

VIET NAM ANNUAL ECONOMIC REPORT 2018

UNDERSTANDING THE LABOR MARKET FOR PRODUCTIVITY ENHANCEMENT

Edited by Nguyen Duc Thanh & Ohno Kenichi



Friedrich Naumann
STIFTUNG FÜR DIE FREIHEIT



Supported by:



Vietnam National University, Hanoi



**VNU University of
Economics and Business**



The Friedrich Naumann Foundation (FNF)

CONFERENCE AGENDA
LAUNCHING
VIET NAM ANNUAL ECONOMIC REPORT 2018
UNDERSTANDING LABOR MARKET
FOR PRODUCTIVITY ENHANCEMENT

Time: Friday, 8th May 2018

Venue: Pan Pacific Hotel, No.1 Thanh Nien Street, Ha Noi

08h00 – 08h30 Registration

08h30 – 08h35 Welcome and Introduction

08h35 – 08h45 Opening Remarks

Remarks by Assoc.Prof.Dr. Nguyen Truc Le, Rector of VNU University of Economics and Business

08h45-08h55 Welcome Remarks

Remarks by Assoc.Prof.Dr. Nguyen Kim Son, President of Vietnam National University, Hanoi

Remarks by Mr. Mark Stanitzki, Country Director of Friedrich Naumann Foundation, Viet Nam

08h55 – 09h40 Presentation on the main contents of the Viet Nam Annual Economic Report 2018

Assoc.Prof.Dr. Nguyen Duc Thanh, President of VEPR

09h40 – 10h10 Comments from Experts

1. Assoc.Prof.Dr. Vu Minh Khuong, Lee Kuan Yew School of Public Policy, National University of Singapore (NUS)

2. Assoc.Prof.Dr. Nguyen Thi Lan Huong, Former Director General, Institute of Labor Science and Social Affairs (MOLISA)

3. Dr. Nguyen Anh Tuan, Director of Vietnam National Productivity Institute (MOST)

10h10 – 10h30 Tea Break

10h30 – 11h55 Open discussion

Panelists: Authors of the Report

Chaired by Assoc.Prof.Dr. Nguyen Truc Le, Rector, VNU University of Economics and Business

11h55 – 12h00 Closing Statement by the Rector of UEB-VNU

12h00 – 13h30 Luncheon at the Hotel

PRESS RELEASE

The Launching Conference of

Viet Nam Annual Economic Report 2018

UNDERSTANDING THE LABOR MARKET FOR PRODUCTIVITY ENHANCEMENT



On 8th May 2018, the VNU University of Economics and Business organized the Launching Conference of **Viet Nam Annual Economic Report 2018**, which is kindly supported by the Friedrich Naumann Foundation (FNF) Vietnam.

Following the success of previous reports, *Vietnam Annual Economic Report 2018*, entitled "Understanding the Labor Market for Productivity Enhancement" will focus on Vietnam's productivity in the international context, where there are different points of view about the need of understanding the labor market to explain the quality of human capital and productivity. For this reason, this year's report will not only consider and evaluate the world and Vietnamese economies, but also analyze several aspects of Vietnam's labor market and recommend both short-term and long-term policies for the economy.

The Viet Nam Annual Economic Report has been conducted since 2009. Its research results have been published as a series of annual reports in order to summarize major economic issues in the previous year, give an economic outlook for the coming year, and provide policy recommendations.

The **Viet Nam Annual Economic Report** is a key product of VNU's Strategic Research Program called "**Economic Theories and Macroeconomic Policy in the condition of International Economic Integration of Viet Nam**".

The launching conference of the Viet Nam Annual Economic Report 2018 is kindly supported by the Friedrich Naumann Foundation (FNF) Vietnam.

This year's Report, edited by Nguyen Duc Thanh and Ohno Kenichi, is a valuable and reliable reference for researchers and policy-makers, social and economic institutions as well as all those who are concerned about the current economic situation of Viet Nam.

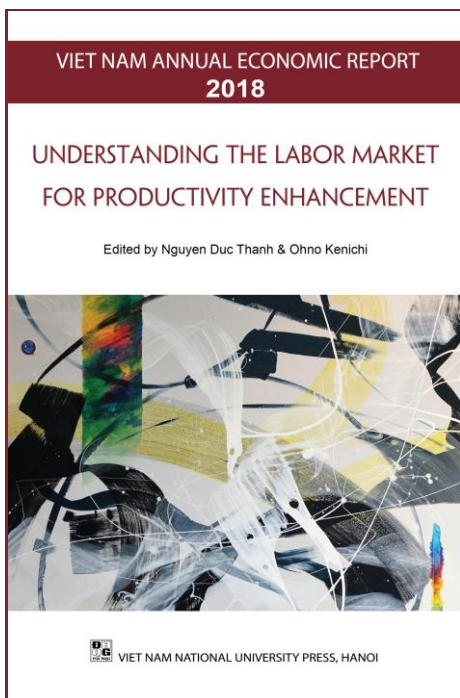
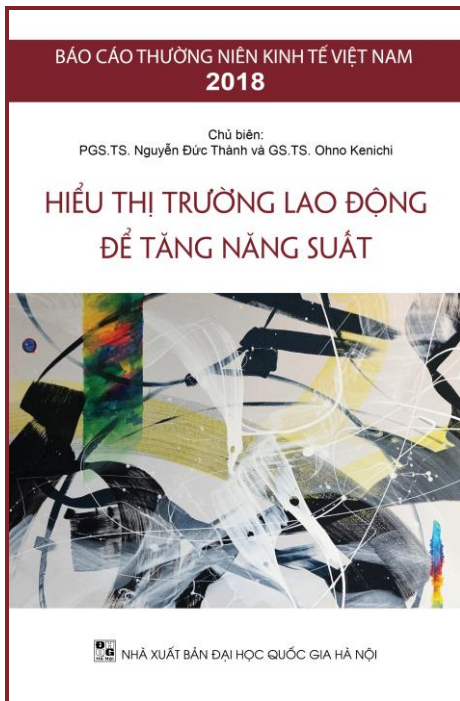
Participants of the Conference include officials and representatives of policymaking agencies; universities and research institutions; representatives of embassies, international donors and development organizations in Hanoi; industry representatives, and media agencies.

Please send all comments and suggestions on the contents of Viet Nam Annual Economic Report 2018 to Assoc. Prof. Dr. Nguyen Duc Thanh, e-mail: nguyen.ducthanh@vepr.org.vn.

The Vietnamese version of the Report is expected to be published in September, 2018, while the English version is expected to be published in December, 2018.

For more information on the Viet Nam Annual Economic Report or related events, please visit VEPR's website: www.vepr.org.vn, follow our Facebook <https://www.facebook.com/VEPRinstitute/> or contact via VEPR hotline 0975608677, e-mail: info@vepr.org.vn.





REPORT SUMMARY

The **Viet Nam Annual Economic Report 2018** consists of seven chapters and two appendices.

Chapter 1, entitled **"Overview of the World Economy in 2017"**, provides an overview of the world economy in 2017 with positive factors such as (i) strong growth in most countries; (ii) the recovery in global trade with fewer trade-restrictive measures; (iii) fastest pace of expansion of global manufacturing production since 2011; and (iv) political stability in EU countries. Nevertheless, the world economy still faced a number of unpredictable elements which had strong influences on global FDI flows in 2017 like the Brexit negotiation, the US withdrawal from global commitments; the increase of populism and protectionism in many countries; tensions and conflict escalate amongst countries like in Syria, etc.

Chapter 2, entitled **"Overview of the Vietnamese Economy in 2017"**, provides a general view and assessment on the Vietnamese economy in 2017. Along with the global trend, Vietnam also witnessed a significant economic rebound. The industrial and construction sectors, particularly the manufacturing industry, continued to be the main driving force of economic growth. Inflation was kept relatively low due to prudent money supply control by the SBV. Macroeconomic stability, along with institutional reforms aimed at improving the investment climate, is expected to continue to be effective and more supportive for business activities in 2018. However, many inherent problems which have not been resolved thoroughly would remain a drag on the economy.

Chapter 3, **"Characteristics of Vietnam's labor productivity in the process of international integration"**, reviews Vietnam's labor productivity at the whole economy level and sectoral level over time, as well as compares Vietnam with East Asian countries (Japan, Korea and China) and ASEAN. The result shows that Vietnam's productivity is among the lowest in the region, even lower than Cambodia. In particular, industries having the lowest productivity include "manufacturing", "constructing", and "logistics", expressing concerns about domestic production capacity. In addition, in the last decade Vietnam's productivity has been mostly improved by structural shifts. Thus, the flexibility of the labor market is highly important, yet has not been paid much attention.

Chapter 4, entitled **"The increase in wages and labor productivity in Vietnam"**, investigates the current minimum wage policy in Vietnam, the relationship between minimum wage, average wage, and labor productivity; as well as the impacts of continuous adjustments in minimum wage on the economy. Empirical studies suggest that the excess real wage growth could be resulted from the rapid increase in minimum wage. In addition, it is found that such increase in minimum wage generally results in a reduction in employment (growth) and firm profits.

About VEPR

Viet Nam Institute for Economic and Policy Research (VEPR), formerly known as Viet Nam Centre for Economic and Policy Research, was established on July 7, 2008 under the University of Economics and Business, Vietnam National University, Hanoi. VEPR considers its primary mission as carrying out economic and policy research to assist in improving the decision-making quality of policy-making institutions, enterprises, and interest groups by providing insights into the social, political, and economic factors that drive economic affairs of Viet Nam and the region.

Since 2018, VEPR has been awarded the status of the *VNU Center of Excellence* by the President of the Viet Nam National University, Hanoi.

According to the 2018 *Global Go To Think Tank Index Report* conducted by University of Pennsylvania, VEPR has been ranked 123 among all global think tanks, and 56 in the think tanks in the Southeast Asia and the Pacific for International Development.

About FNF Vietnam

The Friedrich Naumann Foundation is active in Germany and in around 70 project countries worldwide. All of our work is guided by liberty as its fundamental value. We want our projects to enable people throughout the world to live their lives freely, with dignity, in peace and prosperity. Together with our partners, we support the development of democratic institutions based on the rule of law and promote open market economies.

On September 18th 2012, the Friedrich Naumann Foundation for Freedom officially opened its office in Vietnam. Up till now, we cooperate with Vietnamese organizations to share liberal values, foster economic freedom and promote the rule of law. Besides capacity building, we are organizing conferences, workshops and seminars and publishing books

There are, however, considerable differences in the effects across types of ownership, reflecting the differences in the extent of labor market regulations and enterprises' technological and financial abilities to deal with rising labor costs. Generally, private enterprises tend to reduce formal labor contracts (who has insurance benefits) to cope with the increase in minimum wage (informalization). We also find evidence of mechanization among firms operating in labor-intensive manufacturing industries.

Chapter 5, entitled "**Labor market participation and occupational choices of Vietnamese youth**", uses two sets of nationally representative data including the Labor Force Survey 2007-2016 and the transition from school to work in 2012 & 2015 to describe the real status, trends in labor market participation, employment and factors influencing labor market participation and occupational choice of young workers in Viet Nam. The study finds that a large proportion of the youth are working in the informal sector or other sectors not relevant to skills trained, thus do not have opportunities to accumulate skills. They also tend to receive less social insurance. This shows the risks and constraints for productivity growth. Moreover, job search through personal relations rather than professional intermediaries evidences an incomplete labor market. As a result, policies to promote employment seem to be less effective.

Chapter 6, entitled "**Productivity enhancement through international labor market integration**", review the motivations of the participations in the programs to send Vietnamese laborers abroad, particularly the case of Vietnam-Japan internship. The study shows that there have been many problems that hinder the spillover of labor productivity gains. One of the major problem is the lack of transparency and information sharing in the market. In addition, the incomplete market structure also leads to high administration cost, putting financial pressures on the interns and making the spillover effect of productivity gains for Vietnamese laborers in foreign countries still low.

As a conclusion, Chapter 7 on "**Viet Nam's Economic Prospects in 2018 and Policy Implications**" provides two scenarios of the Viet Nam's macroeconomic prospects in 2018 and detailed discussions on the current short-term policies. Economic growth would have high possibility to reach 6.83% in 2018, with an inflation rate of 4.21%. In a more unfavorable scenario, the growth rate would only be 6.49%, while inflation would be relatively stable at 3.86%.

In the long run, improving productivity would be central to all the reform policies. Particularly speaking for the labor market, more efforts are needed to make the market more efficient, in order to help labor be reallocated more rapidly and encouraged to accumulate more skills and improve productivity faster.



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FOR PRODUCTIVITY ENHANCEMENT**

Viet Nam Annual Economic Report 2018

UNDERSTANDING THE LABOR MARKET FOR PRODUCTIVITY ENHANCEMENT

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ABOUT VEPR

VIET NAM INSTITUTE FOR ECONOMIC AND POLICY (VEPR), formerly known as Viet Nam Centre for Economic and Policy Research, was established on July 7, 2008 as a research centre under the University of Economics and Business of Viet Nam National University, Ha Noi (VNU). VEPR has legal status and is headquartered at the University of Economics and Business, Xuan Thuy, Cau Giay, Ha Noi.

VEPR considers its primary mission to be carrying out economic and policy research to assist in improving the decision-making quality of policy-making institutions, enterprises, and interest groups by providing insights into the social, political, and economic factors that drive the economic affairs of Viet Nam and the region. The main activities of VEPR include (i) providing quantitative and qualitative analysis of changing economic conditions in Viet Nam and assessing their impacts on various interest groups throughout the country, (ii) organizing policy dialogues among policy-makers, entrepreneurs, and other stakeholders to improve solutions to emerging issues, and (iii) conducting advanced training courses in economics, finance and policy analysis regularly and upon request.

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Despite our efforts, we understand that there may be limitations and even errors in the Report. We sincerely hope to receive comments and contributions from the readers to improve our upcoming reports.

Ha Noi, May 8, 2018

On behalf of the Contributors

Assoc. Prof. Dr. Nguyen Duc Thanh and Prof. Dr. Kenichi Ohno

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
AEC	ASEAN Economic Community
Agribank	Viet Nam Bank of Agriculture and Rural Development
AI	Artificial Intelligence
AIIB	Asian Infrastructure Investment Bank
ANZ	Australia and Newzealand Bank
ARIMA	Autoregressive integrated moving average
ASEAN	Association of Southeast Asian Nations
BCG	Boston Consulting Group
BIDV	Bank for Investment & Development of Viet Nam
BOJ	Bank of Japan
Brexit	Britain Exit
BRICS	Brazil, Russia, India, China and South Africa
CBO	Community Based Organization
CECODES	Center for Community Support Development study
CEIC	CEIC Database
CLMV	Cambodia, Laos, Myanmar, and Viet Nam
CNP	Johns Hopkins Comparative Non-profit Sector Project
CNY	Chinese Yuan
COP	Conference of Parties
CPI	Consumer Price Index
CPV	Communist Party of Viet Nam
CSI	Community Social Index
CSO	Community Social Organization
DPS	Dominant-party System
ECB	European Central Bank
EIA	Energy Information Administration
EMs	Emerging Markets
ETF	Exchange Traded Fund

EU	European Union
EUR	Euro
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
Fed	Federal Reserve System
FIA	Foreign Investment Agency, Ministry of Planning and Investment, Viet Nam
FRED	Federal Reserve Bank of ST. Louis
FTAAP	Free Trade Area of the Asia Pacific
GBP	Great Britain Pound
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GEP	Global Economic Prospects
GSO	General Statistic Office
HILL ASEAN	Hakuhodo Institute of Life and Living ASEAN
HSBC	The Hongkong and Shanghai Banking Corporation
ICNPO	International Classification of Non-Profit Organizations
IEF	Index of Economic Freedom
IIF	Institute of International Finance
IMF	International Monetary Fund
IoT	Internet of Things
IPI	Industrial Production Index
IR	Industrial Revolution
ISIC	International Standard Industrial Classification
ITC	International Trade Center
JGB	Japanese Government Bond
JHU/CCSS	Johns Hopkins University Centre for Civil Society Studies
JPY	Japanese Yen
LDP	Liberal Democratic Party
MAC	Midle Affluent Class
MARD	Ministry of Agricultural and Rural Development
MITI	Ministry of International Trade and Industry, Japan

MOF	Ministry of Finance, Viet Nam
NAFTA	North American Free Trade Agreement
NEER	Nominal Effective Exchange Rate
NESDB	Office of the National Economic and Social Development Board, Thailand
NGO	Non-government Organization
NMI	Non-Manufacturing Index
NPIs	Non-profit institutions
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OLS	Ordinary Least Squares
OMO	Open Market Operations
OPEC	Organization of the Petroleum Exporting Countries
PBoC	People's Bank of China
PCE	Personal Consumption Expenditures
PCI	Provincial Competitiveness Index
PMI	Purchasing Managers Index
PPP	Purchasing Power Parity
qoq	quarter-over-quarter
RCEP	Regional Comprehensive Economic Partnership
REER	Real Effective Exchange Rate
SBV	State Bank of Viet Nam
SCB	State-owned Commercial Bank
SCIC	State Capital Investment Corporation, Viet Nam
SDG	Sustainable Development Goals
SME	Small and Medium-sized Enterprises
SNA	System of National Accounts
SO	Social Organization
SOE	State-owned Enterprises
SPS	Sanitary and Phytosanitary Measure
TFA	Trade Facilitation Agreement
TPP	Trans-Pacific Partnership Agreement
TTIP	Transatlantic Trade and Investment Partnership

UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USD	United States dollar
VASS	Value Added
VASS	Viet Nam Academy of Social Sciences
VCCI	Viet Nam Chamber of Commerce and Industry
VEC	Viet Nam Enterprise Census
VEPI	Viet Nam Economic Performance Index
VHDR	Viet Nam Human Development Report
VHLSS	Viet Nam Household Living Standards Survey
Vietcombank	Bank for Foreign Trade of Viet Nam
Vietinbank	Viet Nam Bank for Industry and Trade
VND	Viet Nam Dong
VSIC	Viet Nam Standard Industrial Classification
WB	World Bank
WEF	World Economic Forum
WEO	World Economic Outlook
WGA	Worldwide Governance Assessment
WGI	Worldwide Governance Indicators
WTI	West Texas Intermediate Crude oil
WTO	World Trade Organization
yoy	year-over-year
ytd	year to date

EXECUTIVE SUMMARY

Viet Nam's Annual Economic Report 2018 is conducted in the context of economic rebound, along with the global trend. However, Viet Nam's quality of growth is still low compared to other countries in the region and the world, evidenced by the indicators of capital efficiency and labor productivity. Thus, this year's Report, entitled "*Understanding the labor market for productivity enhancement*" will focus on Viet Nam's productivity in the international context, where there are different points of view about the need of understanding the labor market to explain the quality of human capital and productivity.

About the Report's structure, besides the first two chapters review the performances of the world economy and Vietnamese economy, the next four chapters will analyze various aspects of Viet Nam's labor market and productivity. Particularly, Chapter 3 reviews the characteristics of Viet Nam's labor productivity at the whole economy level and sector level over time, as well as compares Viet Nam with selected East Asian countries. Chapter 4 investigates the current minimum wage policy in Viet Nam, the relationship between minimum wage, average wage, and labor productivity, as well as the impacts of continuous adjustments in minimum wage on the economy. Chapter 5 describes the real status, trends in labor market participation, employment and factors influencing labor market participation and occupational choice of young workers in Viet Nam. Chapter 6 review the motivations of the participations in the programs to send Vietnamese laborers abroad, particularly the Technical Intern Training Program for Vietnamese trainees in Japan. Finally, Chapter 7 provides remarks and forecasts on the economic prospective of Viet Nam in 2018, and suggests a number of policies relevant to both short and medium terms.

OVERVIEW OF THE WORLD ECONOMY 2017

The world economy in 2017 witnessed its highest growth since 2011 at 3.8%, 0.6% higher than in 2016 and 0.3% higher than in 2015 (IMF, 2018b), respectively, thanks to positive factors including (i) roughly two-thirds of the world's countries saw strong growths in 2017, especially in developed economies like the United State, EU countries, Japan, Canada as well as developing economies like China, Brazil, and Russia's economic recovery exceeded expectations; (ii) the global trade recovered with fewer new trade-restrictive measures; (iii) global manufacturing expanded at the fastest pace since February 2011; (iv) EU countries achieved more political stability. Nevertheless, the world economy still faced a number of unpredictable elements which had strong influences on global FDI in 2017 like the Brexit negotiation, the US withdrawal from global commitments; the

increase of populism and protectionism in many countries; tensions and conflict escalate amongst countries such as North Korea nuclear crisis, Qatar diplomatic crisis, and Israel – Palestine tensions, etc. Global investment in 2017 declined since the flows of foreign direct investment (FDI) into both developed and developing countries plummeted, particularly in the US, UK and Russia. Only a few countries in Asia, like China, still attracted stable flows of FDI in 2017.

In 2017, the global trade growth boosted, exceeding the WTO projections. Global exports reached 16.301 billion USD, increased by 10.01% compared to 2016. This is highest growth rate since 2011, mainly due to the strong recovery of exports in Europe and Asia regions. Asia remained as the world most dynamic region thanks to the increase of domestic demand and the supports from macroeconomic policies. There are three out of ten countries and territories from Asia that received the most FDI in 2017 including China, Hong Kong, and Singapore. In Europe, the Industrial Production Index (IPI) and the Business Confidence Index (BCI) reached the highest levels for the last 6 years.

Energy prices recovered in the second half of 2017 and rose significantly in Q1/2018. The recovery of crude oil price in 2017 was mainly due to the increase in demand and continued tightening in supply. In 2018, the world oil price would be difficult to forecast because of opposing factors. On the one hand, according to the International Energy Agency (IAE), the US has become the world's largest oil producer with the output exceeding 10 million barrels/day, surpassing both Saudi Arabia and Russia. OPEC has anticipated that the dark period of the oil market in 2013-2015 may return. On the other hand, thanks to the strong global economic growth, crude oil demand could increase by approximately 2 million barrels/day, almost double the growth rate during the 2011-2014 period. Moreover, crude oil supply would still be tightened by OPEC countries, Russia and other countries, which may push up the price.

In 2018, there are several positive and negative signals that have impacts on world economic growth in general and global trade and investment in particular. Positive elements are the expectations of further growth in advanced economies such as the US, European and Chinese economies, efforts to promote the integration in the Asian region, especially in ASEAN, FTA and CPTPP agreements. However, the world trade growth in 2018 could lower than in 2017 because of the monetary policies is expected to tighten in the US and EU when FED raises interest rates and ECB extends quantitative easing (QE) in Europe. Besides, several measures are applied to control the expansion of credit and budget in China to cool down an overheated economy. The unpredictable, unstable policies of President Donald Trump, for example, United States would impose tariffs of 25% on steel imports and 10% on imported aluminum, are the most negative signals with global trade prospects. These policies of Donald Trump imply that the United States

wants to withdraw from free trade and international agreements. This will influence on expanding international trade in America regions and worldwide, enhancing the protectionism and trade wars.

In the context of the global trade and development in 2017 and economic prospects for 2018, Viet Nam would need to identify the opportunities as well as challenges to continue to improve trade compared to 2017. The strong integration of ASEAN and ASEAN+, positive prospects for EU-Viet Nam Free Trade Agreement (EVFTA) in Summer 2018, ASEAN-Hong Kong FTA signed on November 12, 2017, high economic growth forecasted in the EU and South Korea – leading trade partners of Viet Nam – would be important factors for Viet Nam to promote its trade in 2018. However, Viet Nam would also need to have suitable measures to deal with the steel and aluminium tariffs from the United States, to develop the trade policies with the United Kingdom after Brexit, draft the trade strategies with the EU in the context of EU-Viet Nam FTA, and locate the position for Viet Nam in the China's Belt and Road Initiative. Finally, the failure of the WTO Ministerial Conference means that the trade negotiations will be continued. Thus, the best approach for Viet Nam is to integrate deeply into FTAs which Viet Nam is a member. Moreover, Viet Nam needs to improve the investment and business environment, utilize the opportunities from FTAs to attract FDI projects to achieve sustainable development goals.

OVERVIEW OF THE ECONOMY OF VIET NAM 2017

Viet nam's economy rebounded in 2017, with positive signals from the world economy. Economic growth for the whole year was 6.81%, surpassing the target of 6.7% set by the National Assembly thanks to the unusually high growth of Q3 and Q4 (7.46% and 7.65% respectively). This highest increase since the 2008 global financial crisis was attributable to high growth in the industrial and construction sectors, particularly manufacturing industry. Meanwhile, the mining sector continued to make a negative contribution to the overall economic growth. The agriculture, forestry, fishery and service sectors showed more positive recovery than in 2016.

Consumer price index (CPI) was down after the 2016's continuous upward trend. As of December, CPI rose by 2.60% over the same period in 2016 (2016: 4.74%). Adjustments for public services such as education and health services contributed significantly to CPI growth. However, the pig oversupply crisis caused a sharp drop in food prices, keeping inflation in 2017 remain at a relatively low level. Meanwhile, core inflation showed a downward trend and remained stable since May, partly reflecting the prudent money supply control by the SBV.

The budget deficit was 3.48%, the lowest level in four years thanks to the divestment from SOEs, and partly due to slow disbursement of public investment. In the context that Viet Nam is participating in FTAs, the budget revenue plan for export and import activities is gradually reduced

year by year as part of the agreement commitments. With the decline in crude oil revenues, the Government has to increase other domestic revenues. Public debt fell to 62.6% in 2017 but still very close to the public debt ceiling of 65%. Without strict control of external debt and budget balance, the debt ceiling is likely to be broken in the coming time, and Viet Nam would be increasingly burdened with debt before transitioning to the higher development stage.

Trade continued to grow strongly in 2017 with the total import-export turnover exceeding 400 billion USD for the first time in history. Imports increased sharply in the first half of the year, causing a trade deficit of 2.7 billion USD. However, the strong growth of exports in the second half of the year brought a surplus of 2.67 billion USD to the overall trade balance of the year. The rebound of the import-export price index also contributed significantly to trade growth in 2017. Korea replaced China as the largest trade deficit partner of Viet Nam, creating both opportunities and challenges for Viet Nam in receiving technological advances.

The balance of payments in 2017 witnessed a surplus of 12.5 billion USD. In particular, the current account surplus decreased compared to 2016 mainly due to the balance of merchandise trade surplus less than the previous year. However, the abundance of FDI inflows helped the financial account surplus reach 20.2 billion USD. This explained the record-breaking surplus of the balance of payment in decades.

In the capital market, lending and borrowing activities, especially lending remained active in 2017. Accordingly, credit growth reached 18.24% at the end of the year, not met the target of 21% set by the Government. The deposit growth was much lower, reaching 14.98%. Although the capital market was less balanced than in 2016, the liquidity of the banking system maintained abundant thanks to the SBV's purchasing of large amounts of foreign currency in the year and not strictly sterilizing through the OMO and T-bill. The SBV issued Decision No. 1424/QĐ-NHNN, decreasing 0.25% per annum for fund rates and 0.5% per annum with interest rates in many economic sectors. Accordingly, all commercial banks adjusted lending interest rates to create opportunities for enterprises to access capital and reduce borrowing costs, which would boost production and business activities.

Regarding the monetary market, total means of payment in 2017 increased by 14.97% compared to 2016, lower than two previous years (2015: 16.23%, 2016: 18.38%). Viet Nam's credit at the end of 2017 was about 135% of GDP, higher than other countries with similar levels of development. This rate is roughly the level of the previous unstable period, thus posing threats to the financial balance of the banking system. Although money supply growth is lower than 2016 than three percentage points, the M2/GDP ratio in 2017 still reached 165%, much higher than 146% in 2016. This suggests that the SBV needs to be prudent with money supply growth as it is

likely to lead to an outbreak of inflation in the coming time when the lag impact of monetary policy affects the economy.

In the foreign exchange market, the application of new exchange rate regime of the SBV, which bases on a basket of eight reference currencies, made the central exchange rate no longer highly depend on the fluctuation of the US dollar. Exchange rates remained stable in 2017, except in Q1. Monetary policy in 2017 continued to be implemented strictly although the SBV has made many statements showing a tendency to loosen. The positive balance of payments allowed the SBV to buy foreign currencies continuously throughout the year. The abundance of foreign currency helped reduce the pressure on VND. Therefore, the SBV has had more space to reduce interest rates to boost the economy.

In the stock market, the VN-Index reached the record level of nearly 1,000 points at the end of the year, contributing to the Viet Nam market's highest growth in Asia. This growth was mainly thanks to the domestic macroeconomic stability, together with the accelerated economic restructuring that has helped to bring positive signs to the manufacturing sector and the improved business environment. 2017 witnessed the opposite trend of the domestic and world prices. While the domestic gold price was rather stable, the world price fluctuated wildly under the impact of many major events in the world. This reflected the lack of connection between the two markets. The price gap at the beginning of the year was 4.5 million VND/tael, down to only 0.5 million VND/tael at the end of the year.

CHARACTERISTICS OF VIET NAM'S LABOR PRODUCTIVITY IN THE PROCESS OF INTERNATIONAL INTEGRATION

Labor productivity is an important and common indicator to evaluate economic efficiency, defined as the amount of output per unit of input used to produce that output.

Average labor productivity in Viet Nam increased from 38.64 million VND per worker in 2006 to 60.73 million VND in 2017 with considerable fluctuation in growth rate over the years. From 2006 to 2012, the labor productivity growth rate of Viet Nam decreased from 4.05% (2006) to 3.06% (2012) with the average annual growth rate of 3.29% per year. From 2012 to 2017, the average labor productivity of the whole economy grew at an average speed of 5.3% per year and the highest growth rate in 2015 at 6.49%. In general, the value of labor productivity has tended to increase at a relatively fast pace over the years.

On average, in the period 2008-2016, highly productive industries are Mining, Electricity, gas, steam; Finance, Banking and Insurance Activities; Professional, Scientific and Technical activities; Real Estate Business; Water Supply. The Manufacturing industry has low labor

productivity, and the Agriculture, Forestry and Fishery sector is still among the sectors with the lowest labor productivity in the economy.

The authors used the growth accounting method and shift-share analysis to decompose the growth rate of labor productivity, in an attempt to understand the origin of labor productivity growth in Viet Nam.

The growth accounting method decomposes the growth rate of labor into the growth rate of capital density (capital per worker) and total factor productivity (TFP). The calculations show that TFP plays an increasingly important role in Viet Nam's average labor productivity growth. The decline in TFP growth rate is the main reason for the slowdown in labor productivity growth in 2008-2009. With TFP growth rate of 0.3% and 0.24% respectively, TFP contributed correspondingly only 10.51% and 9.26% to the average growth rate of labor productivity in 2008 and 2009. For the period 2006-2012, TFP contributed to average labor productivity growth of Viet Nam at an average rate of 37.05% per year; this figure has increased to 58.59% per year for the period 2012-2017, reflecting TFP's increasingly important role in Viet Nam's average labor productivity growth.

Meanwhile, the shift-share analysis decomposes labor productivity growth into within-industry effect (productivity increase within an industry), shift effect (labor shift from low productivity sector to sector higher) and interaction effect (change in productivity of each sector due to changes in labor size). In general, in the economy during the period 2008-2016, labor productivity increased by 22.5%. The within-industry and shift effects boost labor productivity growth while the interaction effect reduces labor productivity. The shift effect enhances labor productivity growth more than the within-industry effect. The negative impact of the shift effect on labor productivity indicates labor shift from low-productivity industries (such as agriculture) to higher productivity industries, which reduces labor productivity in productive industries (but still higher than others). This situation was common in most Asian countries for the last 50 years. China was the only nation that maintained a positive interaction effect during the reviewed periods.

Regarding international comparison, Viet Nam's labor productivity is compared to Northeast Asia (Japan, South Korea, China) and ASEAN (Singapore, Thailand, Malaysia, Philippines, Indonesia, Cambodia). The results show that by 2015, labor productivity of nine industries of Viet Nam was at or just above the lowest level in the above countries. Viet Nam's labor productivity was lowest among the countries, including Cambodia, in the following three sectors: Manufacturing; Construction; and Transportation, Storage, and Communications. Viet Nam's labor productivity ranked the second lowest, only higher than Cambodia in Agriculture; Electricity, Water, and Gas; Wholesale, Retail, and Repair. In contrast, Viet Nam has higher labor

productivity than some countries in the three sectors: Mining and Quarrying; Finance, Real Estate and Office Services; Community, Social and Personal Services.

The shift-share analysis shows that within-industry effect plays a key role in labor productivity growth in East Asia and Singapore, while shift effect still contributes a large part to the growth of labor productivity in ASEAN developing countries, including Viet Nam. However, the contribution of within-industry effects in Viet Nam shows an upward trend.

In order to enhance Viet Nam's labor productivity, Viet Nam should continue to create positive conditions to promote TFP growth as well as policies to train and improve knowledge and skills for workers, new technology innovations in production, application of technology to improve labor productivity in industries and at the same time invest more in research and technological improvement and purchase of technology from abroad if necessary.

If Viet Nam does not want to be surpassed by neighboring countries such as Cambodia on labor productivity in particular and economic growth in general, Viet Nam needs stronger reforms to improve labor productivity of economic sectors. At the same time, Viet Nam should develop the labor market and related policies to promote the process of labor shift by the needs of structural shift. Meanwhile, the industry (manufacturing and processing) and service sectors need to be more focused on improving the business environment and technology, which create a sustainable driving force for overall productivity enhancement.

THE INCREASE IN WAGES AND LABOR PRODUCTIVITY IN VIET NAM

The link between minimum wage growth, average wage growth and labor productivity growth has been the subject of policy debates in recent years. On one hand, representatives of labor unions argued that the current minimum wages are set below the minimum needs of workers and thus raising wage more rapidly is crucial for the improvement of their living standards. On the other hand, the growth of minimum wage and average wage, if continuously outstrips the labor productivity growth, would gradually but seriously break the balance of the economy in many aspects, especially hindering the accumulation of human capital, reducing the motivation of investors, profits of enterprises, and competitiveness of the economy.

This study aims to review the recent trends on minimum wage, average wage and labor productivity in Viet Nam and examine the impact of minimum wage increase on average wage and other variables including employment, profit rates and machinery investment. We find that although Vietnamese enterprises achieved a relatively high productivity growth in the latter half

of the 2000s, the wage growth (6.7%) generally exceeded the labor productivity growth (5%) over the 2004-2015 period (particularly after 2009). It should be noted, however, that the link between average wage and labor productivity changed over time, varying considerably by ownership and by industry. In particular, although average wage grew less than labor productivity for most of the 2000s, such observation could not be made in recent years—the growth of labor productivity was well below that of the average wage during the 2009-2012 period.

By ownership, the wage growth exceeded the productivity growth in FDI enterprises, but it was well below the productivity growth in state enterprises. For private sector, the growth of average wage was close to that of labor productivity. By industry, wage growth tends to exceed the labor productivity growth in the industries with a slow productivity growth, such as mining, post and telecommunications, and transportation. As for public utilities (water and electricity), the wage growth was slower than the productivity growth, whereas it was close to productivity growth for the manufacturing industries, trade and construction. That wage growth outstripped labor productivity growth in general can translate to declining profit margins, business closures, and layoff of workers. In the long term, it would be difficult to sustain wage increases without corresponding increases in productivity, given the potential impacts on the competitiveness of the economy.

Regarding the impact of minimum wage adjustment, we find that in general, an increase in minimum wage results in an increase in average wage and reduction in employment and profit rates. The effects, however, vary considerably across economic sectors, reflecting the differences in the extent of labor market regulations and enterprises' technological and financial abilities to deal with rising labor costs. In addition, analysis at the firm level with a focus on private and FDI firms in manufacturing industries shows that an increase in minimum wage reduces employment growth in all industries. The reduction of employment growth is larger among relatively large enterprises (number of workers). Moreover, when minimum wage increases, labor-intensive industries such as garment and textiles, wood products and furniture producers tend to introduce machines to replace labor, whereas such capital-intensive industries as electronics and machinery manufacturing reduce machine investments.

LABOR MARKET PARTICIPATION AND OCCUPATIONAL CHOICES OF VIETNAMESE YOUTH

Exploring two sets of nationally representative data including the Labor Force Survey from 2007 to 2016 and the transition from school to work in 2012 and 2015, this study describes the real status, trends in labor market participation, employment and factors influencing labor market

participation and occupational choice of young workers in Viet Nam. The study finds that a large proportion of young laborers are working in the informal sector or other sectors not relevant to skills trained, thus do not have opportunities to accumulate skills. They also tend to receive less social insurance. This shows the risks and constraints for productivity growth. Moreover, job search through personal relations rather than professional intermediaries evidences an incomplete labor market. As a result, policies to promote employment seem to be less effective.

Despite the improvement over time, the quality of employment is a matter of concern. Firstly, more than 60% of young workers with lower and upper secondary education participate in the labor market but work in the informal sector which is considered as the area of low productivity, precarious employment and unstable incomes (Cling et al., 2017). Secondly, nearly a half of young workers entering the labor market have qualification mismatch, of which about 33% are undereducated compared to what they are doing. Thirdly, about 70% of young workers participate in the labor market but do not have social insurance while the proportion of young wage workers tends to increase rapidly. Moreover, young workers lack information about the labor market, and the role of employment service centers is very blurred. Finally, econometric models show that factors that increase the labor market participation of young people in Viet Nam include market entry, informal cost, and dynamic index at the provincial level. In contrast, factors that reduce the probability of labor market entry for young workers are transparency and urbanization index.

PRODUCTIVITY ENHANCEMENT THROUGH INTERNATIONAL LABOR MARKET INTEGRATION

One of the major policies in Vietnam's labor market is to send students/young laborers overseas to study and work abroad, thereby increasing their income as well as improving skills for Vietnamese youth. This can be seen as a strategy for enhancing productivity through international market integration. Among many markets, Japan has been a special market for Vietnamese youth and is selected as the subject for this study.

Viet Nam-Japan cooperation has been flourishing in terms of human exchanges applied with trainees of the Technical Intern Training Program (TITP) in recent years. Total accumulated numbers of Vietnamese trainees to Japan by 2016 and return trainees by 2017 are estimated to be about 90,000 and 57,000, respectively. The Program has not only solved the issue of Japanese labor shortage, but also brought a great opportunity for the Vietnamese young workforce to improve income and especially, to learn skills for their long-life career, promoting skill diffusion after their return to Viet Nam.

However, the demand of local enterprises for human resources and the qualification of the supply of the return trainees, along with expectations from both sides, have not met, which reduces skill diffusion in the labor market. To investigate reasons for these problems, we start the research by identifying stakeholders in the Program. Vietnamese stakeholders include technical trainees, sending organizations, middlemen and related authorities while Japanese stakeholders are supervising organizations and accepting companies. By grasping the current status and motivation of all stakeholders, the research team detects many shortcomings that lead to the above issue.

One of the key existing issues of the Program is the lack of transparency and information sharing. The difficulty in identifying untrustworthy sending organizations have ruined the image of the Program and brought about difficulties for stakeholders, especially trainees. Although the Viet Nam Association of Manpower Supply (VAMAS) has launched the ranking system for sending organizations, the number of companies joining the ranking system is modest. Brand names of sending organizations are often unpopular, so many trainees still depend on middlemen instead of directly contacting these organizations, which results in the “institutionalization” of selected types of middlemen, such as local employment agencies, or vocational schools, etc.

In case of the Japanese market, trainees do not know that most of recruitment costs are paid by accepting companies. Besides, existing market structures make both sending organizations and trainees believe that the participation cost is considerably high, especially for going to Japan. In addition, new sending organizations tend to pay supervising organizations to get contracts from Japan rather than to lower the cost offered to trainees.

The lack of information sharing along with the market structure lead to an increase in recruitment cost, putting further economic pressure on trainees. This might affect their motivation for learning and skill grasping. In particular, high costs to participate in the Program make many trainees indebted in the initial stage. In order to solve it, trainees are under pressure to pay their debts. Therefore, they try to maximize earnings, which make them distracted from studying, especially in the first seven months. Also, the fierce competition among sending organizations leads to the attempt to reduce cost by ignoring the service of pre-departure training and orientation for trainees, which create various difficulties for trainees in adapting to the new working environment in Japan as well as keeping their motivation for skill learning.

The results from the survey for Japanese enterprises located in Ha Nam show that more than half of surveyed Japanese enterprises do not give priorities to return trainees when recruiting employees. This is largely because return trainees often ask for monthly salary higher than the average level that enterprises expect for the same skill. The gap is about USD 100. In addition, Japanese enterprises emphasize trainees’ working manner more than their technical expertise.

In order to improve international skill diffusion through Vietnamese return trainees, the research recommends three main policy visions: (1) to improve the transparency of the market by providing more information for stakeholders, especially technical trainees; (2) to strengthen the role of VAMAS in actively supporting its members in terms of providing administrative services, implementing the code of conduct, the operation of members through the ranking system; (3) to improve the vision of sending organizations regarding the enhancement of their prestige and quality, thus narrowing the role of intermediaries. Besides, the research proposes recommendations on each main participant in Viet Nam, including: (i) trainees; (ii) government, (iii) VAMAS, and (iv) sending organizations. The policy recommendations for the Technical Intern Training Program are just one example for similar programs, where there are plenty of spaces to promote in the future to diffuse productivity through international labor market.

VIET NAM'S ECONOMIC PROSPECTS IN 2018 AND POLICY IMPLICATIONS

In addition to suggested medium-term policies which synthesize policy positions from all specialized chapters of the Report, Chapter 7 provides a two-scenario forecast for macroeconomic situations in Viet Nam in 2018 and discusses in detail some of the short-term policies which are currently implemented.

Viet Nam's economy in 2018 is expected to continue to have a high growth rate based on the momentum from the previous year. In the first scenario, we forecast that GDP growth would be 6.83%, exceeding the National Assembly's target. This scenario is more likely to occur thanks to the momentum of high growth, along with efforts to enhance productivity from the government in the remaining quarters. High growth appears in all economic sector as well as major industries. In the second scenario, with less favorable conditions in both the world economy and domestic economy, we only forecast a growth rate of 6.49%, which is very close to the National Assembly's target.

Regarding the price level, we expect that inflation would not be as low as in 2017. In the first scenario, inflation would be 4.21%, slightly higher than the threshold set by the National Assembly. The risk of inflation exceeding 4% is quite possible because of the high pressure from price adjustments of public services and petroleum. Therefore, in order to curb inflation, regulating authorities will need to closely monitor prices in the second half of the year. In the second scenario, with slower economic activities than expected, inflation would only be 3.86%.

Finally, Chapter 7 summarizes policy recommendations in the medium-term, focusing on the labor market and various aspects relating to productivity, as indicated in the specialized chapters of the Report.



Viet Nam Annual Economic Report 2018

UNDERSTANDING THE LABOR MARKET FOR PRODUCTIVITY ENHANCEMENT

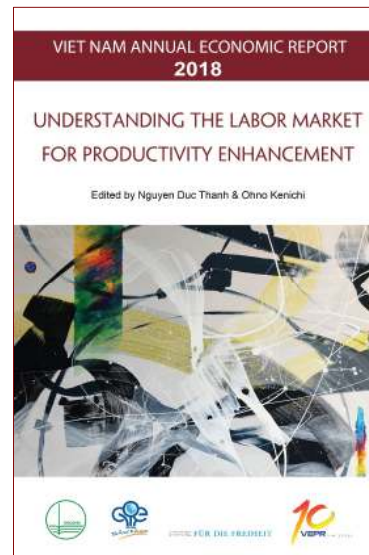
Ha Noi, May 08, 2018



**Toward the 10th Anniversary of Viet Nam Institute for
Economic and Policy Research (VEPR)**

VEPR The Context of VAER 2018

- Viet Nam's Annual Economic Report 2018, entitled "***Understanding the labor market for productivity enhancement***", is conducted in the context of continued economic rebound, along with the global trend. However, Viet Nam's quality of growth is still low compared to other countries in the region and the world, evidenced by extremely low productivity.
- Productivity of the whole economy and individual industries depends on various specific factors. Thus, productivity enhancement should be the final target of any reforms.
- The labor market is very important for allocating human capital, creating motivation for labors to accumulate skills, improving labor productivity, and regulating of enterprises' behaviors, etc. However, labor market in Viet Nam is still incomplete and has not been thoroughly studied.



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Chapter 1 Overview of the World Economy in 2017

VEPR Content

- Introduction
- Situation of selected major economies
- Global trade
- Global capital flows
- World commodity prices
- Global unemployment
- Prospects for 2018 and beyond
- Implications for Viet Nam

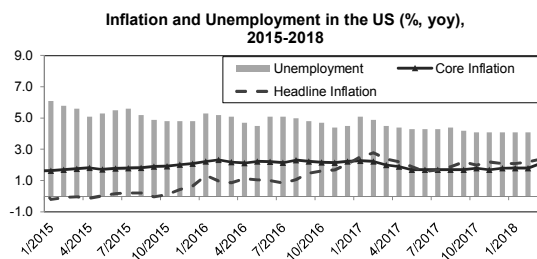
VEPR Introduction

- In 2017, the world economic growth reached the peak of 3.8% since 2011, which was 0.6% higher than that of 2016 and 0.3% higher than that of 2015 (IMF, 2018b) thanks to:
 - Economic growth in more than 2/3 of countries in the world, especially in the U.S, European countries, Japan, Canada, China, Brazil and Russia.
 - Global trade flourished and the trend of reducing new trade barriers;
 - The fastest global production expansion since February 2011;
 - More stable political context in Europe.
- However, there remain many uncertainties that significantly affect global FDI in 2017, e.g. Brexit; the withdrawal of the U.S. from many global and regional agreements; the increasing trend of populism and protectionism; and rising tensions among countries.

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VEPR The U.S economic recovery

- The U.S economy grew by 2.3% in 2017 (IMF, 2018b) with impressive growth in Q2 & Q3, which was far beyond expectation due to the export boost.
- Overall inflation and core inflation exceeded the target of 2% due to rising prices of energy, housing and used cars.
- Strong job growth kept the unemployment rate at 4.4% in 2017. The unemployment rate in Q4 fell to 4.1% - the lowest rate during the last 17 years.



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Source: Bureau of Labor Statistics of US (2018), CEIC (2018)

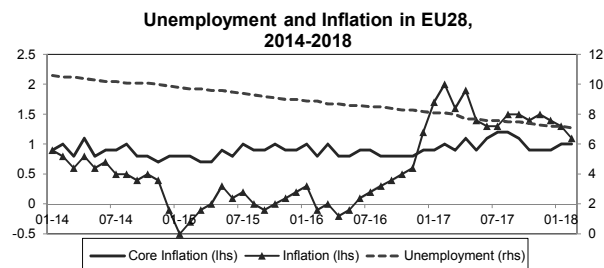
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VEPR The US confidently raised interest rate

- Given the stable low unemployment rate and inflation rate of more than 2%, FED was confident in raising interest rates three times in 2017.
- FED has also developed a route to increase interest rate three times in 2018 and two times in the 2019 to achieve the planned interest rates of 2.1% in 2018, 2.7% in 2019 and 2.9% in 2020.
- Under this route, on 21st March 2018, FED raised interest rate from 1.5% to 1.75% - the highest level since 2008. This is the first decision to raise interest rate of FED in 2018 and also the first decision of new Chairman of FED - Jerome Powell.

VEPR The EU's economic breakthrough

- The EU achieved the fastest economic growth rate since 2010 to reach 2.3% in 2017 (compared with 1.8% in 2016) thanks to an increase in household demand, fixed investment and exports of member countries. Germany (2.5%), Russia (1.5%) and France (1.9%) grew higher than expected.
- The manufacturing sector increased sharply, bringing unemployment rate to its lowest level since 2008.
- Overall inflation and core inflation performed differently in 2017 but converged at 1.3% in March 2018, much lower than the targeted inflation rate of 2%.



VEPR The UK is struggling in the post-Brexit

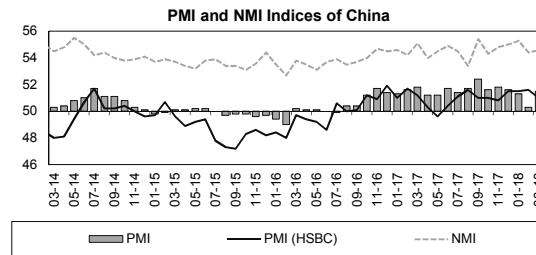
- GDP growth rate was very low at 1.7% in 2017 - the lowest level in five years. Consequently, the UK must have given up its ranks of the world's fifth largest economy for France and became the sixth largest economy in the world.
- Trade deficit increased to GBP 10.8 billion up to December 2017.
- GBP depreciated strongly against EURO and USD in 2017. This depreciation was beneficial to exports but raised import costs, leading to an increase in inflation in UK in November 2017.
- These signs indicate that after the decision to leave the EU, the UK is facing a problem of rebalancing the economy.

VEPR Japan's economic recovery

- Economic growth at 1.7% in 2017 due to the stronger rise in international trade. This was the 2nd consecutive year that Japan had a trade surplus (about \$27 billion in 2017).
- Domestic demand continued to slow down in the 2nd half of 2017, prompting the government to consider delaying consumption tax increases from 8% to 10% (planning to increase by 10/2019)
- The government plans to (i) continue implementing a massive economic stimulus package to maintain the weak JPY, boosting import prices to reach the 2% inflation target and (ii) increase spending on social security and defense.
- Persistently pursuing loose monetary policies to stimulate economic growth.

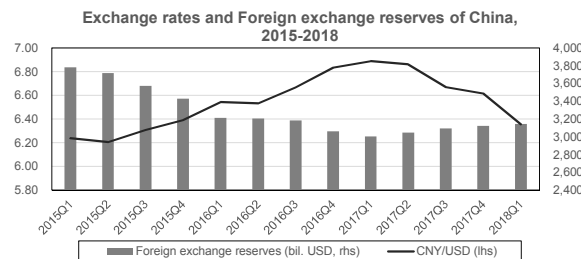
VEPR China's growth beyond expectation

- China's economy grew by 6.9% in 2017, far beyond the expectation of 6.5% growth due to the strong recovery in manufacturing and the increases in export activities and domestic demand.
- The inflation rate increased continuously throughout 2017 and averaged at 1.59% in 2017.
- Both industrial and services sectors continued to expand.



VEPR China's growth beyond expectation

- In 2018, China's government will promote financial reforms to effectively control economic leverage and prevent major risks.
- Exchange rates and foreign exchange reserves
 - Exchange rate CNY/USD fell throughout 2017 due to tight capital controls to restrict capital flow out of China in the context that FED increased interest rates three times in 2017.
 - Foreign exchange reserves increased stably throughout 2017.

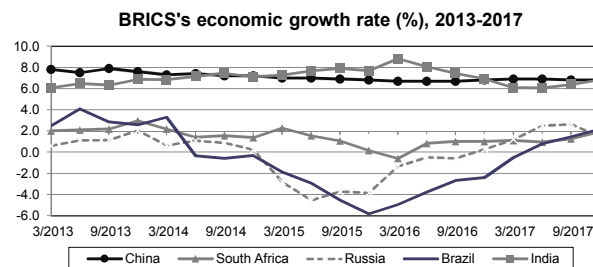


VEPR ASEAN: Dynamic and high growth

- 2017: Celebrating 50 years of establishment and development of ASEAN; ASEAN has become a community and constantly integrated into the world and regional economy.
- The average growth rate of ASEAN was 5% in 2017, which is 0.4% higher than that of 2016 and 0.5% higher than that of 2015.
- ASEAN 5 (Indonesia, Malaysia, Philippines, Thailand and Viet Nam):
 - Economic growth of 5.3%
 - All 5 countries enjoyed higher growth rate than 2016
 - Of which, Vietnam (6,8%) and Phillipines (6,7%) achieved the highest growth rates.
- With its efforts in cooperation and reforms, ASEAN region is expected to continue to maintain the current growth in 2018.

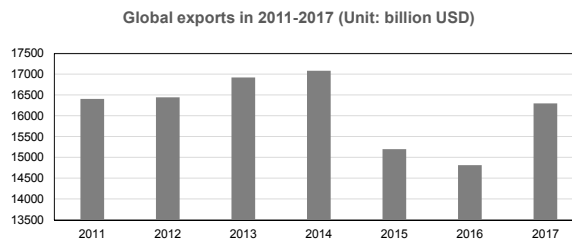
VEPR BRICS's economic recovery

- Russia and Brazil: After two years falling into a recession with a deep decline in 2015, the two countries have been recovering since the second half of 2016 and made great efforts to achieve growth rate of 1% and 1.5% respectively in 2017.
- China grew more than initial expectations to reach 6.9% in 2017
- India: Growth rate continued falling to 6.7% in 2017, 0.4 points lower than the rate in 2016 but the country is expected to grow again in 2018.



VEPR Strong global trade growth

- Global trade grew strongly and more than initial estimates by the WTO
- In 2017, global exports reached \$ 16.301 billion, representing an increase of 10.01% compared with from 2016. This is a breakthrough of world trade since 2011.
- However, world trade value in 2017 was still lower than the levels before 2014, showing that international trade still needs more breakthrough in the future.



VEPR Strong global trade growth

- Global trade was primarily driven by the increase in agricultural and machinery trade while car trade declined.
- The EU :
 - The EU's trade surplus reached USD 2 billion and its total trade value stood at USD 12,918 billion in 2017, corresponding to an increase of USD 9.48 billion compared with 2016's level.
 - Germany demonstrated its leadership role in the EU economy as its trade and investment strongly increased, especially trade value achieved a record level.
 - Besides Germany, France and Italy also achieved high trade growth rates.

VEPR Strong global trade growth

- The Asia:
 - A region with the highest trade growth rate
 - In 2017, its total trade value reached USD 12,009 billion, representing an increase of 12.61% compared to the level of 2016. Of which, export value was USD 6248 billion (increased by 10.63%) and import value was USD 5761 billion (increased by 14.84%).
 - Asia's export growth was mainly driven by exports in Southeast Asian countries - the region that has been developing into a global manufacturing and export hub. Exports increased sharply in Thailand, Malaysia and Vietnam.
 - China also ended the year 2017 with an impressive trade growth rate, of which exports rising by 7.9% and imports by 15.9%, reaching a trade surplus of more than USD 420 billion.
- Reasons for increase in global trade: (i) growth in world GDP; (ii) the stability of the euro area; (iii) increase in world prices; (iv) the reduction in application of new trade restrictions in the late 2016 and the whole year 2017.

VEPR Trade liberalization: a mixed picture

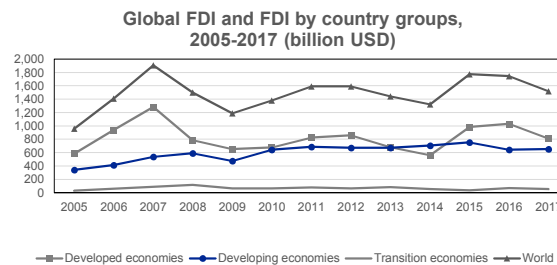
- In the context of the stagnated trade liberalization in the Americas due to the US protectionist-prone policies, the Asian region in general and ASEAN in particular have strongly promoted economic and trade cooperation, while the EU is also likely to re-gain its confidence in globalization with substantial integration efforts.
- Some highlights: Signing of the CPTPP, EU-Japan FTA, and ASEAN-Hong Kong FTA; efforts to promote ASEAN trade liberalization (facilitating SMEs, promoting self-certification of origin, developing of e-commerce, constructing trade facilitation index..).

VEPR Global capital flows

- Contrary to substantial improvement of international trade, global investment slipped further in 2017.
- Global FDI declined by 16%, to an estimated US\$1.52 trillion in 2017 (UNCTAD, 2018a), contrary to UNCTAD's previous forecast (2017) that FDI would increase by 10%.
- FDI in developed and transition countries decreased sharply, especially in large countries like the U.S, the U.K and Russia. Developing economies, particularly in Asia and China continued to attract more FDI inflows.
- Reasons: Global FDI was negatively impacted by uncertainties such as Brexit, U.S. policy changes, rising trend of populism and protectionism as well as escalating conflicts among countries.
- UNCTAD (2018a) forecasts that despite positive forecasts for global economic growth, global FDI in 2018 will not be too optimistic due to the impact of geopolitical and financial risks as well as policy adjustments of major countries.

VEPR Global capital flows

- FDI inflows into developed economies declined by 27%, most sharply in the U.S and the U.K. FDI flows into these group accounted for 53% of global FDI.
- FDI inflows into transition economies reduced by 17% to US\$55 billion, representing the lowest level since 2005.
- FDI inflows into developing economies saw a modest increase of 2% after falling by 14% in 2016. The proportion of FDI to developing countries in Asia increased from 25% in 2016 to 30% in 2017.

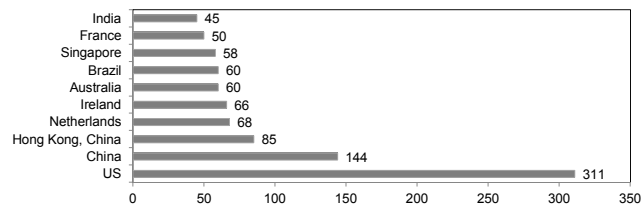


Source: UNCTAD FDI Statistics and UNCTAD (2018a)

VEPR Global capital flows

- Despite the sharp fall in FDI, the U.S. remained the largest FDI receiver.
- China ranked 2nd with an increase of 8% and hit a record in 2017.
- Developing economies, especially in Asia have become increasingly important FDI host economies: 05 among top 10 are developing economies, 03 among of which are from Asia.
- Regarding investment forms:
 - Total M&A value decreased by 23%.
 - Total greenfield value dropped by 32% - the lowest level since 2003 and a negative signal for long-term development.

Top 10 FDI receivers in 2017 (bil. USD)



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Source: UNCTAD (2018a)

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VEPR Global capital flows

Box 1: The U.S. “Tax cuts and Jobs Act” and impacts on global FDI

- On 22nd December 2017, President Donald Trump signed the Tax cuts and Jobs Act to facilitate investment into the U.S, job creation and economic growth.
- Measures that will directly affect the investment climate in the U.S. include:
 - A reduction of the statutory corporate income tax (CIT) rate.
 - Immediate full expensing of investment cost
 - The capping of deductible interest to 30% of taxable income
- Measures directed at the international tax regime for MNEs include:
 - A switch to a territorial tax system
 - A transitional measure for existing overseas retained earnings
 - A set of anti-avoidance measures, including a tax on global intangible low-tax income and a tax on payment to overseas affiliated firms that erode the tax base in the U.S.
- These adjustments are expected to redirect the global FDI:
 - Decrease the U.S investment overseas;
 - American companies invest back to the domestic market
 - Companies from other countries will invest more in the U.S.

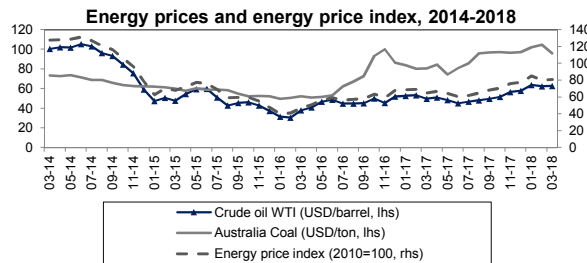
Source: (UNCTAD, 2018b)

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VEPR The world commodity prices

- Energy price recovered in the 2nd half of 2017 and rose significantly in the early 2018.
 - After a sharp drop in May 2017, WTI crude oil prices reached 57,88 USD/barrel in the last trading session of 2017. The upward trend continued in Q1/2018, reaching 62,88USD/barrel, surpassing 60 USD/barrel for the first time since 2015.
- Causes: Demand for crude oil rose sharply while supply of crude oil was restricted due to an agreement among 14 OPEC members and 11 other major oil producers, led by Russia on cutting crude oil production in 2017 and extended to 2018.

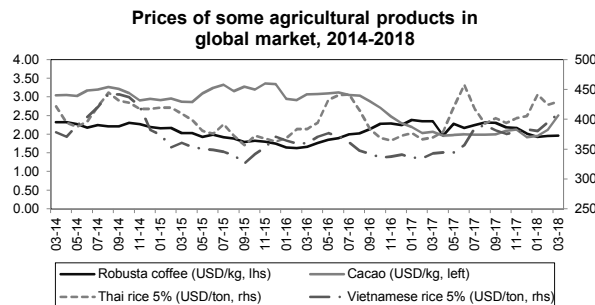


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Source: EIA (2018), WB (2018a)

VEPR The world commodity prices

- Price of some agricultural products such as rice and maize also recovered strongly in the second half of 2017 as demand for imports rose sharply while global output of these products declined.
- 05 largest rice exporters accounted for 80% of the global trade in rice, including: Thailand (30%), Viet Nam (20%), India (11%), Pakistan and the U.S (10%) . The price of Thai rice was always higher than that of Viet Nam in 2017.



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Source: WB (2018a)

VEPR Continued increase in global unemployment

- Global unemployment continued rising and stood at 5.6% in 2017 compared with 5.5% in 2016, corresponding to 192.7 million unemployed persons. This represents an increase of 2.6 million compared with 2016.
- Unemployment rate in developed countries was still high at 5.7%, followed by that of emerging countries with 5.6% and developing countries witnessed a lowest rate of 5.3%. Developed countries achieved notable results because 2017 was recorded as the 6th consecutive years having high reduction in the unemployment rate.
- Asia:
 - Japan: unemployment rate dropped from 3.1% in 2016 to 2.8% in 2017 – the 7th consecutive year of declining unemployment
 - China is still struggling to create jobs when the unemployment rate remains at 4.7% as that in 2016.
 - South Korea faced with an increase in unemployment rate from 3.7% in 2016 to 3.8% in 2017.
 - ASEAN countries had a relatively low unemployment rate ranging from 0.2 to 4.3%, except for Brunei with unemployment rate up to 7.1%.

VEPR Continued increase in global unemployment

- The progress achieved in the past in reducing vulnerable employment has stalled since 2012. About 42% of workers (corresponding to almost 1.4 billion workers) are estimated to be in vulnerable forms of employment in 2017.
- The global labor market has made little progress in reducing working poverty: 300 million workers in emerging and developing countries living in household in which per capital consumption is less than USD 1.90 per day in purchasing power parity (PPP)
- Unequal labor market opportunities for women persist. This is particularly notable in North Africa, Arab States and Southern Asia.
- The lack of employment opportunities for the youth (i.e those under 25 years of age) presents another major global challenge. Young people are much likely to be unemployed than adults, with the global youth unemployment rate standing at 13%, or three times higher than the adult rate of 4.3%.

VEPR Prospects for 2018 and beyond

- Global trade prospect
 - Under mixed signals, trade in 2018 is unlikely to reach 2017's high growth rate
 - Optimistic signals: (i) expectation on high GDP growth rate of the big economies like the US, EU and China, (ii) integration efforts of the Asia, especially ASEAN (iii) positive impacts of FTA; (iv) expectation on benefits from CPTPP and (v) the perception of Xi Jinping to pursue trade liberalization and globalization.
 - Pessimistic signals: (i) tightened monetary policies in the US and EU; (ii) credit controlling measures in China; (iii) Donald Trump's unpredictable, instable and protectionist economic and trade policies; (iv) the United States has made a move to return to CPTPP but this has also raised concerns about the possibility of renegotiating the CPTPP, hindering the progress of the ambitious agreement; (vi) the WTO deadlock in addressing world trade issues.

VEPR Prospect for 2018 and beyond

- Global FDI prospect
 - Not so optimistic as global FDI is likely to only maintain the 2016 level (about USD 1.8 trillion).
 - FDI inflows to developing countries in Asia are projected to recover mainly due to: (i) positive economic forecasts and policy changes in major economies such as China, India and Indonesia; (ii) participation into FTAs; (iii) signing of the CPTPP.
 - However, the prospect of increasing FDI is uncertain in the context of a wide range of geopolitical, financial and monetary risks, and the policies of large countries: (i) the accumulation of large debts in some major economies; (ii) the process of negotiating Brexit has gone into a more substantive and difficult period; (iii) geo-political hotspots are unpredictable; non-traditional security challenges with the increasing cost of overcoming the consequences; (iv) increased populism and protection in many countries; (v) recent tax reform in the United States which took effect in early 2018

VEPR Prospects for 2018 and beyond

- International finance prospect in 2018: The world is likely to witness different changes in monetary policies of key economies.
 - FED is expected to continue raising interest rates two more times this year.
 - Japan will continue to loosen monetary policy.
 - ECB will continue to tighten monetary policy.
 - With such moves, USD may appreciate against other key currencies in 2018.
- World oil and fuel prices are forecasted to increase in 2018 due to rising demand while supply is more tightly controlled.

VEPR Prospects for 2018 and beyond

- Unemployment:
 - The global unemployment rate is expected to fall slightly to 5.5% in 2018 after three consecutive rising years. The total number of unemployed people is expected to remain stable at above 192 million in 2018.
 - The number of workers in vulnerable employment is likely to increase in the years to come.
 - The shift to service sector is likely to put more pressure on job quality.
 - Aging population would create increasing challenges for future labor market.

VEPR Prospects for 2018 and beyond

- World GDP growth rate
 - Will be backed up by factors such as the recovery of major economies in the world including the US, EU, BRICS and ASEAN.
 - The world GDP growth rate in 2018 is projected to increase.

VEPR Prospects for 2018 and beyond

Economic growth rate in 2015-2018

% GDP	International Monetary Fund (IMF)				United Nations (UN)			
	2015	2016	2017	2018*	2015	2016	2017	2018*
World	3.5	3.2	3.8	3.9	2.7	2.4	3.0	3.0
Developed economies	2.3	1.7	2.3	2.5	2.2	1.6	2.2	2.0
The US	2.9	1.5	2.3	2.9	2.9	1.5	2.2	2.1
Japan	1.4	0.9	1.7	1.2	1.1	1.0	1.7	1.2
The EU	2.1	1.8	2.3	2.4	2.2	1.9	2.2	2.1
Germany	1.5	1.9	2.5	2.5	1.7	1.9	2.0	2.1
France	1.1	1.2	1.8	2.1	1.1	1.2	1.7	1.8
Portugal	3.4	3.3	3.1	2.8	3.2	3.2	2.9	2.6
Italia	1.0	0.9	1.5	1.5	0.8	0.9	1.5	1.4
Developing countries	4.0	4.1	4.7	4.9	3.9	3.8	4.3	4.6
China	6.9	6.7	6.9	6.6	6.9	6.7	6.8	6.5
India	8.2	7.1	6.7	7.4	7.6	7.1	6.7	7.2
Russia	-2.5	-0.2	1.5	1.7	-2.8	-0.2	1.8	1.9
ASEAN-5	5.0	4.9	5.3	5.3	n.a	n.a	n.a	n.a

Note: ASEAN-5 includes Indonesia, Malaysia, Philippines, Thailand and Vietnam
Source: IMF (2017b), IMF (2018b), UN (2018a)

VEPR Implications for Viet Nam

- Vietnam in 2018 will benefit from the world economic recovery.
- According to many surveys, Viet Nam has always been on the list of the most attractive destination for foreign investors. Therefore, Vietnam should continue to make efforts to improve the investment and business environment; and take full advantage of the new-generation FTAs to attract quality FDI projects towards sustainable development.

VEPR Implications for Vietnam

- It is of great importance for Vietnam to identify opportunities and challenges to maintain the trade achievement in 2017.
 - Need to take advantage of opportunities from: (i) ASEAN-Hong Kong FTA, (ii) projected strong economic growth of the EU and Korea - major trading partners of Viet Nam.
 - Need to (i) identify policy choices to deal with US import tariffs on steel and aluminum; (ii) develop trade policies with the UK post-Brexit; (iii) prepare a trade strategy with the EU to take advantage of upcoming Viet Nam-EU FTA; (iv) identify where Vietnam will be in Belt and Road Initiative, and (v) in the context of the failure of the WTO Ministerial Meeting, the appropriate approach now is to continue to integrate more deeply into the current FTA.

VEPR Implications for Viet Nam

With the trends of the global labor market in 2018 and beyond, Viet Nam needs more efforts in:

- (i) Improving the quality of human resources and employment, increasing labor productivity.
- (ii) Renovating education and training to provide workers with the necessary knowledge and skills suitable to demands of modern society
- (iii) Supporting workers, promoting the employability of workers by training lifelong learning skills.
- (iv) Encouraging older workers to participate in training courses and skills development programs.
- (v) Participating more actively in skilled labor mobility commitments in ASEAN and trade in services free trade agreements with other partners in the world.

VEPR Implications for Viet Nam

- The trend of tightening monetary policy of the US and EU together with the increase in energy prices may cause VND to depreciate against USD dollar and EURO, leading to the pressure on inflation when imported prices change.
- However, the depreciation of VND against USD and Euro could also help strengthen competitiveness and boost exports of the Vietnamese goods to the US and Eurozone markets.

Chapter 2
**Overview of the
Vietnamese Economy in 2017**

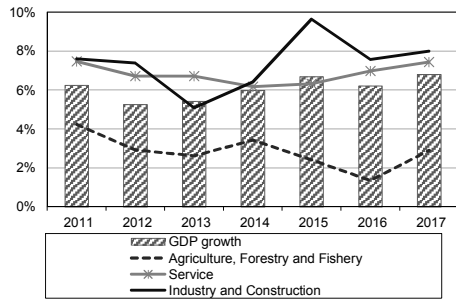
VEPR Contents

- Growth and Inflation
- Supply Side
- Demand Side
- Macroeconomic Balances
- Capital and Money Markets
- Asset Markets
- Policy Implications

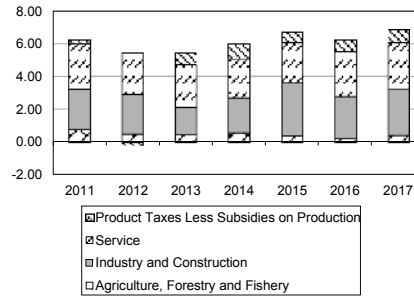
VEPR Economic Growth

- Growth surpassed the target of 6.7% set by the National Assembly, reaching 6.81% thanks to the unusually high growth of the 2nd half of 2017.
- Manufacturing industry remained the driving force of growth in 2017 (14.40%). Service sector witnessed the highest growth since 2011 (7.44%).

Economic Growth by Industry in Viet Nam, 2011-2017 (% constant 2010 prices)



Contribution of each Sector to Economic Growth, 2011-2017 (percentage points)

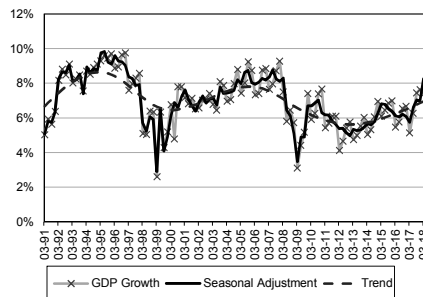


Source: Authors' calculations based on GSO data (2018a)

VEPR Economic Growth

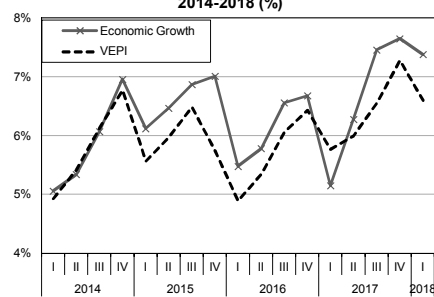
- Growth still indicated a long-term recovery trend.
- VEPI in 2017 was lower than GDP growth, but more stable. Q4's VEPI (7.28%) was much higher than previous quarters, thanks to the highest IPI growth in many years.

Growth Trend, 1991-2018 (%)



Source: Authors' calculations based on GSO data (2018a)

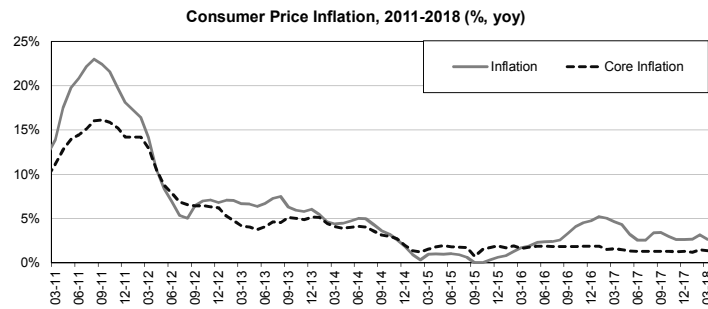
Viet Nam Economic Performance Index, 2014-2018 (%)



Source: VEPR

VEPR Inflation

- Inflation was down compared to 2016 (in December, increased by 2.60% over the same period of 2016). Under pressure from rising public services prices, inflation was still low thanks to lower food prices.
 - Core inflation declined continuously and remained at 1.3% since May.
- => Prudent monetary policy of the SBV.



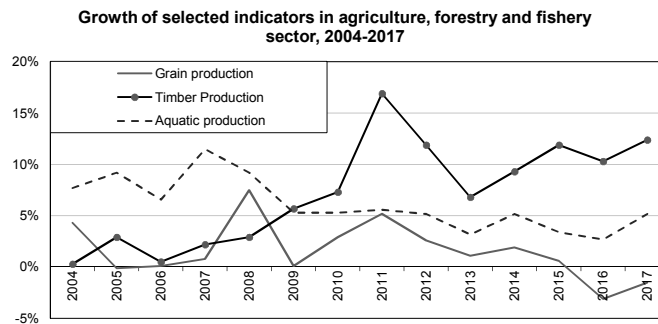
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Source: Authors' calculations based on GSO data (2018b)

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VEPR Supply Side Analysis Agriculture, Forestry and Fishery Production

- Agriculture still faced many difficulties due to natural disasters, while forestry and fishery saw positive signs of growth.
- The rate of decline in grain production was half compared to 2016.
- Timber and aquatic production increased sharply.



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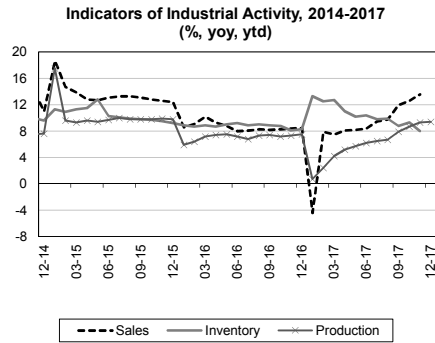
Source: GSO (2018a)

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VEPR Supply Side Analysis

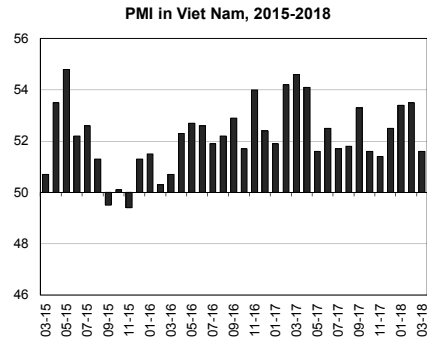
Industrial Production

- Industrial production index increased by 9.4% (2016: 7.5%); rose stably by 14.5% in manufacturing industry, the highest rate in 6 years while dipped by 7.1% in mining industry.
- PMI remained steady above 50 points . March's PMI was 54.6, highest since 05/2015.



Source: GSO (2018c)

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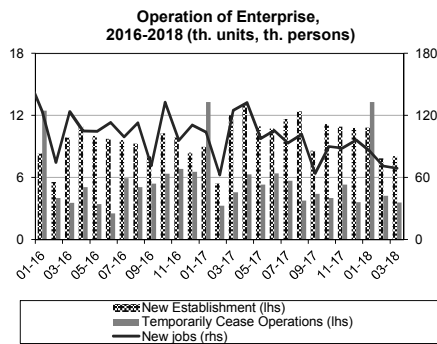
Source: HSBC, Nikkei (2018)

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VEPR Supply Side Analysis

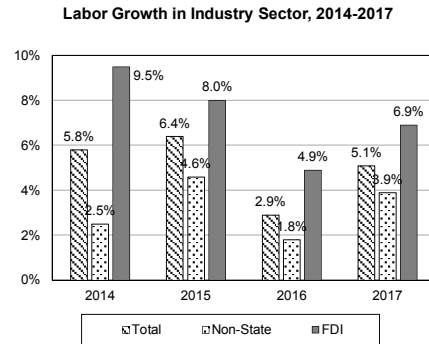
Enterprise Operation

- 126,859 newly registered enterprises (increased by 15.2%), with total registered capital increasing by 45.4%, and reaching an average of 10.2 billion VND/ enterprise (increased by 26.2%).
- Employment continued to grow in FDI and non-state enterprises while declined in state sector.



Source: GSO (2018a)

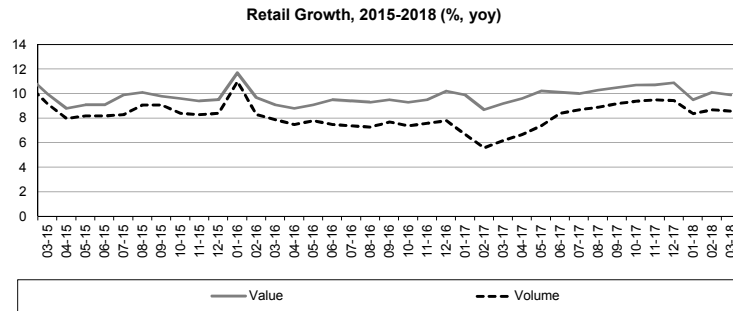
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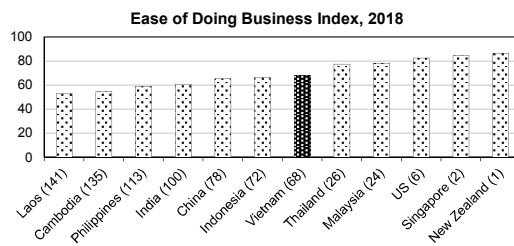
VEPR Supply Side Analysis Services

- Retail sales of consumer goods and services improved considerably in both value (increased by 10.9%) and volume (increased by 9.46%).
- Tourism improved sharply (total international tourist arrivals increased by 29.1%), contributed to growth in related industries such as accommodation and catering services (11.9%), passenger transport (11.1%).

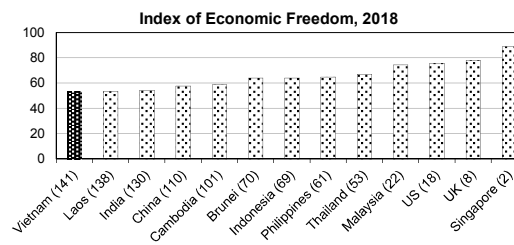


VEPR National Competitiveness

- Ease of Doing Business Index jumped 14 levels, ranked 68 out of 190 countries. Viet Nam has made reform most over last 15 years with 39 reforms.
- Although Index of Economic Freedom improved by 6 levels, Viet Nam was still one of 63 economies considered as “mostly unfree”.



Source: WB (2017)

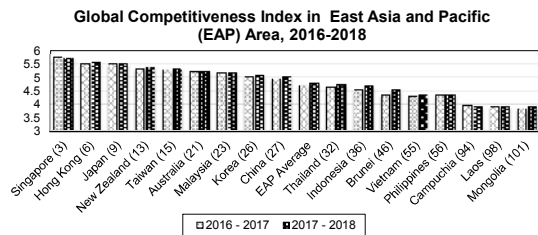
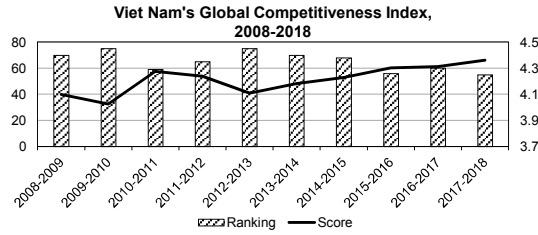


Note: Country rankings in parentheses

Source: The Heritage Foundation (2018)

VEPR National Competitiveness

- Viet Nam continued to make significant efforts in improving its national competitiveness, jumping 5 levels and ranking 55/138 countries.
 - Viet Nam was still considered to have low competitiveness.
- => Need to make more efforts to improve institutional and business environment.



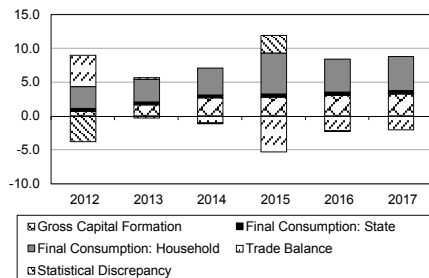
Note: Country rankings in parentheses

Source : WEF (2017)

VEPR Demand Side Analysis Components

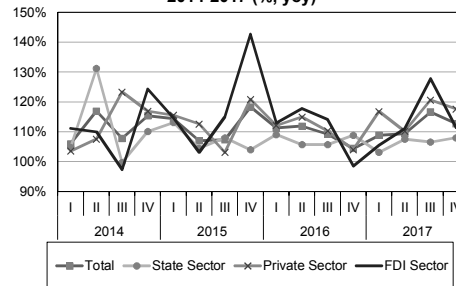
- Household consumption contributed the most to economic growth with 5.04 percentage points.
- Net exports made a negative contribution to growth.
- Total social investment continued to grow steadily (increased by 12.1%) and contributed greatly to economic growth.

Contribution to Economic Growth by Purpose of Use, 2012-2017 (pct)



Source: : Authors' calculations based on CEIC(2018)
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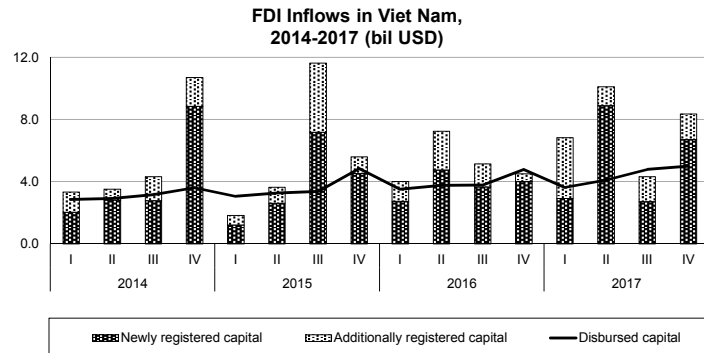
Total Social Investment by Sector, 2014-2017 (% yoy)



Source: GSO (2018a)

Demand Side Analysis FDI

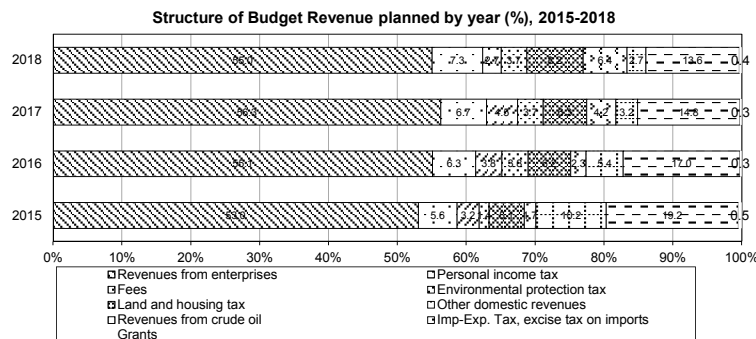
- The amount of newly and additionally registered FDI increased significantly compared to 2016 (by 40.1% and 46.0% respectively).
- Disbursed FDI also rose considerably with 17.5 billion USD, up by 10.8%.



Source: FIA (2018)

Macroeconomic Balances Budget Balance

- Both state budget revenue and expenditure in 2017 exceeded the whole year's plan. The budget deficit was 3.48%GDP, the lowest in four years.
- Budget revenue's plan: crude oil revenues are adjusted downwards. Revenue from Imp-Exp activities has been also reduced in the context of Viet Nam's high integration with the world.



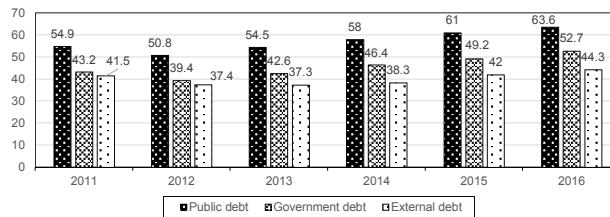
Source: MoF (2018)

VEPR Macroeconomic Balances

Budget Balance

- Public debt in Viet Nam has been very close to the debt ceiling of 65%, and ranked among the top in the group of emerging and developing countries currently.
- Estimation of the informal sector as a part of GDP distorts warnings about Viet Nam's state budget and public debt situation.
- Without strict control of external debt and budget balance, the public debt ceiling is likely to be broken in the near future, and Viet Nam would be increasingly burdened with debt.

Public debt, government debt and external debt in Vietnam (%GDP), 2011-2016



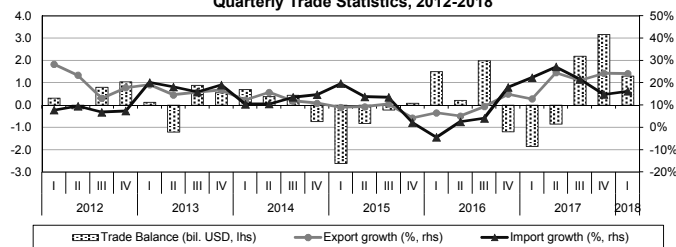
Source: MoF (2018)

VEPR Macroeconomic Balances

Trade Balance

- Trade increased dramatically in 2017 with the trade turnover reaching over 400 bil. USD for the first time in history. Trade surplus was 2.67 bil. USD thanks to strong growth of exports in the 2nd half of 2017. Of which, FDI witnessed a large trade surplus.
- South Korea replaced China as the largest trade deficit partner of Viet Nam, opening both opportunities and challenges for Vietnam in receiving technology advance.

Quarterly Trade Statistics, 2012-2018



Source: GSO (2018a)

Macroeconomic Balances

Impact of FTAs on growth and Imp-Exp

- Potential impact of CPTPP, TPP12 and RCEP on Vietnam's economy by 2030 (% compared to the baseline scenario):

	Standard productivity			Productivity kick		
	CPTPP	TPP12	RCEP	CPTPP	TPP12	RCEP
GDP	1.1	3.6	0.4	3.5	6.6	1.0
Exports	4.2	19.1	3.6	6.9	22.8	4.3
Imports	5.3	21.7	5.4	7.6	24.9	6.3

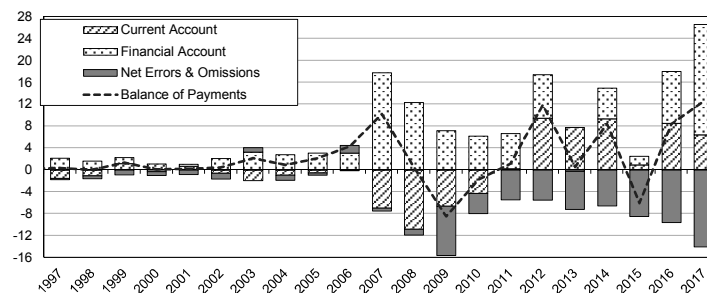
Source: WB (2018)

Macroeconomic Balances

Balance of Payments

- The balance of payments reached 12.5 bil. USD, the highest in decades.
- The current account surplus was \$6.4 billion, lower than in 2016, while the financial account surplus increased sharply (to \$20.2 billion).

Vietnam's Balance of Payments, 1997-2017 (bil. USD)

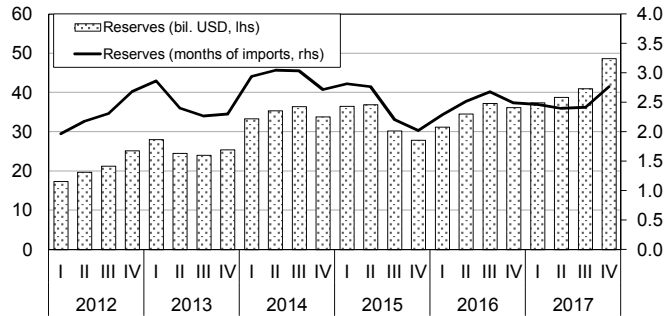


Source: SBV (2018)

Macroeconomic Balances Foreign Exchange Reserves

- According to the IMF, foreign exchange reserves last year reached \$48.7 billion, much higher than \$36.2 billion in 2016 but still lower than the \$51.5 billion announced by the SBV.
- Foreign exchange reserves were only 2.77 months of imports, still below the amount of 3-4 importing months recommended by the IMF.

Foreign Exchange Reserves, 2012-2017



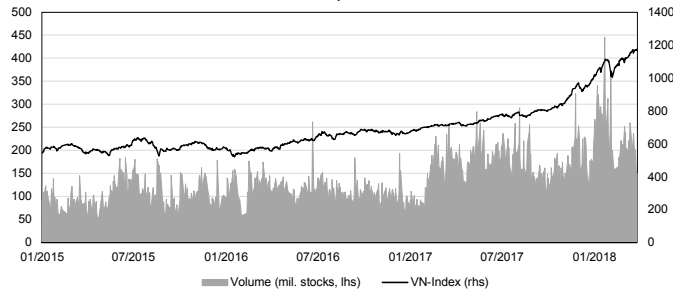
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Source: CEIC (2018)

Capital and Money Markets

- Viet Nam was the stock market with highest growth in Asia in 2017. Vn-Index in the first session reached 672.01 points and ended the year at a record of 984.24 points, up by 46.5% over the beginning of the year.
- The total trading value of shares and fund certificates reached nearly 4,981 bil. VND/session, up by 63% compared to the average of 2016.

VN-Index, 2015-2018

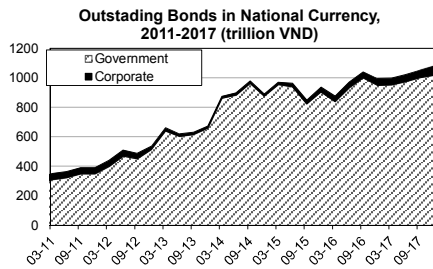


Source: VNDIRECT (2018)

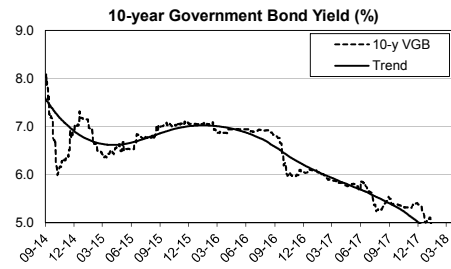
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VEPR Capital and Money Markets

- Bond market witnessed favorable conditions thanks to low inflation and good liquidity. Record-breaking low yields allow the government to meet its financial needs while extending maturity.
- Average maturity of new government bonds increased (2016: 8.71 years, 2017: 12.52 years).
- The yield on 10-year bonds in 2017 reached the lowest ever. Average yields were 5.6% per year, 17.6% and 16.3% lower than the average for 2015 and 2016, respectively.



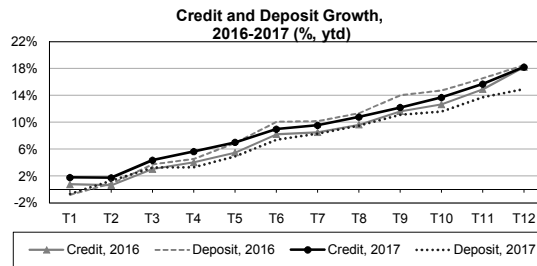
Copyright © VEPR 2018 Source: ADB (2018)



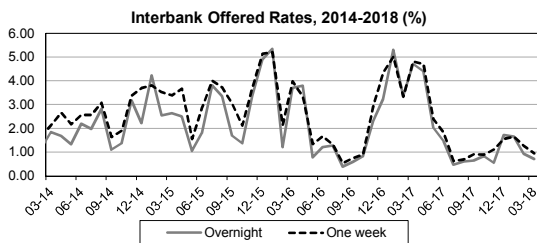
Source: Fusion Media (2018)

VEPR Capital and Money Markets

- Credit growth was much higher than deposit one (18.24% & 14.98% respectively).
- Capital market was more unbalanced than 2016 but system liquidity remained redundant thanks to the SBV's foreign currency purchase.
- Interbank offered rates for all terms remained above 5% in Q1, before falling sharply in the rest of 2017.



Source: SBV (2018)



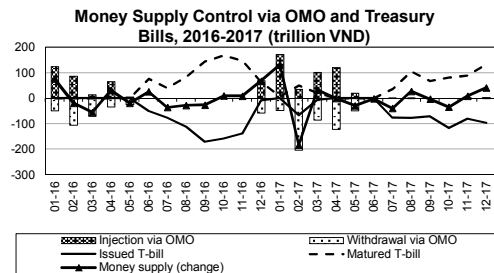
Source: CEIC (2018)

VEPR Capital and Money Markets

- Money supply increased by 14.97%, lower than two previous years (2015: 16.23%; 2016: 18.38%).
- The M2 / GDP ratio in 2017 is 165%, much higher than 146% of 2016. The SBV needs to be cautious with the growth rate of money supply because of the inflation risk in the coming time.
- The SBV withdrew a net of 57 trillion VND via OMO and injected 6 trillion using the T-bill. In total, SBV withdrew a net of 51 trillion VND.



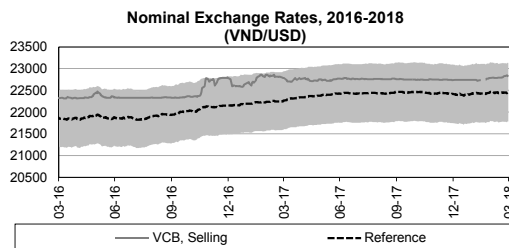
Source: Authors' calculations based on GSO (2018a), SBV (2018)



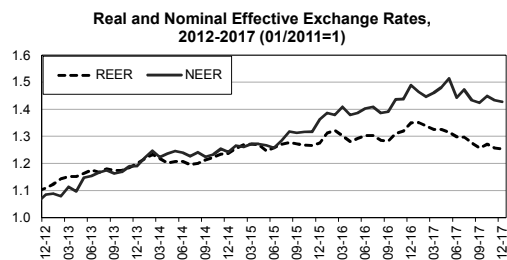
Source: Authors' calculations based on BVSC (2018)

VEPR Capital and Money Markets

- The new exchange rate regime of the SBV, which bases on a basket of eight reference currencies, made central exchange rate no longer highly depend on the fluctuation of the US dollar.
- In 2017, the exchange rate was relatively stable, except for Q1.
- Both NEER & REER showed downward trends in 2017 due to the sharp drop in USD value and the VND's pegging to USD. NEER and REER decreased by 7.2% and 4.2% respectively compared to the end of 2016.



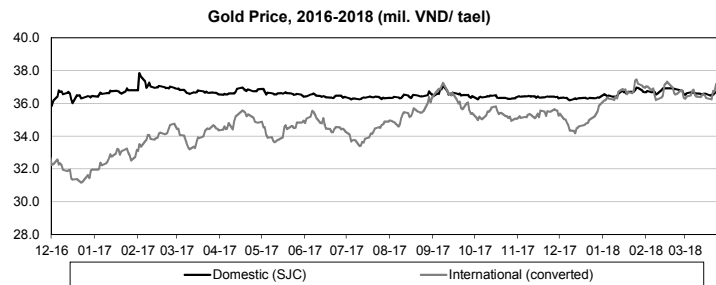
Source: VEPR



Source: VEPR

VEPR Asset Markets Gold Market

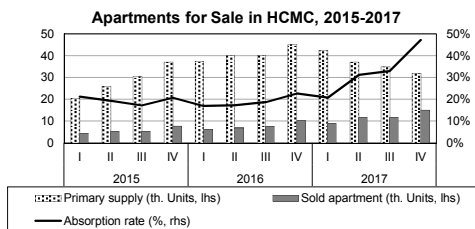
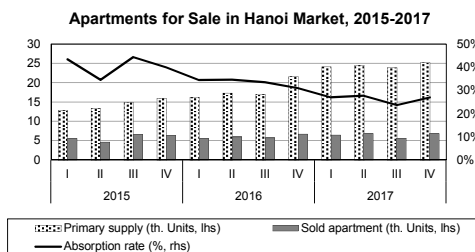
- While the domestic gold price remained steady, the world price wildly fluctuated under the impact of many factors. This reflected the little connection between the world and domestic gold markets.
- Price gap continuously changed, from 4.5 mil. VND/tael at the beginning of the year down to 0.5 million VND/tael by the end of the year.



Source: SJC (2018), Fxpro (2018)

VEPR Asset Markets Real Estate Market

- While Hanoi market leveled off, the HCMC market remained active, especially at the end of the year. This led to a relatively stable absorption rate in Hanoi, while the rate witnessed a sharp increase in HCMC at the end of the year.
- Newly registered FDI inflows in the real estate sector reached \$2.24 billion and accounted for 10.5% of total capital, higher than 2016.
- Abundance of primary supply and credit => the likelihood of a price drop in the coming time .



Source: Savills (2018)

VEPR Policy Implications (1)

- 2017 can be considered as a successful year of Vietnam's economy because this was the first time Vietnam fulfilled and surpassed 13 socio-economic targets. In particular, GDP growth rate was 6.81%, above the target of 6.7%.
- The massive trade surplus of FDI sector => contributed to favorable trade balance and showed the whole economy's dependence on FDI sector.
- Inflation of the whole year was quite stable thanks to the cautious monetary policy of the SBV. Large foreign exchange reserves have helped the SBV have more space for monetary easing and lower interest rates to boost growth. However, reserves has not changed much in terms of weeks of imports.
- Participation in FTAs => opportunities and challenges for VN economy once trade barriers are abolished => problems with regulating policies

VEPR Policy Implications (2)

- ❖ Need to address many inherent problems of the economy:
 - Labor productivity remains low and does not create growth momentum => Big challenges once the advantage of cheap labor and demographic dividend no longer available.
 - Budget deficit and public debt remain high. Recurrent expenditures are high while public investment is limited in the context of VN's ODA graduation => Need to control recurrent expenditures and save more internal resources for development investment.
 - The increasing dependence of VN's economy on the world economy and the FDI sector makes the economy more vulnerable to external shocks in the context of geopolitical turmoil and protectionism in 2018.
 - In addition, Decree 116 and Grab & Uber story may bring many great lessons in the context of Vietnam's deep integration with the world of Industry 4.0.

Chapter 3 Characteristics of Viet Nam Labor Productivity in the Process of International Integration

VEPR Content

- Labor productivity and measurement
- Decomposition of labor productivity growth
- The importance of measuring labor productivity in Viet Nam
- Process of Viet Nam's labor productivity
- Process of industries' labor productivity
- Viet Nam's labor productivity in international comparison
- Conclusions and policy implications

VEPR Labor productivity and measurement

- Labor productivity is a partial productivity indicator, reflecting the amount of goods and services generated per unit of labor input (OECD)
- $Labor\ productivity = \frac{Output}{Labor\ input}$
- *Output* is measured in GDP (or value added for each sector)
- *Labor input* is measured by the total number of employed person (or total hours worked)

VEPR Decomposition of labor productivity growth

Growth accounting decomposition

- The method of growth accounting was initiated from the neo-classical growth model of Solow (1957).
- Labor productivity growth is broken down into capital density growth and total factor productivity (TFP) growth.

Decomposition of labor productivity growth Shift-share analysis

- Labor productivity growth is decomposed into three components: (i) within-industry effect, (ii) shift effect, (iii) interaction effect (Timmer và Adam, 2000; Adam et al., 2008).

$$\frac{p_m^t - p_m^0}{p_m^0} = \frac{\sum_{j=1}^n [(p_j^t - p_j^0) * s_j^0]}{p_m^0} + \frac{\sum_{j=1}^n [p_j^0 * (s_j^t - s_j^0)]}{p_m^0} + \frac{\sum_{j=1}^n [(p_j^t - p_j^0) * (s_j^t - s_j^0)]}{p_m^0}$$

- *Within-industry effect*: capturing the impact of industries' labor productivity growth to economy-wide labor productivity, assumed that employment share is unchanged
- *Shift effect*: impact of labor movement among industries when the industries' labor productivity is unchanged.
- *Interaction effect*: a residual, reflecting the change in labor productivity growth caused by the shift of labor from the increased-productivity industries to the declined-productivity ones.

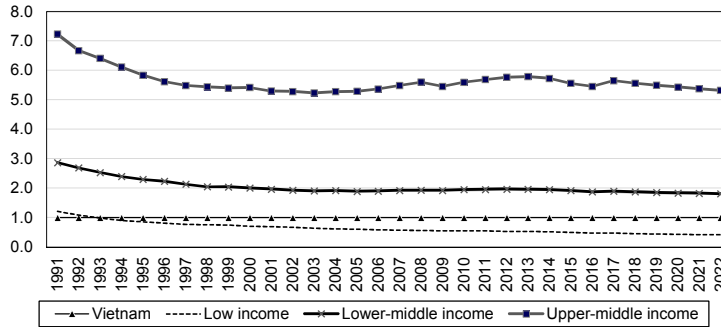
The importance of measuring labor productivity in Viet Nam

- Vu Minh Khuong (2016): Viet Nam's economic growth tended to decline early while per capita income was still low. The labor productivity's decrease was the reason for the decline in GDP growth of Viet Nam from after 2005 to 2013.
- Although maintaining a relatively high growth rate, Viet Nam's labor productivity remained at low level when compared with country groups divided by income.

The importance of measuring labor productivity in Viet Nam

- In 2017, Viet Nam's labor productivity was twice as this of Low income group, equaling to more than 50% of Low-middle income group and 18.3% of Upper-middle income group.

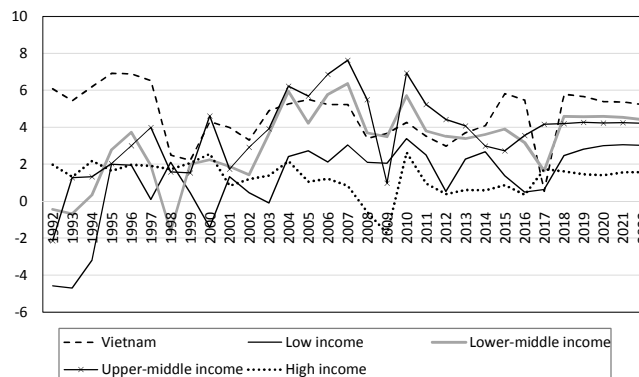
Labor productivity of Vietnam and other countries by income groups, 1991-2021 (Vietnam=1)



Source: ILO estimated for the period 1991-2016 and projected for the period 2017-2022

The importance of measuring labor productivity in Viet Nam

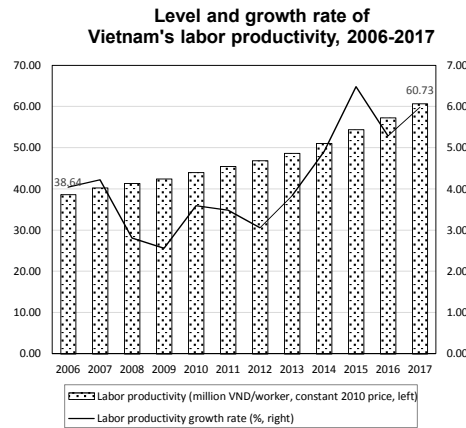
Labor productivity growth rate of Viet Nam and others, 1992-2022 (%)



Source: ILO, Authors' calculation

Process of Viet Nam's labor productivity Economy-wide labor productivity

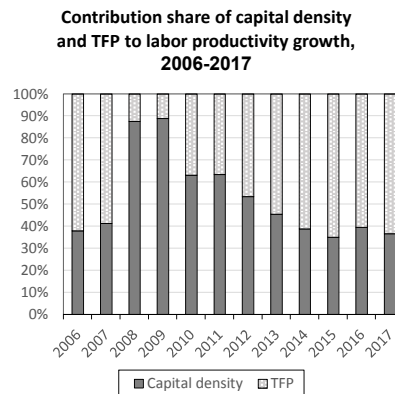
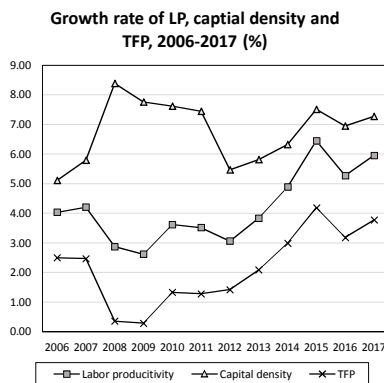
- *Economy-wide* labor productivity is calculated by GDP per worker, GDP measured in VND at constant 2010 price.
- *Economy-wide* labor productivity increased from 38.64 mil. VND per worker in 2006 to 60.73 mil. per worker in 2017.
- *Compound annual growth rate of labor productivity* :
 - ✓ 2006-2012: 3,29% per year
 - ✓ 2012-2017: 5,3%/ per year (reached the peak in 2015 at 6,49%)



Source: Authors' calculation from the statistics of GSO

Process of Viet Nam's labor productivity Decomposing labor productivity by growth accounting decomposition

- TFP is gradually replacing the role of capital density in leading labor productivity growth in Viet Nam.

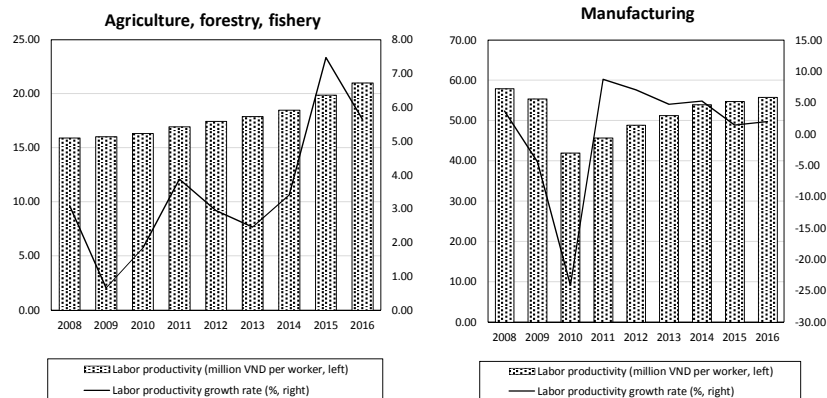


Source: Authors' calculation from the statistics of GSO

Process of sector disaggregation's labor productivity

- In period, 2008-2016, the industries that maintained high labor productivity level were *Mining; Electricity, gas, steam; Finance, banking and insurance activities; Professional, scientific and technical activities; Real estate activities, Water supply.*
- *Manufacturing* had not been highly productive.
- *Agriculture, forestry, fishery* still remained among industries that had lowest labor productivity in the economy.

Process of sector disaggregation's labor productivity Agriculture, forestry, fishery; Manufacturing



Source: Authors' calculation from the statistics of GSO

VEPR **Process of sector disaggregation's labor productivity**
Decomposing economy-wide labor productivity growth

Decomposing labor productivity growth in the period 2008-2016 by shift-share analysis (%)

Period	Level of labor productivity growth	Contribution of			Contribution share to level of labor productivity growth		
		Within-industry effect	Shift-effect	Interaction effect	Within-industry effect	Shift-effect	Interaction effect
2008-2016	22,506	11,337	23,065	-11,896	50.373	203.449	-51.576

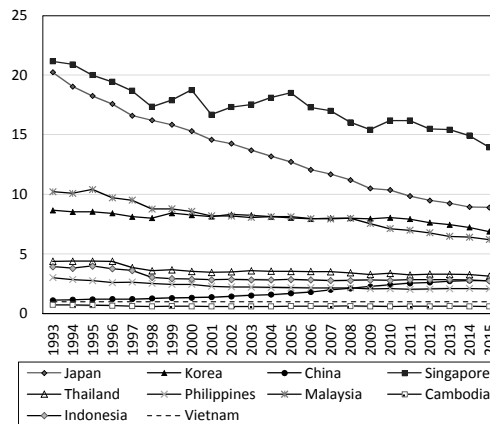
Source: Authors' calculation from the statistics of GSO

VEPR **Viet Nam's labor productivity in international comparison**
Economy-wide labor productivity

Selected countries in comparison:

- East Asia (Japan, Korea, China)
- ASEAN (Singapore, Thailand, Philippines, Malaysia, Indonesia, Cambodia)

Labor productivity of Vietnam and selected countries (Viet Nam=1), 1993-2015

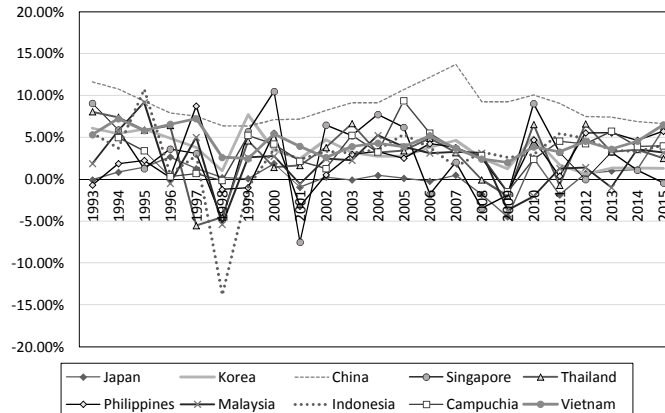


Unit of LP: thousand USD per worker, constant basic prices using 2011 PPP
Source: Authors' calculation from the statistics of APO

Viet Nam's labor productivity in international comparison

Labor productivity growth rate

Labor productivity growth rate of Viet Nam and selected countries, 1993-2015



Source: Authors' calculation from the statistics of APO

Viet Nam's labor productivity in international comparison

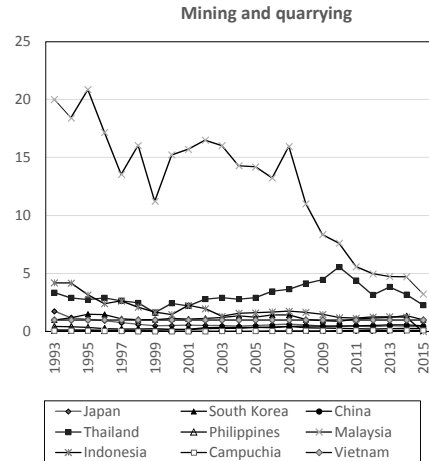
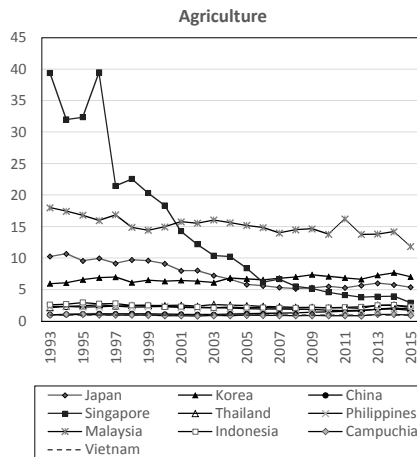
Industries' labor productivity

- In 2015, Viet Nam's labor productivity was almost at or near the lowest level in relation to comparable countries.
- Viet Nam's labor productivity was the lowest, ranking behind Cambodia in three industries, namely *Manufacturing; Construction; Transport, storage and communication*
- Viet Nam's labor productivity was the second lowest, only higher than that of Cambodia in *Agriculture; Electricity, water, gas; Wholesale, retail, repair*.
- In contrast, Viet Nam had higher labor productivity than some countries in three industries, including *Mining and quarrying; Finance, real estate and office services; Community, social and personal services*.



Labor productivity of Vietnam and selected countries

Agriculture, Mining and quarrying (Viet Nam = 1)

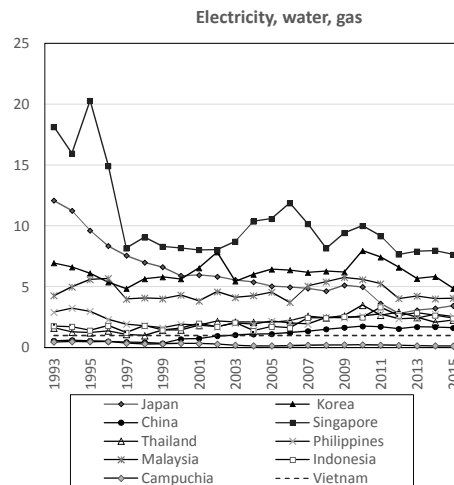
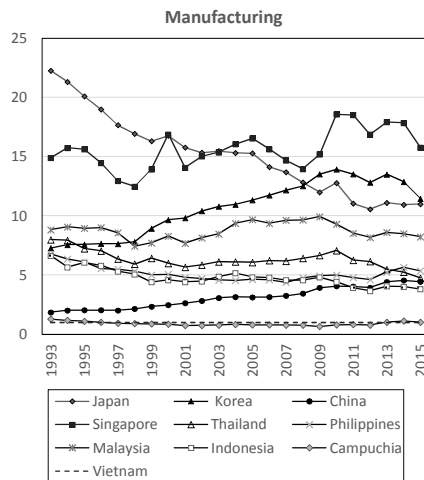


Unit of labor productivity: thousand USD per worker, constant basic prices using 2011 PPP
 Source: Authors' calculation from the statistics of APO



Labor productivity of Vietnam and selected countries

Manufacturing; Electricity, water, gas (Viet Nam = 1)

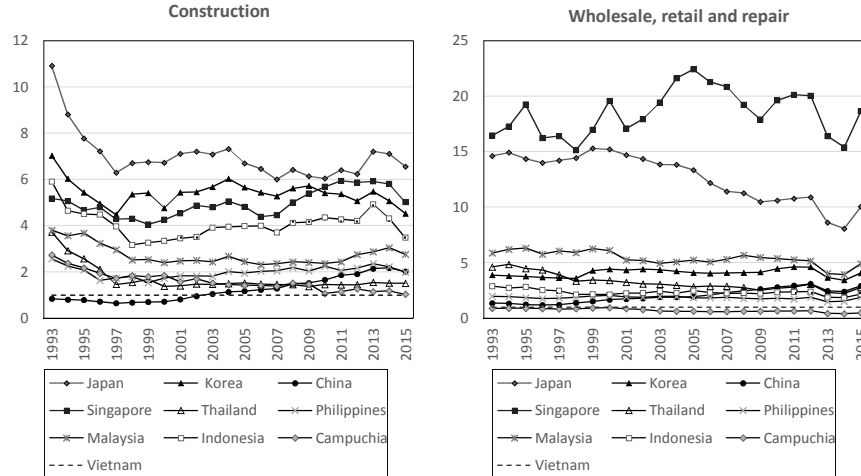


Unit of LP: thousand USD per worker, constant basic prices using 2011 PPP
 Source: Authors' calculation from the statistics of APO



Labor productivity of Viet Nam and selected countries

Construction; Wholesale, retail and repair (Viet Nam = 1)

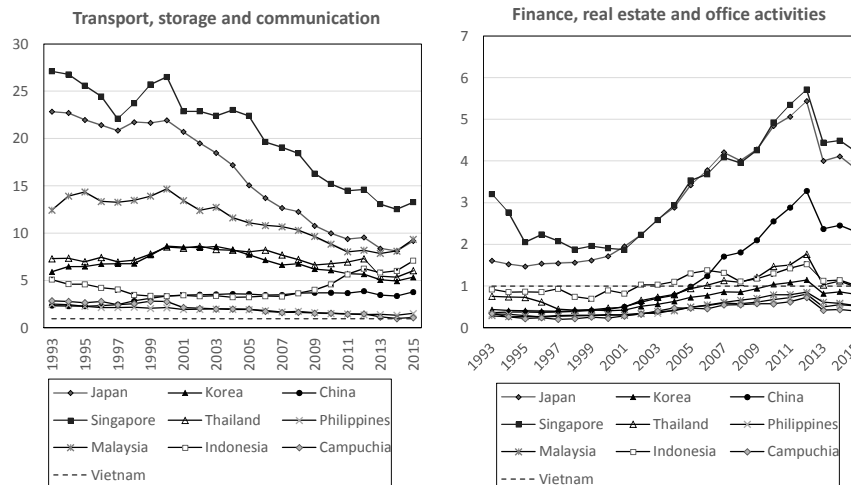


Unit of LP: thousand USD per worker, constant basic prices using 2011 PPP
 Source: Authors' calculation from the statistics of APO



Labor productivity of Viet Nam and selected countries

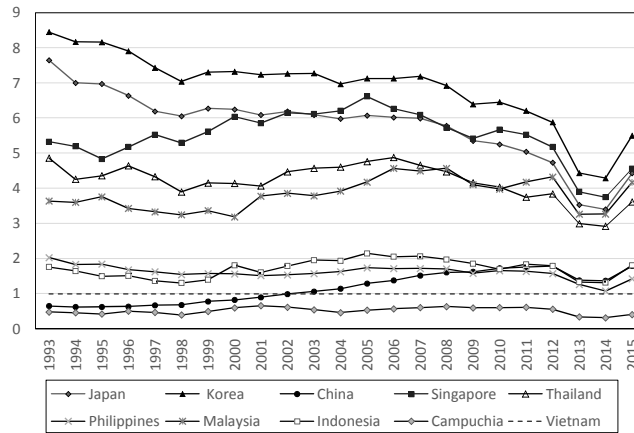
Transport, storage and communication; Finance, real estate and office activities (Viet Nam = 1)



Unit of LP: thousand USD per worker, constant basic prices using 2011 PPP
 Source: Authors' calculation from the statistics of APO

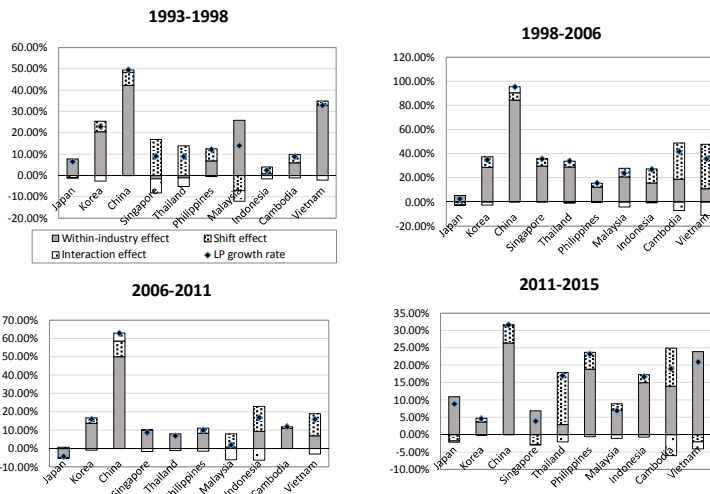
Labor productivity of Viet Nam and selected countries Community, social and private services (Viet Nam = 1)

Community, social and private services

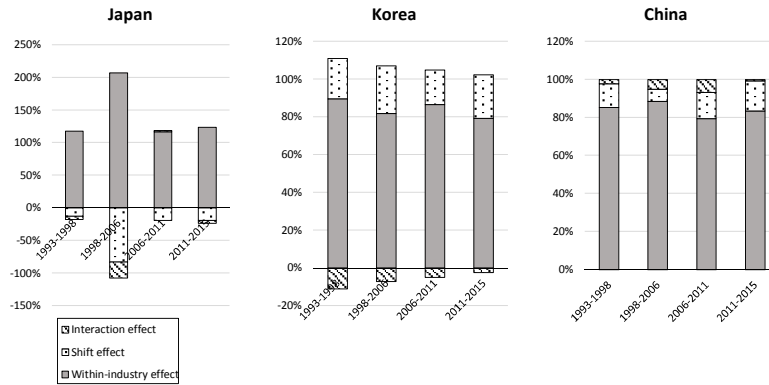


Unit of labor productivity: thousand USD per worker, constant basic prices using 2011 PPP
Source: Authors' calculation from the statistics of APO

Vietnam's labor productivity in international comparison Sources of labor productivity growth in Vietnam and selected countries. 1993-2015

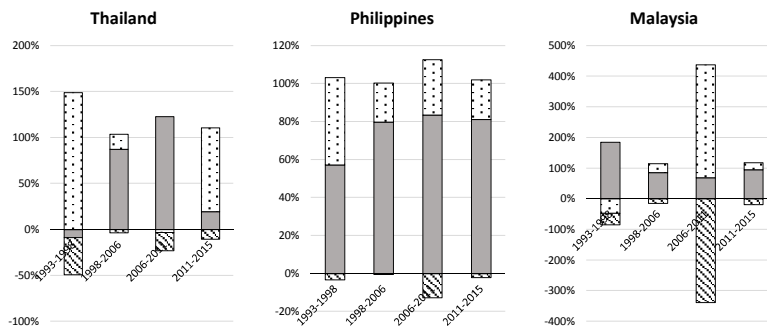


Viet Nam's labor productivity in international comparison
Contribution share of shift-share effects, 1993-2015



Source: Authors' calculation from the statistics of APO

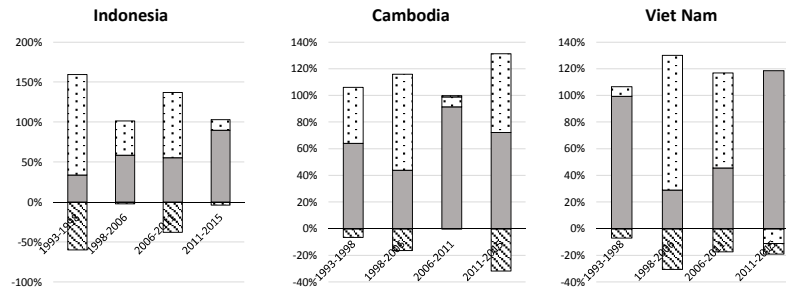
Viet Nam's labor productivity in international comparison
Contribution share of shift-share effects, 1993-2015



Source: Authors' calculation from the statistics of APO

Viet Nam's labor productivity in international comparison

Contribution share of shift-share effects, 1993-2015



Source: Authors' calculation from the statistics of APO

Conclusions and Policy implications

- Viet Nam's labor productivity growth has been gradually moving from being dependent on capital density to TFP.
- In the period 2008-2016, labor productivity increased by 0.225 times (or 22.5%). Within-industry effect and shift effect supported in increasing labor productivity growth while the interaction effect led to a decrease in labor productivity growth.
- The shift effect still contributed significantly to labor productivity growth in relative to within-industry effects. Negative interaction effect shows the shift of labor from industries with labor productivity growth to the ones that had labor productivity declined.

VEPR Conclusions and Policy implications

- In comparative relation with some East Asian and ASEAN countries, the labor productivity of Vietnam is still very low although its growth rate is quite high.
- The within-industry effect gradually overtaking the shift effect to drive Vietnam's labor productivity is a positive trend and needs to be maintained.
- The labor market needs to be strengthened to accelerate the process of reallocating human capital, creating motivation for laborers to accumulate skills, enhancing productivity, and encouraging enterprises to expand and formalize the relationship with laborers.

VEPR

Chapter 4 The increase in wages and labor productivity in Viet Nam

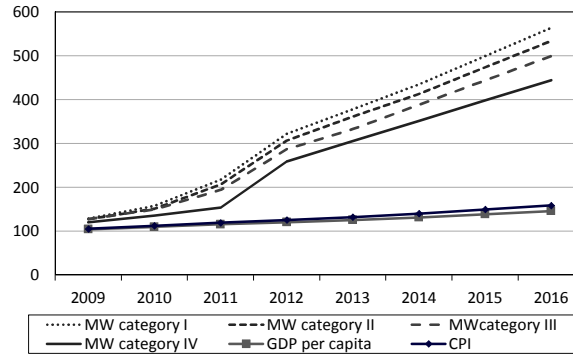
VEPR Contents

- Recent Trends of Minimum Wage, Average Wage and Labor Productivity in Viet Nam
- Impacts of Minimum Wage Adjustments on the Economy
 - Aggregate-level Analysis
 - Average wage
 - Employment
 - Profit rates
 - Firm-level Analysis
 - Employment (growth)
 - Machine Investments

Minimum Wage Growth Trend

- ❑ Growth rate of regional minimum wage was much higher than that of CPI and GDP per capita.

Growth Pattern of Regional Minimum Wages, CPI, and per-capita GDP, 2009-2016 (2008=100)

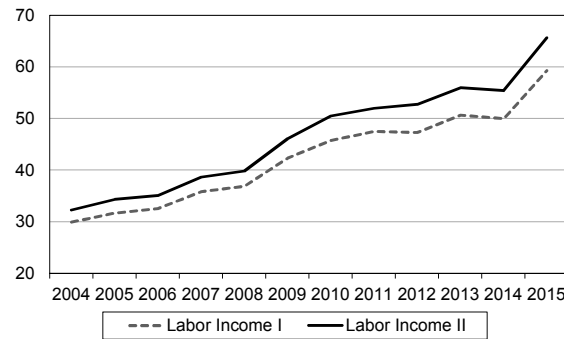


Notes: Before October 2011, regional minimum wage applicable to domestic enterprises.

Average Wage Growth Trend

- ❑ Average real wage doubled during the 2004-2015 period.
- ❑ Increasing payments on social, health, and unemployment insurance

Annual Real Wage, 2004-2015 (deflated by GDP deflator, 2010 as base year, million VND)

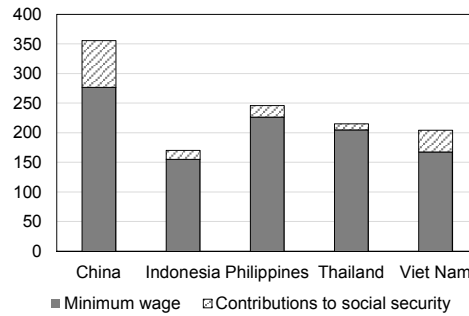


Notes: Labor income I consists of wages, bonus and subsidies. Labor incomes II consists of all components of labor income I and payments on social, health and unemployment insurance.

“Minimum cost per worker”

- ❑ Minimum cost per worker (total minimum wage and contributions to social security) incurred by enterprises reached to the level slightly less than Thailand and higher than Indonesia.
- ❑ Contributions to Social Security (social, health, unemployment insurance) in Viet Nam is rather big, which tends to create “tax wedge” between employers and employees.

Minimum Wage and Contributions to Social Security in Viet Nam and Other Countries in 2017 (USD)



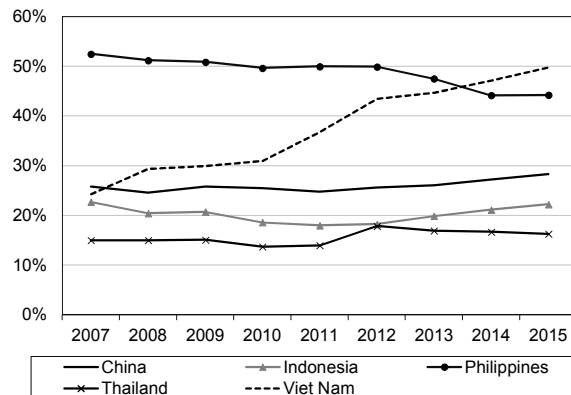
Notes: Minimum wage in Beijing (China), average level (Indonesia), non-agriculture level (Philippines), in Bangkok (Thailand), and category I (Viet Nam). Contributions to social, health, and unemployment insurance incurred by the employer are assumed to calculate based on the minimum wage level. Percentage of contributions can be found in Appendix.

Source: The Authors' Calculation using Data from WDI and CEIC Database

Minimum Wage and Labor Productivity Growth International Comparison

- ❑ Rapid increase in ratio of minimum wage to labor productivity: from 25% in 2007 to 50% in 2015.
- ❑ Labor productivity in this comparison is measured as GDP/total number of workers.

Ratio of Minimum Wage to Labor Productivity, 2007-2015



Notes: Minimum wage in Beijing (China), average level (Indonesia), non-agriculture level (Philippines), in Bangkok (Thailand), and category I (Viet Nam). Productivity is calculated as GDP/Labor force.

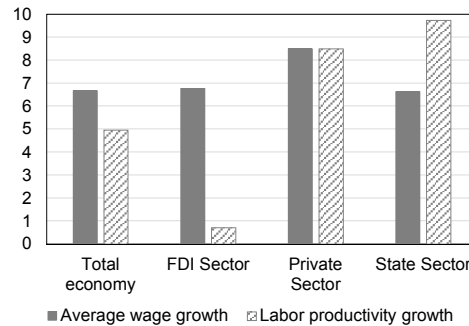


Average Wage and Labor Productivity Growth Total economy and by economic sector (ownership)

- For total economy, labor productivity growth is significant (4.96%, 2004-2015).
⇒ However, average wage growth (6.67%) outstripped productivity growth.

- By economic sector (ownership):
 - FDI sector:
Wage growth > Productivity growth
 - Private sector:
Wage growth ≈ Productivity growth
 - State sector:
Wage growth < Productivity growth

Real Average Wage and Labor Productivity Growth by Economic Sector, 2004-2015 (%)



Notes: Average wage consist of all wage income, subsidies, bonus, payments on social security. Financial and other profits are not included in the calculation of the labor productivity.

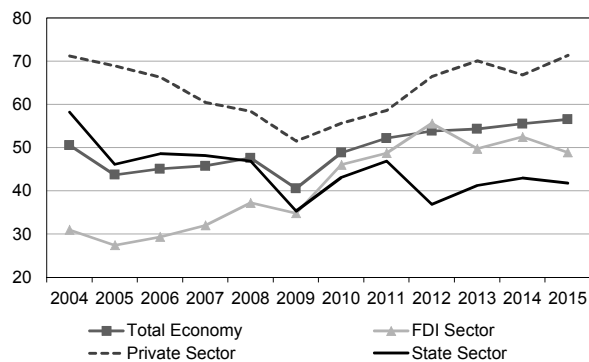
Source: The Authors' calculation from VEC



Average Wage and Labor Productivity Growth By economic sector (ownership)

- For total economy:
 - Wages growth grew less than labor productivity during the mid of 2000s.
 - Wage growth outstripped labor productivity growth between 2009 and 2012.
 - Stable link since 2012

Link between Labor Productivity and Wage Growth (Share of Wage in Value Added, %)

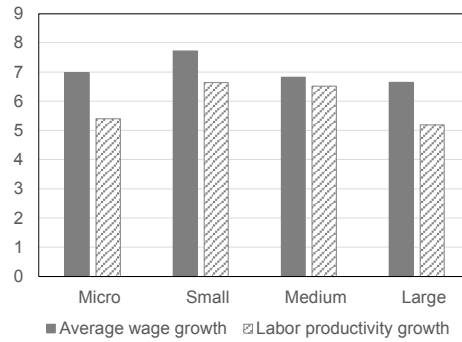


Notes: The relationship between the wage growth and labor productivity growth could be illustrated by the share of labor incomes in value added, which is equal to the ratio of average wage (wage per worker) to labor productivity (value added per worker). Increases in the share of average wage in value added indicates that wage increases faster than labor productivity and vice versa.

Average Wage and Labor Productivity Growth By firm size

- Small and medium enterprises experienced a relatively high productivity growth.
- Slower labor productivity growth observed among large and micro enterprises.
- Average wage grew faster than labor productivity across all groups of firm size.

Real Average Wage and Labor Productivity Growth by Firm Size, 2004-2015 (%)



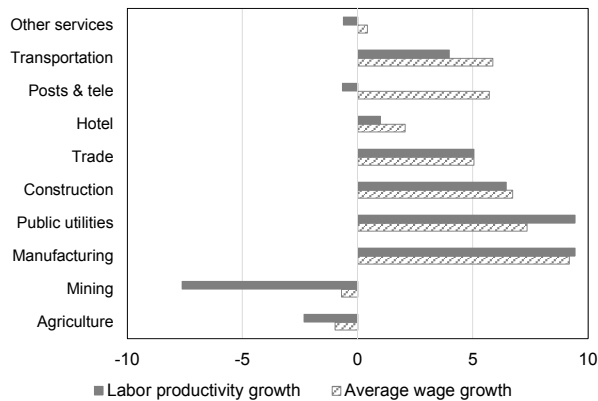
Notes: Average wage consist of all wage income, subsidies, bonus, payments on social security. Financial and other profits are not included in the calculation of the labor productivity.

Source: The Authors' calculation from VEC

Average Wage and Labor Productivity Growth By industry

- Industries with slow productivity growth (e.g. mining, post/telecom, transportation):
Wage growth > productivity growth
- Public utilities:
Wage growth < productivity growth
- Manufacturing industries:
Wage growth ≈ productivity growth

Real Average Wage and Labor Productivity Growth by Industry, 2004-2015 (%)



Notes: Average wage consist of all wage income, subsidies, bonus, payments on social security. Financial and other profits are not included in the calculation of the labor productivity.

Source: The Authors' calculation from VEC

What attributes to the rapid average wage increase?

- As minimum wage and associated contributions to social security – parts of average wage – have increased dramatically, it is reasonable to hypothesize that they are among factors that lead to the excess average wage growth (over labor productivity growth).
- We examine the impacts of minimum wage increase on average wage increase and other firm's behaviors:
 - Employment (growth)
 - Profit rates
 - Mechanization (machine investment)

Impacts of Minimum Wage Increase Aggregate-Level Analysis

- **Analysis:** This section analyzes impacts of minimum wage increase on:
 - Average wage,
 - Employment, and
 - Profit rates at aggregate level.
- **Data:** Viet Nam Enterprise Census/Survey (VEC) 2004-2015.
 - Aggregated firm-level data by districts, industries, and economic sectors in accordance with the minimum wage setting rules.
 - 10 industries and 3 economic sectors are classified.
 - Only firms with no less than 10 employees are included in the sample.
 - Data aggregation helps mitigate the measurement problems in micro dataset and enables us to set up a comprehensive multi-year data for the 2004-2015 period.
- **Data Processing and Estimation Model:** See Appendix.

Impacts of Minimum Wage on Average Wage, Employment, and Profit rates

Generally,
minimum wage increases result in:

- **Increase in average wages**
1% increase in minimum wage
⇒ 0.32% increase in Average Wages.
- **Reduction in employment**
1% increase in minimum wage
⇒ 0.13% decrease in Employment.
- **Reduction in profit rates**
100% increase in minimum wage
⇒ 2.3 percentage-point decrease in Profit rates (Profits/Revenue).

Impacts of Minimum Wage (GMM Estimations)

	All Enterprises
Impacts on Average Wages	0.32*** (0.04)
Impacts on Employment	-0.13*** (0.04)
Impacts on Profits	-2.30*** (0.74)
Number of observations	31905

*Notes: Statistical significance at the 1%, 5%, and 10% levels indicated by ***, **, and *, respectively. Robust standard errors in parentheses. Year fixed effects and time trends included in all estimations, but not reported.*

Source: The Authors' Estimation from VEC

Impacts of Minimum Wage vary considerably by economic sectors/ownership

- **Average wage:** All statistically significant and negative.
Relatively low impacts on firms in private sector compared to state and FDI sectors.
- **Employment:** Significant negative impacts in state sector (1% increase in MW ⇒ 0.25% decrease in Employment), but minimal and insignificant in FDI and private sector.
- **Profits:** Negative, significant impact in private sector (100% increase in MW ⇒ 3.25 percentage points decrease in Profit rates (Profits/Revenue))

Impacts of Minimum Wage by Economic Sectors (GMM Estimations)

	State Enterprises	Private Enterprises	FDI Enterprises
Average Wage	0.41*** (0.10)	0.32*** (0.05)	0.44** (0.22)
Employment	-0.25*** (0.09)	-0.06 (0.05)	0.04 (0.16)
Profits	-1.43 (1.52)	-3.25*** (0.92)	-3.55 (3.69)

*Notes: Statistical significance at the 1%, 5%, and 10% levels indicated by ***, **, and *, respectively. Robust standard errors in parentheses. Year fixed effects and time trends included in all estimations, but not reported.*

Source: The Authors' Estimation from VEC

Different Impacts on Private Firms Complied firms are more negatively affected

□ Average wage:

- For private firms that pay social insurance (higher level of compliance with labor regulations)
 - 1% increase in minimum wage
 - ⇒ 0.4% increase in Average Wage.
- This impact is as large as for state (0.41%)/FDI (0.44%) firms.*
- Smaller impact on firms that do not pay social insurance (0.18%).

□ Employments:

- Negative, significant impacts on firms paying social insurance in private sector.
 - 1% increase in minimum wage
 - ⇒ 0.18% decrease in employment.
- Insignificant impacts on firms NOT paying insurance.
- ⇒ Employments of enterprises with high compliance tend to shrink.

Impacts of Minimum Wage on Private Enterprises with Different Degrees of Compliance with Labor Regulations (GMM Estimations)

	Firms that pay social insurance	Firms that do not pay social insurance
Average Wages	0.40*** (0.07)	0.18*** (0.06)
Employment	-0.18** (0.07)	0.11 (0.08)

*Notes: Statistical significance at the 1%, 5%, and 10% levels indicated by ***, **, and *, respectively. Robust standard errors in parentheses. Year fixed effects and time trends included in all estimations, but not reported.*
Source: The Authors' Estimation from VEC

Impacts of Minimum Wage Increase Firm-Level Analysis

□ Analysis: This section analyzes impact of minimum wage increase on:

- Employment growth, and
- Machine investments (mechanization) at firm level.

□ Data: Multiple-year data of domestic private and FDI firms in manufacturing industries from VEC 2008-2015.

- Firms are different by firm size and capital (labor) intensity

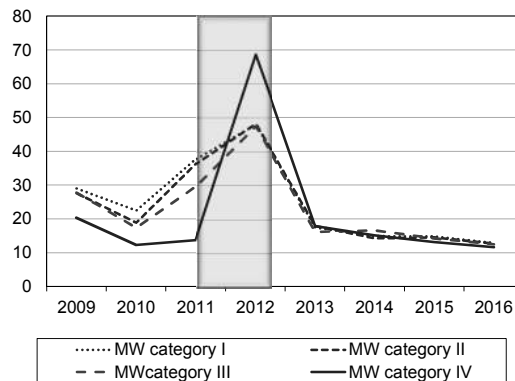
□ Data Processing and Estimation Model: See Appendix.

	Firm size	2008	2009	2010	2011	2012	2013	2014	2015
▪ VEC covers all firm size.	Less than 5	8.5	8.7	10.2	12.9	15.7	16.6	17.5	18.1
	5 to 9	22.7	24.2	21.7	19.8	19.1	18.1	17.7	16.6
	10 to 24	24.6	24.0	22.8	23.1	22.2	21.8	21.3	20.8
▪ A large proportion of the sample is small and medium firms.	25 to 49	13.0	12.8	13.1	13.1	12.9	12.1	12.6	12.3
	50 to 99	10.2	9.8	10.1	10.1	9.5	9.8	9.4	9.9
	100 to 300	11.8	11.6	12.3	11.7	11.2	11.7	11.2	11.6
	300 to 999	6.3	6.3	6.9	6.4	6.4	6.5	6.9	7.2
▪ Firms with less than 50 workers account for 60% of the sample.	1000 and above	2.8	2.6	2.9	3.0	3.0	3.4	3.5	3.6

Minimum Wage Hike in 2012

- ❑ MW drastically increased in the end of 2011 (October).
 - Unification of two minimum wage systems for domestic and FDI firms.
 - Rate of change was significantly larger than those experienced before and after the period.
- ❑ The MW hike experienced in 2011-2012 provides a good empirical setting to estimate the impact of minimum wage changes on firm decisions.

Growth Rate of Minimum Wages, 2009-2016 (%)



Notes: Before October 2011, only regional minimum wage levels applicable to domestic enterprises are presented.

Source: The Authors

Impacts of Minimum Wage on employment by firm size

- ❑ The reduction of employment growth (%) is larger among relatively large firms in terms of number of workers.
- ❑ Given firm of 100 workers
 - 1% increase in minimum wage ⇒ 0.2% decrease in employment growth.
- ❑ Given firms of 50 workers
 - 1% increase in minimum wage ⇒ 0.1% decrease in employment growth.

Impacts on Employment Growth

	2011-12		
	(1)	(2)	(3)
Minimum wage growth (A)	-0.008 (0.117)	0.028 (0.118)	0.436** (0.219)
Log of initial no. of workers (B)		-0.094*** (0.007)	-0.038 (0.025)
Interaction (A*B)			-0.142** (0.060)
Constant	-0.039 (0.058)	0.174*** (0.058)	0.013 (0.094)
Province dummies	Yes	Yes	Yes
Ownership type dummies	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes
Observations	16,321	16,321	16,321
R-squared	0.013	0.049	0.049

Notes: Statistical significance at the 1%, 5%, and 10% levels indicated by ***, **, and *, respectively. Robust standard errors in parentheses.

Source: The Authors' Estimation from VEC

Impacts of Minimum Wage on machine investments by labor intensity

❑ Labor intensive companies invest more than capital intensive companies in case of MW increase.

❑ Given a garment firm with capital intensity of 50 (e.g. book value of fixed assets is 6,300 mil. VND, number of workers is 125)
1% increase in minimum wage
⇒ 2.4% increase in investment.

❑ Given an electronics firm with capital intensity of 125 (e.g. book value of fixed assets is 22,000 mil. VND, number of workers is 175)
1% increase in minimum wage
⇒ 2% decrease in investment.

Impacts on Machine Investment (Log values)

	2011-12		
	(1)	(2)	(3)
Minimum wage growth (A)	1.70 (3.63)	1.41 (3.62)	21.14*** (5.89)
Log of Initial Capital/Labor (C)		0.48*** (0.10)	2.38*** (0.47)
Interaction (A*C)			-4.80*** (1.17)
Province dummies	Yes	Yes	Yes
Ownership type dummies	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes
Observations	14,238	14,238	14,238
Uncensored Observations	2432	2432	2432

Notes: Statistical significance at the 1%, 5%, and 10% levels indicated by ***, **, and *, respectively. Robust standard errors in parentheses.

Source: The Authors' Estimation from VEC

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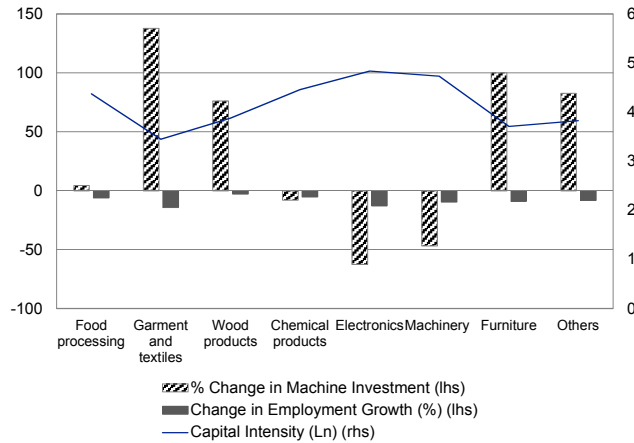
Impact on Employment and Machine Investment by industry: Simulation

When MW increases:

- ❑ Labor intensive industries tend to introduce machines to replace labor.
 - e.g. garment and textile, wood products, and furniture producers.
- ❑ Capital intensive industries tend to reduce machine investments.
 - e.g. electronics (including computer) and machinery.

Impacts on Employment Growth and Machine Investments

Assumption: 30% change in minimum wage



Note: Capital intensity measured as book value of fixed assets divided by number of workers.

Source: The Authors' Estimation from VEC

VEPR Policy Recommendations

- Minimum wage adjustments should be in line with labor productivity growth.
 - Minimum wage has been increasing at such a high level over the past decade. The increase of minimum wage will be likely to have greater negative effect on employment, and more importantly, to erode the Vietnamese firms' competitiveness if minimum wage increase continues in such a manner decided being apart from increase in productivity.
- Minimum wage does not appear to be effective if it is constructed as a social protection policy. Complementary policy should be considered.
 - As the current minimum wage system does not cover those without labor contracts, and those are more vulnerable and disadvantaged. It is worth considering complementary policies to function as social security for those who are not covered by minimum wage policy.

VEPR Policy Recommendations

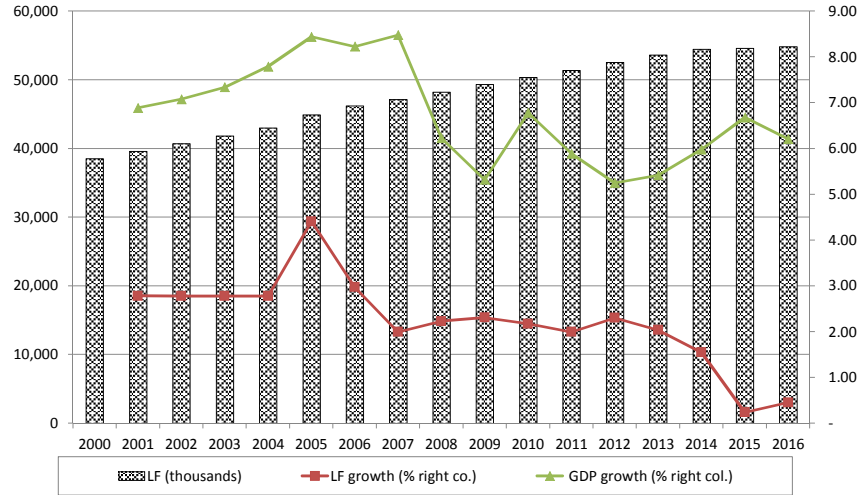
- It is essential for the Government to give top priority in promoting productivity in the medium and long term.
 - Minimum wage is a tool to support less advantageous workers, but the fundamental problem indeed lies in labor productivity in general. Without a steady improvement in productivity, the effort of increasing minimum wage will be more likely to gradually diminish the competitiveness of the economy, causing greater unemployment.

Chapter 5 Labor Market Participation and Occupational Choices of Vietnamese Youth

VEPR Content

- GDP growth and Labor Force growth
- Status of Labor Market Participation of the youth
- Status of occupational choices of the youth
- Determinants of labor market participation and occupational choices of Vietnamese youth
- Conclusions and Policy implications

VEPR Labor force growth in Viet Nam



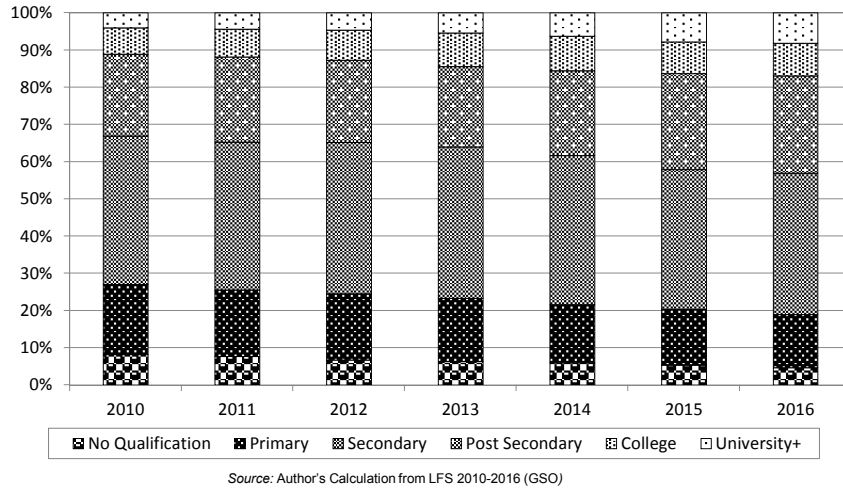
Sources: Announced by the General Statistics Office

VEPR Labour market participation of the youth

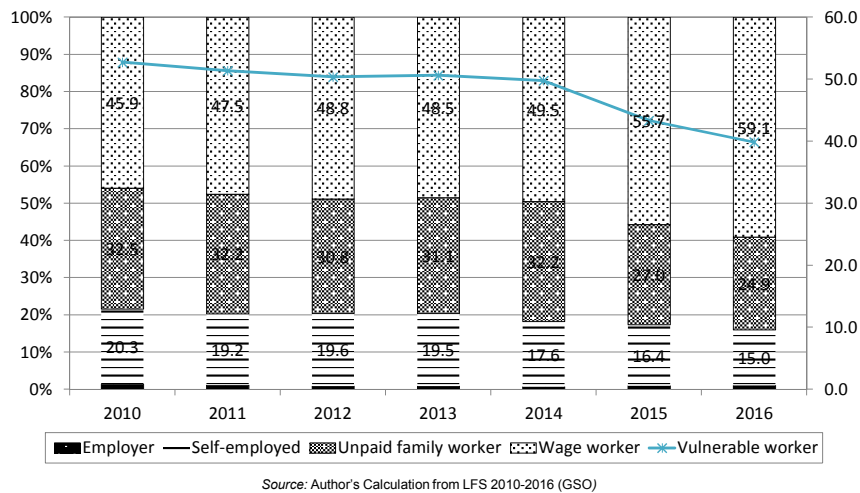
	2007	2009	2010	2011	2012	2013	2014	2015	2016
Young pop (persons)	21,368,922	22,401,132	22,881,246	22,015,125	20,918,722	20,115,381	19,419,726	19,657,750	19,379,829
Young laborers (persons)	13,508,192	14,956,890	15,350,689	14,581,956	13,437,944	13,296,649	12,937,536	13,105,615	12,724,372
Labor market participation rate (%)									
General	63.21	66.77	67.09	66.24	64.24	66.10	66.62	66.67	65.66
Female	61.81	64.10	64.13	62.71	60.66	62.51	62.95	64.11	63.14
Male	64.58	69.40	70.03	69.65	67.61	69.52	70.10	69.15	68.09
Rural	67.23	71.09	71.96	70.85	67.79	70.32	70.60	71.39	70.05
Urban	52.39	56.74	55.89	56.30	56.78	57.08	58.10	57.65	57.51

Source: Author's Calculation from LFS 2010-2016 (GSO)

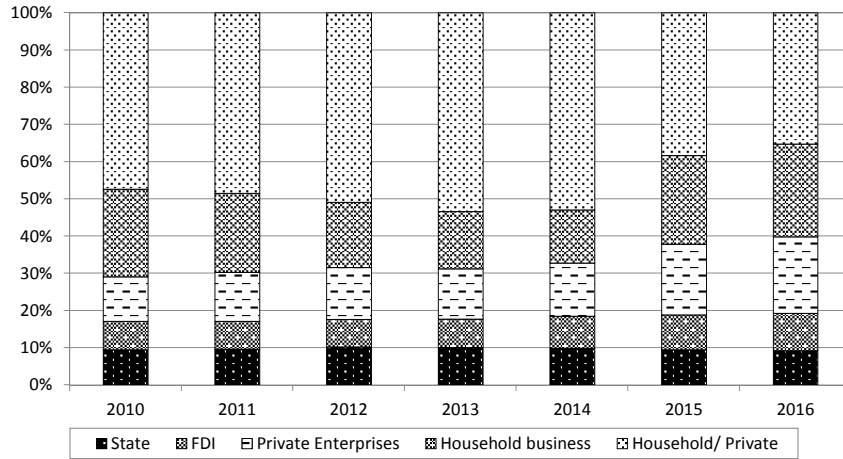
VEPR Qualification structure



VEPR Job Status

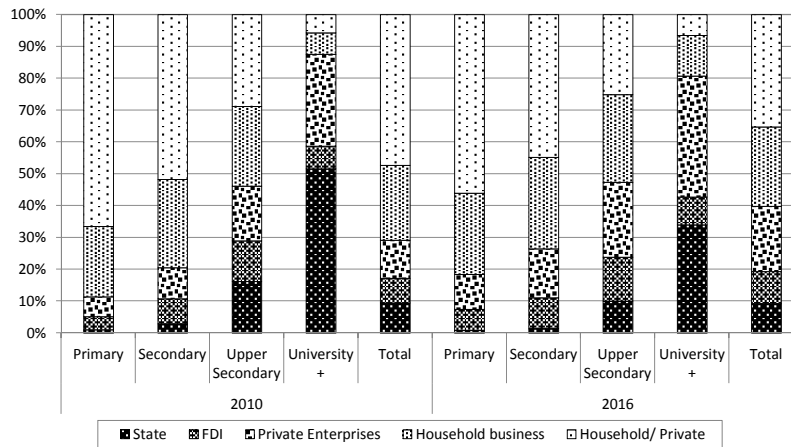


Labour market participation by ownership



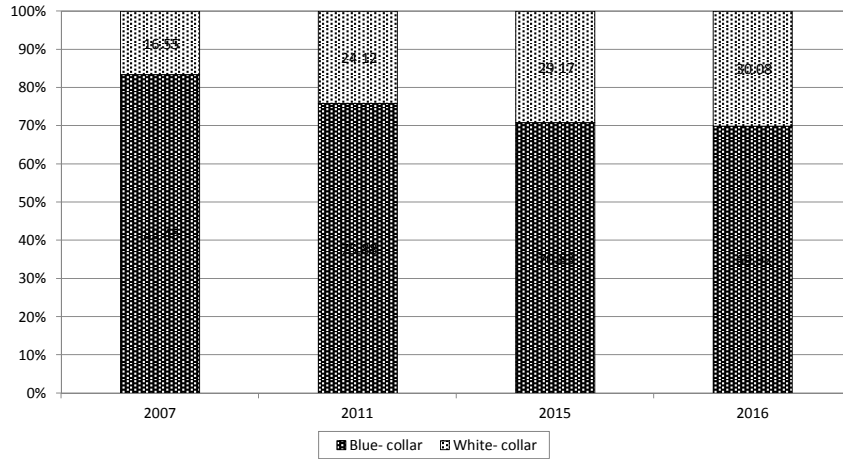
Source: Author's Calculation from LFS 2010-2016 (GSO)

Labour market participation by ownership and education



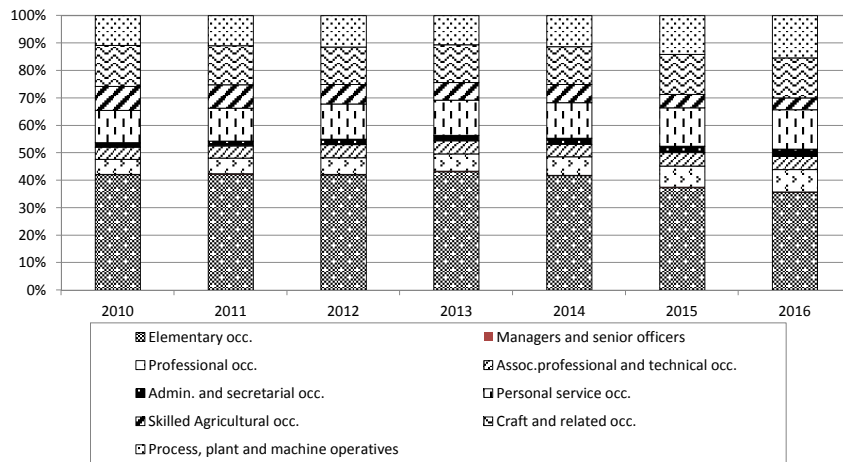
Source: Author's Calculation from LFS 2010-2016 (GSO)

VEPR Occupational choices



Source: Author's Calculation from LFS 2007-2016 (GSO)

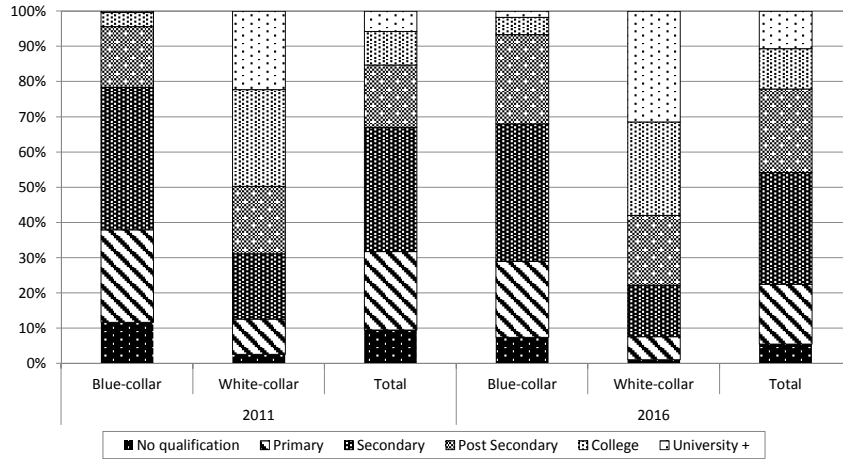
VEPR Occupational Choices



Source: Author's Calculation from LFS 2010-2016 (GSO)



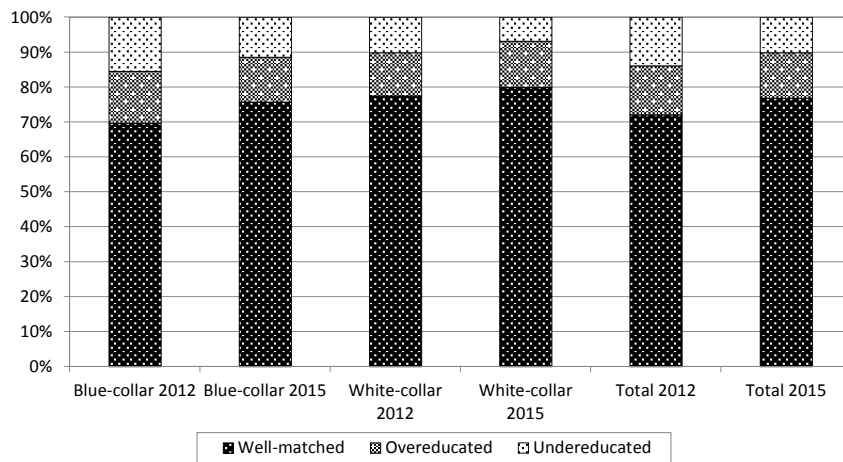
Occupational choices and Education structure



Source: Author's Calculation from LFS 2010-2016 (GSO)

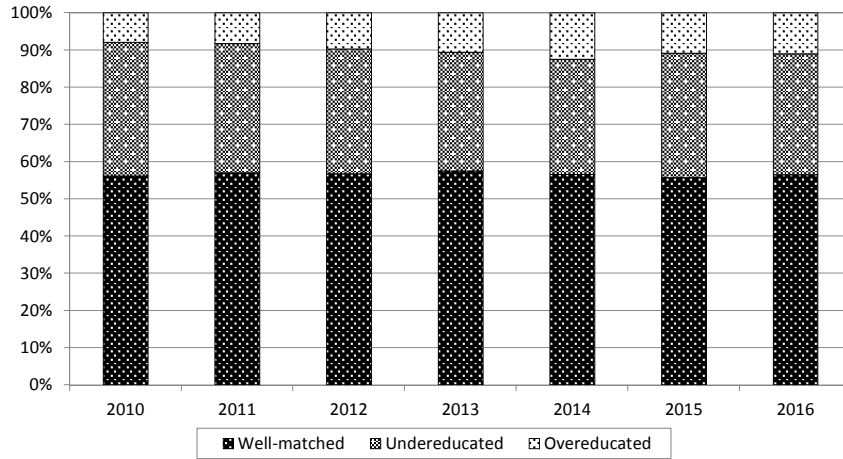


Qualification Mismatch



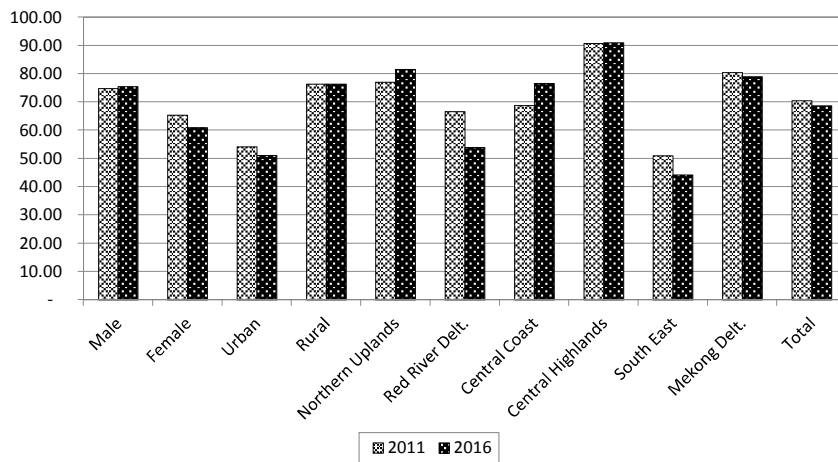
Source: Author's Calculation from LFS 2010-2016 (GSO)

VEPR Qualification Mismatch



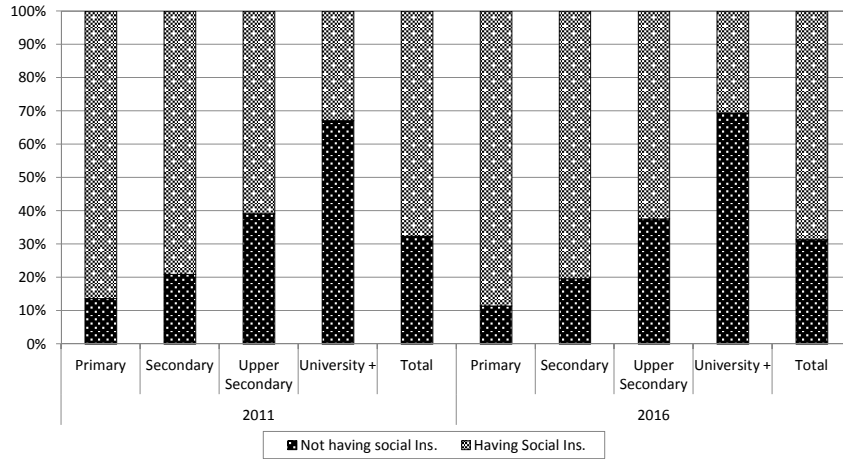
Source: Author's Calculation from SWTS 2012 và 2015 (GSO-ILO)

VEPR Proportion of young laborers not participated in the social insurance system



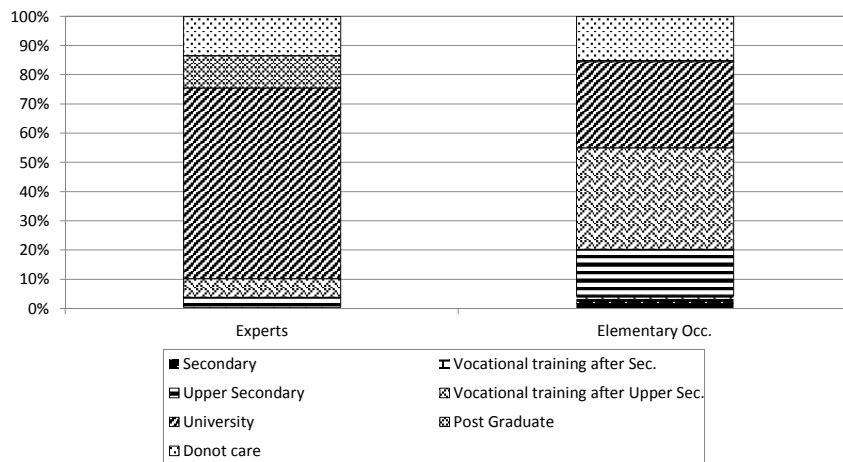
Source: Author's Calculation from LFS 2010-2016 (GSO)

Proportion of young laborers not participated in the social insurance system



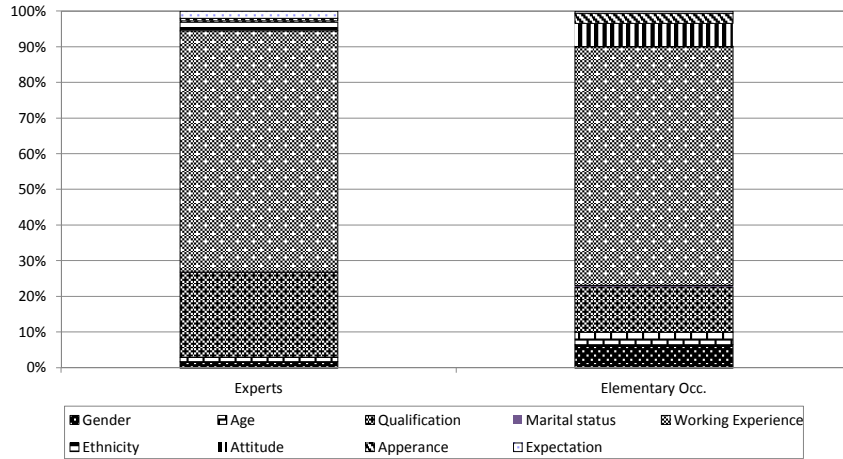
Source: Author's Calculation from LFS 2011-2016 (GSO)

Recruitment demand of enterprises by level of education



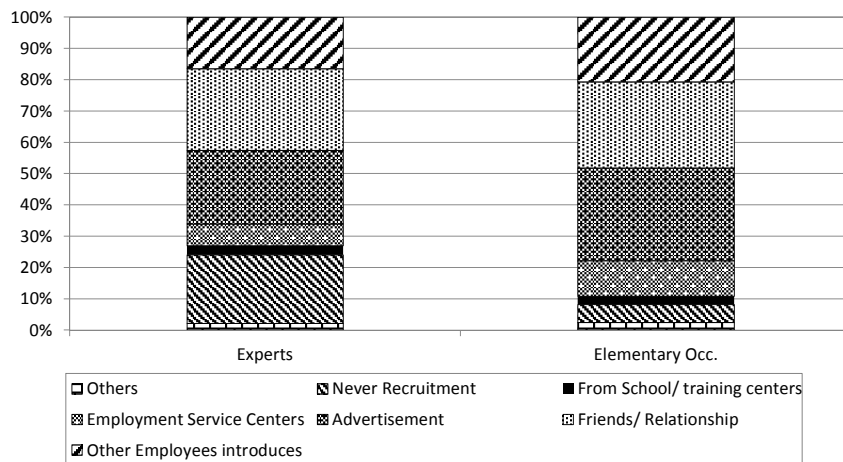
Source: Author's Calculation from Enterprise Needs Survey 2013 (GSO)

VEPR Recruitment demand of enterprises by the most important factors



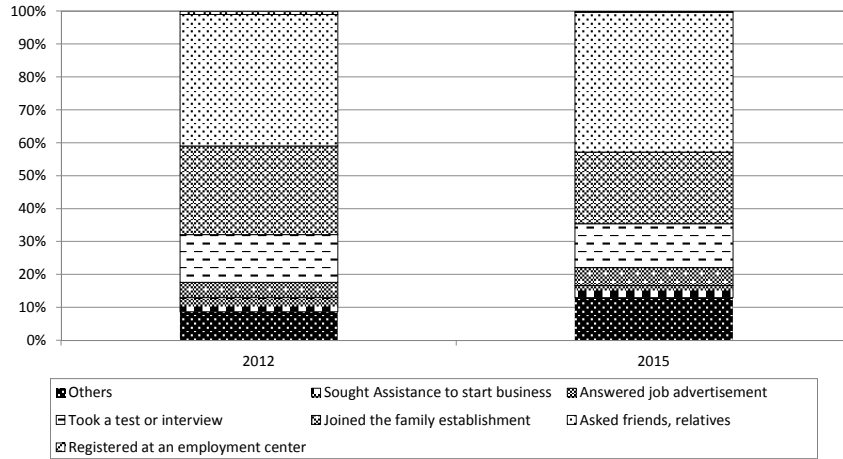
Source: Author's Calculation from Enterprise Needs Survey 2013 (GSO)

VEPR Recruitment channel of enterprises



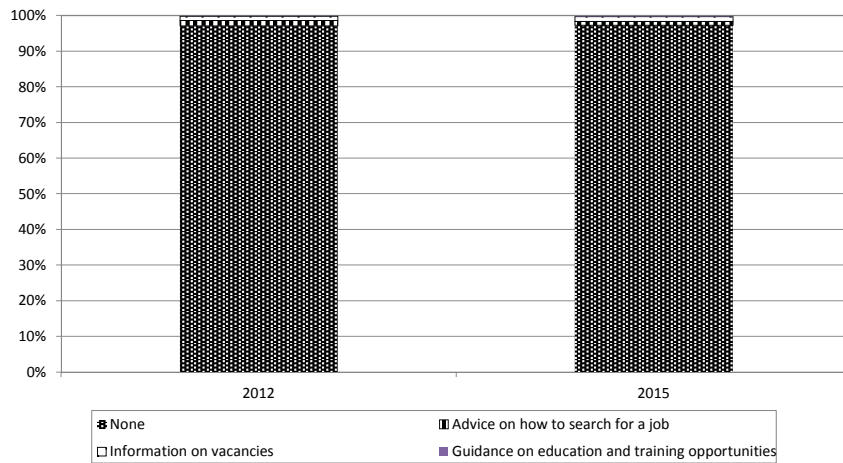
Source: Author's Calculation from Enterprise Needs Survey 2013 (GSO)

VEPR Job seeking channel of the youth



Source: Author's Calculation from SWTS 2012 and 2015 (GSO-ILO)

VEPR Roles of Employment Service Centers



Source: Author's Calculation from SWTS 2012 and 2015 (GSO-ILO)

Determinants of labor market participation

	2012			2015		
	Total	Male	Female	Total	Male	Female
Disability	-0.0717*	-0.0934**	-0.0377	-0.0856**	-0.1404**	0.0089
Agglomeration	-0.0385***	-0.0308*	-0.0507**	0.0214	0.0561**	0.0024
Urbanization	-0.1845*	-0.0638	-0.3816**	-0.1012	-0.4925	-0.3841
Market access index	0.3905	0.3322	0.6098	1.5680	0.8878	1.3527
Transparency index	-0.6476***	-0.6325**	-0.6667*	-0.2733	0.7758	-0.4321
Informal Cost index	-0.5874**	-0.3013	-1.029**	-0.1327	-1.217	0.0930
Dynamic index	0.2657***	0.1136	0.4349**	-0.1499	-0.2251	-0.3102
Observations	1,527	799	728	1,049	472	577

Source: Author's Calculation from SWTS 2012 and 2015 (GSO-ILO)

Determinants of occupational choices

	2012			2015		
	Total	Male	Female	Total	Male	Female
Male	-0.0914***	-	-	-0.1068***	-	-
Father_White collar	0.1110***	0.0940*	0.0644	0.0937**	0.1188**	0.1423***
Qualification matched	0.0793**	-0.0094	-0.0757	0.0545	-0.034	0.1230**
Urban	0.1232***	-0.0743	0.0527	0.1438***	0.1373***	0.1607***
Agglomeration	0.0287*	-0.2526*	0.3852**	0.0193	-0.0329	0.0403**
Good road quality	0.2375**	-0.00853	0.5091***	0.173	0.3474	0.0045
Market access index	1.0272***	-0.3406	1.2767***	-0.3656	-0.6097	0.6433
Transparency index	0.6761***	0.2623	0.0932	0.8354*	1.1058*	0.4314
Informal Cost index	0.1252	0.149	-0.2218	-0.4706*	-0.7756**	-0.412
Enterprise support index				0.5846	0.5989	1.0257*
Labor training index				-0.6275*	0.0087	-1.2446***
Observations	1,183	621	562	947	490	457

Source: Author's Calculation from SWTS 2012 and 2015 (GSO-ILO)

VEPR Conclusion and Policy Implications

- The growth rate of the labor force is decreasing -> Young labor supply regarding quantity decreases
- Employment regarding quantity for young workers is not a big problem. However, the job quality is not as good as expected: A large proportion of under and upper secondary graduates enter the labor market through informal sectors -> Not enough skill accumulation for young laborers will lead to waste of resources and possibly a shortage of skilled workers in the future.

VEPR Conclusion and Policy Implications

- The high rate of non-participation in social insurance of young workers -> vulnerable to shocks
- High qualification mismatch in the labor market -> supply-demand imbalance: wasted resources at present, not enough skilled labor accumulated in the future
- The efficiency of employment service centers is very weak -> young workers lack market information.

Chapter 6
**Productivity enhancement through
international labor market integration**
Technical Intern Training Program Viet Nam-Japan

VEPR Outline

- Overview of the Technical Intern Training Program
- Key Stakeholder Analysis
- Skill's Diffusion
- Japanese Enterprises' Demand for Trainees (Hanam Case)
- Changing Context and Policy Recommendations

VEPR Overview of the Program Japanese Context

- In the 18th ASEAN - Japan Summit in 2015, Prime Minister Abe announced three measures in Japan – ASEAN cooperation to support ASEAN's further integration, sustainable and inclusive growth.
- The central measure is the “Industrial Human Resource Development Cooperation Initiative”, which assists **industrial human resource development** of 40,000 people over the next three years (2016-18), and improve financing systems for small and medium-sized enterprises, to support advancing industries.

Source: Ministry of Foreign Affairs of Japan (2015)

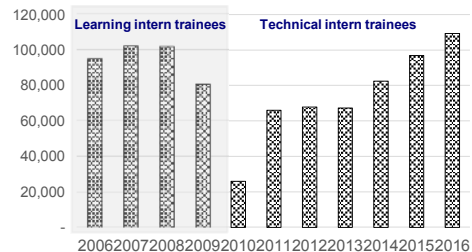
VEPR Overview of the Program Development of the Program

Legal development

Year	Content
1982	Start to accept Technical Trainees based on the Article 4, paragraph (1), item 6-2 of Immigration Control and Refugee Recognition Act.
1997	Extended the period of maximum stay under the Program to three years.
2010	New Technical Training Intern Program was put into action in line with the Revised Immigration Control and Refugee Recognition Act.
2016	Foreign Technical Trainee Law is approved for 5-year training.

Source: The Authors' summary

Number of trainees, 2006-2016



Source: Japan Ministry of Justice (2017)

- To solve the issue of the labor shortage, Japan received an average of 95,000 **learning intern trainees** per year during the period 2006-2009.
- The new program launched in 2010 offered better benefits to **technical intern trainees**, mainly in their first year in Japan. The number of new technical intern trainees per year climbed steadily, then reached nearly 110,000 trainees in 2016.

VEPR Overview of the Program Vietnamese Perspectives

Objectives

- To exchange human resources and enhance Vietnam-Japan cooperation.
- To transfer skills to technical intern trainees who will play an important role in economic development of Vietnam.

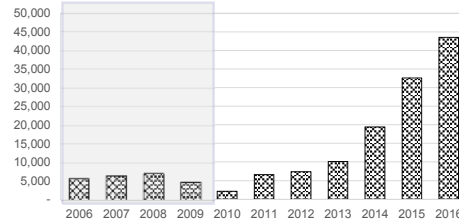
Law and regulation

- Decree No. 370/HDBT in 1991, stipulating first regulations on sending Vietnamese nationals to work abroad.
- Law No. 72 in 2006 on sending Vietnamese workers abroad.
- Decree No. 95/2013/ND-CP on overseas manpower supply violations.

Number of sending organizations to the Program is 236/282 (2017)

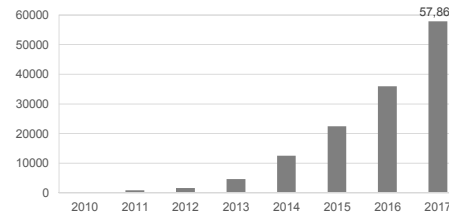
→ How can Vietnam take advantages of such source of human resources?

Number of Vietnamese trainees to Japan



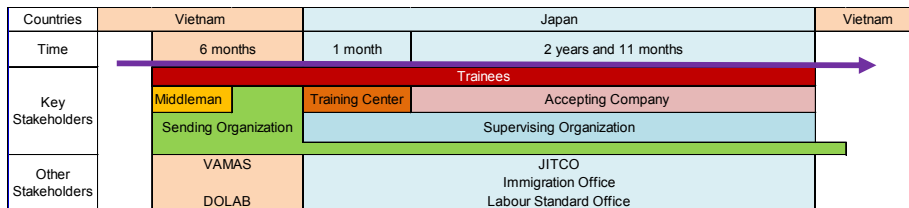
Source: Japan Ministry of Justice (2017)

Stock of return trainees from Japan



Source: The Authors' estimate from Japan Ministry of Justice (2017)

VEPR Key Stakeholder Analysis Overview of Business Flowchart

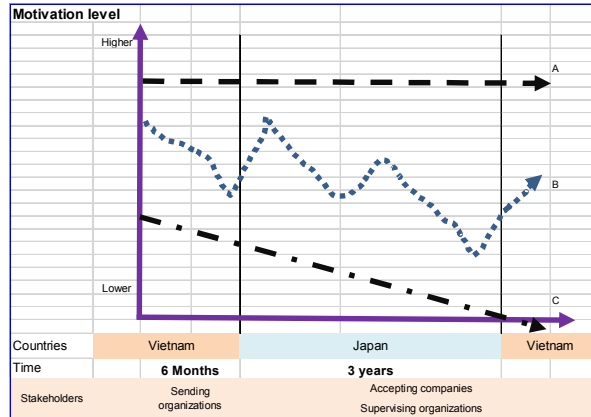


* See Appendix (1) for key stakeholders' roles.
Source: The Authors' summary

- Trainees are recruited from freelancers in labor market or graduates of vocational schools/colleges. Once accepted, they are provided with 4-6-month training of Japanese language and culture by sending organizations before dispatch.
- Sending organizations and middlemen play active roles in informing and recruiting young people for the Program.
- Upon arrival to Japan, trainees are received by supervising organizations and trained for one month at training centers and then sent to the accepting companies.

VEPR Key Stakeholder Analysis Trainees and Their Motivation

If being well-trained and well-oriented before the departure to Japan, trainees will fully grasp the purposes of the program, then study and work more effectively. As a result, they will get better performance.



- (A) The learning motivation is remain unchanged
- (B) The learning motivation is fluctuated
- (C) The learning motivation is gradually decreased

Source: The Authors' summary

VEPR Key Stakeholder Analysis Trainees and Their Motivation

Relationship between Orientation Training and Trainees' Jobs after Return

Probit estimates	Dependent variable: trainees' current job related to their job in Japan (Yes =1)		
Orientation training (Yes=1)	0.551 (2.24)**	0.530 (2.09)**	0.534 (2.11)**
Age for participation (Years)		0.534 (0.43)	0.395 (0.30)
Gender (Male =1)			0.076 (0.28)
_cons	-0.325 (1.82)*	-1.949 (0.51)	-1.557 (0.38)
No. of Observations.	107	101	101

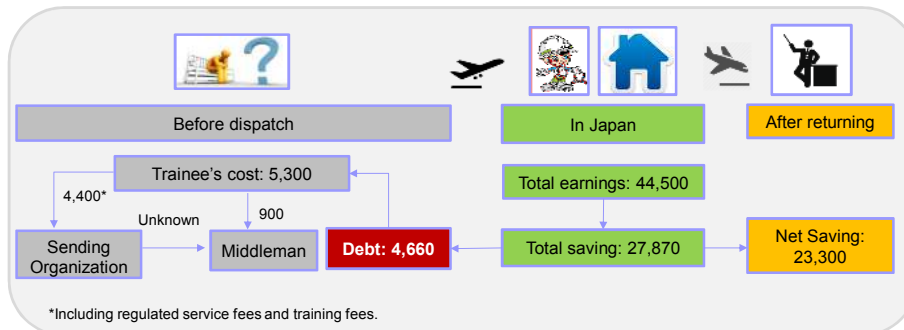
Note: standard errors are in brackets; *, ** and *** show significance at 10%, 5%, and 1%, respectively.
Source: The Authors' calculation from Survey data

VEPR Key Stakeholder Analysis

Trainees: Participation Cost Matters

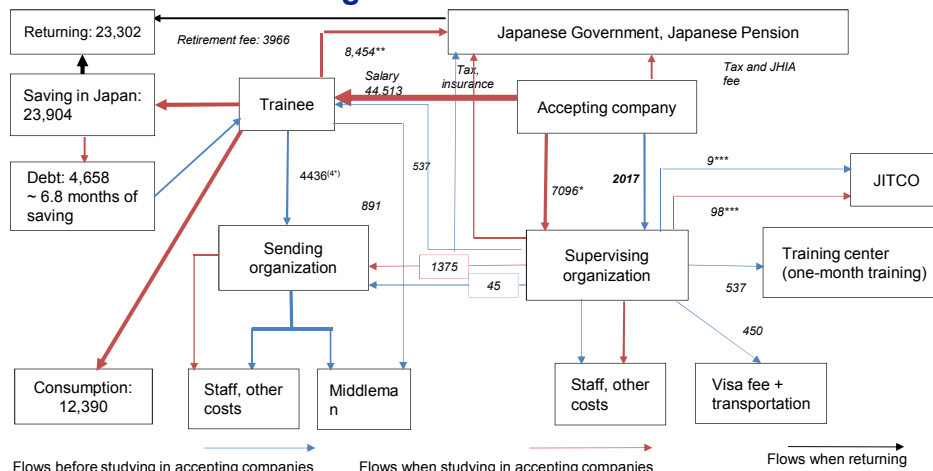
- High cost to participate in the Program makes many trainees be indebted in the initial stage.
- Trainees are then under pressure in paying their debts. Therefore, they try to maximize earnings, which make them distracted from studying, especially in the first seven months.

Trainees' Money Flows in the Program (USD)



VEPR Key Stakeholder Analysis

The Program's Cost Structure

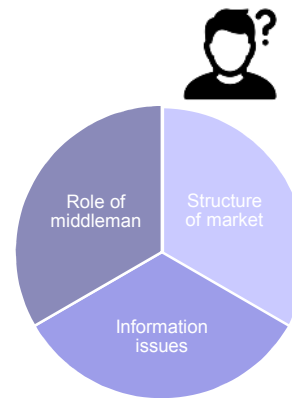


Note: * source: average costs from the survey of JITCO (2014); ** costs: retirement fee + income tax + JHIA fee; *** costs for JITCO's subscriber, see JITCO (2017b); (4*) costs: regulated service fees and fees when training before dispatch.



Key Stakeholder Analysis Why Recruiting Cost is High?

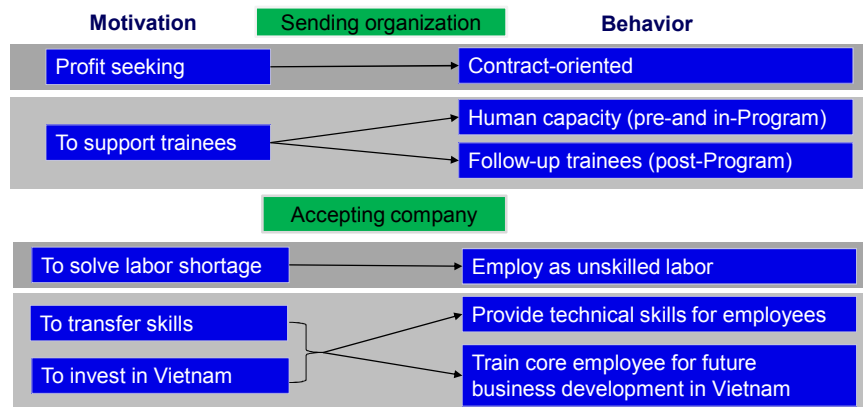
- Both sending organizations and trainees believe that the participation cost is considerably high, especially for going to Japan.
- New sending organizations tend to pay supervising organizations to get contracts from Japan rather than to lower the cost offered to trainees.
- In the case of Japanese market, trainees do not know that most of recruitment cost are paid by accepting companies.
- Brand names of sending organizations are not popular enough, so many trainees still depend on middlemen instead of directly contacting these organizations.
- Middlemen themselves are in many cases “institutionalized”, such as local employment agencies, or heads of vocational schools, etc.



Main Determinants of High Recruiting Cost



Key Stakeholder Analysis Sending Organization and Accepting Company



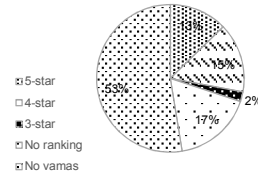
To encourage positive motivation of sending organizations, a ranking system is established by VAMAS to classify sending organizations who have responsibility towards trainees in all stages.

VEPR Key Stakeholder Analysis

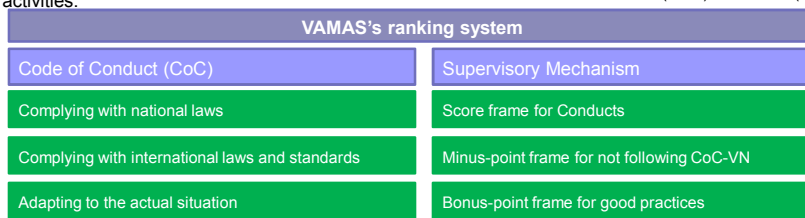
VAMAS and Its Ranking System

- VAMAS is the non-profit association for sending organizations in Vietnam.
- With support of ILO, VAMAS established the ranking system including Code of Conduct (CoC-VN) (2010) and Supervisory Mechanism (2012).
- The system annually classifies sending organizations into groups of 1-5 star(s). The participation into the system is voluntary.
- There were 86 out of 282 sending organizations ranked with their market share about 70% in 2016.
- There were 71 out of 236 Japan-oriented sending organizations ranked in 2016.
- Therefore, there are a lot of small sending organizations out of supervision.
- Bonus-point frame does not provide in detail on follow-up activities.

Ranks of sending organizations for Japanese market, 2016



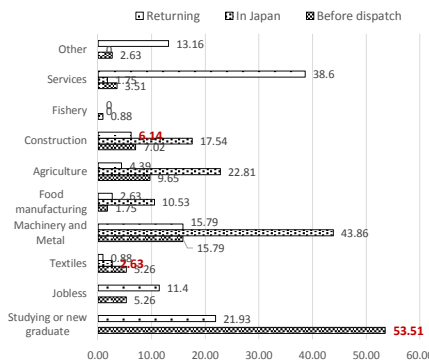
Source: VAMAS (2017) and JITCO (2017)



VEPR Skill's Diffusion

Skill's Diffusion by Return Trainees

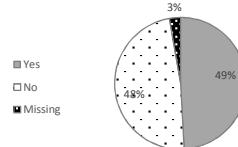
Rate of surveyed trainees by type of occupation (n=112)



Why they do not continue the job they did in Japan after returning?

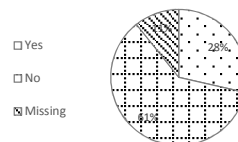
- Trainees often have a different job from the one they got in Japan.

Was your job in Japan related to your job or your study before dispatch (n=112)



About half of trainees worked in Japan with their occupation related to their previous works or study.

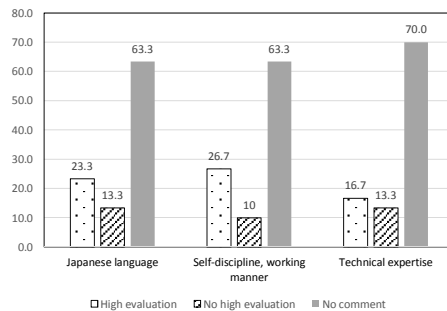
Is your current occupation Japan related to your occupation in Japan? (n=112)



After their return to Vietnam, 61% selected a job NOT relating to their job in Japan.

- Working manner as an advantage: 26.7%
- Japanese language as an advantage: 23.3%
- Technical expertise as an advantage: 16.7%

Evaluation of the enterprises on skills of the trainees who are presently employed (%; n=30)

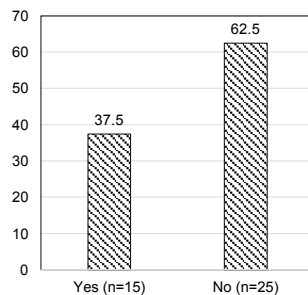


Source: The Team's survey in Hanam (2017)

“Currently, there are two return trainees working in the enterprise. In terms of technical expertise, they are not different from others. Nonetheless, they are self-disciplined, and voluntarily and strictly follow Japanese working rules.”

Source: In-depth interview with a Japanese manager in Hanam (KII_24)

Percentage of priority



Which priority?

Item	Number of enterprises
Matching for industry	6
Matching for skill	5
Matching for salary	5
Japanese language	3
No reasons	2

In which, 6 enterprises require at least 2 among 4 conditions.

Reasons for return trainees' skill mismatch:

- Requirement for worker position: mainly unskilled.
 - For staff position: can be utilized by domestic workforce (from Ha Noi and surrounding regions).
- Return trainees often ask for higher salary than the average level that enterprises expect for the same skill. The gap is about USD 100.

Source: The Team's survey in Hanam (2017)

Changing Context is Creating New Opportunities and Challenges

Japan's newly approved Foreign Technical Intern Training Law leads to a number of significant changes. Two major points are (1) two-year extension for training and (2) increase in the number of trainees in accepting companies.

Opportunities

- *The Government of Vietnam:* reduce the fleeing rate, enhance human exchanges.
- *Trainees:* have more time to accumulate skills, increase income.
- *Sending companies:* easier to attract trainees.
- *Accepting companies:* receive more trainees, more stable employment.

Challenges

- *The Government of Vietnam:* more effort require to control the bigger community of trainees in Japan.
- *Trainees:* have to pass the national skill test; readapt to the society and working environment after return.
- *Sending companies:* reduce the number of orders from traditional partners.
- *Accepting companies:* more strict requirements to get permission of two-year extension.

Trainees: Change Mindset and Take Action to Catch-up

Trainees should determine long-term objectives for their participation into the Program and carefully prepare a training plan for themselves

- Set a clear vision when participating into the Program.
- Actively search and choose sending organizations based on the objective information, especially through the VAMAS's ranking system to reduce reliance on middleman.
- Better preparation for participating into the Program through a long-term plan.
- Actively share their personal expectations and skill concerns to accepting companies.
- Concentrate on acquiring technical skills, gaining more knowledge, social skills to improve the effectiveness of their training period in Japan.

VEPR Policy Visions

- Improve the transparency of the market. Provide more information to key stakeholders, especially the trainees.
- Recognize key players. Reduce the role of middleman, improve the role and capacity of sending organizations, then reduce the participation cost.
- Strengthen the role of VAMAS, who should be more active as a facilitator in administrative works in all stages of the Program, and who should supervise the right conducts of sending organizations (learnt from JITCO).

VEPR Policy Recommendations (1)

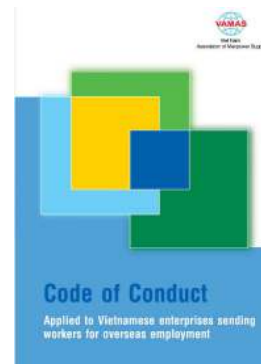
The Government of Vietnam needs to keep improving the legal framework to reduce recruitment costs and to support sending organizations in management of trainees.

- Establish a website updating administrative procedures regulated by DOLAB to make the procedures clear and transparent, and to reduce costs for sending organizations.
- Issue a circular guiding Decree No. 95/2013/ND-CP on clarifying punishment for trainees when violating Japanese laws as well as the terms of the Program. This would help manage the trainees in effective manner.
- Negotiate to waive the regulation in which trainees are required to work for a sending company before dispatch (this condition is not currently suitable for Vietnam).
- Implement preferential policies for the development of pre-departure training systems (e.g. provide incentives to encourage sending organizations to build training campus or encourage training innovations to be integrated into the Program).

VEPR Policy Recommendations (2)

VAMAS should improve the ranking system and encourage sending organizations to engage in the system. VAMAS could also play more active role as an administrative facilitator.

- Give more detailed bonus points for doing providing orientation training and supporting trainees in Japan and after return.
- Recommend 5-star sending organizations to Vietnam's authorities and Japanese accepting companies through JITCO
- Suggest on reducing the frequency of inspection on 5-star sending organizations.
- Provide services on checking documents before submitting to DOLAB.



VEPR Policy Recommendations (3)

Sending organizations should have a broader, longer vision toward the Program. Improving the capacity of direct access to candidates is crucial. Using VAMAS ranking system to self differentiate in the market.

- Focus in build up and promote organizations' brand names through quality and extended services.
- Utilize the mass/social media to improve the direct communication between the organization and the potential candidates.
- Take part in VAMAS' ranking system to show the organization's performance. Use the ranking system as a motivation for the organization and build up authority and brand name.
- Provide more services to support trainees, including post-Program activities.



Policy Recommendations (4) Develop Continuous Training Centers for Trainees

Countries	Vietnam	Japan				Vietnam
Terms	6 months	1 month	2 years and 11 months		1.5 months	
Organization	Sending Organizations	Training Center	Accepting Companies			Recruiting Companies
		Supervising Organizations				
Activities	① Make a career planning		② Presentation	③ Information supply	④ Education opportunities	⑤ Competency test ⑥ Skill up school ⑦ Recruitment services

- (1) Make a career planning for the future before departure.
- (2) Present the career planning in Japanese language for company's executives at the first working day.
- (3) Provide information about self-motivation.
- (4) Provide information about free Japanese language training institution and other education opportunities like 5S.

- (5) Share their experience to understand the gap between labor market and actual skills after returning Vietnam.
- (6) Reduce the mismatch problem by helping trainees meet the requirements of Japanese companies in Vietnam.
- (7) Provide recruitment services and frequent communication with trainees.



Chapter 7 Viet Nam Economic Prospects 2018 and Policy Implications

VEPR Macroeconomic Issues

- Viet Nam's economy surpassed the target of economic growth in 2017, in the favorable context of the world economy.
- Inflation was stable, reflecting the prudent monetary policy of the SBV.
- Trade growth was strong with a record-breaking trade turnover. However, the large surplus of the FDI sector poses question about the sustainability of economic growth as the economy is increasingly depending on the sector.
- The flourishing stock market facilitated the divestment and equitization of SOEs.
- Improved Ease of Doing Business Index (EDBI) partly reflected Viet Nam's efforts in administrative reform and business environment improvement.

VEPR Viet Nam Economic Prospects 2018

YEAR	2014	2015	2016	2017	2018	2018
					Scenario 1	Scenario 2
Growth (%)	5.98	6.68	6.21	6.81	6.49	6.83
Inflation (%)	1.84	0.60	4.74	3.53	3.86	4.21

VEPR Short-term Policies

- Economic growth still have not come from increasing labor productivity. If there are no comprehensive measures to boost labor productivity in the near future, in the context of dwindling away demographic dividend, it is unlikely that Vietnam will be able to maintain its current growth momentum.
- In the context of graduation of ODA loans, Vietnam needs to use more internal resources as a driving force for growth, by tightening recurrent expenditures to increase public investment.
- The increasing dependence of VN's economy on the world economy and the FDI sector makes the economy more vulnerable to external shocks in 2018.
- In addition, in terms of policy response in the integration process, Viet Nam should follow the rules of the game when participating in trade agreements as well as avoid reaction policies that may negatively affect the trade cooperation in long run.

VEPR Medium- to Long-term Policies

- Enhance incentives for knowledge and skill accumulation and improve technology to boost productivity growth.
- Adjust wage increase in general and minimum wage in particular in line with productivity growth rather than subjective will or political purposes.
- Understand the employment trends and occupational choices of Vietnamese youths in order to have reforms to enhance productivity.
- Promote the diffusion of productivity through Vietnamese workforce returning from abroad.

VEPR

Thanks for your attention!
Q&A

Questions or discussions can be sent to:

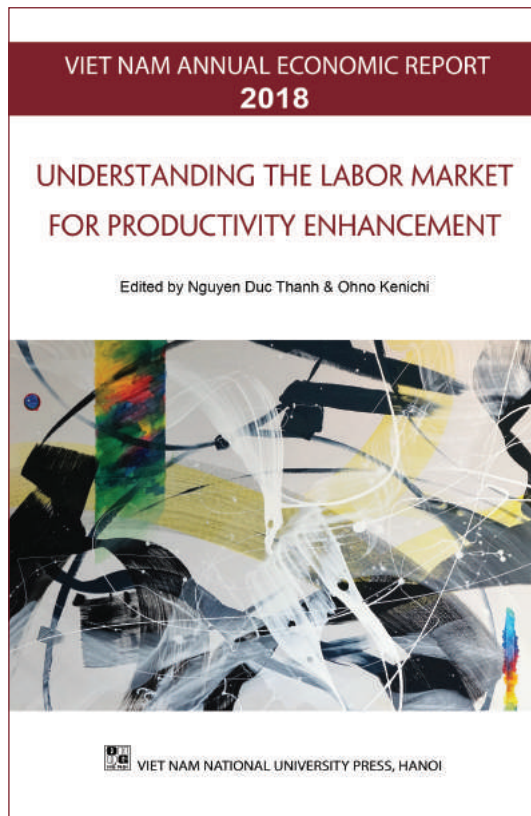
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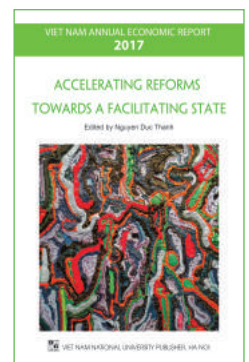
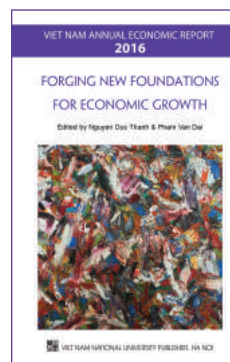
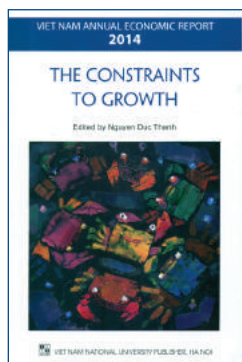
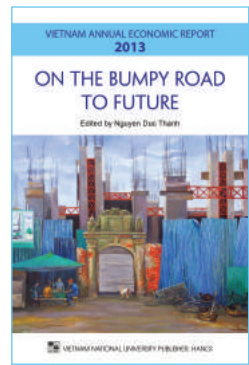
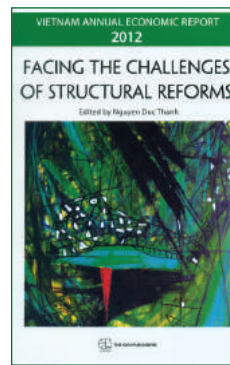
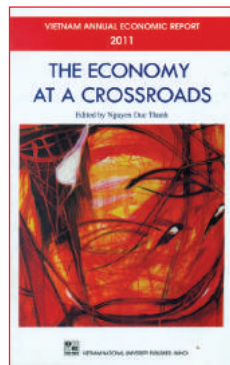
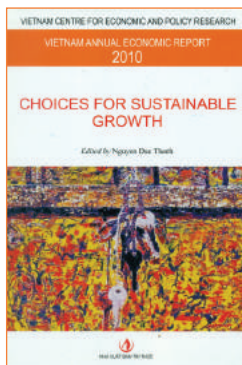
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Viet Nam Institute for Economic and Policy Research, formerly known as Viet Nam Center for Economic and Policy Research was established on July 7, 2008. On August 26, 2014, Viet Nam Institute for Economic and Policy Research was established on the foundation of Viet Nam Center for Economic and Policy Research, keeping the same abbreviation as VEPR. After 10 years of development, on February 12, 2018, VEPR was officially recognized as the Center of Excellence of Vietnam National University.

VEPR is an independent research organization under the University of Economics and Business, Vietnam National University, Hanoi. VEPR has continuously been growing and gaining reputation for thorough economic researches and timely policy discussions.

The main activities of VEPR include (i) provide quantitative and qualitative analysis of Viet Nam's economy issues and their impact to interest groups; (ii) organize workshops for policy dialogue which enable policy-makers, business leaders and civil society organizations to network, exchange then propose solutions to the current key policy's problems; (iii) organize advanced training courses on economics, finance and policy analysis.

One of the most popular publications of VEPR is the *Viet Nam Annual Economic Report*, published annually from 2009.



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