periurban | | | | |
|-----------------|-----------------|-------------|------------------------|-------------|-------------|-----------------|-------------|------------------------|------------|--------------|
| | | | Most important clients | | | | | Most important clients | | |
| | Sub-contractors | Processors | Public sector | FIE | Households | Sub-contractors | Processors | Public sector | FIE | Households |
| Hanoi | | | | | | | | | | |
| Formal | 0.1 | 7.2 | 0 | 35.5 | 64.5 | 0.0 | 2.9 | 0 | 0 | 100.0 |
| Informal | 0.7 | 4.8 | 4.7 | 17.8 | 77.5 | 3.4 | 14.5 | 0 | 9.3 | 90.7 |
| Manufacturing | 2.8 | 20.5 | 4.9 | 18.9 | 76.2 | 7.6 | 3.5 | 0 | 13.2 | 86.8 |
| Trade | 0.0 | 0.0 | 0 | 0 | 100.0 | 1.6 | 3.5 | 0 | 0.0 | 100.0 |
| Services | 0.2 | 0.5 | 0 | 0 | 100.0 | 0.0 | 13.2 | 0 | 0.0 | 100.0 |
| HCMC | | | | | | | | | | |
| Formal | 29 | 15.3 | 0 | 29.3 | 70.7 | 0.0 | 25.3 | 0 | 5.3 | 94.7 |
| Informal | 0.9 | 12.0 | 0 | 13.2 | 86.8 | 0.7 | 15.0 | 0 | 12.2 | 88.8 |
| Manufacturing | 3.1 | 41.0 | 0 | 13.4 | 86.6 | 2.1 | 43.5 | 0 | 12.2 | 88.8 |
| Trade | 0.0 | 0.0 | 0 | 0 | 100.0 | 0.0 | 0 | 0 | 0 | 100.0 |
| Services | 0.0 | 0.4 | 0 | 0.0 | 100.0 | 0.0 | 0 | 0 | 0 | 100.0 |

Source: Survey on individual enterprises and informal sector (HB&ISS), Hanoi and Ho Chi Minh city (2008), GSO-ISS / IRD-DIAL; authors’ calculation

Finally, the informal sector operates in a stiff competition environment. Only 7% of informal production units claim they don’t know their direct competitors. The competition is seen foremost in their internal sector. Trading activities are the most affected.

Overall, all the indicators of the informal sector in the production process consistently show that it is producing largely on the sideline of the formal sector

(public and private). It is relatively disconnected to the formal economic channels and the linkages are indirect through purchasing, world market demand or public infrastructure.

4. Informal sector outlook

Confidence on the future of the informal sector in periurban area

In both Hanoi and HCMC, informal individual enterprises' managers are systematically more confident in periurban areas than in urban ones with respect to the future of their activity. The ratios of IIE managers seeing a bright future for their enterprises are 30.8% and 56.5% in Hanoi's periurban and urban areas and 28.2 and 42.6% in HCMC. However, there is a gap regarding the ratios of IIE managers wishing to have their children taking up their enterprise: in Hanoi, they are 13.3% and 27.8% and in HCMC 16.1% and 23.2% respectively.

The higher degree of confidence of IIEs in periurban areas can be explained by at least two elements : first, informal jobs offer alternatives to farm jobs while jobs opportunities in the formal sector (off-farm) are quite limited, which is not the case in cities where IIE managers would rather wish their children to join the formal sector; secondly, informal jobs provide for improved income and better working conditions as compared to farm work so IIE managers want their children to continue in the future.

Table 13
IIE managers' confidence in the future of their enterprise

| Activity sector | Urban | | Periurban | |
|-----------------|---|--|---|--|
| | IIE managers confident that their activities have bright future (%) | IIE managers wishing their children to continue their activities (%) | IIE managers confident that their activities have bright future (%) | IIE managers wishing their children to continue their activities (%) |
| Hanoi | | | | |
| Formal | 70.4 | 34.8 | 88.6 | 46.5 |
| Informal | 30.8 | 13.3 | 56.5 | 27.8 |
| Manufacturing | 52.3 | 18.8 | 73.0 | 45.9 |
| Trade | 35.2 | 14.4 | 51.3 | 21.7 |
| Services | 24.2 | 11.7 | 52.2 | 23.6 |
| HCMC | | | | |
| Formal | 61.8 | 41.8 | 84.7 | 47.6 |
| Informal | 28.2 | 16.1 | 42.6 | 23.2 |
| Manufacturing | 36.5 | 21.7 | 61.2 | 29.0 |
| Trade | 24.5 | 11.7 | 35.7 | 26.9 |
| Services | 27.3 | 16.6 | 33.6 | 14.7 |

Source: Survey on individual enterprises and informal sector (HB&ISS), Hanoi and Ho Chi Minh city (2008), GSO-ISS / IRD-DIAL; authors' calculation

Conclusion

In this study, we have revealed a number of key features of urbanization during a decade in Vietnam. As we have demonstrated, it appears that the urbanization phenomenon and as a result, changes in the labour market (job generation, emergence of wage earners, declined farm work, and integration into formal private enterprises) have, to some extent, reached its limit in the two major cities. Even though the activities will continue to expand here in the future, the evolution scope will be limited given the on-going dynamic and restructuring that occur in Hanoi and HCMC periurban areas as well as other cities and to a lesser extent, in the remaining rural area.

We have shown a number of key facts concerning the on-going restructuring in the labour market: the fast decline of agricultural sector that benefits the private off-farm sector; the accelerated restructuring in periurban areas and the rise of the informal sector in these areas as well as in smaller cities.

Nevertheless, the informal sector is characterized by small size production units (under-funded, and often without premises), precarious working conditions (low wages, and no protection) and the fact that it is relatively disconnected to the remainder of the economy (on the sideline of the formal sector).

The informal sector is likely to grow in the short and medium term due to urbanization, the limited absorption capacity by the formal sector and the arrival of new stakeholders on the labour market – youth, migrants, etc. (Cling, Razafindrakoto et Roubaud, 2010). Our analysis of the informal sector in Hanoi and HCMC shows that it is in the periurban area that the informal sector plays its key role in absorbing the labour force surplus, whether they are local people or migrants from rural areas. The precariousness of working conditions in the sector needs to be addressed with policies designed to support its development as now the sector barely benefits from any support structure (Cling et alii, 2010).

What are the policies likely to improve its productivity and protect the work force while ensuring that they don't constrain the sector's dynamics? The study's policy suggestions in order to improve employment and income are vocational training, access to credit, and management of migrants.

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ANNEX

Share of agricultural employment (main job and second job)

| | 1998 | 2002 | 2004 | 2006 |
|----------------------|-------|-------|-------|-------|
| Urban Hanoi and HCMC | 6.3% | 3.5% | 4.0% | 2.9% |
| Other urban areas | 29.7% | 30.8% | 30.7% | 25.5% |
| Rural Hanoi and HCMC | 73.8% | 45.4% | 50.6% | 38.3% |
| Other rural areas | 90.0% | 81.5% | 80.8% | 78.1% |
| Total | 76.0% | 68.0% | 66.3% | 62.5% |

Sources: VLSS 1998, VHLSS 2002, 2004 and 2006; authors' calculation

Share of employment in large private enterprises (including foreign ones)

| | 1998 | 2002 | 2004 | 2006 |
|----------------------|-------------|-------------|-------------|-------------|
| Urban Hanoi and HCMC | 15.4% | 15.8% | 26.0% | 24.4% |
| Other urban areas | 6.4% | 4.5% | 8.0% | 9.2% |
| Rural Hanoi and HCMC | 6.0% | 8.5% | 9.5% | 17.5% |
| Other rural areas | 1.8% | 2.1% | 4.0% | 5.2% |
| Total | 3.4% | 3.5% | 6.4% | 7.6% |

Ratio of wage earners (main job and second job)

| | 1998 | 2002 | 2004 | 2006 |
|----------------------|-------------|-------------|-------------|-------------|
| Urban Hanoi and HCMC | 55.7% | 63.6% | 65.0% | 65.3% |
| Other urban areas | 39.9% | 48.5% | 50.7% | 52.3% |
| Rural Hanoi and HCMC | 33.7% | 49.3% | 50.5% | 48.4% |
| Other rural areas | 24.0% | 32.3% | 36.2% | 38.1% |
| Total | 28.5% | 37.2% | 41.0% | 42.8% |

Sources: VLSS 1998, VHLSS 2002, 2004 and 2006; authors' calculation



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Photo 1 (above): Trương Hoàng Trương, industrial area, Vinh Loc A, Binh Chanh district, Ho Chi Minh city, May 2006.

Photo 2 (below): Patrick Gubry, new urban area, district 2, Ho Chi Minh city, November 2008.