Special issue
Globalization and poverty in Vietnam

Introduction and Overview

Guest-Edited by John Thoburn

Abstract The papers in this special issue present results from three research projects on Vietnam looking, respectively, at poverty dynamics; globalization, production and poverty; and at foreign direct investment. Vietnam has seen a striking reduction in poverty since its opening to the outside world in the early 1990s under its *doi moi* economic reform programme, and evidence for this poverty reduction is not sensitive to where the poverty line is drawn. Inequality, however, has risen. An important part of Vietnam's reform programme has been the rapid development of labour-intensive manufactured exports such as garments and footwear, partly driven by foreign investment, while the domestic market has remained quite protected. Employment growth has been disappointing, though, since Vietnamese industry has been shedding labour as it catches up with world standards of productivity.

Keywords Vietnam, globalization, poverty, trade, economic reform, employment.

JEL classifications F14, F16, I32, O53.

1. INTRODUCTION

(a) The research projects

The papers in this special issue had their origins in papers given at a workshop in Hanoi in September 2002 on 'Globalization and Poverty in Vietnam'.[1] They present results on Vietnam from three multi-country research projects financed under the UK Department for International Development's 'Globalization and Poverty' research programme.

The Globalization and Poverty programme started from the premise, first, that the impact of globalization processes is uneven; there are winners and losers. Second, that policy interventions can make a difference to the way globalization

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processes affect the poor. National policies and global rule-setting can, together, contribute to globalization becoming a solution to global poverty.[2] There were fourteen projects grouped under three themes: production, trade and labour markets; capital flows, investment and debt; global governance and institutions. The projects here, which are grouped under the first and second of these themes, are:

- **The impact of trade reforms and trade shocks on household poverty dynamics.** This project has investigated the effects of trade reforms and shocks on household incomes by examining a number of different channels: the direct channel via prices, wages and employment as prices and factor demand change, and the indirect effects through private and public transfers. It did this chiefly by analysing household panel data that permit tracing the movement of households in and out of poverty through the period of a trade reform or shock. The countries covered were Zambia, Vietnam and China.
- **Globalization, production and poverty: macro-, meso- and micro-level studies.** This project sought to trace the effects of globalization from changes taking place at the global level through to national- and local-level impacts using a macro–meso–micro framework. It consisted of four country-level studies (Vietnam, Bangladesh, South Africa and Kenya) looking at the impact of changes in integration with the global economy on the labour market, and studies of three international value chains (clothing, textiles and horticulture). Also included was a background study of the influence of China on the international value chains for garments and textiles.
- **Regionalization, foreign direct investment and poverty reduction: the case of ASEAN.** This project examined the impacts of foreign direct investment (FDI) in ASEAN, the ten-member Association of Southeast Asian Nations. It asked how ASEAN policies on FDI, investment and the development of regional production systems facilitate investment flows into the four new member countries – Cambodia, Laos, Myanmar, Vietnam – to enhance growth and reduce poverty.

(b) Vietnam, globalization and poverty

For developing countries, the twenty years since the early 1980s have seen a new wave of globalization, though the degree to which countries have participated has varied greatly.[3] Their increased integration into the world economy has occurred in the context of liberalization of their foreign trade regimes, usually after decades of import-substituting industrialization behind trade barriers. Trade reform normally has been accompanied by a range of other reforms, such as privatization of state-owned enterprises (SOEs), reform of agricultural pricing, and macroeconomic stabilization. Such reforms, which often have been at the behest of multilateral agencies such as the World Bank, have made globalization and its effects on development, poverty and inequality increasingly controversial (Stiglitz 2002: 16–17). There are popular fears that globalization increases inequality both between and within countries.

The development discourse since the late 1990s has moved increasingly towards identifying the alleviation of poverty as the most important aspect of development. Poverty is typically defined for practical purposes as income of less than US$2 a day in terms of real purchasing power, with incomes of less than $1 a day being regarded as extreme poverty. Poverty, more widely, involves a lack of entitlements to such things as healthcare and information, and the lack of capabilities to turn entitlements into states of well-being.[4]

Vietnam is particularly interesting for studies on the impacts of globalization on development and poverty.[5] It was a centrally planned economy, which started far-reaching economic reforms in 1986 under its *doi moi* ('renovation') programme. It was faced with the need to reorient its major exports after the loss of its markets in the former USSR and Eastern Europe following the economic collapse of those countries at the end of the 1980s and early 1990s. It also was cut off from the American market until the lifting of the US embargo in 1994. Vietnam gained market access to the European Union market in 1992 under a bilateral trade agreement, and signed a bilateral trade agreement with the US in July 2000 – the USBTA – also to give it improved market access, with substantial cuts in average tariffs faced by Vietnamese exporters.[6]

Its economic reforms have involved rapid integration into the world economy, with the share of exports in GDP rising from 24.9 per cent in 1994 to 47.5 per cent in 2002 (World Bank Vietnam 2003: 55).[7] It has engaged in substantial trade reform, through removing restrictions on exports, setting up export processing arrangements, and by moving from quantitative restrictions on imports to tariffs. However, the home market still remains quite protected by tariffs.[8] Vietnam is pursuing an export-led growth strategy. The *Comprehensive Poverty Reduction and Growth Strategy* for Vietnam, published in May 2002, states: 'Continue the open-door policy and actively integrate into the international economy for development' (CPRGS 2002: 60).

Vietnam also merits study because of its spectacular economic performance under *doi moi*. In the 1990s it achieved an annual rate of GDP growth of 8.1 per cent, a figure exceeded only by China. It also achieved the highest export growth rate in the world in the 1990s, 27.7 per cent, exceeding even China's star performance in the 1980s.[9] At the same time, it reduced the proportion of the poor in the total population from 58 per cent to 37 per cent between 1992–93 and 1997–98, the dates of the first two national *Vietnam Living Standards Surveys*.[10] By the 2002 *Vietnam Household Living Standards Survey* – the results of which were not available at the time of the research for this special issue – the incidence of poverty had fallen to 29 per cent. Real per capita GDP in Vietnam grew annually at 5.9 per cent between 1993 and 2002, one of the fastest rates in the world (World Bank Vietnam

2003: 1, 53). In 2003, it was estimated that economic growth would be around 7 per cent, still the highest after China.[11]

Globalization through increased openness to trade can affect poverty by increasing the rate of economic growth. Dollar and Kraay (2001a),[12] in a widely cited paper, show in a study of about 100 countries that openness to trade – in the sense of increases in the share of exports and imports in GDP – has a positive influence on growth. They show too that the incomes of the poor increase in proportion as growth proceeds. Globalization in the form of increased openness through trade liberalization also affects poor people directly as well as via the rate of economic growth. Incomes of the poor are affected by changes in prices of the goods they produce and consume, through the profits and employment decisions of the firms in which they work, and indirectly via its effects on government revenue and expenditure (McCulloch *et al.* 2001: Ch. 6). In a particular country, the impact of increased openness on poverty and income distribution will depend much on the local situation in terms of the distribution of asset ownership, labour market conditions, comparative advantage and the previous pattern of protection against imports (Jenkins and Thoburn 2003).

A controversial finding of the Dollar and Kraay study is that the distribution of income has not systematically been adversely affected by increased trade openness in their large sample,[13] although they concede that inequality has risen in some of their rapidly globalizing countries, particularly China. For Vietnam, though it is not in their quantitative study due to lack of data, they argue that 'it nicely illustrates our main findings about trade and poverty' and that there has been 'no significant change in inequality' while the country has been opening to trade and reducing poverty (Dollar and Kraay 2001b: 5).[14] Our studies suggest otherwise.

This special issue explores the poverty consequences of Vietnam's rapid growth in GDP, inward direct investment, and openness to trade, and we now present an overview of the papers. Section 2 looks at poverty, poverty dynamics and inequality, and has a strong rural slant since over 90 per cent of the poor in Vietnam are rural (CPRGS 2002: 19). Section 3 discusses the growth of industrial wage employment and why it has lagged disappointingly behind output growth. Section 4 introduces our findings on foreign direct investment, and section 5 looks at trade reform and export development, with particular reference to garments and textiles, Vietnam's largest export manufacturing activity. Section 6 concludes.

2. POVERTY, POVERTY DYNAMICS AND INEQUALITY

The special issue opens with a study of poverty, inequality and poverty dynamics by Litchfield and Justino, using data from the *Vietnam Living Standards Surveys* (VLSS), the nationally representative samples of households surveyed in 1992–93 and 1997–98. Measuring the proportion of the population in poverty (that is, the poverty headcount) obviously is sensitive to where the poverty line is drawn. If the income or expenditure of many people is close to the line chosen, then small changes in incomes or expenditure over time can register large changes in poverty. The most commonly used poverty line in Vietnam, that of the World Bank, is drawn quite high, representing food expenditure generating a calorific intake of about 2,000 per day, plus selected non-food expenditure. Hence in 1992–93 over half of Vietnam's population was classified as poor. Litchfield and Justino's initial exploration concerns whether the generally held view that (consumption per capita) poverty in Vietnam has fallen substantially is sensitive to the poverty line chosen. Using poverty dominance analysis they show convincingly that poverty fell during the 1990s virtually irrespective of the particular poverty line used.

Although the gains from poverty reduction were very widely spread, they were by no means equally distributed. Almost systematically, the lower the decile in the distribution of per capita household expenditures, the less has been the proportionate increase in consumption between the two survey dates. Strengthening this impression, urban households benefited more than rural households, and those in the Southeast (the region with the least poverty in 1992–93) benefited more than those in the Northern Uplands or Central Highlands (regions among those with the highest poverty in 1992–93). The better educated the household head, the greater the reduction in poverty. In other words, while poverty has been reduced, inequality has risen.

In an attempt to go beyond the unconditional probabilities of these results by household classification, to control for other differences in characteristics of households too, Litchfield and Justino estimate a model of consumption growth for the VLSS rural panel. Among their interesting results is that regional variations matter, so, for example, living in the Southeast is associated with consumption increasing, whereas living in the Mekong Delta (the main rice-growing area) lessens it. Rice production by a household *weakens* its consumption growth too, a result to which we return.

A key influence on poverty in Vietnam is what happens in the rice sector. In 1992–93, 72 per cent of Vietnamese households – and 83 per cent of poor households – were both producers and consumers of rice. Rice contributes about 75 per cent of the total calorific intake of an average Vietnamese household, and rice constitutes over 80 per cent of the country's cropped area and nearly 90 per cent of food output. Like China, Vietnamese agriculture since the beginning of the *doi moi* reforms, and to some extent even before, has seen major changes in land tenure and the conferring of property rights on peasant households. Rice production increased by over 50 per cent in physical terms during the 1990s. The rice sector has been much affected by globalization; Vietnam moved from being a net importer of rice in the early years of the reform period to becoming the world's second largest exporter in terms of volume by 1996.[15] Nevertheless, the state retains considerable control over rice prices and marketing, and domestic price changes strongly reflect domestic policy, as well as the trade reforms. While the international rice price and the Vietnamese border price for rice[16] were falling in the late 1990s, the domestic price was rising, particularly in the south of the country, where it increased by over a third in real terms between 1992–93 and 1997–98.

These massive changes in the Vietnamese rice market form the background to the study of poverty dynamics by Niimi, Vasudeva-Dutta and Winters. Using a multinomial logit model, they estimate the probabilities of households moving from being poor to being non-poor between 1992–93 and 1997–98, the dates of the two VLSSs, in relation to their production of rice and a range of other variables. They show that on a national basis, a (one standard deviation) increase in a household's (initial) quantity of rice produced increases by over 50 per cent its chance of escaping poverty. Also significant in increasing the probability of escaping poverty is initial production of coffee and employment of household members in the (non-rice) export sector. Niimi *et al.* also show that their rice study is not significantly affected by modifying their assumption of uniform household consumption patterns, since in their analysis the major poverty effects already have been captured on the output side.

There are strong regional variations in the poverty-reducing effects of rice production, however, when variables are introduced to distinguish Vietnam's two main rice-producing districts, the Mekong Delta in the south and the Red River Delta in the north. It is shown that the chances of escaping poverty are lower for rice-growing households in the Mekong and Red River Deltas than for rice-growing households in the rest of the country, though for both these regions the effects of rice production are still positive. This effect is especially noticeable for the Mekong, and Niimi *et al.* suggest that their results may be picking up the fact that increases in production are associated with a greater use of wage labour, so production increases accrue less to the householder as a rice producer. Households might benefit indirectly by providing labour to other rice farms, they suggest, but the data do not allow them to distinguish between such outside employment by crop.

Another explanation for the negative regional effects in rice in the two studies is the possibility that increased rice production in the Mekong Delta could be associated with increased concentration of holdings and with landlessness, working against the poverty-reducing effects of higher rice production. Litchfield and Justino find that in the Mekong almost 10 per cent of their panel of rural households fell from being non-poor to being poor between 1992–93 and 1997–98, a proportion roughly double the national average. Litchfield and Justino suggest that the apparent contradiction between the result of Niimi *et al.* that rice production increases the probability of escaping poverty – though markedly less so in the Mekong Delta – and their own result that rice production weakens consumption growth probably reflects the greater income gains from diversifying out of rice into other agricultural activities such as fruit or coffee.[17]

3. EMPLOYMENT

An important influence on trends in poverty in Vietnam is the creation of wage employment, one of the three main channels through which openness affect the poor (McCulloch *et al.* 2001: Ch. 6). Employment creation, particularly in manufacturing, shifts workers out of low productivity jobs in agriculture to higher productivity jobs in industry. And in a country with a rapidly growing labour force, employment creation is important too, whatever sector it occurs in, to prevent poverty from worsening. In Vietnam, as the paper by Jenkins notes, between 1.2 and 1.4 million new workers enter the labour force annually, but jobs for only half that number are being created. The employment elasticity of output in Vietnam has been low. In the late 1990s for every 1 percentage increase in GDP, there was only a 0.22 percentage increase in employment. In manufacturing, the employment elasticity of output is strikingly low in relation to that of other Asian countries. Many explanations of this disappointing employment performance, particularly in the studies produced by international donors, centre on various policy distortions in Vietnam that inhibit job creation. These include the fact that continued protection against imports will bias production in favour of import-competing industries (which are relatively capital-intensive) and against manufacturing exports (which are more labour-intensive). The effectiveness of the bias against exports seems difficult to credit in view of Vietnam's exceptionally rapid expansion of labour-intensive exports (see trade reform section of this overview), but other work by Jenkins has shown that effective rates of protection[18] of industries against imports are negatively correlated with labour-intensity (Jenkins 2004). So the industries that could best create jobs are exposed to the most import competition. Other strands of the 'distortions' explanation concern the predominance of (generally capital-intensive) state-owned enterprises, which are said to crowd-out production by the (more labour-intensive) private sector, and various restrictions in the labour market that induce producers to adopt labour-saving methods of production.

However, the decomposition analysis of employment changes in the 1990s produced by Jenkins strikingly refutes the 'distortions' explanation of low employment growth. Within Vietnamese industry (manufacturing plus mining and utilities), output growth with unchanged labour coefficients would have been enough to generate nearly 3 million new jobs during the 1990s, even after some shifts in the industrial structure to more capital-intensive industries are taken into account. But during this period, 2.4 million jobs were lost as a result of productivity growth, including very substantial shedding of labour by SOEs in the early 1990s. The explanation for this productivity growth lies in the fact that Vietnamese labour productivity (value-added per worker) in manufacturing was far below that of comparable Asian countries in 1990, leaving a large productivity gap to be bridged as Vietnam integrated with the international economy. These productivity gaps still are large – Vietnam's labour productivity in 2000 was less than half of China's and little more than a quarter of Thailand's – so the contribution of manufacturing output growth to employment is unlikely to become much greater in the short term.

It may still seem puzzling that employment growth was not greater, given the rapid expansion of labour-intensive export industries like garments and footwear, often based on production by foreign investors who would not suffer from the productivity gap of domestic enterprises. Two further strands complete the picture. First, alongside this labour-intensive manufactured export expansion, a number of capital-intensive industries serving the domestic market expanded too. The net effects of these changes in the economy on employment thus were negative, especially in the late 1990s when a quarter of a million jobs were lost as a result. This will give some crumbs of comfort to those who believe in the distortions explanation of slow employment growth, though these effects are dwarfed by the productivity effects. Second, Vietnam's labour-intensive exports are highly import-intensive, based on processing imported inputs,[19] so indirect employment creation has been small.

4. FOREIGN DIRECT INVESTMENT

Vietnam's entry into world markets has been much helped by foreign firms, following the attraction of foreign direct investment into the country since the late 1980s with the liberalization of the FDI regime under *doi moi,* an important aspect of closer integration into the world economy. The papers here on foreign investment, by Freeman and by Mirza and Giroud, are designed to be highly complementary. Freeman's short paper provides basic data and an introduction to Vietnam's successes – and some failures – at attracting FDI while Mirza and Giroud's longer study[20] then gives an account of both the causes of FDI in Vietnam and its effects on growth, development and poverty reduction.

Freeman notes that Vietnam made its debut on to the international investment stage in 1987 at a fortuitous time, as foreign investors became increasingly interested in emerging markets. Vietnam then benefited from a wave of foreign investment into transitional economies. And in the first half of the 1990s it benefited from the move towards outward direct investment by the more developed Southeast Asian economies such as Malaysia, Thailand and Singapore.

Slowdowns in FDI inflows to Vietnam in the late 1990s continued into the start of the 2000s, despite apparent improvements in investor sentiment. Freeman argues that this slowdown springs from some problems from which other developing countries could learn. While foreign investors have been moving away from traditional 'greenfield' investment projects towards mergers and acquisitions,[21] and may wish to find local private sector partners, this is restricted by local acquisition regulations. Ironically, he notes, Vietnam by trying to privilege foreign investors over local firms, may have discouraged new FDI by reducing the attractiveness of those local firms as partners.

Mirza and Giroud locate their analysis of FDI in Vietnam within the context of ASEAN, the Association of Southeast Asian Nations, which Vietnam joined in 1995. Their paper provides comparisons between Vietnam and three long-established ASEAN member countries – Malaysia, Thailand and Singapore – and one new member, Cambodia, based both on data analysis and on over 100 interviews with executives in transnational companies and their affiliates in those countries. The interviews are with companies in textiles and garments[22] and in the electrical and electronics industries, representing the two largest areas of FDI inflow into Vietnam at the start of the 2000s.

To an extent that is even greater than for most countries in the region, FDI into Vietnam has come from within Asia; over 70 per cent of recent inflows emanate from East Asia – Japan, South Korea, Taiwan, Hong Kong, China – and ASEAN, with ASEAN contributing some 20 percentage points of the total. Of the reasons given by foreign investors for their entry into Vietnam the most important is that of labour-related issues, a composite of cost, quality, capability and language ability. While this suggests an orientation towards labour-intensive manufactured exports, in fact 40 per cent of the interviewed investors' sales are to the Vietnamese local market, a high figure matched only by Singapore; the corresponding figure for Cambodia is zero. Indeed, sales to Vietnam's (still quite protected) domestic market are the second most important reason given by foreign investors for their entry, a figure higher than for any other ASEAN country in the Mirza–Giroud sample. Of the 60 per cent of sales that are exports, the largest markets are North America, Europe and Japan. ASEAN figures are larger as a source of imported inputs, though the bulk of these come from East Asian countries. ASEAN may become more important as a source of imports and as an export destination in the future as mutual tariff-cutting proceeds under AFTA, the ASEAN Free Trade Area.

A strong focus in the Mirza–Giroud paper is on what lessons Vietnam can learn from the effects of foreign investment in the longer established ASEAN members, particularly Malaysia, Thailand and Singapore. Drawing on a study produced as part of a 'macro' stream of their project by Jalilian and Weiss (2001),[23] they note that an econometric analysis could only establish the result that economic growth is promoted by inward FDI, and poverty reduction is associated with economic growth. However, this result is that for a large sample of developed and developing countries, and for the old established ASEAN members – the ASEAN-5[24] – Jalilian and Weiss do find a strong, *direct* effect of FDI on (headcount) poverty reduction. This direct effect accounts for 60 per cent of poverty reduction in the ASEAN-5, and the usual indirect effects (working via economic growth) account for 40 per cent.

Whether Vietnam yet could provide similarly directly poverty-reducing effects from FDI remains to be proved. The Jenkins paper in this issue notes that the number of workers per unit of output is much lower in foreign than in domestic firms in Vietnam. So the employment effects associated with the rise in the share of foreign firms in manufacturing output have been negative, although this negative effect has been ameliorated by falls in foreign firms' output per worker during the 1990s resulting from the increased importance of labour-intensive export manufacturing in their output.

5. TRADE REFORM AND MANUFACTURING EXPORT DEVELOPMENT

Vietnam has been making the transition from central planning to a more market-based system while integrating into the global economy. As a result, Vietnam's trade reform has had to be even more extensive than for most developing countries similarly emerging from a long period of import-substituting industrialization.[25] In particular, there have been widespread systems of export and import licensing to dismantle. Trade liberalization also has been associated with many other aspects of reform, particularly that of SOEs, which are important in many export activities, ranging from textiles and garments to food products.

Import liberalization is intended to improve the economic performance of domestic firms, if they can survive it, and to stimulate exports by removing the *anti-export bias* generated by the higher prices received by firms for goods sold in the protected domestic market than in export markets. Import liberalization also stimulates exports by reducing the real exchange rate overvaluation associated with limiting imports by protection. Exporting leads to gains through specialization, through economies of large scale, and greater access to foreign technology. However, without appropriate domestic ('behind the border') policies to back it up, including macroeconomic stabilization policies, the increased openness of an economy through trade reform may be counterproductive. And institutional development such as property rights, regulatory institutions, and institutions for macroeconomic stability and social insurance are crucial if openness to trade is to lead to development (Rodrik 2002).

Vietnam illustrates the point that trade reform can be of two broad kinds (Jenkins and Thoburn 2003). In some cases countries emphasize import liberalization and move towards free trade. In others, such as China in the 1980s and East Asian countries in earlier decades, trade reform was designed to promote exports while protecting their domestic economies from import competition.[26] Indeed, historically, virtually all countries in the world economy which have become significant exporters of manufactures, except Hong Kong and the UK, did so while using protection against imports! However, policies such as export subsidies are now discouraged under WTO rules, and new members to the WTO like China have been committed to substantial import liberalization.

Vietnam so far has been in the East Asian category of export development alongside import protection, despite considerable reform of its trade regime on the import side. After abolishing the central government monopoly on foreign trade, and introducing tariffs in 1988 to substitute for direct controls on imports, Vietnam moved rapidly towards a trade regime of moderately high, though very variable, nominal tariffs and effective rates of protection, though there are some remaining quantitative restrictions on imports. In terms of nominal tariff levels, its protection against imports was a little higher than in many developing countries.[27] The IMF rated Vietnam still as having one of the most restrictive trade regimes of all its member countries in the late 1990s (IMF 1999: 59). Table 1 shows that, on average, nominal tariffs have fallen only slightly between 1997 and 2002, though there has been a somewhat greater fall in the effective rate of protection for the manufacturing sector on average.[28]

Vietnam has put in place effective institutional arrangements to give exporters access to imported inputs at world prices, and has abolished many restrictions on exports. Nevertheless, some economists claim that there remains substantial anti-export bias.[29] Despite this apparently high anti-export bias, however, Vietnam (as noted earlier) achieved the fastest rate of export growth in the world in the 1990s![30]

Manufacturing exports have been at the centre of Vietnam's impressive export performance, particularly garments and footwear, although some important new non-manufacturing exports such as seafood have developed too (see Table 2).[31] Garments have grown more rapidly than total export earnings. Garment exports to the US under the USBTA grew from almost nothing in 2001 to around $2 billion in the twelve months to mid-2003, and not primarily by diversion of sales from other markets. The paper in this issue by Nadvi and Thoburn on Vietnam in the world garment and textile value chain asks how easily Vietnam can sustain this performance, and what have been the implications of export development for poverty.

Textiles and garments are the archetypal starter industries for industrialization and exports for many developing countries. With low capital costs, especially in garments, entry is easy, and production relies heavily on low wage labour. Garments and textiles exemplify both the opportunities and the threats of globalization. Textiles, in Vietnam as in many other countries, were built up under import substitution, and figure large in total manufacturing value-added. If they

Table 1 Average nominal tariffs and effective rates of protection (ERP) by tariffs, Vietnam, 1997 and 2002 (per cent)

	1997		*2002*	
	Nominal tariff	*ERP*	*Nominal tariff*	*ERP*
Overall average	17.4	59.7	15.9	54.2
Manufacturing	26.9	111.1	21.1	77.8

Source: STAR (2003: 94) citing draft study by Athukorala (2002).

Table 2 Vietnam's major merchandise exports, 1997 and 2002

	1997		*2002*	
	(US$ million)	*(Percentages)*	*(US$ million)*	*(Percentages)*
Petroleum	1,413	15.5	3,270	19.6
Textiles and garments	1,349	14.8	2,752	16.5
Marine products	781	8.5	2,023	12.1
Footwear	965	10.6	1,867	11.2
Rice	870	9.5	726	4.3
Coffee	491	5.4	322	1.9
Rubber	191	2.1	268	1.6
Total exports	*9,145*	*100.0*	*16,706*	*100.0*

Source: World Bank Vietnam (2003: Table 3.2). Figures for 2002 are preliminary.

face intensified import competition, there is the risk of considerable job losses. Garments, as a labour-intensive export industry, have considerable power to create employment, as also can textiles, particularly if textiles can link to garment exporting. In Vietnam, SOEs remain important in garment and textile output, accounting for nearly a third of garment output and nearly half of textile output, while foreign investors produce over a quarter of both textile and garment production.

Value-chain analysis is widely used in investigating global garment and textile trade, since it focuses on the importance of global retailers and buyers in influencing how firms from developing countries can enter developed countries' markets. Buyers influence what functions firms can perform and so affect the options for local firms to upgrade and take a larger share of value-added (Nadvi and Thoburn 2004). Vietnamese garment and textile exporters face four main challenges. The international agreement that has tightly regulated the international industry for decades – the Multifibre Arrangement – is to be phased out by the end of 2004, introducing a situation where countries previously restricted in their sales to the North American and EU markets by MFA export quotas, will (or, at least, *may*)[32] be free to expand without restriction. China, the world's largest exporter of garments and textiles, is a threat in itself, and will be more so from 2005. Another challenge is that, driven by consumer pressure, buyers increasingly are insisting on higher labour and environmental standards, though these can be a competitive advantage to firms that can comply with them. Finally, with intensified competition in Western retail markets, buyers are insisting on faster delivery, putting pressure on prices and requiring more rapid changes in products.

The challenges Vietnam faces are similar to those of many new garment and textile exporters. Its entry into world markets was heavily dependent on having unused MFA export quotas, which both gave SOEs an incentive to export and attracted foreign investors – often East Asian firms who came with the encouragement of global buyers. As product requirements become more exacting, and competition in international markets intensifies with the end of the MFA, it is likely that buyers will continue to reduce the number of their suppliers and the countries from which they source. One hopeful sign that Vietnam will be able to stay in the game is its success in penetrating the Japanese market, where MFA quotas do not apply, and where it has been maintaining well the unit values of its exports in relation to competitors while increasing its market share.[33] Another is its astonishing expansion of garment sales in the US market under the USBTA up to and beyond May 2003, when the US imposed MFA-style export quotas on Vietnam.

While the overwhelming bulk of Vietnam's textile and garment exports are garments – unlike many other Asian countries, where textiles have more of a share – indirect textile exports have been developed by Vietnam's SOEs, under the state organization Vinatex, producing garments with their own fabrics. By contrast, garment-exporting foreign investors in Vietnam mainly use imported fabric.

The effects of globalization on employment are clearly visible in Vietnamese textiles and garments, and the manufacturing productivity effects identified in the Jenkins paper are strongly evident. In the process of reforming in order to export, and to some extent to face import competition despite the remaining tariff protection, Vietnam's textile SOEs in particular have shed large amounts of labour. They have increased output while reducing employment. These productivity improvements suggest that Vietnam's textile SOEs are not simply the economic dinosaurs of popular imagination.[34] Similar productivity effects are seen in SOE and other domestic garment production, though not in the foreign invested sector (which has high productivity already). As a result of rapid expansion of output, however, total employment in garments in Vietnam has risen, and by more than textile employment has fallen.

The effects of these employment changes on poverty are more nuanced. In the case of workers retrenched by the textile sector – the most obvious losers from globalization – Vietnam's expanding economy and its opportunities for employment by other family members have meant that retrenched workers' households generally have not fallen into poverty, though the psychological and economic effects of retrenchment can still be severe.[35] Garment output and export expansion has brought into employment many new workers, often women and including migrants from poorer regions, but wages and working conditions in SOEs and foreign firms tend to be better than for workers in private and cooperative garment producers. SOEs in particular have educational standards that the poor rarely possess.

Vietnam's trade reform will continue, as extensive import liberalization is planned. In April 2001 there was announced a five-year (2001–5) *Import–Export Regime*, to provide a more stable import–export environment, and to give a 'road map' for tariff reductions, elimination of QRs and other trade measures (IMF 2002: 38). Import liberalization also is being pushed by Vietnam's commitments to tariff cuts under the Association of Southeast Asian Nations Free Trade Agreement (AFTA). In addition, Vietnam's application for membership of the World Trade Organization is likely to commit the country to tariff reductions, as was the case with China after it joined the WTO in 2001. Vietnam also has commitments under the USBTA to reduce its trade barriers, though these are less far reaching than under AFTA.

6. CONCLUSIONS

Vietnam has joined the 'club' of rapidly globalizing developing countries whose high rates of growth of per capita income are closing the gap between them and the developed market economies, though for Vietnam there is still far to go. Rapid economic growth in Vietnam in the 1990s was accompanied by a striking fall in the headcount of poverty, and the fall in poverty is not sensitive to which of various alternative poverty lines is used. The early rural reforms, particularly land redistribution[36] as in China, were important in making households better able to benefit from growth and increased openness. However, although the poor in Vietnam benefited, they benefited less – however widely or narrowly they are defined – than did higher income groups, so inequality has risen. The combination of high economic growth, falling absolute poverty and rising inequality has continued into the 2000s (World Bank Vietnam 2003: Ch. 1).

Our papers provide some explanations both of why poverty has fallen and why the gains have not been more evenly spread. Rice growing, the most important peasant activity in a society where most of the population and most of the poor are rural, has been much affected by Vietnam's internal reforms and by its entry into world markets as an exporter of rice. Rice prices have risen and being a rice grower has improved the chances of a household escaping poverty, but in the main rice-growing region, the Mekong Delta, there also have been increases in landlessness.

Rapid industrial growth has generated far fewer jobs than in Asian competitors as Vietnamese firms have had to shed labour in their attempts to raise their productivity levels to world standards in a more open economy. The highly import-intensive nature of exports by foreign investors in Vietnam has prevented them from creating much indirect employment as yet. Looking to the future, foreign direct investment in the more developed ASEAN economies has been shown econometrically to have had strongly positive direct effects on poverty not just operating via the impact of FDI on GDP growth, and in Vietnam the employment-creating effect of FDI will be strengthened if the composition of the output of foreign firms moves further towards more labour-intensive activities for export.

Vietnam's policies to integrate with the world economy, rapidly increasing its exports of labour-intensive manufactures such as garments, have expanded employment opportunities despite the productivity effects already noted, although the poor have not benefited from employment in the better paid and potentially most competitive parts of the industry. However, further import liberalization is not likely by itself to drive exports faster than the rapid rates already achieved.

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NOTES

1 A summary of the papers presented at the Hanoi workshop is given by Thoburn and Jones (2002).
2 More information about the Globalization and Poverty research programme is given on the website www.gapresearch.org, from which these details are directly taken.
3 See World Bank (2002a: Ch. 1).
4 Thus education, for example, by improving capabilities, works towards the reduction of poverty (Sen 1999: Ch. 4).
5 For overviews of the development performance of Vietnam, see Binh Tran-Nam and Chi Do Pham (2003) and Van Arkadie and Mallon (2003).
6 The point here is that, since Vietnam is not yet a member of the World Trade Organization, significantly higher tariffs can be imposed on imports from Vietnam than the normal (most favoured nation/normal trade relations) rates, unless the equivalent of MFN/NTR status is conferred under a bilateral agreement. Vietnam has applied to join the WTO with accession hoped for by the mid-2000s.
7 According to estimates by Vu *et al.* (2001: 24), the 1994 share is little different from that in 1990, which they estimate as 22.1 per cent. Jenkins (2002: 1) notes, citing World Bank sources, that in the 1980s only about 10 per cent of domestic production was exported.
8 More on this in the trade reform and exporting section of this overview.
9 Figures for 1990–99 from World Bank (2000: 294–5). Exports are exports of goods and services.
10 Extensive discussion of the meaning and significance of poverty lines, including the World Bank one referred to here, is given in the Litchfield and Justino paper in this issue.
11 See www.worldbank.org.vn/news/press37_01.htm (November 2003).
12 For a short summary of their longer paper, see Dollar and Kraay (2001b).
13 The specific question they pose is whether trade systematically explains deviations between growth in average incomes and those of the poor (defined as the bottom 20 per cent of the income distribution). They are measuring the impact of trade over and

above its impact on mean incomes, in an equation that also shows that the mean incomes of the poor rise one-to-one with total income (Dollar and Kraay 2001a: 23–4).

14 This point is also made by David Dollar (2002: 12), who argues that there was no increase in inequality in Vietnam between 1992 and 1998.

15 Its ranking in terms of world export value is lower because Vietnamese rice trades at a discount as a result of quality and delivery problems.

16 There is a substantial wedge between the Vietnamese border price and the international price for rice, which results from the discount on Vietnamese rice in the world market already noted.

17 Subsequently, however, the coffee price has collapsed. Vietnam's export unit values for coffee in 2002 were hardly more than a third of their 1997 level (World Bank Vietnam 2003: Table 3.2).

18 That is, protection on value-added.

19 An exception to this are the garment exports of the large SOE sector, where many enterprises export garments using their own fabrics. See the Nadvi and Thoburn paper.

20 Mirza and Giroud made separate presentations at the Hanoi workshop, but their papers are amalgamated for this issue.

21 See also Mody and Negishi (2001).

22 Generally in the Mirza–Giroud paper, the results for garments and textiles on the one hand, and for the electrical and electronics industry on the other, are not presented separately in a way to provide comparison with the foreign investor material in the Nadvi–Thoburn paper on the textile and garment value chain.

23 The Jalilian and Weiss paper was not included in the 2002 Hanoi workshop, or in this present issue, as it was not specific to Vietnam.

24 The ASEAN-5 are Malaysia, Thailand, Singapore, Indonesia and the Philippines.

25 For convenient summaries of the Vietnamese trade and related reforms, see CIE (1998: 5–8), IMF (2002: 38–53) and Martin (2001: 17–25).

26 Dollar and Kraay (2001a: 8) note there is little correlation between increased openness ($[X+M]/GDP$) and reduction in tariffs, largely, they think, because tariff reductions do not fully proxy trade policy. Their criterion for classifying developing countries as globalizers is their *increase* in trade/GDP, and they also classify globalizers as ones who have cut tariffs on average. There are twenty-four countries in each group, but only nine both have cut tariffs *and* have increased openness. China is included among the nine, but during the 1980s China did develop its exports while maintaining high protection of the domestic market.

27 According to figures from the World Bank (2001: 53), the 1997 average import tariff for Vietnam cited in our Table 1 for 1997 was a little higher than the average tariff in the East Asia and Pacific region and in Latin America and the Caribbean in 1996–98, similar to sub-Saharan Africa though below that of South Asia.

28 These estimates are import-weighted but do not take account of the price-raising impacts of Vietnam's remaining quantitative restrictions, which also were reduced during the period between the two dates and which affect both the nominal rate of protection and ERP estimates. Athukorala's re-estimation to take into account the price-raising effects of QRs raises both the estimated NRP and ERP for manufacturing in both years, but in both cases the NRPs and ERPs in 2002 are lower than in 1997. The estimated ERP for manufacturing in 2002 is 96 per cent, or 90.9 per cent excluding motor vehicles (see Athukorala 2002).

29 Athukorala (2002) estimates the anti-export bias against wearing apparel, for example, to be between about 100 and 300 per cent, depending on realistic assumptions about the drawback on import duty on imported inputs and the effects of domestic taxes. This

means that an apparel manufacturer selling to the domestic market could survive with costs (in terms of value-added) of between 100 and 300 per cent higher than the level associated with selling in the export market.

30 Explaining how apparently strong anti-export bias can coexist with high export growth rates can be done in several ways. First, as noted by STAR (2003: 96–8) – the first piece of 'donor' literature in Vietnam to consider this contradiction – sectors like garments are highly heterogeneous. Export garments may well have little potential sale in the domestic market, where consumer incomes are low. Also, though not noted by the STAR report, even if there were some local demand, it could easily be saturated if large domestic sales were attempted. In such a case the domestic price would fall to below the world price + tariff; that is, there would be *tariff redundancy*, which would rapidly erode the anti-export bias.

31 Another important export to have been developed, but not listed in the World Bank source from which Table 2 is drawn, are electronic products. According to STAR (2003: 104), these generated 3.1 per cent of Vietnam's exports in 2002.

32 For example, a bilateral agreement between the USA and China places restrictions on China's exports to the US until 2008.

33 See also Nadvi and Thoburn (2004) for more details on Vietnam's export unit values in major markets.

34 See Thoburn *et al.* (2003) for more details.

35 See Nguyen *et al.* (2003). There was no space in the present issue to include this paper.

36 The importance of land redistribution is strongly emphasized in the new *Vietnam Development Report 2004* (World Bank Vietnam 2003: 1), which stresses the importance of such reform in increasing agricultural output and reducing poverty. It also made households better able to respond to export opportunities, as in rice.

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