

## Vietnam: Jobs, Growth & Poverty

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**Vietnam has experienced** high growth and substantial poverty reduction for more than a decade. From 1990 to 2003 GDP grew at an annual rate of 7.5 %, while the share of the population surviving under the poverty line declined from 58.2 % in 1992/93 to 37.4 % in 1997/98, and to 28.6 % in 2002 (Kakwani and Son 2005). Given that Vietnam is a capital- and land-scarce country, like many others in the developing world, employment generation must have been the mechanism through which growth translated into poverty reduction. A quick look at employment and growth casts doubts on this presumption, however.

One basic indicator linking growth and employment compares the per cent change in employment with the per cent change in GDP: the employment elasticity of growth. The higher the elasticity, the more employment is being created by the given growth rate in GDP. Looking at Vietnam's data we observe that elasticities are low, but less so in more recent years (1998-2001). It is only after breaking down data by sectors that one can see higher estimates, such as in services (1.78) and industry (0.89) for 1998/01. These suggest an employment-based reduction in poverty but, can job creation in only some sectors support a nationwide sustainable reduction in poverty?

One should always be cautious when interpreting employment elasticities. Comparing changes in employment and production tells us how many more, or fewer, people are employed for a given change in output, but does not explicitly say anything about the intensity of work. For example, GDP might be growing rapidly based on a more appropriate and intensive use of employment, but with a slow increase in total employment. Keeping the intensity of work constant, rapid GDP growth with no additions to employment might originate in marked increases in productivity.

### Employment elasticity of growth, Vietnam 1992-2001

	Total	Agriculture	Industry	Services
1992-1997	0.26	0.37	0.22	0.52
1998-2001	0.37	-0.13	0.89	1.78

In the Vietnamese case, rather than a weak or partial job-enhancing process, the observed patterns in employment elasticity might be reflecting positive changes in the intensity and productivity of labour; which might be, in turn, associated with economic reforms. Initiated in the mid-90s, the Doi Moi economic reforms intensified in 1989 with

measures aiming at promoting competition. Growth rates rose to over 8 % early in the 1990s, but increases in employment lagged behind at a rate of 2.3 % per year. One can presume that the intensity of employment was on the rise and that "true" labour productivity was also improving. Observed labour productivity in industry grew, for example, at a rate of 13.3 % per year. Strong growth, higher productivity and small increases in inequality supported poverty reduction. Thus, even if employment elasticity was low, particularly compared with the 0.7 to 0.8 of neighbouring countries such as Korea, Taiwan and Indonesia (Osmani 2005), Vietnam's growth can be judged as broad-based.

Performance between 1998 and 2001 is affected by the Asian crisis; but also by further reforms, such as the 1999 Enterprise Law. The higher employment elasticity observed in these years owes much to both a slower growth rate and much faster employment creation. Led by the private sector, employment in services and industry grew by more than 8% per year. Strong job growth in this period might also be explained by the exhaustion of the absorption of excessive labour of previous years.

As employment in urban settings boomed, employment in agriculture decreased, releasing possibly redundant labour. The key to poverty reduction in Vietnam hinges upon agriculture. Up to 60 % of the reduction in poverty can be attributed to higher incomes within agriculture. Granted, the productivity increase in agriculture was only 2.6 % per year, but this was spread across 70% of the total workforce. To be sure, land reform also played a crucial role in poverty reduction: the ensuing egalitarian distribution of land allowed for the sharing of benefits from improvements in agricultural productivity.

The empirical evidence and theory suggest that sustained reductions in poverty are often accompanied by strong employment creation processes. However, this is not easy to observe in practice. The basic indicator of the link between growth and jobs, the employment elasticity of growth, always requires careful interpretation. The case of Vietnam illustrates well these caveats. While showing a persistently low elasticity of employment on the whole, the significant reduction in poverty that was achieved can be attributed to strong growth, an egalitarian distribution of assets and benefits, and to an employment-enhancing process. This included a higher intensity of employment, enhanced productivity of labour and more jobs.

### References:

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