There are reasons to be confident:

- Around the world, fast economic growth is associated with poverty reduction
- Vietnam has a trajectory of inclusive economic growth

But confidence is not enough

Identifying potential adverse impacts is necessary to design the appropriate complementary policies in the WTO accession process
Main channels

The labor market:
- Change in equilibrium earnings
- Job losses

Product markets:
- Level of commodity prices (rice, coffee…)
- Volatility of those prices

Main outcomes

Changes in poverty and inequality

Labor earnings and openness to trade

Initially, there is a downward pressure on wages, but it is temporary.

Source: Freeman, Oostendorp and Rama
Labor earnings and Foreign Direct Investment

Source: Freeman, Oostendorp and Rama

FDI exerts a strong upward pressure on wages

The dispersion of labor earnings

Source: Rama: Globalization and workers (World Bank Research Observer, forthcoming)

However, the earnings gap between skilled and unskilled could widen.
Impact on labor earnings: What to do?

- Gain better knowledge about Vietnam.
- Follow-up study: changes in the skill premium across regions.
- Focus on policies that reduce the underlying inequality in skills

Job losses from integration with the world economy (1)

<table>
<thead>
<tr>
<th>Labour Redundancy</th>
<th>Percentage</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>Completely agree</td>
<td></td>
</tr>
<tr>
<td>12%</td>
<td>Mostly agree</td>
<td></td>
</tr>
<tr>
<td>28%</td>
<td>Mostly disagree</td>
<td></td>
</tr>
<tr>
<td>48%</td>
<td>Completely disagree</td>
<td></td>
</tr>
</tbody>
</table>

Source: NCSSH: WTO Readiness Assessment
Job losses from integration with the world economy (2)

<table>
<thead>
<tr>
<th>Labour Layoff</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>9% Very important</td>
<td></td>
</tr>
<tr>
<td>19% Important</td>
<td></td>
</tr>
<tr>
<td>31% Not so important</td>
<td></td>
</tr>
<tr>
<td>30% Not important at all</td>
<td></td>
</tr>
</tbody>
</table>

Source: NCSSH: WTO Readiness Assessment

Overall, labor redundancy does not appear to be a serious issue in Vietnam

But labor redundancy could be important in SOEs

<table>
<thead>
<tr>
<th>By sector of activity</th>
<th>According to current directors</th>
<th>Based on data analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, beverages and tobacco</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Textile and garments</td>
<td>0.3</td>
<td>17.1</td>
</tr>
<tr>
<td>Footwear, bags and leather</td>
<td>3.2</td>
<td>0</td>
</tr>
<tr>
<td>Paper products</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Plastic products</td>
<td>0</td>
<td>39.4</td>
</tr>
<tr>
<td>Ceramic and glass</td>
<td>3</td>
<td>15.3</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>7.1</td>
<td>73.6</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>0</td>
<td>82.2</td>
</tr>
<tr>
<td>Coal and minerals</td>
<td>0</td>
<td>68.8</td>
</tr>
</tbody>
</table>

Source: Belser and Rama: Labor redundancy (WB, 2001)
And labor redundancy could have a strong gender dimension

Source: Rama: Gender impacts (World Bank Research Observer, 2002)

Women are less likely to be redundant, but they may lose more from job separation

Impact on job losses:
What to do? (1)

- Support for separated workers
- Vietnam set up a labor redundancy Fund under MOF (Decree 41)
- This fund is substantially more generous than the Labor Code
- A tracer study of workers assisted by this Fund is about to be launched
Impact on job losses:
What to do? (2)

- Appropriate social protection

- MOLISA has been requested to revise minimum wage levels, and propose changes to social security

- Appropriate labor standards are welcome, but job creation in small and medium enterprises should not be discouraged

Impact on job losses:
What to do? (3)

- Corporate social responsibility (CSR)

- Adoption of “certified” codes of conduct should be encouraged

- CSRs in the exports sector could position Vietnam as a “decent” place to do business

- A study of CSR in the garment industry of Vietnam is under way.
Impact on commodity prices

- Rural households may get higher prices for their products
- But that is on average
- And price fluctuations could be higher

An encouraging example: rice

- A careful empirical study showed that higher rice prices for rural households led to higher school attendance
- Especially for girls at the lower secondary level

Source: Edmonds and Pavnick (NEVER, 2002)

A discouraging example: coffee
Impact on commodity prices: What to do? (1)

- Reduce the gap between border prices and prices paid to rural households
- This gap can be high due to limited competition in commercialization

Impact on commodity prices: What to do? (2)

The most appropriate intervention may not be on prices:

- Rural households should be allowed to diversify production
- Land-use right certificates should serve as collateral for credit
- Mechanisms to prevent distress land sales should be set up
How will changes in earnings, employment and prices affect households?

- Some encouraging signs: based on 2002 survey data, poverty keeps falling and inequality is increasing only modestly
- However: under reporting “at the top” may be more prevalent in a market economy
- Follow-up study: what is the “true” change in inequality over the last decade?

What can be expected for the future?

- Modeling tools can be used to predict the change in key prices of the economy (skilled and unskilled labor, commodities, etc.)
- These changes can be applied to each household in the VHLSS to assess what the impact would be on their well-being
- Follow-up study: in Vietnam this will be done with a strong regional focus
Social Impacts and the WTO Accession Roadmap

- During the Roadmap preparation, various studies can be completed.
- With others, already available, these studies can guide the design of appropriate complementary policies for integration in the world economy.
- We look forward to collaborate with NCSSH and others in this very important task.