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LABOUR MARKET ASPECTS OF STATE ENTERPRISE REFORM IN VIET NAM

by

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RÉSUMÉ

La restructuration des entreprises publiques a été plus rapide au Viêt Nam que dans d'autres pays comme, par exemple, la Chine et l'Inde. Le gouvernement a resserré les contraintes budgétaires imposées aux entreprises publiques au moment où il procédait à une libéralisation des prix. Un nombre non négligeable de petites entreprises publiques ont été liquidées peu après le début des réformes, mais d'autres ont réussi à s'adapter en adoptant diverses mesures de réduction des coûts, dont des licenciements de grande ampleur. Le gouvernement a mis en place un filet de sécurité comprenant des indemnités de licenciement et des programmes de préretraite qui, en sus du jeu normal des départs, ont permis de réduire la main-d'œuvre employée dans les entreprises publiques de pratiquement 1 million de personnes en moins de dix ans. Les systèmes adoptés reposant largement sur le volontariat, ils ont sans doute provoqué des phénomènes d'antisélection et eu un coût plus élevé que nécessaire, mais ils ont eu l'avantage d'éviter tout mécontentement social. La croissance rapide de l'emploi dans le secteur privé a d'ailleurs amplement contribué au succès des réformes.

Celles-ci ne sont pourtant pas encore achevées. La première phase de restructuration a concerné essentiellement les petites entreprises publiques contrôlées au niveau local, mais les plus grandes ont encore d'importants sureffectifs. Certaines comptent sur des accords de partenariats avec des investisseurs privés pour résoudre ce problème, mais d'autres présentent bien peu d'intérêt pour ces investisseurs. En outre, les employés des entreprises publiques pourraient rencontrer de plus grandes difficultés pour trouver un emploi convenable dans le secteur privé. Les futures restructurations de la main-d'oeuvre pourraient donc se passer moins bien que par le passé, d'autant que le gouvernement n'a pas les moyens de mobiliser des ressources supplémentaires pour la main-d'oeuvre en excès. Les entreprises publiques déficitaires ne sont pas plus en mesure de dégager des ressources. Un moyen peu porteur de distorsions qui permettrait de trouver les fonds nécessaires à une extension temporaire du filet de sécurité et d'achever ainsi le processus de restructuration de la main-d'oeuvre, pourrait consister à augmenter légèrement la taxe sur les revenus fonciers des entreprises publiques.

SUMMARY

State-owned enterprise (SOE) restructuring has proceeded more rapidly in Viet Nam than, for example, in China and India. The government tightened the budget constraints facing SOEs virtually simultaneously with price liberalisation. While a large number of mostly small SOEs were liquidated soon after reform began, others were able to adjust through various cost-cutting measures, including sizeable labour force reductions. The government put in place a safety net composed of severance pay and early retirement schemes that, combined with natural attrition, yielded a reduction in the SOE workforce of almost one million people in less than a decade. While the largely voluntary nature of the schemes may have caused some adverse selection and made them more costly than necessary, the benefit has been to avoid social discontent. High private-sector employment growth has been a major contributor to the programme's success.

Still, the process is not complete. Initial restructuring was heavily focused on locally-controlled small SOEs, while many large industrial SOEs still report important labour redundancies. Some are expecting joint ventures with foreign investors to resolve the problem, but others hold little attraction to such investors. Moreover, remaining SOE workers may have greater difficulty finding suitable private-sector jobs. Future labour force restructuring may thus not proceed as smoothly as in the past, especially since the government cannot easily afford to commit additional resources to compensate redundant workers. Loss-making SOEs, meanwhile, cannot mobilise the resources themselves. One relatively non-distortionary way of raising the revenue needed to extend the temporary safety net and complete the process of labour force restructuring would be a small surtax on the land rental income of SOEs.

PREFACE

State enterprise restructuring remains one of the most difficult, yet most important, items of unfinished business in the reforming economies of Asia, notably China and India. Failure to tackle the problem of loss-making state-owned enterprises (SOEs) has complicated efforts at fiscal and monetary restraint. Concern to avoid the social adjustment costs from sizeable SOE workforce redundancies has acted as a brake on progress with SOE reform. China faces the added complication that SOEs have come to assume extensive social welfare functions that must first be transferred to the government if labour mobility among SOE workers is to be enhanced.

Though on a smaller scale, Viet Nam has faced similar challenges to China and India in reforming its state-owned enterprises. To date, it appears to have accomplished more than either of its two large neighbours and has been notably effective in managing the workforce adjustments associated with downsizing of SOEs. This paper sheds light on how Viet Nam has been able to reduce dramatically the size of its SOE workforce over the decade since reforms began without a significant rise in unemployment.

Viet Nam's SOE reform is not yet complete — e.g., equitisation (privatisation) of SOEs has proceeded very slowly and overstaffing remains a problem in some enterprises, particularly in the north. Moreover, future redundancies may come at higher cost than previous ones if the departing workers are not well-equipped to compete in the labour market. Still, the record to date is impressive and deserving of study for the lessons it can offer other economies-in-transition and developing economies. The most important conclusion is that fostering a dynamic private sector is critical to ensuring the smooth and swift transfer of state workers into new and productive jobs.

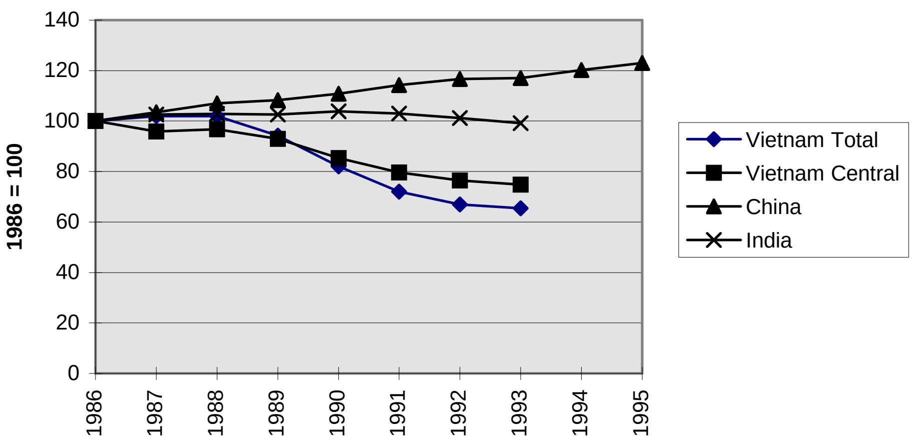
Jean Bonvin
President
OECD Development Centre
September 1996

I. INTRODUCTION

State enterprise reform is a standard feature of structural adjustment programmes in developing countries and economies-in-transition. The economic rationale for such reform is to ensure that the capital, labour and land tied up in state-sector production are utilised efficiently. Governments usually have a more immediate concern: to see that state-owned enterprises (SOEs) become financially viable and so cease to be a burden on the government budget and/or the financial system. In considering how far and how fast to pursue SOE reform, governments are also confronted with certain prospective costs, most notably labour force redundancies. Indeed, concern for the impact on employment has been one of the most important explanations of the slow pace of SOE reform in the two largest developing countries, China and India.

Viet Nam's approach to SOE reform is not dissimilar (e.g., in the reluctance to embrace privatisation), but it appears to have gone farther in restructuring its SOEs. This is reflected in the dramatic reduction in the size of SOE employment since the onset of reforms (see Figure 1) and, more importantly, in the shrinking proportion of loss-making SOEs. While Viet Nam's SOE reform is certainly not complete, major progress has been made. What explains Viet Nam's relative success, and what lessons might the Vietnamese experience hold for China and India?

Figure 1: State Enterprise Employment



Notes: Vietnam: figures for total SOEs and centrally-owned SOEs
China: urban state-owned units
India: centrally-owned SOEs

Sources: Vietnam: World Bank (1995a);
China: State Statistical Bureau, People's Republic of China (1995);
India: Department of Public Enterprises, Ministry of Industry, Government of India (1993).

Viet Nam began the reform of its state enterprise sector from an arguably more favourable position than either China or India. For example, in Viet Nam the state sector represented a smaller share of non-agricultural employment than in China — 54 per cent in 1988 to China's 65 per cent[1] —

and of formal sector industrial employment — 50 per cent to China's 60 per cent[2]. Thus, any employment shocks resulting from SOE reform could be more easily absorbed in Viet Nam. The fact that Viet Nam's real GDP has been rising a couple of percentage points faster than India's since the late 1980s is also an advantage[3]. Moreover, Viet Nam's SOEs have not been entrusted to nearly the same degree as China's with performing social welfare functions for workers and their families.

The initial conditions (i.e., the predominance of agriculture, the small size of its state enterprise sector, the limited development of heavy industries) of Viet Nam's economy were even more unlike those of Central and Eastern Europe (CEE) and the former Soviet Union (FSU) than were those of China or India. Yet, in its approach to reform, Viet Nam appears to have been more radical than either China or India, closer in some respects (particularly in macroeconomic policy) to the "shock therapy" of certain CEE and FSU governments. Perhaps the main difference with China and India was the urgent need to control inflation, running at roughly 375 per cent in 1987 and 1988. In brief, unlike China, Viet Nam could not afford to postpone SOE reform in the hope that the rapid expansion of the non-state sector would eventually resolve the problem.

In China and India, SOE restructuring has been one of the last areas of structural reform to be tackled. In Viet Nam, SOE restructuring has occurred roughly in parallel with other reforms such as price liberalisation and market deregulation[4]. One important difference between Viet Nam and the other two reforming countries is in the degree of managerial autonomy accorded SOE managers, particularly with regard to decisions about staffing levels. In all three countries, SOEs have faced heightened product market competition with the relaxation of price controls and of entry restrictions into many productive sectors. Likewise, in all three, SOEs have been allowed greater discretion in the investment of their profits. However, to a far greater degree than in Viet Nam, SOE managers in China and India have been constrained from adjusting the size of their workforce in response to the changed competitive environment. In short, they have been squeezed between high (and largely fixed) costs and declining product prices — or, more precisely, they would have been squeezed had it not been for the continued operation of the soft budget constraint. (Recently, that constraint has been hardening in China and India alike, putting many SOEs under tremendous financial strain and highlighting the urgency of further reform.)

The reasons for the SOE labour force rigidities differ somewhat between China and India. In the former, a major source of rigidity is the fact that SOEs perform extensive social welfare functions beyond their productive functions. Health care, retirement, housing, child-care, education and other benefits have traditionally been linked to the enterprise. Thus, if laid-off workers and their families are not to lose those ancillary employment benefits, the social benefits system needs first to be reformed and de-linked from the individual enterprise. Experiments in the transfer to government of social welfare functions are ongoing in China at the municipal level. In India, the rigidity in employment structures stems from two main sources: legal restrictions on the freedom of large enterprises (public or private) to retrench workers, and strong public sector trade unions. In both countries, SOE job losses are expected to hit particular regions and cities especially hard and the concentration of those losses — particularly when they are in more depressed, less dynamic areas — is worrying to the authorities.

In Viet Nam, for reasons already mentioned, the government was compelled to impose a hard budget constraint on SOEs rather quickly. In the face of stiffer product market competition, the hard budget constraint could be sustained only if the government proved willing to allow greater flexibility in SOE staffing levels. While labour market flexibility was not a sufficient condition to ensure the financial health of SOEs in the new market environment, it was nonetheless a necessary one.

This paper examines Viet Nam's experience with SOE reform with a particular emphasis on how it has coped with the necessary labour force adjustments. Section II situates state enterprises in the economy pre-reform, with particular attention to their employment contribution, and then briefly outlines the main elements of the reform process. Section III looks at how reforms have affected the SOE labour force and how government policy has facilitated needed workforce adjustments. Section IV examines the broader evolution of labour market policy and of labour market institutions. It also identifies remaining distortions and rigidities. Section V concludes with some reflections on the policy challenges lying ahead.

II. STATE ENTERPRISES IN THE VIETNAMESE ECONOMY

While Vietnam has conducted a variety of localised and piecemeal experiments with economic reform over the years, the period of sustained and comprehensive reform began with the announcement at the Sixth Party Congress in 1986 of the policy of doi moi (or renovation)[5]. Previously, the economy had been a centrally planned and managed one, broadly along Soviet lines, with the main difference being the much larger share of agriculture in GDP and in employment (see Table 1). The non-state share of GDP in Viet Nam was 62 per cent in 1986 (on the eve of reforms); in CEE and the FSU in 1990, the highest private sector share was Poland's, at around 27 per cent (World Bank 1996b, Figure 1.3). The Vietnamese state accounted for 63 per cent of industrial GDP in 1986 and just over half of services GDP, while its role in agriculture was negligible (see Table 2).

Table 1: **Employment Distribution by Economic Sector (%)**

	Year	Agriculture	Industry	Services
Vietnam	1989	71.4	13.9	14.7
China	1989	60.1	21.7	18.3
India	1991	66.8	12.8	20.4
Bulgaria	1989	18.0	49.0	33.0
Czechoslovakia	1989	12.0	47.0	40.0
Hungary	1989	16.0	40.0	44.0
Poland	1989	27.0	36.0	36.0
Romania	1989	29.0	47.0	24.0

Sources: For Central and Eastern Europe: OECD (1993); for Vietnam: World Bank(1995a), Table 1.3; for China, World Bank (1996a) Table 30; for India: ILO/UNDP (1993).

Table 2. **State and Non-State[a/] Shares of GDP, Total and By Sector (%)**

	1986	1990	1994
Total			
State	33.1	32.4	36.7
Non-State	66.9	67.6	63.3
Agriculture, Forestry			
State	3.0	2.5	2.5
Non-State	97.0	97.5	97.5
Industry			
State	62.5	61.6	67.0
Non-State	37.5	38.4	33.0
Services			
State	51.5	45.5	45.7
Non-State	48.5	54.5	54.3

Note: The 'non-state' sector includes the following types of enterprise: co-operative, private enterprise and private household.
Source: Based on Table 2.2A of World Bank (1995a).

The Situation Pre-Reform

The number of SOEs grew dramatically from the time of reunification to the eve of doi moi, increasing from 7 000 in 1976 to over 12 000 by the end of 1989, with much of the expansion occurring between 1985 and 1987 (Probert 1994) and consisting of small undercapitalised enterprises controlled by and supported with subsidies from local governments. These enterprises were especially vulnerable when, in the late 1980s, secure state procurement markets evaporated and the government drastically curtailed subsidies, including cheap material inputs supplied via Soviet aid.

State sector employment in 1986 represented close to 15 per cent of total employment (or 4 million people)[6]. Of that, some 2.66 million were employed by state enterprises, divided roughly evenly between central and local SOEs.

Within the industrial sector, there were some 3 141 state enterprises in 1986, of which 687 were controlled by the central government and 2 454 by local governments. They were divided roughly evenly between heavy and light industry, though light industry accounted for a somewhat larger share of output value (61 per cent).

Prior to doi moi, labour allocation was largely by directive; markets played little role. Within urban areas, by a rough estimate, the state (government plus SOEs) accounted for almost three-fourths of formal sector employment in 1986[7]. State workers were assigned to ministries or production units, each of which was allotted a fixed wage fund from the government budget. A worker could not freely transfer between work units because the new unit would not be able to pay his or her salary.

Similarly, with the wage fund and number of employees fixed, SOE managers had virtually no discretion to set their workers' wages. Wages were calculated according to a government pay scale, based on grade and length of service, and they were paid roughly 60 per cent in kind (subsidised commodities and food coupons) and 40 per cent in cash (Che 1995). Differentials between the lowest and highest grades were rather narrow.

The Impact of Reforms

State enterprise reform began tentatively in the early 1980s with the so-called Three Plan system (introduced in 1981), which gave SOEs limited freedom to trade on the free market. It was only in the latter half of the 1980s that SOE reform took hold. With doi moi, a number of measures were introduced aimed at increasing the autonomy and efficiency of SOEs. These included a profit-based accounting system, reduced budgetary support[8], and greater managerial flexibility in procurement of inputs and marketing of outputs, investment of the enterprise's own resources, acquisition and leasing of assets, hiring and firing of employees[9], setting of wages, salaries and benefits, and allocation of after-tax profits (World Bank 1994 and 1995a).

The combination of a changed domestic environment, in which SOEs had to respond to customer demands and were no longer assured a market for their output, and adverse external conditions[10] put many SOEs under severe strain. As of January 1990, roughly 40 per cent of SOEs were running financial losses[11], with 90 per cent of those small- and medium-scale, locally-managed enterprises.

While the initial reaction of government was to extend subsidised credit to the troubled SOEs[12], the risk of re-igniting inflation ultimately forced a policy reversal.

The next step in the SOE reform process involved rationalisation through a combination of consolidation and liquidation. Before rationalisation, as noted above, the number of SOEs had mushroomed to approximately 12 000, of which about a quarter were centrally controlled and the other three-fourths controlled by local governments. By end-1993, the number of SOEs had been reduced once more to 7 000[13] (through liquidation of 2 000 mostly locally controlled enterprises[14] and consolidation of an additional 3 000 with other SOEs). In the case of liquidation, an enterprise's assets were usually sold to the highest bidder and the proceeds used to settle outstanding claims (with priority given to payment of workers' wages and social insurance and to financial support for displaced workers[15]). The remaining SOEs were required to undergo re-registration, subject to several conditions: existence of demand for an enterprise's output; the ability to preserve its capital; the ability to repay its debts; the lack of an adverse environmental impact; and the clarity of ownership of its assets, including land use rights. This last condition is important, since land has proved a particularly valuable asset for SOEs (as a source of rental income, as collateral for securing bank loans and as lure to attract joint venture partners).

With the reduction in the number of SOEs, there was also a significant reduction in SOE employment. Meanwhile, the proportion of loss-making SOEs was halved to 20 per cent (as of 1994)[16]. The actual improvement in SOE performance, however, may not be as impressive as this figure suggests. First, many loss-making SOEs were absorbed into profitable ones, in the process lowering the profitability of the latter. Second, the remaining SOEs could be more heavily concentrated in sectors where they face little competition from the private sector or from imports. Third, the very process of consolidation may have reduced competition in certain sectors, though there is also the possibility that it has yielded scale economies. Further research is needed to shed light on these questions. That having been said, data on profit taxes and on bank and budgetary support for SOEs point to a substantial overall improvement in financial performance. Profit tax paid by SOEs rose from 1.4 per cent of GDP in 1991 to 3.3 per cent in 1994 (World Bank 1995a). More significantly, net bank and budget support of state enterprises went from 3.5 per cent of GDP in 1989 to -9.2 per cent in 1994 (Dodsworth et al. 1996, Table 3.2).

The state sector's contribution to GDP has actually increased in recent years (see Table 2). In the case of industrial GDP, for example, the state share rose from 63 per cent in 1986 to 67 per cent in 1994. Steeply rising output and a declining labour force suggest substantial improvements in SOE labour productivity since the onset of reforms; this is shown in Table 3 to be a broad trend encompassing almost all industrial sectors. Also striking is the rise in the capital-labour ratio over this period[17]. Two other key factors contributing to the growing weight of the state sector are: (i) the rapid growth of the state-dominated fuel (largely oil and gas) industry and (ii) the fact that the vast majority of foreign-invested joint ventures have been with SOEs[18], and the output of these joint ventures is counted as state-sector output.

The Unfinished SOE Reform Agenda

The SOE reform has gone farther to date in increasing SOE managers' autonomy than in strengthening their accountability and their incentive to raise profits. The new Law on State Enterprises (LSE), which came into effect in mid-1996, is designed to address these concerns, but its effectiveness will depend on subsequent interpretation in implementing decrees and regulations[19]. The ambiguities of the SOE ownership regime are evident in the fact that employees, while not technically owning any equity shares, nevertheless exercise a claim on a share of net profits in the form of their bonus fund. While the tax regime favours, through tax exemption, the reinvestment of profits, managers are able to offer employees various fringe benefits[20], recording them as part of the "expense of doing business" deductible from taxable income (Haughton 1994). In any case, since — despite a harder budget constraint — SOEs continue to enjoy favourable credit access and terms from state commercial banks, maximum profit retention and reinvestment have probably not been top management priorities.

Several provisions of the LSE are designed to strengthen SOE accountability, including a clear definition of the ownership rights of the state (Article 27) and a requirement that the SOE "make public its yearly financial report and other information, with a view to allowing a correct objective assessment of the enterprise's operations" (Article 12, Section 2; Vietnam Law & Legal Forum, June 1995). Also, accounting practices are to be standardised and SOE managers will receive bonuses "corresponding to the results of the enterprise operations" (Article 34), which in the case of business-oriented (as opposed to service-oriented) SOEs should be measured by enterprise profitability[21]. It is possible that the improved profitability of SOEs in recent years is in part a response to the new management incentive regime.

Table 3: **Structural Changes in Industrial State Enterprises 1989 to 1992**

Sector	No. of enterprises		Gross production (1989 prices) - mn. dong-		No. of workers		Productive capital (1989 prices) -mn. dong-		Labour productivity (Gross production/workers) -'000 dong -	
	1989	1992	1989	1992	1989	1992	1989	1992	1989	1992
Electricity	64	13	941 723	1 160 329	29 551	39 403	422 697	2 700 536	31 868	29 448
Fuel	39	24	961 435	2 957 721	47 500	56 270	84 205	155 494	20 241	52 563
Black metallurgy	13	9	110 763	200 427	17 586	17 112	25 607	71 071	6 298	11 712
Colour metallurgy	22	41	64 721	149 567	8 945	11 725	16 792	48 697	7 235	12 756
Equip/machinery	409	287	353 985	352 313	92 728	57 234	175 149	212 552	3 817	6 156
Electric/electronic	76	67	158 990	220 026	18 903	15 606	27 919	73 205	8 411	14 099
Metallic products	154	88	86 966	66 584	24 628	12 104	37 448	36 875	3 531	5 418
Chemicals/fertilisers	251	197	595 271	1 009 384	61 821	50 209	107 547	252 403	9 629	20 103
Building materials	493	375	551 294	902 392	97 317	65 130	115 181	500 667	5 665	13 855
Wood/forestry	230	140	177 362	140 814	30 512	19 476	38 172	51 904	5 813	7 230
Cellulose/paper	63	43	227 350	247 270	15 465	13 505	45 418	260 310	14 701	18 310
Glass/ceramics	83	63	67 833	95 677	19 964	11 830	12 498	32 130	3 398	8 088
Food	94	47	148 332	98 121	13 396	9 692	55 065	78 984	11 073	10 124
Foodstuffs	539	427	3 258 755	3 746 945	108 599	93 305	408 526	597 578	30 007	40 158
Weaving	131	110	873 959	939 823	103 809	96 176	222 103	420 984	8 419	9 771
Sewing	85	92	137 677	171 790	49 163	65 874	37 559	254 792	2 800	2 607
Tanning	26	27	65 525	35 493	10 635	9 058	10 042	10 989	6 161	3 920
Printing	89	102	72 578	122 784	13 468	10 201	17 703	42 123	5 389	12 036
Other branches	159	116	158 305	161 452	18 043	13 641	38 022	127 279	8 774	11 835
Total/Average	3 020	2268	9 012 824	12 778 912	782 033	667 551	1 897 568	5 928 571	11 525	19 143

Source: Industrial Department, General Statistical Office (GSO) (1994), *Industrial Data, 1989-1993*, Statistical Publishing House, Hanoi

More generally, there remain several items of unfinished business on the SOE reform agenda. The number of SOEs is still large and it is generally agreed that there will need to be a further reduction through a combination of equitisation, merger and consolidation, and liquidation. As of 1992, over 40 per cent of industrial SOEs (or 970 enterprises) had fewer than 100 employees and over a third (or 792 enterprises) had assets of less than 500 million Dong (or $50 000) (Industrial Department, GSO, 1994). It is costly for the state to maintain an effective system of supervision over the many small-scale industrial SOEs, not to mention the even larger number outside industry. It is also unlikely that more than a handful of those enterprises are of such strategic importance that they must remain within the state sector. Thus, it could be expected that the more profitable among them would be early candidates for equitisation (or privatisation).

The government has so far been very cautious with equitisation for several reasons: (i) concern over workforce reductions; (ii) reluctance to relinquish direct control over productive enterprises; (iii) uncertainties about the valuation of SOE assets; and (iv) conflicting ownership claims to those assets on the part of different groups (e.g., SOE workers and local communities where enterprises are located). The pilot equitisation scheme introduced in 1992 was voluntary, and the enthusiasm of SOE managers and workers to join the scheme has been less than overwhelming. This partly reflects some of the concerns mentioned above, notably (i) and (iv), but also a reluctance of insiders to assume a large share of the commercial risk that the state has traditionally borne. Initially, the government expected that equitisation would cause a reduction in revenue transfers from those enterprises to the government budget, but this has not occurred. To the contrary, evidence on the two earliest SOEs to be equitised shows that, as their profitability has improved, their tax contributions have increased significantly (Pham 1996). Also, employment in those enterprises has actually risen not fallen, though an employment increase is admittedly less likely to be a consistent result of privatisation than is increased profitability. Thus far, insiders' implicit ownership claims have been effectively recognised through the reservation of half the shares for workers and managers to purchase with subsidised credit.

The consolidation of SOEs is also proceeding. The government has established some 18 large "general corporations" grouping numbers of SOEs within a sector and another 50 smaller corporations (some sectoral and others regional). Each of the general corporations is permitted to establish its own finance company or commercial bank to mobilise and allocate capital internally[22]. It is expected that, when the reorganisation is completed, there will be some 100 large state corporations.

One objective is to facilitate government supervision of SOEs in the interests of improved accountability. Another, more controversial one is to create strong industrial groups capable of competing in regional and world markets. One concern is that a sectoral state-owned corporation could wield inordinate market power[23]. This is compounded if the government uses trade policy to provide generous protection to such corporations. Another concern is that such a corporation might be granted special privileges that would deter entry by potential non-state competitors.

Finally, with respect to the remaining loss-making SOEs, in mid-1994 the Bankruptcy Law came into effect, providing for the first time a comprehensive legal framework for the restructuring or liquidation of insolvent enterprises (*Selection of Fundamental Laws and Regulations of Vietnam* 1995).

III. LABOUR FORCE RESTRUCTURING

Total state sector employment declined by just over a quarter between 1986 and 1993, to 2.9 million (see Table 4); state enterprise employment fell more steeply, by over one-third, to 1.74 million, with the most dramatic reductions beginning in 1989[24]. Over this same period, total employment rose by almost 20 per cent, to 32 million people, reflecting strong private sector job growth[25]. Service sector employment grew especially fast: e.g., employment in the "trade and supply" sector rose by 40 per cent (to 1.8 million) and employment in "finance, insurance, etc." by over 200 per cent (to over 850 000) (World Bank 1995a). Thus, whereas at the beginning of the period SOE employment represented roughly 10 per cent of total employment, by the end of the period it accounted for just over 5 per cent. If one assumes that all agricultural employment is rural and all other employment urban, and that all SOE employment is urban, then the SOE share of urban employment stood at 35 per cent in 1986 but had fallen to under 20 per cent by 1993.

Table 4. **Employment Trends by Sector, 1989-93 ('000 Persons)**

	1986	1989	1990	1991	1992	1993
Total Employed Labour Force	27 398	28 941	30 294	30 974	31 819	32 716
State sector	4 027	3 801	3 421	3 144	2 975	2 923
Co-operatives	19 730	19 750	20 414	18 071	18 629	...
Private	3 641	5 390	6 459	9 759	10 215	...
State Enterprise	2 658	2 506	2 180	1 916	1 781	1 738
Central	1 278	1 188	1 091	1 018	978	956
Local	1 380	1 318	1 089	898	803	782
Agriculture and forestry	19 976	20 895	21 895	22 483	23 208	23 898
Industry and construction	3 801	4 036	4 210	4 214	4 275	4 370
Services (public and private)	3 622	4 010	4 188	4 277	4 337	4 481
Share of total employment (%)						
State Sector	14.7	13.1	11.3	10.2	9.3	8.9
State Enterprises	9.7	8.7	7.2	6.2	5.6	5.3

Sources: GSO (1993); World Bank (1995a), Statistical Appendix Table 1.3.

In absolute terms, the SOE workforce reduction between 1987 and 1993 totalled some 970 000 people[26] (roughly 3.6 per cent of the starting year employed labour force[27]). Of the job reductions, some 270 000 were in centrally-owned SOEs and the rest in locally-owned ones. Industrial SOEs accounted for only a fraction of total SOE job losses[28]; a sizeable proportion occurred in the agricultural and trading sectors. In cases where the assets of a liquidated SOE were sold to a non-state owner who re-employed the same size workforce, the SOE employment reduction would have been fully compensated by a rise in non-SOE employment. This was probably the exception rather than the rule, however. Moreover, since the government's SOE equitisation programme has proceeded at a snail's pace, there has been very little direct conversion of SOE employment to employment in privatised firms[29].

How, then, did Viet Nam manage such a sizeable reduction in the state enterprise labour force in such a short time? What happened to those workers who left the state sector? Was the method of effecting the reduction in SOE employment economically sound? Have the SOE workforce reductions been largely completed or are there still sizeable economies to be achieved?

State Enterprise Overstaffing

Estimating the extent of SOE overstaffing is by no means straightforward. For, observed SOE employment could only be expected to approach its optimal level if, following reforms, SOEs were selling their output in competitive product markets and also hiring labour and capital in undistorted factor markets. For SOEs in certain sectors at least, the product market reality is still some way from this ideal. Thus, high profitability does not always connote exceptional efficiency, but may still reflect significant market power. On the other hand, lack of profitability may be attributable to excess labour, but it may have other causes as well: outdated technology, under-utilised capital and poor management. Furthermore, even if the labour market is now relatively undistorted, continued access by SOEs to cheap capital would tend to bias their technology choices towards more capital-intensive methods than would be warranted by relative factor supplies.

With regard to capital costs, in principle since 1992 the banking sector charges the same interest rates to public and private enterprises. A recent enterprise survey, however, suggests that the former still pay slightly less for their working capital and considerably less for investment capital[30]. In any event, although real interest rates are positive, the prevailing rate is still not a competitive market rate. Excess demand creates a situation of credit rationing which has tended to favour SOEs, in part because of their larger holdings of land to be used as collateral[31], in part because of their historically close links to the state-owned commercial banks. The credit picture is changing however. Whereas, at end-1990, 90 per cent of outstanding bank credit consisted of claims on SOEs, by end-December 1994 this share had fallen to 63 percent (World Bank 1995a, Table 4.2).

Whether the reduction in the SOE workforce has been socially efficient depends on the fate of both those workers who leave the SOE sector and those who stay behind. Assuming that the marginal productivity of labour in the SOE sector before retrenchment was greater than zero, then it makes a difference to the economy whether departing workers move into alternative employment or into unemployment. More generally, a shift of workers from the state to the non-state sector should raise the marginal productivity of both leavers and stayers. In a situation of perfect labour mobility, the transfer would continue until the marginal revenue product of labour (hence the wage) in the two sectors is equal.

In practice, there is not perfect labour mobility, owing to certain institutional impediments such as the non-transferability (until recently) of pensions and health care benefits. Also, there are other factors than wages that differentiate public from private sector employment — e.g., differences in fringe benefits and in perceived job security, making it difficult to compare the real, risk-adjusted earnings in the two sectors. Thus, while it is difficult to know whether SOE labour surpluses have been eliminated, there is reason to believe that they have not. One survey conducted in late 1994 (Planning Department, State Planning Committee, 1995) found that while the proportion of SOEs with surplus labour had fallen since 1991, the number was still significant[32]. For example, in Hanoi, some 14 centrally-owned SOEs (out of 43 surveyed) and 8 locally-owned SOEs (out of 24 surveyed) still reported labour surpluses in 1994. In Ho Chi Minh City, by contrast, only five out of 81 SOEs surveyed still reported excess labour.

The SOE workforce is heterogeneous in terms of skills, experience and productivity. Thus, it matters to SOE performance which workers leave and which remain. If retrenchment is targeted, then SOE managers can aim to optimise the ex post skill and experience mix. If departure is purely voluntary, the risk of adverse selection arises.

Downsizing

In Viet Nam, the government has relied upon a combination of two compensation schemes to encourage SOE workforce downsizing: a lump-sum severance pay scheme for younger workers and an early retirement scheme for those within 5 years of the mandatory retirement age (60 years for men and 55 years for women).

In the case of severance pay, the basic amount is equivalent to one month's final salary for each year of service, with a minimum compensation of three months' salary. There is also a 10 per cent increment for health expenses and a 15 per cent increment for education. Those SOE workers occupying company housing are permitted to remain after terminating their employment, but they must pay rent. The severance pay package for these workers contains an additional allowance based on the floor area of their apartment to cover initial housing expenses. On average, SOE workers and civil servants have received the equivalent of about one year's salary in severance pay (World Bank 1993).

Workers who accept early retirement receive their pension benefits in lieu of severance pay[33]. Workers with 25 years of service who are not yet eligible for early retirement are offered an additional seven months' severance pay (or 32 months in total).

From 1989 to 1993, compensation provided to departing SOE workers amounted to 450 billion Dong and that provided to civil servants 160 billion Dong, for a total of 610 billion Dong (or about $60 million at the 1992 exchange rate). Initially the government offered to split the costs of severance pay with enterprises half-and-half. Since, however, many enterprises claimed financial hardship, the government actually contributed 63 per cent of the funds (World Bank 1993). Partly as a result, the share of pensions and social relief in the government's current expenditures rose from 5 per cent in 1988 to 15 per cent in 1994[34] (World Bank 1995a). Faced with mounting budgetary pressures, the government ceased making severance payments from end-1994. Under the new Labour Code which took effect on 1 January 1995, companies themselves are required to set aside funds to compensate redundant workers.

What is noteworthy about both schemes is that they have been largely voluntary. The benefit of a voluntary programme is that it avoids worker resentment; the disadvantage is that it makes the resultant change in the size and the skill composition of the workforce rather arbitrary. Recognising this, frequently SOE managers have used financial inducements to retain particularly valuable staff[35] or to encourage less valued staff to leave. In any event, managers probably exerted greater influence over the composition of the departing workforce than the voluntary nature of the schemes would suggest[36]. (See Annex for brief case descriptions of several SOEs that have undergone reorganisation and labour force restructuring.)

Tracing Leavers

Ideally, one would like to be able to compare systematically the characteristics of those who left SOEs with those who remained. One would also like to be able to compare the labour market outcomes of SOE leavers to those of other job seekers. For example, how quickly have leavers (apart from those taking early retirement) moved into new jobs, and do those jobs pay more or less on average than the ones they left? Also, are those who left generally more or less educated than those who stayed, more or less experienced, older or younger?

So far, there have been few tracer studies done in Viet Nam that could provide detailed answers to these questions. Interviews with SOE managers, government and trade union officials (conducted during 1994 and 1995) provide some anecdotal evidence, and in a few cases SOE managers have done their own informal follow-up surveys of leavers, but generalisations remain difficult. As an initial observation, the real wages of SOE employees were falling steeply in the late 1980s and early 1990s[37], just as opportunities for starting small businesses[38] or working in foreign companies were becoming more abundant. It was fairly common, then, for SOE workers — especially older workers — to use their lump-sum severance payments as capital to invest in household businesses[39]. In the case of younger, better educated workers, leaving to work in foreign-invested companies has been more common.

It would appear that a disproportionate number of those leaving the SOE sector have been young people[40]. The incentive structure built into the severance pay package, with its minimum of 3 months' salary (equivalent to 3 years' service), favours the departure of the newest hires, who also tend to be the youngest workers. Combined with the early retirement scheme, the effect has probably been to narrow somewhat the age distribution of SOE workers. It is not known how the educational levels of those departing compare with those staying. Clearly, though, the young leavers are among the least experienced workers and, presumably, also possess relatively little firm-specific human capital[41]. Given the premium attached to foreign language skills (particularly English and Chinese), it is reasonable to assume that many of those leaving to work in foreign-invested companies do so on the strength of those skills.

A fair generalisation would be that the incentives to leave are stronger for those workers with a high level of education (i.e., non-specific human capital) than for those with firm-specific technical skills not readily transferable to other potential employers. Also, these educated workers probably have more incentive to leave than their less-educated co-workers, since the compressed pay scale in SOEs has tended to limit the returns to education (though this has begun to change, as discussed below). Also, job competition is especially intense in the unskilled end of the market, so that departing unskilled SOE workers risk taking a pay cut and/or experiencing greater job insecurity.

While no data are available on the distribution of leavers by occupation, the process of re-registration (whereby numerous loss-making SOEs were merged with profitable ones) suggests that many managerial personnel must have been made redundant.

Women appear more likely to leave SOEs than men, especially among the youngest and oldest age cohorts. There may be a couple of reasons for this. In the case of older employees opting for early retirement, many go into informal sector activities, primarily small retail or other family businesses, where women tend to predominate. In cases where both spouses are state employees, one (often the man) retains his state-sector job to maintain family access to health care, education and other state-provided benefits while the other (usually the woman) joins the private (informal) sector. As for younger workers, this may reflect the pattern of demand in the private job market, with many foreign companies seeking to fill vacancies in traditionally female occupations — whether office jobs like secretaries or factory jobs in labour-intensive assembly industries like garments and footwear. Also, women tend to be more heavily represented in foreign language studies at university. On the other hand, married women with children may find public sector employment more compatible with their household responsibilities.

Thus far, it would appear that the transition between jobs has been a fairly smooth one for most departing SOE workers. Relatively few have suffered prolonged spells of unemployment. Given the voluntary nature of the labour force reduction schemes, this is hardly surprising. Indeed, many if not most had already secured alternative employment before leaving. Nevertheless, the future may not be as problem-free as the past. If sizeable further workforce reductions are required in SOEs, it may be difficult to avoid involuntary dismissals, and some of those leaving could well have difficulty finding alternative employment. The transition is apt to be particularly problematic for middle-aged or older workers with few transferable skills.

In 1992, the government instituted a national programme for training and re-training of workers in skills employable in the private sector. The programme is not restricted to SOE workers but they are one of its target groups. It consists of two main components: a network of 120 Centres for Employment Promotion (CEPs) distributed throughout the country and a revolving fund offering low-interest loans for starting up small businesses. Loans are made to those who have completed the vocational training courses offered by the CEPs, which cover a broad range of trades from motorbike and electronics repair to truck driving, from jewellery making to fish, eel, and frog raising. The courses last from three to nine months, depending on the trade. In 1993 the fund disbursed loans of 200 billion Dong (roughly $18 million) to projects which generated employment for an estimated 214 000 people (MOLISA 1994). Assuming all those people owe their jobs directly to the loans, this amounts to a cost of roughly $93 per job. The placement rate for trainees is reported to be in the 60-80 per cent range[42].

Coping with Further SOE Retrenchment

Despite the substantial SOE labour force restructuring that has occurred to date, it is still probable that more will be necessary in the next few years. The Vietnamese government is rightly concerned that future workforce reductions proceed as smoothly as those of the recent past. Since the voluntary early retirement/departure programme began to weigh heavily on its budget, the government is anxious to limit budgetary outlays for displaced workers in the future. Hence the requirement that SOEs make their own provisions for such outlays. This may not resolve the problem, however, since loss-making SOEs will be hard-pressed to set aside funds to cover future claims of dismissed workers. Those that can afford to set aside such funds, meanwhile, are less likely to have to use them. Thus, if the government is to keep in place the social safety net for retrenched SOE workers, it will need to devise a more effective payment scheme that does not unduly strain its budget.

The following calculation suggests that, on rather conservative assumptions, the future compensation claims of retrenched SOE workers alone (i.e., not including civil servants) could approach the $60 million paid out to SOE workers and civil servants from 1989 to 1993 (see above). The current number of SOEs is roughly 6 000 and the current SOE workforce roughly 1.7 million. Based on the age distribution of the active population and data on retirement from the civil service during 1992-93, the natural attrition rate is estimated at about one per cent per annum[43]. Suppose that the 10 per cent of SOEs that are still making losses will need to cut their workforce on average by two-thirds in the next few years to return to profitability, and that reductions of one-third will be needed in the workforce of another 10 per cent of SOEs that are barely breaking even. If we assume, moreover, that this 20 per cent of SOEs employs an equal proportion of SOE workers, then the combined employment of this 1 200 enterprises is 340 000 persons. The workforce reductions in those SOEs making losses and those breaking even would need to be 112 200 and 56 100 respectively, for a total of 168 300 workers (10 per cent of the total SOE workforce but 50 per cent of the workforce in the marginal SOEs). If one were to rely solely on natural attrition to achieve the intended workforce reductions, it would take roughly 50 years.

Assuming, more realistically, that the adjustments are to be made over a 3-to-5 year period, there would need to be sizeable numbers of early departures. Over three years, some 10 100 workers could be expected to retire; over five years, a total of 16 660. This would leave 158 200 and 151 640, respectively, to be compensated for early departure. Given an average monthly wage (1994) of 350 000 Dong per worker[44] (hence an annual salary of 4.2 million Dong, and assuming (as was the case in the past) that the average compensation payment per departing worker equals one year's salary, then total required compensation would range from 637 billion Dong (five years) to 664 billion Dong (three years) (or between $58 and $60 million at current prices and exchange rates, $45-47 million at 1992 levels).

The required payments, then, would amount to between 127 billion and 221 billion Dong per year. While at first glance it may seem to make sense to stretch out the adjustment process, the budgetary costs of early workforce reductions need to be weighed against the savings (to the economy as a whole but also possibly to government finances) from early reallocation of labour to more productive employments.

Supposing the adjustment were to be made in three years, then the required payments, when added to the "pension and social relief" portion of the government budget, would raise that line item to just over 16 per cent of current expenditures (based on the 1994 budget). How can this additional cost be financed? One possibility would be to earmark a small fraction of what have been rapidly growing state enterprise transfers to the government budget for this purpose. In 1994, net SOE transfers to the budget were an estimated 19.7 trillion Dong (almost half of government revenue and 11.6 per cent of GDP) (Dodsworth et al. 1996). The annual compensation payments would amount to only slightly more than one per cent of that amount. As the overall budget is still in deficit, however, and the government is struggling to hold it down, even this relatively small claim on current revenues could be problematic.

Another, more attractive option would be for the government to recoup the costs of retrenchment through a small surtax on the rental income earned by SOEs on their sizeable landholdings. This would operate as a kind of land tax and should not be very distortionary. While data are not available, anecdotal evidence suggests that SOEs are deriving substantial net revenues from leasing a portion of their land to foreign enterprises, so the government would effectively be appropriating a slightly larger share of those land rents (already they should be reflected in the taxable profits of SOEs). As an example, assuming the average land area to which an SOE has use rights is 10 000 m2, then total area under SOE control would be 600 million m2. So, if the government were to levy a surtax of only 1 000 Dong per m2, it could collect 600 billion Dong, or almost the amount of the estimated retrenchment compensation costs. The levy could be phased out once the workforce reductions had been completed, or according to a preannounced time schedule.

As noted above, concern over job losses has been one reason for the government's reluctance to pursue equitisation more aggressively. It should be possible, however, for the government to manage any workforce reductions associated with the ownership transition (at a price). For example, in the event that a controlling block of equity is transferred to insiders (workers and managers), as owners they would have an incentive to reduce overstaffing so as to boost the value of their shares. Assuming the expected increase in profitability is sufficiently large and the labour market conditions are buoyant, it should be possible for the enterprise to offer departing workers a compensation package that would make them somewhat better off than if they had stayed[45], without the remaining staff's being made worse off. In the event that privatisation were to proceed via the auction of a controlling share, then the government could make it a condition of the bid that the winner agree to retain the current workforce for some fixed period (say, three years) during which time a specified amount of revenue would be invested in retraining. Since this would reduce the expected profitability of the enterprise, the government would have to be prepared to make a suitable (downward) adjustment to its offer price.

IV. THE EVOLUTION OF THE LABOUR MARKET

The problem of displaced public sector workers, while not fully resolved, is essentially a transitional one. Further adjustments may be required, and those may temporarily strain government finances. From a longer term perspective, however, the more important question is whether the labour market functions efficiently to absorb a high proportion of job seekers into productive employment, to provide adequate rewards to effort and skills, and to reallocate workers from low-productivity to high-productivity employments.

The evolution of the labour market cannot be considered in isolation from broader economic policies. Whether the private sector becomes an engine of growth and of job creation, as has happened in other East and Southeast Asian economies (O'Connor and Farsakh 1996), clearly depends on how conducive the environment is to private investment and entrepreneurship. While many of the accustomed privileges enjoyed by SOEs are being dismantled, private domestic capital formation is still hampered by various constraints — not least limited access to land and long-term credit.

The Labour Code is designed to provide a common legal framework for labour-management relations in both the public and the private sector. This should serve to foster labour market integration. In certain areas (e.g., social insurance and trade unions), the new Labour Code extends to the private sector rules and practices previously confined largely to the state sector, while in the generalisation of labour contracts the reverse is true. There remain some areas, however, in which different types of firms are subject to distinct sets of rules, notably the different minimum wages applicable to foreign-invested and domestic firms.

In the case of social insurance, according to the Labour Code, any firm employing more than 10 people should provide social insurance covering sickness, job accidents, occupational disease, pregnancy, retirement and death (Article 141). To cover these expenses, the enterprise is required to establish a social insurance fund. The worker contribution amounts to 5 per cent of his/her basic wage and the employer's comes to 15 per cent of the total wage fund; the state is also to contribute an unspecified amount. Management of the fund, processing of claims, and disbursement of entitlements is to be consolidated within a new social security organisation[46]. In effect, what is taking shape is a pay-as-you-go state social security system covering most formal sector employers, public and private, with rather generous benefits[47]. The resulting social insurance cost as a percentage of total labour compensation is high by comparison with most other East Asian countries (on a rough par with Singapore, Canada and the United States but well above Hong Kong, Korea, Taiwan and even Japan[48]). It does not necessarily follow that the social wage share in Viet Nam is excessive. One relevant consideration is the female labour force participation rate, which is much higher in Viet Nam than in most of its East Asian neighbours[49] (see Table 5). This suggests that there is a higher opportunity cost to women's time spent caring for elderly parents. The government does need to be concerned, however, that the social charges added to the wage do not raise unduly the costs to employers of new job creation in what remains a labour-abundant economy.

Table 5: Labour Force Participation Rates in Selected Countries, 1995 (per cent)

	Ages 15-64	
	Male	Female
Viet Nam	92	77
Hong Kong	86	50
Indonesia	85	38
Korea, Republic of	76	41
Malaysia	91	52
Singapore	84	53
Thailand	86	67
Japan	84	53
Canada	87	58
United States	86	60

Source: Table A-1 of *World Development Report 1995,* The World Bank, Washington, D.C.

With regard to trade unions, the Labour Code not only protects the right of workers to organise a union, but it requires that unions be formed within a certain period in all enterprises — public or private — with more than 10 employees. While there can be sound economic grounds for trade union representation, particularly in large establishments (cf. Pencavel 1995), the minimum size of 10 employees contained in the Labour Code is rather small and, in any case, the workers should be free to decide whether or not to form a union. By one estimate, only 1 200 of 18 000 large and medium sized non-state enterprises were unionised in 1995, whereas virtually all SOEs were (EIU, 1995).

The Labour Code formalises the institution of labour contracts as the basis for the employer-employee relationship. These are to be negotiated at the enterprise level between the employer and employee (or his/her chosen representative). The salary of the worker is the subject of contract negotiation, with the legal minimum wage as a floor; other terms of the contract include: hours of work, place of work, working conditions, social insurance provisions, and duration of contract (Article 29). The duration may be indefinite, fixed-term of one to three years, or job-specific (less than one year) (Article 27). The law prohibits the use of short-term contracts to fill jobs that are "of a permanent character lasting more than one year", though it is difficult to see how this can be enforced. A survey of SOEs conducted in 1994 found that a large proportion of their staff (42 per cent) were still considered lifetime employees, while one-third were on indefinite contracts, 16 per cent on fixed-term contracts, and the remainder on short-term contracts (less than one year) (CIEM 1995). What is significant for the SOE sector is not the length of contract as such but the transition from a regime of guaranteed lifetime employment. In formal sector private establishments, fixed-term contracts of relatively short duration appear to be the norm.

Labour Mobility

One attraction of public over private sector employment in the past, besides relative job security, has been the superior benefits package (pension, health insurance, maternity leave, etc.) provided by the former. A worker wishing to switch employers could not readily transfer pension rights from one to the other, particularly if the other was a private company. With the new Labour Code, pension and health insurance coverage should in principle be the same in public and private enterprises and the generalisation of the scheme should make it possible to transfer one's pension record between employers. Assuming the Labour Code is impartially and effectively enforced, differential social insurance benefits should no longer pose a barrier to inter-sectoral, inter-firm labour mobility.

Residence restrictions have been relaxed in recent years. Article 68 of the Constitution guarantees the "freedom of movement and of residence within the country". Nevertheless, geographic mobility remains limited, in part because of remaining bureaucratic controls, in part because of the underdeveloped housing market. Thus, in practice, there is not a single integrated national labour market but a host of local (or regional) labour markets, some more competitive than others. Data on wage differentials between SOEs and private enterprises show considerable variation by location. In 1990, for example, in Ho Chi Minh City average wages in SOEs were almost equal to those in private industry, while in Hanoi SOE wages were only about three-fourths of private wages (Mitsui, 1992). This is consistent with the evidence presented earlier that SOEs in Ho Chi Minh City have gone much farther than those in Hanoi towards eliminating labour surpluses. While the reasons for this difference are not clear, the most plausible appears to be Hanoi's less dynamic private sector, hence, more limited non-state job creation.

Figures on employment growth from 1989 to 1992 bear out this regional variation in private sector dynamism. Over that period, Hanoi registered a 40 per cent drop in industrial employment, with the state and co-operative sectors accounting for most of the job loss. Private enterprises accounted for only negligible job creation, while industrial employment in private household businesses actually fell slightly. By contrast, in Ho Chi Minh City, while total industrial employment was roughly constant, private enterprise employment increased two-and-a-half times and private household employment grew by one-third[50] (Industrial Department, GSO, 1994).

Wage Flexibility

Wage reform began even before doi moi. In an effort to boost labour productivity in state enterprises, the government issued a decree in 1981 which allowed enterprises to pay wages on a piece rate. It appears that piece wages were employed originally as a form of incentive pay for surpassing quotas. They have taken on greater importance since doi moi as a way of linking pay more closely to actual performance. Many workers appear to favour this reward system. While each SOE worker is guaranteed a basic wage determined by his/her level on the government pay scale, a sizeable proportion of pay now consists of bonuses distributed from net profits, normally in proportion to productivity. The formula for distribution is negotiated between SOE management and the resident trade union. While this could restrict management's flexibility to use bonuses to reward individual worker performance, they have been used to reward better performing work teams or production units.

In May 1992, a minimum wage was instituted for workers in foreign-invested enterprises. Under the new Labour Code, all employers of 10 or more workers are required to pay the minimum wage, though for domestic enterprises a lower rate applies. The minimum wage rates are periodically revised by the Ministry of Labour-Invalids and Social Affairs (MOLISA). As of mid-1995, the domestic minimum was Dong 120 000 (approximately $10.90) per month. At this level, the minimum wage does not appear to pose a serious disincentive to hiring new workers (at least in the major urban centres) since, in 1994, the average wage for an unskilled worker was about $34 per month, almost three times the minimum (Planning Department, SPC, 1995). The minimum wage for workers in foreign-invested enterprises is several times higher: on 1 July 1996, it was raised from $35 to $45 per month in Hanoi and Ho Chi Minh City and from $30 to $40 per month in medium-size cities. At that rate, it is much closer to the average wage in foreign-owned enterprises. For example, one large foreign enterprise based in Ho Chi Minh City reports paying an average wage of $50 per month to its 1 000 unskilled workers, or only one-fourth more than the new minimum[51]. If the minimum wage is designed to provide a safety net for the lowest-paid workers, one may question whether the current domestic minimum is adequate[52], but the safety net motive cannot explain the much higher rate applicable to foreign-invested enterprises.

Traditionally, most educated workers (especially those with tertiary education) have been employed in the state sector, either in government proper or in SOEs. Wage differentials within the state sector between skilled and unskilled workers have historically been rather narrow, reflecting in part an egalitarian incomes policy and in part relative demand conditions. With the growth of the private sector and, in particular, of foreign-invested enterprises, the demand for educated workers has grown and with it education-related wage differentials.

In an effort to retain more highly trained personnel, the government has had to adjust its official wage schedule, and SOEs have had to raise the relative pay of educated workers. In 1993, the government modified the public sector pay scale: whereas previously the ratio of the salaries of the highest paid workers to those of the lowest paid workers had been 3.5:1, it was raised to 13:1 (ILO, 1994)[53]. The changing labour market conditions are reflected in average wages for skilled and unskilled workers across enterprise type. A survey of some 200 enterprises, public and private, in Hanoi and Ho Chi Minh City found the following: in 1991, the average wage paid to skilled workers was about 50 per cent higher than that paid to unskilled workers; in 1994, the skilled wage was 70 per cent higher than the unskilled wage (Planning Department, SPC, 1995).

Remaining Labour Market Rigidities

Clear progress has been made toward the creation of a flexible, efficient labour market in Viet Nam. Nevertheless, as the preceding discussion suggests, certain rigidities and distortions remain. Some are linked to imperfections in other markets. Thus, labour mobility is still limited geographically due to difficulties in changing residence. This may partly explain the persistent pay differentials between the north and the south of the country (in particular, between Hanoi and Ho Chi Minh City)[54]. In 1994, an unskilled worker in Ho Chi Minh City earned on average one-third more than his/her counterpart in Hanoi (Planning Department, SPC, 1995). The differential for educated workers may have been even greater, since the educational attainment of northern workers tends to be higher than that of southern workers[55]. On the other hand, cost-of-living differentials are also significant between Hanoi and Ho Chi Minh City: in 1992-93, the overall price index was about 30 per cent lower in urban areas of the Red River Delta (where Hanoi is situated) than in urban areas of the Southeast (home to Ho Chi Minh City) (SPC/GSO, 1994). Whatever costs may be associated with remaining barriers to labour mobility need to be weighed against the social costs of too rapid a migration into already congested urban areas.

There has been a clear trend towards greater market determination of wages in that relatively small sector of the economy — the formal urban sector — where they were once largely administered. The state enterprise sector is under growing pressure to match the salary offers of the private sector if it hopes to retain its skilled labour force. Thus, cuts in the SOE labour force have been accompanied by pay raises for those skilled workers remaining. As for unskilled SOE workers, they could well face a fall in real earnings if forced into the highly competitive unskilled job market. On the other hand, for successful entrepreneurs — even in the informal sector — the rewards are potentially quite high. Hence the value of training these workers in basic skills that prepare them to set up in self-employment.

The limited available evidence points to a widening of skill-based wage differentials. This adjustment is to be expected following a long period in which such differentials were deliberately kept narrow. The government appears to be ambivalent about this trend, however, as suggested by the imposition of an "additional equalisation income tax" (or AEI tax) on regular income earned by Vietnamese in excess of 6.3 million Dong per month[56]. While the income level at which the AEI tax kicks in should not affect the bulk of skilled workers, it could (if strictly enforced) unduly penalise those with exceptional skills or talents.

As a more general observation, even if market-determined relative wages of skilled workers were to rise for some time, Viet Nam's relatively high educational attainment and high post-secondary enrollment rate should act to moderate the trend[57]. Moreover, Viet Nam still has one of the least skewed income distributions of any ASEAN country (rivalled only by Indonesia)[58].

V. POLICY CONCLUSIONS

The restructuring of the SOE labour force is a transitional problem, one moreover that the government of Viet Nam has gone some way towards resolving. The pace of restructuring appears to have slowed recently, to some degree because overstaffing has already been significantly reduced. Yet, as indicated above, the process is not yet complete and to complete it smoothly may require a sizeable if temporary commitment of additional government resources. Given the voluntary nature of the earlier workforce reductions, it is likely that many of those who have already left were among the most readily employable outside the state sector. By implication, in future, departing workers may have greater difficulty finding alternative employment. Indeed, for some it may appear unattractive to leave voluntarily for an amount of compensation no greater than that offered earlier leavers.

Viewed differently, if remaining excess SOE workers are to be induced to leave, a greater investment may need to be made in re-training and other active labour market policies (e.g., assistance in job search and placement) to enhance their employment and earnings prospects in the non-state sector.

Whether — or rather at what price — workers would be prepared to leave SOEs will depend critically on the rate of employment growth in the private sector. Thus, an essential component of any strategy not just to redeploy SOE workers but to create productive employment for the one million new entrants to the labour force each must be to remove any remaining impediments to private entrepreneurship and capital accumulation. There is a still a strong perception, despite the dramatic reduction in budgetary support for SOEs, that the private sector remains disadvantaged in a number of respects, not least in its access to and cost of long-term investment capital. The strengthening and further development of the financial sector will be critical to redressing this state of affairs. Also, the number of sectors where cost functions and technologies give rise to conditions of natural monopoly is almost certainly much smaller than the number where SOEs currently enjoy a virtual monopoly of supply and reap sizeable profits. Efforts at “infant industry” promotion should not be at the expense of substantially higher intermediate input costs to domestic industry.

In recent years, private sector job creation has been impressive, but the fact remains that the overwhelming number of new jobs have been in small household businesses, with relatively low productivity. While this has provided a useful “shock absorber” for displaced workers from the state sector (including not just SOE workers but civil servants and soldiers), it cannot provide the basis for long-term development. For productivity and labour incomes to rise on a sustained basis, a growing proportion of new jobs created will need to be wage-paying jobs in the formal sector[59], whether in industry or services.

NOTES

1. Sources of figures for Viet Nam and China are the same as for Figure 1. State sector employment includes both the government civil service and SOEs.

2. For Viet Nam, Industrial Department, GSO, 1994; for China, State Statistical Bureau, PRC, 1995. If one were to include “private households” in the employment figures, the SOE share of total industrial employment would drop to 30 per cent for Viet Nam; a comparable figure was not available for China.

3. Real GDP growth in Viet Nam averaged 7.9 per cent a year from 1986 to 1993, compared to India’s 5.7 per cent.

4. Truong and Gates (1992) noted the “unevenness of the liberalisation process whereby the state sector is being rapidly liberalised and the private sector is still highly regulated” (p.63).

5. For early discussions of *doi moi*, see Ronnas and Sjoberg (1989) and Wood (1989).

6. Figures cited here are mostly from Table 1.3 of World Bank (1995a).

7. This is roughly the same as the state share of formal sector employment in India, which for the private sector is defined as non-agricultural establishments employing 10 or more people; see Government of India (1994).

8. Capital transfers from the government budget to SOEs were terminated in 1991, but working capital transfers have continued.

9. While legally SOE managers are not debarred from laying off employees, in practice this is rarely done.

10. Notably the collapse of CMEA markets and an end to supplies of cheap material inputs (not least petroleum products) from the former Soviet Union and other CMEA countries.

11. Figures on profits and losses of SOEs need to be interpreted with caution since, for tax reasons, SOEs have until recently had an incentive not to show large profits.

12. Outstanding state commercial bank credit to SOEs rose by about three-fourths from end-1990 to end-1991; over the next three years, the rate of credit growth dropped sharply; Table 4.2 of World Bank (1995a).

13. Recent government figures put the number of SOEs at 6 000, suggesting a further reduction of 1 000 since end-1993.

14. Liquidated SOEs were mostly very small; their combined assets accounted for only 4 per cent of total SOE assets; Mallon (1994).

15. The provisions on distribution of proceeds from sale of assets are contained in Decision 330-HDBT of the Council of Ministers, dated 23 October 1991; the provisions on financial support for displaced workers are contained in Decision 176-HDBT, dated 9 October 1989.

16. More recent government estimates are that only 10 per cent of remaining SOEs (or roughly 600 enterprises) are making losses, though a sizeable number are barely breaking even.

17. The figures for the value of productive capital need to be interpreted cautiously. In 1990 the government undertook an inventory and re-valuation of SOE capital assets. It seems quite possible that the sharp jump in the value of productive capital after 1989 reflects in part this re-valuation of previously undervalued assets.

18. By one estimate, about 98 per cent of foreign joint ventures in Viet Nam have had SOEs as partners (APEG, 1996). An SOE offers certain advantages that a private firm cannot, viz., access to cheap land and networks for dealing with the government bureaucracy. Also, SOEs often enjoy preferential access to export quotas (e.g., in textiles and clothing) and/or high rates of tariff protection. The preference by foreign investors for venturing with SOEs stands in marked contrast to the Chinese case.

19. For example, the LSE provides a framework for identifying sectors where state ownership will continue to be promoted and sectors where private ownership is expected to predominate. The decision about exactly which sectors will be placed in which category was left to an implementing decree.

20. In the past, even loss-making SOEs have been able to offer generous fringe benefits to their employees because of the soft budget constraint.

21. This was pointed out to me by Ray Mallon, Asian Development Bank consultant in Hanoi and formerly resident advisor to the State Enterprise Reform Project of the State Planning Committee (now the Ministry of Planning and Investment).

22. This information is based largely on an interview with Phan Van Tiem, Minister in Charge of the Renovation of State Enterprises, in *Viet Nam Economic Review*, June 1996, pp. 15-18.

23. While this risk is acknowledged by the government, the approach to dealing with it is somewhat worrisome. In particular, price controls have been reintroduced in certain sectors; see interview cited in previous note. Policy on these corporations is still evolving.

24. McCarty (1993) notes that, at the 27 SOEs he visited in 1991, average employment was only 62 per cent of its 1986 level, and most of the reductions had occurred in 1989.

25. This was still not fast enough to keep pace with growth in the labour force of roughly 25 per cent, so unemployment rose officially from 3.4 per cent in 1989 to 6.2 per cent in late 1992.

26. These SOE workforce reductions occurred simultaneously with a reduction in government employment of almost 200 000 persons.

27. The magnitude of the SOE employment change is made apparent by a comparison with India. In 1990-91, centrally-owned SOEs in India employed some 2.2 million workers. By 1993-94, their numbers had been reduced by a mere 150 000 (Goswami, forthcoming, Table 8.2).

28. Table 5 of GSO (1994a) indicates that industrial SOEs accounted for roughly one-fourth of total SOE job losses in the material productive sector between 1986 and 1992. If one includes construction with industry, however, the share rises to 57 per cent.

29. The government's experimental voluntary SOE equitisation programme has been stalled for some time in part because of workers' concerns over the loss of jobs and of benefits. Another concern is what would happen to the land controlled by SOEs after equitisation, since land represents a very sizeable share of the asset value of SOEs.

30. The survey, sponsored by the Japanese Overseas Economic Cooperation Fund (OECF) and carried out at the end of 1994, suggests that SOEs can borrow for investment at 8.5-9.0 per cent per year, while private firms must pay in the range of 20-30 per cent; Planning Department, SPC, 1995.

31. Policy on the use of land as collateral is in a state of flux. The right to use land as collateral was guaranteed in the 1993 Land Law. In early 1995, however, in an attempt to place SOEs and domestic private enterprises on a level playing field, the Prime Minister issued a Decree 18/CP requiring all domestic economic establishments to rent land from the government, converting SOEs' long-term use rights to rental rights, and limiting the mortgaging of land to the value of pre-paid rent plus the value of property on the land. Transfer rights for holders of rental rights as well as for mortgage holders were not clearly defined, causing a virtual halt to transfers of land use rights and shaking the confidence of banks in the mortgages they hold. As a result, amendments to the decree are expected; EIU, 1996, and World Bank, 1995a.

32. This is corroborated by another, smaller survey which found that 20 of 26 SOEs, mostly in the Hanoi area, still had labour surpluses in mid-1995; CIEM (1995).

33. By one estimate, approximately one-fifth of those leaving SOEs during downsizing were retirees, including early retirees. Early retirees, in turn, have comprised a very high proportion of total retirees from the civil service in recent years: between 1 January 1992 and 31 December 1993, of some 272 400 civil servants who retired, 218 000 (or 80 per cent) retired early; MOLISA, 1994a, Table 48.

34. In 1994, pensions accounted for over half of these expenditures and disability payments another 30 per cent; World Bank, 1995b, Table 4.1.

35. One common practice is to offer a prized employee a piece of company land on which to build a new home.

36. SOE managers have grown familiar with methods of circumventing restrictive laws or regulations. In the late 1970s, SOEs were already engaging in some unofficial trading outside the plan to earn cash for materials or to pay bonuses to workers; this practice came to be known as "fence breaking" (Fforde and de Vylder, 1988).

37. From 1988 to 1991, the real wage of SOE workers declined by roughly 60 per cent before staging a partial recovery (ILO, 1994). The real wage decline appears to have been steeper for unskilled than for skilled workers, based on the survey by Planning Department, SPC (1995).

38. The 1992 Constitution recognised a citizen's right to "freedom of enterprise" (Article 57) and right of ownership of means of production (Article 58).

39. The average severance pay was approximately equal to the average productive capital investment per worker in the private household industry sector in 1992 (i.e., 3.7 million Dong); Industrial Dept., GSO, 1994.

40. An econometric analysis for Argentina found that younger workers had a significantly higher probability than older workers of opting for voluntary retirement from state enterprises undergoing restructuring; see Robbins, Gonzalez and Menendez (1995).

41. From the perspective of the non-state employer, they may also possess fewer ingrained work habits ill-adapted to a private sector work environment.

42. Based on interview with Dr. Nguyen Le Minh, Vice-Director, National Centre for Employment Promotion, Ministry of Labour-Invalids and Social Affairs, 25 December 1993.

43. In 1992-93, 4.06 per cent of the economically active population was 55-59 years of age (i.e., pre-retirement for women); 4.16 per cent was 60-64 years of age (i.e., pre-retirement for men) (SPC/GSO, 1994, Table 4.1.3). Women make up around 45 per cent of the workforce and men 55 per cent. Assuming that the pre-retirement active population is evenly distributed over the age range (which is a conservative assumption, since the distribution is more likely to be skewed towards the beginning of the age range), then about 0.8 per cent of the active population could be expected to reach retirement age each year. A calculation based on number of retired civil servants (excluding early retirement) from 1 January 1992 to 31 December 1993 as a proportion of state sector employment in 1991 yields an estimated natural attrition rate of 0.9 per cent (based on retirement figures in MOLISA 1994, Table 48, and employment figures in Table 4 of this paper).

44. This refers to the simple average of wages of unskilled workers in Hanoi and Ho Chi Minh City; clearly, wages outside these two cities would be lower.

45. Blanchard (1996) presents a simple theoretical model of the decision process of insiders, showing under what conditions they would agree to restructuring (although in his model the assumption is that all existing workers would be replaced). His results suggest that restructuring is less likely the smaller the expected improvement in enterprise profitability from restructuring and the worse the labour-market conditions.

46. The intention is to make the system self-financing, to relieve the general taxpayer of having to cover the expenses of a system which traditionally has benefited a small, and relatively rich, proportion of the population. For example, in 1993, 38 per cent of government expenditures on social transfers went to the richest 20 per cent of the population; World Bank, 1995b.

47. Under the preexisting government pension scheme, pension benefits are paid to men at the age of 60 with 30 years of contribution and to women at the age of 55 with 25 years of contribution at the rate of 75 per cent of the last basic salary. For each additional year of contribution an increment of 1 per cent is paid up to a maximum of 95 per cent; ILO, 1993. It is expected that benefit levels will be reduced slightly under the new comprehensive scheme.

48. Figures for these countries are the share of social insurance expenditures and other labour taxes paid by the employer in total hourly compensation costs for production workers in manufactures; they are compiled by the US Department of Labour, Bureau of Labour Statistics, and reported in OECD (1995), Figure 3.13.

49. Viet Nam's high female labour force participation rate is partly a function of its socialist tradition, but also partly a function of the high proportion of the labour force still employed in agriculture.

50. Nguyen *et al.* (1994) report some north-south migration of labour in pursuit of newly created private sector jobs, though they do not cite any figures.

51. Information taken from article by Nguyen Manh Hung and Nguyen Dung in *Vietnam Investment Review*, 25-31 March 1996, p.5.

52. Certainly its purchasing power has been eroded since 1993, with consumer prices having risen by 14.4 per cent in 1994 and 12.7 per cent in 1995. In April 1995, the retail price of white rice was 3 400 Dong per kg. If a family of four consumes 100 kg. per month, then it would need to pay 340 000 Dong just for rice.

53. The Living Standards Survey of SPC/GSO (1994) found that in 1992-93 those with a graduate degree (the highest paid) earned on average 4.5 times more than those who did not complete primary school (the lowest paid); Table 4.2.15.

54. A number of other factors may also explain north-south pay differentials: different average size of enterprise (with large firms generally paying higher wages than small ones), differential labour productivity (e.g., because of differences in capital/labour ratios or in technology levels), and a different sectoral distribution of employment. More research is needed to determine whether these other factors are significant.

55. For example, a Living Standards Survey conducted in 1992/93 found that, of those living in the Red River Delta (where Hanoi is located), over half had finished at least lower secondary; by contrast, of those living in the Southeast (where Ho Chi Minh City is located) only 30 per cent had completed that level of schooling; SPC/GSO, 1994, Table 2.6.3.

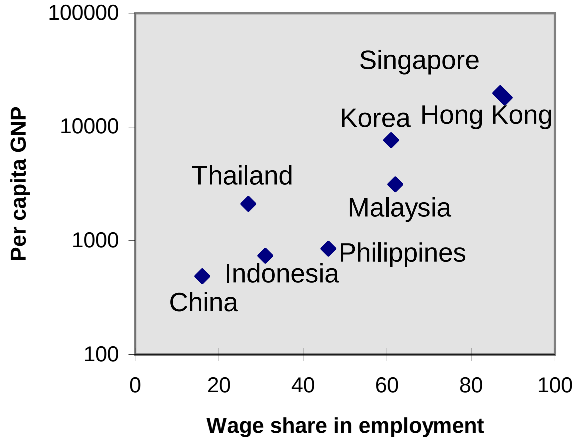
56. The tax is an additional 30 per cent of after-tax income, giving an effective marginal tax rate on this income of 65 per cent.

57. Despite having fallen by about 20 per cent since 1987, post-secondary enrollment was still around 24 per cent in 1992. In Indonesia, there was a significant decline in education-related wage differentials between 1977 and 1990: in the case of men, the ratio of wages for those with tertiary education to those with less than primary fell from 10:1 to 3.6:1; the magnitude of the drop was similar for women's wages (Godfrey 1996, Table 8). Indonesia's tertiary enrollment rate more than doubled (1980-92) from 4 to 10 per cent; World Bank 1995c.

58. See Table 5 of the Selected World Development Indicators in World Bank (1996b).

59. Lindauer (1994) presents a table showing the change in the distribution of employment between own-account (self-employment and unpaid family labour) and wage employment in Korea and Malaysia. Of course, the most dramatic change since the early 1970s has been the steep decline in the share of own-account agricultural employment, as the labour force has shifted to industry and services. In Korea, industrial wage earners went from 10 per cent to 24 per cent of total employment between 1970 and 1990, while service sector wage earners went from 21 per cent to 35 per cent; in Malaysia, the increases in wage labour were of similar magnitude. Following is a plot of per capita GNP levels in 1993 US dollars against the wage employment share in total employment (between 1989 and 1993, depending on country) for eight East and South-East Asian economies (based on data

in World Bank 1995c, Table A-2 of Main Report and Table 1 of the World Development Indicators). The strong positive correlation between per capita income levels and the wage labour share is evident:



ANNEX

Case #1: Rubber Products Company

This company was established in 1960 and, prior to restructuring, had some 1,000 employees making rubber footwear and gloves both for the local market and for export to Central and Eastern Europe. The collapse of that market created pressures to reduce the workforce. Some older workers retired early. Other workers chose to leave since they were already on reduced hours and earning more outside than their reduced wages. Employment fell to 400 before the recent hiring of an additional 100 workers to meet growing export demand in the company's new Western European markets. The company has changed both technology (importing equipment from Taiwan with a tied concessional loan) and products (shifting to semi-rubber sports shoes), and exports roughly 80 per cent of its output, mostly through intermediaries in Hong Kong and the Republic of Korea. While there are customers that would like higher quality products, the company lacks the technical know-how to supply them.

At the time of the interview (April 1995), the company was breaking even but expected to improve its financial performance as it retired its debt, improved productivity, and approached full capacity. Financing remains a serious constraint, but the company does not consider equitisation an option until it becomes profitable. Meanwhile, it is searching for a foreign joint venture partner that can inject more advanced technology.

Case #2: Machine Tool Company

This company was established in 1958 with funding from the USSR to make lathes, milling and cutting machines. At the peak of production (in 1980), it made some 1,000 machine tools per year; its production has fallen to around 360 per year. With the collapse of its market, it has had to reduce its labour force from a peak of 3,000 to roughly 1,000. A number of highly skilled workers left, some to set up their own companies. The average age of workers is 44 years and, while the company would like to hire younger skilled workers, it cannot offer salaries competitive with the private sector. Recently it has begun to diversify its product line, making steel rod for the construction industry as well as spare parts for machinery used in cement plants and sugar mills, and turbines for hydroelectric power stations. It has entered a few partnerships with foreigners, including a joint venture with Japanese investors for mould and die making. Turnover has been growing rapidly and the company finally broke even in 1994 and expected to make a small profit in 1995.

Case #3: Machine Parts Company

This company, established in 1963, initially made parts for bicycles as well as for various types of heavy industrial equipment. As of 1989, it employed 1,150 workers. Then, bicycle demand fell steeply in the face of strong competition from higher quality imported bicycles and a switch to motorbikes. Also, demand for heavy industrial equipment slumped. In 1991 the company was on the verge of bankruptcy. It has since undergone a reorganisation, including a 60 per cent workforce reduction, which has enabled it to reduce its costs by about 10 per cent. It has also diversified its products, making parts for electric generators and for new types of industrial equipment.

In the case of those workers who left the company, slightly over one-third were below retirement age and so received severance pay. Based on an informal survey, the company estimates that 90 per cent of these had found alternative employment, though not always full-time, and most had secured their jobs before leaving. The bulk of these younger leavers were new hires with little experience and few firm-specific skills. An effort was made to encourage more highly skilled workers to stay, for example, through such non-monetary rewards as an allotment of company land for building a house. In the case of retirees, a sizeable proportion (perhaps 30 per cent) have become small entrepreneurs or work in family businesses to supplement their pensions. Those least likely to leave were older workers not yet eligible for (early) retirement; as a result, the average age of the workforce has increased significantly since 1989, to 45 years.

The company's financial situation remains precarious; it is around the break-even point, but has so far been unable to attract foreign investors to help it upgrade its technology.

Case #4: Construction Equipment Company

This company makes equipment for the construction industry, including concrete mixers and cranes, as well as equipment for the cement and brick making industries. It also makes water meters in a joint venture with a German company. Before reform, it employed some 3,000 workers but that number has been reduced to 1,600. Meanwhile, turnover has been growing rapidly, reaching around $7 million in 1994, and it is making a small profit.

When the company began to restructure its workforce, it found that it was principally the skilled workers who wanted to leave and the unskilled who preferred to stay. To try to reverse these preferences, the management raised the base salary of the unskilled workers on which severance pay was calculated. Meanwhile, in the case of skilled workers who chose to leave, the company hired some of them back, with the result that they received severance pay but returned to their original employer. Nevertheless, after restructuring, the company was left with a disproportionate number of middle-aged employees with obsolete skills (e.g., no computer or foreign language skills).

Newly hired educated workers are even more difficult to retain than more senior skilled workers since they are working on contract and are free to leave at any time for higher- paying jobs in the private sector. To be able to offer competitive salaries, the company needs to find ways to loosen the constraints imposed by government salary guidelines. At the same time, it must be able to ensure those salary offers are closely linked to productivity. Thus, an employment contract may specify payment for specific tasks rather than a monthly salary. In effect, then, a sort of piece-rate system has become commonplace, not just for production workers but even for engineers and other professionals.

Case #5: Concrete Making Company

This company, established in 1959, originally produced only concrete. Later, to maintain employment in the face of weak market demand, it diversified into other fields. Now, in addition to making ready-to-mix concrete, it provides a range of design and construction services for the residential and industrial real estate markets. The company has some 1,200 workers; only 300 have left in recent years, including retirees. It is estimated that a sizeable number of remaining workers are redundant in the sense that the company could produce the same quantity and quality of output with 30 per cent fewer production workers and 50 per cent fewer indirect workers.

Workers have been re-trained in a variety of other skills in an effort to give them income-generating opportunities, including carpet making and embroidery.

Recently the company invested in a new production line, to make concrete water pipes, in the expectation of being positioned to meet demand from new investments in improved water supply systems in Hanoi and Haiphong. Demand, however, has been slow to materialise. The company claims it could sell its water pipes at slightly over half the import price and still make a profit. It is also hoping to supply drainage pipes for a number of road construction projects.

Case # 6: Iron and Steel Company

This company, which was established as a centrepiece of Viet Nam's heavy industry development strategy, employs a large part of a town in the north of Viet Nam. In 1978 employment peaked at 25,000; by 1988, it had been reduced to roughly 17,000 and it currently stands at 13,000. Only about 6,000 of those are directly employed in steel production. Others are employed in various ancillary activities, including coal mining and quarrying from an earlier era when these were important upstream activities.

Originally, it employed blast furnace technology, but five years ago it converted to electric arc furnaces. Thus, its primary raw material has changed from iron ore to scrap metal. This has substantially lowered its material costs because of the availability of low cost domestic scrap. Its labour costs are significantly higher than those of the major steel producer in the south, which has higher output but employs only one-fourth the number of workers (though at more than triple the salary). Also, this plant has especially high distribution costs because of its remote location and poor transport infrastructure.

Currently, it operates a rolling mill with a Singaporean partner that produces some 112,000 tonnes per year. Productivity in terms of steel produced per worker has increased two-and-a-half times since 1989. Nevertheless, the company is still only barely profitable.

In the future, the company plans to expand through a joint venture with an Australian steel maker to make rolled steel products in Haiphong, where transport costs are substantially lower.

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