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**Assessing the potential impact of the global crisis  
on the labour market and the informal sector in Vietnam**

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**Abstract**

Although the impact was less dramatic than in other Asian countries, Vietnam has been affected by the international crisis which started in 2008, resulting in a significant slowdown of economic growth. This paper aims at assessing the impact of this economic crisis on employment, unemployment and the informal sector. Contrarily to previous studies on this subject, we anticipate that of the unemployment will not be the main adjustment variable on the labour market. According to our estimates, most of the impact of the crisis in terms of employment will actually be felt in the informal sector, where most new entrants on the labour market and laid-off workers will end up working. This feature will result in an urgent need to put in place specific policies to tackle informal sector low productivity and its manpower's lack of labour protection.

## Introduction

As other Asian countries, Vietnam has been affected by the international crisis and economic growth has slowed down. Whereas, the average annual growth rate has reached 8.5% in 2004-2007, it reduced to 6.5% in 2008 and probably around 5% in 2009.<sup>1</sup> Although the impact of the global crisis was large, it might not be as large as in other countries in the region. With China, Vietnam will probably be one of the only Asian countries not in recession in 2009. Three main elements might explain why Vietnam is less affected by the crisis than the others: Vietnam was hit by a financial crisis in early 2008, before the international crisis started, and had to react by taking corrective measures; its economy is still predominantly rural (agriculture represents 50% of employment) and therefore less affected by the global crisis than more developed Asian economies; last of all, figures based on export turnover (Table 1 below) indicate that Vietnamese exports are still growing in 2009, contrarily to all other Asian countries' exports; this contrast is due to a combination of price (especially increase of rice prices) and competitiveness effects.

**Table 1**  
**Exports Hold Better than Elsewhere** (growth rate %)

	<b>2007</b>	<b>2008</b>	<b>Q1-2009</b>
Japan	10.0	9.5	-60.0
Philippines	7.1	-2.9	-36.8
Indonesia	13.2	20.0	-32.0
Malaysia	9.7	13.3	-28.9
Korea	14.1	13.8	-24.9
Thailand	16.5	15.7	-23.2
Singapore	10.1	12.9	-20.6
China	25.7	17.3	-19.7
<b>Vietnam</b>	<b>21.9</b>	<b>29.1</b>	<b>7.4</b>

**Source:** World Bank (2009)

Due to the lack of information, in particular to the absence of a reliable monitoring system which provides regular data on the situation in the labour market, up to now, the impact of the global financial crisis on the Vietnamese economy is hard to measure. Most studies focus either on macroeconomic indicators (GDP, export, production by sector, etc.), or on specific sub-sectors (industrial parks) using qualitative assessment undertaken in some specific areas. Only few analysis try to draw a global picture on the impact of the global crisis on households living conditions. Using micro-data representative at the national level (or at provincial level), this paper aims at providing some new elements to estimate the potential scope of the economic downturn impact on the labour market and especially on the informal sector, and at identifying the channels through which the crisis impacts employment and labour incomes.

The paper is organized as follows. Section 1 presents briefly the global context in the labour market during the past 10 years and underlines the two main striking changes (increase in the share of wage jobs and in the labour income). Section 2 describes the structure of the labour market in 2007 before the crisis, putting forward the weight of the informal sector and its characteristics. Section 3 is dedicated at providing an estimate of the impact of the global

<sup>1</sup> When this paper was first drafted (October 2009), macroeconomic figures were not available for 2009. Early 2010, the GDP growth estimate for 2009 was 5.3%.

crisis on unemployment and on the informal sector. The last section concludes and draws some policy recommendations. All along this paper, we provide a special attention to the gender issue, by presenting some key features of female jobs and the assessing the gender impact of the crisis.

## **I. Past trends in the labour market during the last 10 years**

The analysis of the past trends in the labour market over the last decade shows two main striking features: the rising rate of wage and non agricultural employment; a sharp increase in real wages and labour incomes in recent years.

### ***The rising rate of wage employment***

Vietnam's impressive economic growth over the last decade has triggered a sharp increase in the rate of wage employment, which is one of the striking facts of the labour market developments in recent years: the rate rose from 19% in 1998 to 33% in 2006 (Cling *et al.*, 2008). Wage employment grew particularly sharply in the industrial sector (including construction) during the last 10 years.

This spread of wage employment has affected all population categories (urban/rural, male/female, skilled and unskilled), but substantial differences in level subsist. Wage employment is obviously more developed among the most skilled manpower (86% among the highly skilled as opposed to barely one-quarter among the unskilled), and it is also more prevalent among urban dwellers and among men (35% compared to 25% for women).

However, the labour force surveys conducted by the MoLISA from 1996 to 2007 provide a very different picture. According to these surveys, wage employment registered a sluggish upward trend over the last decade, from 19% in 1997 to 23% in 2007 (MoLISA, 2009). Since 2004, wage employment would even have declined by 3 percentage points. Such data seems inconsistent with both other existing data (VHLSS, LFS) conducted by the GSO and the stylized facts of what we know about the ongoing salarization process in Vietnam. For instance, in 2007, the share of wage workers among the working force is estimated at 30% by the GSO LFS (in line with the results obtained by the VHLSS), compared to only 23% in the MoLISA LFS. More striking, the discrepancy is even higher for "unpaid family workers" (13% and 42% for the GSO and MoLISA respectively). In this paper, we decided to base our work on the GSO surveys, which are considered more reliable (Roubaud *et al.*, 2008).

The spreading of wage employment on the Vietnamese labour market has been accompanied with a steep decline in agricultural employment. From 1998 to 2006, the share of agricultural jobs has been reduced by 18 percentage points, from 67% to 49%. This trend is due to a vibrant urbanization process (according to the latest population census conducted in 2009, the population has been growing by 3.4% annually in urban areas over the last decade, compared to 0.4% per year in rural areas; GSO and UNFPA, 2009). But at the same time, in all kinds of geographic areas, the proportion of out farm jobs has been on the rise, a shift particularly important in peri-urban areas (Cling *et al.*, 2008). For instance, in the rural surroundings of the two main cities (Hanoi and Ho Chi Minh), agricultural employment has fallen down from 58% to 22% during the period.

### *A sharp rise in real wages in recent years*

Despite an important rate of underemployment, wages gradually rose from 1998 to 2006. Sharp economic growth prompted a 56% increase in wage earners' average annual remuneration over the period observed, which works out at an average annual growth rate of 5.7%.

Real wages grew at a lower pace in agriculture than in other sectors (28% vs. 34% and 78% for secondary sector and services) over the period. Wage dynamics was higher for the semi-skilled and high skilled workers than for unskilled workers 67%, 62% and 36% resp.). At the same time, the increase was lower for men versus women (respectively +51% and +60% from 1998 to 2006, mainly given the changes of the structure of the labour market (more in favour of female workers). This led to a reduction in gender inequalities to some extent (Cling *et al.*, 2009).

**Table 2**  
**Changes in labour structure and income in Vietnam, 1998-2006**

Sector	Jobs (%)				Real income (100 = 1998; wage only)			
	1998	2002	2004	2006	1998	2002	2004	2006
Agriculture	67.1%	56.5%	52.0%	49.2%	100	96.2	107.4	128.3
Secondary sector	13.9%	19.7%	21.7%	23.0%	100	109.4	119.6	134.3
Services	19.0%	23.8%	26.3%	27.8%	100	146.1	158.3	177.7
<b>Total</b>	100%	100%	100%	100%	100	121.2	137.1	155.7
<b>Wage workers</b>	17.5%	28.6%	31.0%	33.1%	-	-	-	-

**Source:** VLSS 1998, VHLSS 2002, 2004 and 2006, GSO; authors' calculation.

Note: Secondary sector includes fishery, mining, manufacture and construction.

This context has brought a very optimistic view on the dynamism of the economy and of the labour market in Vietnam. Still, firstly, this analysis focuses only on the global trends and fails to take into consideration the informal sector; second, we can expect some negative impact of the economic crisis on these positive trends.

## **II. The structure of the labour market before the global crisis**

The following result is based on the Labour Force Survey (LFS) implemented by the GSO in 2007, with the technical assistance of the authors. This LFS is the first one which provides reliable data (representative at the national level) as the design has been revised to keep in line with international standards and in particular to address informal sector issues (Razafindrakoto *et al.*, 2008).

The following table provide a broad picture of the labour market in Vietnam. It shows that the Informal Sector (which is defined as all non farm unregistered household businesses) is the first source of employment excluding the agricultural sector (whose weight in terms of employment has decreased and will continue to decrease in the following years).

**Table 3**  
**Structure of the labour market in Vietnam, 2007**

<b>Institutional Sector</b>	<b>Jobs (in 1,000)</b>	<b>Structure (%)</b>	<b>Female (%)</b>	<b>Female Jobs in 1,000</b>	<b>Structure (%)</b>
Public sector	4,954	10.7	45.7	2,262	9.9
Foreign Enterprise	908	2.0	61.2	557	2.4
Domestic Enterprise	2,646	5.7	39.5	1,047	4.6
Formal Household Business	3,584	7.8	46.5	1,674	7.4
<b>Informal Household Business</b>	<b>10,866</b>	<b>23.5</b>	<b>48.7</b>	<b>5,308</b>	<b>23.3</b>
Agriculture	23,111	50.2	51.6	11,920	52.3
<b>Total</b>	<b>46,211</b>	<b>100</b>	<b>49.4</b>	<b>22,773</b>	<b>100</b>

**Source:** LFS2007, GSO; authors' calculation.

Note: Total numbers do not take into account the final results from the last Population Census (2009), but % still holds.

One quarter of the occupied labor force has a job in the informal sector (IS). This informal sector represents half of non-agricultural jobs. Foreign enterprises represent only 2% of jobs and private domestic enterprises less than 6% of jobs.

The same statement holds for female workers since 49% of the manpower in the IS are female workers. And if we consider the structure of employment: 52% of female workers are involved in agricultural activities; 23% are in the IS, 7% work in private domestic or foreign enterprise and 7% are in formal household businesses.

Specific analysis based on the informal sector survey implemented in 2007-2008 in Hanoi and HCMC within a project conducted by the authors of this paper sheds new light on the precise characteristics of work in this sector (GSO/IRD, 2009a and 2009b). This survey shows the **precariousness of the labour conditions in the informal sector**.

Indeed, the informal sector is characterized by unprotected jobs: 60% of workers are employed without any contract (even verbal agreement); 30% of workers in Hanoi are temporary workers; less than 1% benefits from social security; the great majority does not have professional premises and work at home or in the public highway. Last but not least, workers in the IS have the lowest remunerations if we exclude the agricultural sector. This last result can be partly explained by the level of education which is very low (the lowest compared with the other institutional sectors if we put apart agricultural sector).

Besides, results of the informal sector survey show that:

- The IS operates on the fringes of the economy: there is no direct linkage with the formal sector (globally, sub-contracting seems to be exceptional). Therefore, this sector may not benefit from the dynamism of the formal economy. There are some backward linkages through the demand side (household consumption), but the effect of this indirect link might not be as strong as the direct one (beyond a certain threshold, increased consumption impacts more on formal than informal products).
- There is almost no government policy to support the informal sector (micro-finance, etc.). In fact, it seems that the IS is ignored by the authorities. Measures which are put in place are even detrimental to this sector (interdiction to work in the public highway, etc.)

***According to pre-crisis trends, the informal sector will grow in the medium run***

In spite of the increase of wage employment and the expansion of the private formal sector underlined by here above, **the informal sector still has a predominant weight in terms employment** as shown by the LFS2007. The following table reports projections for 2010 and 2015 given the past trends (including the “demographic dividend” and the arrival of new entrants in the labour market). Our scenario is based on the following hypotheses:

- The demographic growth rate is maintained constant at 1.2% a year, according to results of the last Population Census 2009, corresponding to a 3.4% urban growth, while the rural growth rate is only 0.4% (GSO, and UNFPA 2009);
- The number of jobs by institutional sectors and the unemployment registered in the LFS2007 have been adjusted to the “real” population in 2007, retropolated thanks to the newly available Census results. Consequently, the working age population has been reduced by 1,500,000 persons compared to the previous forecasts, and the age structure has been sensibly modified, in favour of the youngest (under 30 years old);
- Vietnam will register a “demographic dividend”, characterized by a massive arrival of new active population. Thus, the share of the 15-65 years old is supposed to increase from 62% in 2000 to 70% of the population in 2015 (GSO, 2009);
- We assume constant participation rates by age category, distinguishing the 15 age group, as observed in the LFS2007.
- In terms of job’s creation, we prolonged the previous sectoral trends, observed during the period 2003-2007 (GSO, 2008). During these years, two sectors registered a slight decrease in employment: -1% a year for primary sector employment and -0,4% for public jobs (both State and SOEs), while foreign enterprises grew at a huge + 18.7%, domestic enterprises registered + 14,4% and formal household business + 1.1%.
- Finally, we assume a constant unemployment rate by age group (2.2% at the national level; in fact, the past trend was even slightly decreasing).

**Table 4**  
**Projections of employment in the informal sector in Vietnam (2007-2015)**  
*(following the past trends = without economic crisis)*

Institutional sector	2007 (LFS adjusted)		2010 (Projections)		2015 (Projections)	
	Nb (1 000)	Structure	Nb (1 000)	Structure	Nb (1 000)	Structure
Public sector	4,921	10.8%	4,865	9.9%	4,810	9.1%
Foreign Enterprise	902	2.0%	1,508	3.1%	2,522	4.8%
Domestic Enterprise	2,628	5.7%	3,932	8.0%	5,883	11.1%
Formal Household Business	3,560	7.8%	3,679	7.5%	3,801	7.2%
<b>Informal Household Business</b>	<b>10,794</b>	<b>23.6%</b>	<b>12,759</b>	<b>26.0%</b>	<b>14,444</b>	<b>27.2%</b>
Agriculture	22,957	50.0%	22,253	45.4%	2, 570	40.7%
Total	45,762	100%	48,996	100%	53,031	100%
Unemployment	1,043	2.2%	1,084	2.2%	1,209	2.2%
Active population	46,805	100%	50,080	100%	54,240	100%

**Sources:** LFS2007, GSO; Population Census 1999 and 2009, GSO; Projection of population by age, GSO, 2009.

Note: The adjustment of the LFS2007 (to fit with the last Population Census total population and age structure) leads to a small decrease in the working population (-500,000) and an increase in the number of unemployed (+100,000 persons).

Our simulation shows that **employment in the IS and its share in the total employment will rise in the next few years even without the economic downturn.** This phenomenon is due to the limited capacity of the private formal sector (even if it continues to grow with the same frantic rhythm as prior to the crisis) to absorb the new entrants in the labor market and the workers who move from agricultural activities to non-agricultural ones. The share of employment in the informal sector will rise from 23.6% in 2007, to 26% in 2010 and 27.2% in 2015. During this period the informal sector will gain 3.6 million jobs, from 10.8 million to 14.4 million. Consequently, we can expect that the informal sector will continue to represent a huge share of the employment in Vietnam for a certain number of years. Of course, these simulations can be refined, for example taking into account longer years at school for the young generation, and the consequent reduction in activity rates, or some job reallocations due to changes in relative sectoral income. But the global patterns still hold.

One additional point should be stressed here. By contrast to the usual estimates of the number of jobs which have to be created each year on the Vietnamese labour market, commonly evaluated at 1.5 million, our work suggest that this figure is sharply overestimated.<sup>2</sup> According to our estimates (which are consistent to the employment figures found in GSO, 2008), the real labour force annual increase is around 1 million, and it will slightly decrease in the following years. In fact, the 1.5 million jobs roughly correspond to the size of the 15 year old age group. Obviously, not all of them will participate in the labour market. As a matter of fact, the participation rate of the 15-19 years old group was only 37% in 2007. More comprehensive and evidence based data should be provided in the field of labour supply prospects in Vietnam.<sup>3</sup>

### **III. Impact of the crisis : the broad picture could be worse for the IS**

Most of the studies which have tried to assess the impact of the economic downturn tend to conclude that there will be a sharp rise in terms of unemployment but they fail to consider the informal sector. These studies fall into two broad strands of research, qualitative and quantitative, the former being the most numerous. We present hereafter the main results of these papers, before conducting our own estimates.

Up to now, a dozen reports on the impact of the global crisis on the Vietnamese economy are publicly available. Some reports focus more on the main changes for the macro-economic indicators (GDP, export, production by sector, FDI, State budget) in order to have a quick overview of the situation (Le Dang Doanh, 2009; World Bank, 2009 and Riedel, 2009). Indeed, the Vietnamese economy has experienced a sharp drop in growth level of exports or FDI flow, and therefore on GDP expected growth. But it seems that Vietnam suffers less than the other Asian countries. This statement does not prevent these reports to question the viability of an outward oriented strategy followed by the country. Le Dang Doanh and Riedel suggest that Vietnam should rely more on domestic demand (consumption) in the future and that the public sector may have to play an important role in the coming years.

This questioning is all the more relevant as aggregate indicators hide some restructuring within or between sectors which impacts have not been yet clearly assessed. For instance,

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<sup>2</sup> For instance, the Director of ADB in Vietnam declared recently that 1.57 million jobs should be generated annually in Vietnam (Vietnam News, 30, September, 2009).

<sup>3</sup> The MoLISA should be encouraged to undertake this domain of research more systematically.

many reports praise the formidable flexibility of the labor market in Vietnam, and assert that it permits to mitigate the negative impact of the global crisis. But at the same time they acknowledge that the negative impact on household income might be quite harmful (some workers will shift to lower paid jobs in the informal sector or return to agricultural activities).

Unfortunately, due to the lack of reliable and relevant data, we know almost nothing on the share of the population who has experienced a job-loss or a sharp income drop. The great majority of the existing reports at the micro-level rely on qualitative analysis of some specific sub-sectors or categories of the population.

The paper prepared by Ngoc Pham (2009) for the ILO reports job losses in some firms (mainly foreign-invested companies) in Hanoi and HCMC, less job creations, reduced working time, and/or reduced income. The Oxfam reports (Oxfam, 2009; Dinh Thi Thu Phuong, 2009; Nguyen Ngoc Anh, 2009; Nguyễn Tam Giang, 2009) are based on case studies and focuses on migrant workers in “cho lao dong”, in the craft villages and in industrial parks. It concludes also that they had to face reduced work opportunities, job losses or reduced income. Relying on self-assessment information from farmers in 4 provinces, a report by a research group of IPSARD (2009) stresses that more than 20% of migrant workers from rural areas lost their job and returned home (poor communes being more affected than non-poor communes). Among them, only 11% found new jobs. But the report fails to mention the share of these migrant workers in the active population and their contribution in terms of income.

These studies are useful to try to capture some specific difficulties faced by specific categories of workers, but they do not provide enough information to draw a global picture on the impact of the global crisis on the labour market and households living conditions. These qualitative assessments (based on reports of well-informant representatives, focus group discussion or interviews of persons whose representativeness cannot be guaranteed) do not permit to assess the real scope of the reported negative impact at the national or even regional level. Some papers rely on press report but the reliability of such sources is questionable. This state of fact leads some authors to stress that up to now, knowledge on the social impact of the crisis is mainly based on anecdotal case studies.

On the quantitative front, only two studies launched by UNDP (Warren-Rodriguez, 2009; Cường *et al.*, 2009) intend to measure the global impact of the crisis on the labour market. They use a similar methodology to assess the impact of the crisis on employment, based on employment elasticities to growth, defined as:

$$e = \frac{G_L}{G_Y} = \frac{\Delta L/L}{\Delta Y/Y}$$

Where L stands for employment and Y for output, and  $G_L$  and  $G_Y$  are the growth rates of employment and output.

Taking into account the GDP growth forecasts for 2009 (between 4% for GSO and 5.5% for the World Bank) and using this elasticity of employment approach at the sector level, Cường *et al.* project that the economy in 2009 would create less employment by an order of between 350 and 650 thousand jobs<sup>4</sup>. This would result in a strong increase of the unemployment rate,

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<sup>4</sup> Cường *et al.* use also a regression based approach. We do not comment here the results of this alternative approach.



which would reach between 3.9% and 4.3% according to the economic growth forecast (compared to 2.5% in 2008, according to data from MoLISA).

Another UNDP study by Warren-Rodriguez using the same kind of methodology projects between 300,000 and 700,000 less job creations in 2009 (a result very close to the previously mentioned study), which would result in an equivalent increase in the number of unemployed people. The urban unemployment rate (this study does not refer to the total unemployment rate) would increase from 4.6% to between 6.7% and 7.6%.

**In fact, the above mentioned studies miss a big part of the picture and overestimate the impact of the crisis on unemployment.** Most new entrants on the labour market not finding jobs in the formal sector or laid-off workers will not become unemployed: they will end up working in the informal sector, which might be among the sectors most severely affected sectors.

Up to now, the tensions on the labour market have quasi exclusively relied on the unemployment rate. Consequently in Vietnam, labour market performance monitoring and policy debate have highly focused on this indicator (Roubaud *et al.*, 2008). Nevertheless, it is nowadays widely acknowledged that open unemployment is not the best indicator of market clearing in developing countries. In such countries where wage relations cover a low percentage of the labour force and where unemployment risk is not covered by social institutions, the shortage of labour demand passes through other mechanisms than unemployment.

This is obviously the case in Vietnam. As shown in Figure 1, the unemployment rate is rather inelastic to the variations of GDP growth. The unemployment curve is quite flat and low. At its highest, unemployment picked up at 2.9% (1997), while it went down to 1.9% at its lowest (1996), over the last decade. Over all the following years (1998-2007), the unemployment rate fluctuated in a very narrow range, between 2.8% (2001) and 2.1% (2003 and 2004), levels which are statistically undistinguishable. In urban areas, the unemployment rate is higher and more elastic to growth. Nevertheless, during the worst period of the Asian crisis, the GDP growth decreased by 5 percentage points (from 9.3% in 1996 to 4.8% in 1999), but the urban unemployment rate rose by less than 1 percentage point (from 5.7% to 6.5%). If we consider the last crisis as a benchmark, the deceleration of growth being of the same order of magnitude than the forecasts between 2007 and 2009, the upsurge in unemployment should be very limited.

Unemployment and underemployment rates still remain relevant but present some shortcomings to assess labour markets functioning and policies. At best they are insufficient if not misleading. There is clearly a need to go beyond these indicators. That is why statisticians and economists at the international level have stressed other concepts as social protection and job's vulnerability, job quality, decent work, informal sector and informal employment issues, with the underlying idea that labour markets are clearing through qualitative adjustments more than through quantitative ones in developing countries such as Vietnam. This point has been acknowledged for a long time by Vietnamese labour market specialists (CSSC and ILO, 2005).

**Figure 1: Unemployment and GDP in Vietnam, 1996-2007**



**Sources:** MoLISA, GSO, 1996-2007; authors' calculations.

Note: for the unemployment in 2007, we take the official MoLISA data to be consistent with the previous series. The discrepancies are limited (the national unemployment rate is 2.4% for the MoLISA and 2.2% for the GSO).

In order to obtain a rough estimate of the potential impact of the global crisis on underemployment and on the informal sector, a rapid calculation can be made given some assumptions derived from the past trends in the labor market (see Table 5 below); we use here recently published data from the LFS 2008 (available at an aggregate level only), which was conducted by GSO in April 2008, that is before the crisis:

- Slower GDP growth rate did not have much impact on the unemployment rate during the last 10 years; furthermore, the fluctuations of the national unemployment rate seem to be very erratic in the past, which makes difficult any analysis of its evolution; therefore, we focus our analysis of unemployment on the urban rate, knowing that the rural unemployment rate is not really significant (1.5%) and is not really relevant; on the contrary, the urban unemployment rate is higher (4.7% in 2008) and is sensitive to the economic cycle; but even after the economic downturn in 1997, the unemployment rate rose by less than 1 point;
- We estimate a linear relationship between the level of the urban unemployment rate and economic growth; according to our econometric estimates made on the 1996-2007 time period, the elasticity of the variation of urban unemployment rate to economic growth is -0.33 (we also include a constant in the equation);
- So, given the trend in the long run, we could expect that the urban unemployment rate will rise from 4.7% to 5.8% between 2008 and 2009, which would correspond to an increase of the national unemployment rate from 2.4 % in 2008 to around 2.7% at (with the hypothesis that the rural unemployment rate does not vary). So, we could estimate that 150,000 persons will be added to the number of unemployed people.
- According to GSO (2008), the active population rises approximately by 1 million per year, so an increase of 850,000 of total employment could be expected (=1 million-150,000).
- The official forecast for the GDP growth rate is 5%.
- Given the employment elasticity of growth of 0.19 in the formal private sector estimated by Cuong *et al.* (2009) as the average on the period 2005-2008 and the expected growth rate for this sector (6%), we estimate that approximately 100,000 new jobs could be created in the formal sector (+1.2%).

- Employment in agriculture, which represents 50% of total employment decreases regularly by about 200,000 jobs a year; because of the crisis, we suppose that agricultural employment will stabilize; indeed, job opportunities in other economic sector are expected to drastically diminish, and some laid-off migrant workers could even go back to their village and resume farming.
- Employment in the public sector, which has remained stable over the last few years, is expected not to vary in 2008 and 2009.

**Table 5**  
**Expected changes in employment and unemployment in Vietnam in 2009**

	2008		2009*
<b>Institutional sector</b>	Job number (Million)	Job Variation (Number)	Job number (Million)
Agriculture	23,1	0	23,1
Public sector	4,9	0	4,9
Private Enterprises**	7,6	+100,000	7,7
<b>Informal Sector</b>	<b>11,5</b>	<b>+750,000</b>	<b>12,3</b>
<b>Total</b>	<b>47,1</b>	<b>+850,000</b>	<b>48,0</b>
Unemployed	1,1	+150,000	1,25
<b>Active Population</b>	<b>48,2</b>	<b>+1,000,000</b>	<b>49,2</b>

**Source:** GSO; \*Forecast; \*\* including Formal household businesses and FDI.

Note: the LFS2008 presents a breakdown of employment by institutional sector, which provides employment data for agriculture and public sector, but not for the informal sector and for private enterprises. Because no detailed data was available for making a precise estimate of employment for the two latter sectors, we made an estimate for these sectors based on recent employment trends. These estimates are given for information, but do not have influence our impact analysis.

The residual of 750.000 jobs (850.000-100.000) corresponds to the increase of employment in the informal sector (where most of the new entrants in the labour market will find jobs). This increase **corresponds approximately to +6.5% jobs in 2009 compared with 2008.**

But this increase in informal sector employment must also be compared with our employment projections, where the annual increase was supposed to be more than 5% per year (Table 4). In the end, because the agricultural sector also bears the weight of the crisis (by stabilizing agricultural employment which follows a steep declining trend), the additional increase of employment in the informal sector is not so high as it could have been. But the impact of the crisis on this sector is not only on total employment as explained hereafter.

Therefore, in order to get the overall impact:

- On the labour supply side, the additional employment in the informal sector will entail increased competition between informal production units;
- On the demand side, there could be a shift of household consumption from formal to informal products (due to price effects), but as the informal sector already provides the major part of the household consumption, this effect will be limited. In fact, the informal sector may suffer from the contraction of demand.

To sum it up, we can expect that income in the informal sector will probably decrease, and jobs will be even more precarious (especially for women; see Box below).

## The situation of women in the labor market and the crisis

A rapid analysis of the characteristics of female workers permits to assess to what extent women will be hit by the economic downturn.

**To begin, let us remind that women hold approximately 50% of the jobs in the informal sector.** They are found mainly among self-employed workers and unpaid family workers. Each gender would seem to specialise in specific industries. Women are over-represented in “*textile, leather and confection*”, and in “*food services*” and “*trade*” sector. Men work in “*construction*”, “*transport*”, “*repairs*” and “*miscellaneous industries*”.

Besides, three other results deserve to be stressed:

- First, in general, **women are less qualified than men in the labour market.** To give some example: among the economically active population, 20% of men have benefited from vocational training but the corresponding figure is only 15% for women (in urban areas the difference is more significant: 40% for men versus 34% for women); 68% of female workers occupy unskilled positions (compared with 57% for males) (GSO, 2008).
- Second, **job remuneration is lower for women compared with their male counterparts.** In the informal sector, men earn nearly 50% more on average than women in Hanoi and HCMC, even if there are no significant differences in working hours, education level and seniority. In the formal household businesses of both cities, women earn about 10% less than men. Therefore, gender discrimination seems to be more dramatic in the informal sector than in the formal sector. However, the gender gap is not specific to the informal sector. In general, whatever the institutional sector, women earn always less than their male counterparts. Fine-tuned calculations (using econometric regressions) permit to estimate gender earning gaps for comparable jobs and human capital assets. In 2007 on average, the hourly labour income of male workers is 20% higher than for female workers other things being equal (education, institutional sector, experience, age; Roubaud, 2009). For wage worker the gap is half smaller, around 10%, but still highly significant (Cường, 2009).
- **Female jobs are more insecure than those held by men.** Women less frequently have professional premises for their activity. A much higher proportion of women in the informal sector operate on the public highway, at home without any specific facilities or in the markets. Moreover, they get dependent jobs, especially as family workers, and work in smaller IHBs (low turnover, small size and unregistered). This is an additional explanation of the gender remuneration gaps.

Consequently, in general, being less qualified and having more insecure jobs, women risk to suffer more of the economic crisis than men. First, they should be more affected than males by the downturn in the export sectors and consecutive labour adjustments (in industrial parks, export processing zones, etc.). Second, being on average less skilled, they will encounter more difficulty to enter (for new entrants) or keep high quality jobs. Third, due to their weaker job's attachments, some of them may shift to the less prestigious status of unpaid family workers, or withdraw from the labour market, becoming inactive or discouraged workers (cf. the so called “activity rate flexion” phenomenon during the low phases of business cycles). However, the final quantitative impact of the crisis on gender is difficult to assess precisely. For instance, a large share of working women was already unpaid, so for them earnings can't be cut further. A reasonable assumption is that the impact will be rather limited.

Thanks to the good policy management and sound stimulus package by the government, the impressive reaction in exports and international trade, and the structural flexibility of labour markets, the Vietnamese economy will be less hit by the global crisis than other developing countries, even in the South-East Asian region. However, if the unemployment rate will not register any dramatic upsurge, labour income and more generally households' living conditions will be negatively impacted. Most of the labour market adjustment will pass through the reduction in labour earnings (and worst job's conditions). The downward pressure on wages will cumulate three effects. First, in the formal sector, layoffs have been contained because the manpower has accepted to reduce the hours worked, and in some cases, a nominal decrease in wages. Second, in the informal sector the downturn in demand will be associated with an increase in labor supply. Finally, we will observe a substantial shift from better paying sectors (mainly formal) to lower paying ones (mainly informal). The combination of these three channels will contribute to a contraction in the average earning level. To which amount, it is still difficult to say, as its distributive impact (the average wage of highly skilled workers will probably continue to rise, while the income of farmers engaged in tradable crops will depend on the evolution of international prices of commodities). But, what is already clear is that one may expect a significant upward trend in the number of working poor, and more generally in monetary poverty. In this respect, the recent declaration by the MoLISA experts, according which the poverty rate will fall under 10% at the end of this year 2009 (Vietnam News, October, 2009), could reveal much too optimistic.

The first provisional results of the new LFS2009 confirm (at least partially) our simulations. They show that employment in the informal sector has grown since 2007, although not as much as we expected (from 23.5% to 23.7%). Furthermore and contrarily to all expectations, the unemployment rate did not burst up, but slightly diminished (from 2.2% to 1.6%). These unexpected figures may be explained by the formidable (and understated) flexibility of the labor market in Vietnam (both in the formal and informal sector), which permits to mitigate the negative impact of the global crisis. While the main structures of the labor market remained globally unaffected, the principal variable of adjustment during the slowdown has been the working hours and associated income. On the one hand, the average working time has been reduced by 1.6 hours a week, from 43.9 hours to 42.3 hours between 2007 and 2009. Part time workers (working less than 35 hours a week) were 21% in 2007. In 2009, they were 27%. The impact on income is even more significant, as the first component to be cut down was overtime (usually overpaid). On the other hand, to compensate for this contraction in available hours, more workers had to find additional sources of income by getting a second job. In two years, the multi-activity rate sharply increased from 18% to 25%.<sup>5</sup>

However, the fact that the LFS2009 was conducted in September must be underlined: the Vietnamese economy was already recovering by then according to some economic indicators (production, exports, etc.) and the worst of the crisis was already over. This can partly explain why the growth of employment in the informal sector is not higher and why incomes have increased. Because no adequate survey was conducted between 2007 and 2009, we will never be able to evaluate the impact on employment of the crisis, when it hit Vietnam the hardest (that is during 2008 and up to the first quarter of 2009). More generally, the evidence confirms the weak interest of the unemployment rate as a labour market indicator in Vietnam, as in many other developing countries.

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<sup>5</sup> These quantitative features are consistent with more qualitative assessments conducted in Vietnam and other East Asian countries (Turk and Mason, 2009).

#### IV. What should be done? Some policy recommendations

Even if Vietnam is coping better than many other countries on the employment front (ILO, 2009), the ongoing international financial crisis will definitively have a significant negative impact on the labour market in general, and the informal sector in particular. As underlined in this paper and contrary to previous assessments, the issue to tackle will not mainly be open unemployment, but the resilience of informal sector and informal jobs, and pressures on income and labour conditions. As a matter of consequence, the number of working poor will develop and the gender gap will probably increase.

In terms of policy concerns, our focus on the informal sector stresses the desperate need for specific policies towards this sector, which were already lacking before, but which will be even more necessary with the crisis. These measures should be undertaken along two main lines: improve the productivity of household businesses while providing better labour protection for the informal sector workers. Among these, our analysis put forward the need for:

- Training, especially for women. Apart from the low level of vocational training for the informal sector labour force, the curriculum currently provided is highly inappropriate to the specific conditions of this sector. To have a more substantial impact on returns, such programs should be broadened and customized to fit the characteristics and the environment household businesses really face;
- Public support to improve the business environment in the informal sector (reduce vulnerability and support expansion and higher productivity). Most of the time, policies (and even recommendations) seem to focus on the private formal sector (big enterprises and SMEs). But since the informal sector will continue to represent an important share of total employment in Vietnam in the coming years (whatever the growth in the formal sector), Vietnamese authorities have to address informal sector issues. Among the measures which could be taken, the first one could be on the improvement of access to credit for micro-production units. The creation of some incentives to increase registration could also be considered, since formal household businesses seem to benefit from less precarious conditions.
- Specific measure to enhance labour protection, in particular for informal sector workers. While the compulsory schemes mainly cover the formal sector labour force, the voluntary schemes, put in place recently, suffer strong deficiencies (World Bank, 2007; Nguyễn Thị, 2008): from adverse selection for the health voluntary insurance, to extremely low rate of enrolment to old age voluntary pension scheme (mid 2009, there were only a few thousands participants after one year of implementation). While the Vietnamese government is aiming at universal coverage, a huge 82% of the working force was classified as informal employment (not covered by social insurance scheme) in 2007 (Cling *et al.*, 2010). Therefore, the voluntary schemes should be urgently “rethought”.

Last but not least, a reliable monitoring system has to be put in place, as we have been advocating for over the last few years (Razafindrakoto and Roubaud, 2007; Roubaud *et al.*, 2008). The new LFS which has been implemented in the field in September 2009, the second round of the HB & IS survey (Household Business and Informal Sector survey) in Hanoi and Ho Chi Minh city launched in November (with a panel component derived from the sample surveyed in 2007-2008), and the series of qualitative Household business case studies which

will complement the quantitative HB&IS survey will provide reliable information. They will especially allow us to know the size of the increase of the unemployment rate and of employment in the informal sector, and to check the quality of the estimates made in this paper.

More generally speaking, many questions remain to be addressed concerning the impact of the crisis: what are the implications of the recent crisis for informal sector and household businesses? Does the informal sector act as a safety net for workers formerly employed in the formal sector? Were certain types of activities more heavily impacted? What strategies did HB households use to cope with crisis impacts? What kinds of public support would help to improve the business environment, reduce vulnerability and support expansion and higher productivity? Finally, we stressed the impressive labour flexibility, even in the formal sector, which plays a great role for Vietnam to absorb the shocks at the macro level. However, at the individual level, the affected workers and households have fully endured the negative impact of the crisis. Designing targeted policies which combine flexibility and protection remains a key challenge.

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