

The Impact of Economic Development on the Employment Market and Employment Policy Optimization in Developing Countries — A Case Study of Vietnam

Kunche Huang^{1,a,*}

*¹Shenzhen College of International Education, Shenzhen, Guangdong, 518043, China
a. s21020.huang@stu.scie.com.cn*

**corresponding author*

Abstract: Vietnam's rapid economic growth has significantly impacted Vietnam's employment structure, with informal employment playing an important role in various sectors. This study explores the challenges faced by informal workers, including low wages, lack of social protection, and job insecurity. Besides, women are particularly vulnerable when participating in the informal sector. They suffer more from wage disparities and unstable employment. In addition, the study also analyzes the causes of the widespread informal sector, which include a lack of educational opportunities, limited access to formal employment, and resistance to transition from informal to formal sectors. Government efforts, including increasing labor regulations and vocational training programs, made limited progress. This is because of the weak enforcement of regulations and insufficient incentives for businesses and workers to transit. This research emphasizes the importance of strengthening regulatory frameworks, increasing training and skill development programs, and creating effective policies to support the transition. These measures are critical for Vietnam to achieve sustainable economic growth, reduce inequality, and improve worker's living standards.

Keywords: Informal Sector, Economic Growth, Employment Policies.

1. Introduction

1.1. Research Background

Vietnam has experienced rapid economic growth in recent decades. To be more specific, after the Doi Moi reform in the 1980s, Vietnam's economic system transformed from a planned economy to a market economy. The increase in foreign direct investments and trade led to rapid industrialization and urbanization. In addition, from a statistical perspective, the country's GDP growth rate averaged around 7% per year between 1990 and 2019, making it one of the fastest-growing economies in the world [1]. While the economic growth has been remarkable throughout the years, it is essential to examine its relationship with Vietnam's employment structure. Employment, as both a cause and result of economic growth, reveals Vietnam's economic dynamics, shapes future policies on how to achieve sustainable economic development, and assists poverty reduction.

1.2. Literature Review

1.2.1. Economic Growth and Employment Development

Mạnh, Ngọc, and Dao analyze the relationship between economic growth and employment in Vietnam. They highlight the significant impact of the country's economic reforms on labor dynamics. Their study reveals that while Vietnam experienced substantial economic growth, particularly since the implementation of the Doi Moi policy, this growth has not uniformly translated into job creation across all sectors.

The authors point out that the secondary industry, like the manufacturing sector, has created the most job opportunities since the 1980s. However, most jobs created are in the informal sector, and economic growth is increasingly associated with higher productivity rather than proportional job creation. This trend raises concerns about the quality of jobs being created, characterized by lower wages and a lack of social protections.

To address these challenges, Mạnh, Ngọc, and Dao advocate for targeted policy interventions aimed at enhancing the quality of employment. They propose improving labor market regulations to protect workers' rights and promoting the formalization of informal employment. Additionally, the authors emphasize the need for training programs to train the workforce so that they are ready to transition to the formal sector [1].

1.2.2. Gaps

Lê and Chung explore the disparities in education, employment, and income between rural and urban areas in Vietnam. The authors highlight that despite significant economic growth and development since the Doi Moi reforms, gaps expand between rural and urban areas.

The study emphasizes that people in urban areas generally enjoy better educational resources and facilities. This educational advantage translates into higher employment rates and better income levels for urban residents compared to their rural counterparts, who often face limited access to quality education and job opportunities.

Lê and Chung suggest that government policies aimed at rural development and educational reform are essential to reduce these gaps. They recommend targeted interventions to improve educational quality in rural areas, as well as initiatives to create more employment opportunities. The authors also emphasize the importance of vocational training programs to equip the rural workforce with the necessary skills, increasing their competitiveness to find jobs [2].

1.2.3. Informal Employment

Castel and To have investigated the informal employment within Vietnam's formal sector. This phenomenon leads companies to evade tax, which means less income for governments. The study also focuses on individuals who suffer from lower wages and lack of employment benefits. The authors suggest that this informality not only affects individual workers but also has broader economic repercussions.

To address these issues, Castel and To recommend several interventions. They suggest enhancing legal frameworks to protect informal workers, promoting the formalization of firms, and accessing social security for all workers. To be more specific, the authors suggest approaches like government refinement to policies that transition informal workers into the formal economy. In addition, the author emphasizes the urgent need for reforms that can bridge the gap between informal and formal employment, ultimately benefiting both workers and Vietnam's economy [3].

1.3. Research Gap

Most scholars focus on how economic growth impacts the job market, skill gaps in the labor force, and the improvement of employment policies in Vietnam. However, while some researches touch upon the issues of the informal labor market, fewer articles are written about how specific policy interventions are needed, what the challenges are when implemented to address the prevalence of informal employment in the country, and what are the long-term consequences of the informal sector to Vietnam's economy. These research gaps need further investigations to make up and will contribute to the policies that are needed to transition the informal sector to the formal sector.

1.4. Research Framework

The research aims to investigate how economic growth in Vietnam impacts the development of Vietnam's employment structure, with a specific focus on the informal sector and employment policies. The research framework is listed below:

Firstly, the research will begin by analyzing the factors contributing to the dominance of the informal sector in Vietnam. This will include research on demographic characteristics, distribution condition of educational resources, and distribution of job opportunities. The study will further analyze why the informal sector is prominent in rural areas and what factors are hindering workers from transitioning from the informal to the formal sector.

Secondly, the research will study the current employment policies of the government. This section will focus on evaluating the effectiveness of current policies and connecting the policies to existing problems like the skills gap and the large informal sector. The study will further raise suggestions on how to improve and optimize current policies to help transition informal workers into the formal economy, ensuring better job security and reducing skill gaps.

Additionally, the research will explore how vocational training and skill development programs can help reduce the informal sector. The study will focus on evaluating current training programs, especially how they contribute to the transition and what improvements can be made.

Lastly, the research will conclude with actionable recommendations for policymakers. This will include comprehensive strategies and multi-faceted approaches to address the problem of informal employment.

2. Case Description

Over the past few decades, Vietnam's economy has achieved remarkable growth. Driven by the Doi Moi reform, which transferred Vietnam's economic system from planned to market, Vietnam attracted more foreign direct investment and increased export-led industrialization. However, this economic transformation and economic growth is accompanied by the growth of the informal sector. According to the International Labour Organization (ILO), informal employment accounts for approximately 82% of total employment in Vietnam, and the informal sector contributes around 20% to the country's GDP [4].

Informal employment is widespread in various industries, including agriculture, construction, and accommodation. In addition, informal employment is not only dominant in rural areas, but it is also prevalent in urban and suburban areas, as 67% of the informal sector workers are found in cities [5].

Informal workers tend to receive less education, receive less income, and enjoy fewer employment benefits compared to their formal counterparts. This is why workers in the informal sector often take part in micro-businesses that lack capital and professional premises, which means firms can't provide social security benefits, health insurance, and other forms of legal protection. Women are particularly vulnerable, especially those who are employed in own-account or unpaid family work [6]. However,

despite these challenges, informal workers are satisfied with their current situation. Most of them neither complain nor express a strong need for assistance [4].

To address this problem, the Vietnamese government has recognized the need to formalize informal employment. For example, the government imposed Resolution No. 15-NQ/TW (2012), which encourages informal workers like farmers to enroll in programs with social insurance. The Resolution aims to ensure that 50% of the labor force is enrolled in social insurance by 2020 [4]. The government also revise the Labor Code, and the new Labor Code of 2019 aims to promote the application of labor rights like signing paper contracts among informal sectors. The Code also calls for policies that support stable employment relationships [4]. The government also collaborated with organizations to conduct research on the informal sector. This includes surveys in major cities like Hanoi and Ho Chi Minh City to understand better the characteristics and needs of informal workers [7].

3. Analysis of the Problem

3.1. Impact Analysis

3.1.1. Impact 1: Economic Impact

The informal sector hugely contributes to Vietnam's economy, taking up 20% of the country's GDP in 2021 [4]. However, significant challenges accompany this contribution. Workers in the informal sector have significantly lower wages than their counterparts in the formal sector. The workers are often employed in less productive production with minimum income. According to a report from the International Labour Organization, workers in the informal sector averagely earned \$3.5 per day, while workers in the formal sector earned around \$6.5 per day [8]. This income gap indicates lower purchasing power, restricting the total demand and hindering long-term economic growth.

From another perspective, economic growth is further hindered as the informal sector lacks investment and development in technologies. There are approximately 33.6 million informal workers in Vietnam, primarily engaged in low-skill jobs [4]. The reliance on low-skilled workers can hinder innovation and reduce long-run international competitiveness in a challenging and changing global economy.

Focusing on individuals, an issue faced by informal workers is limited access to financial services. Many informal workers do not have bank accounts and credit cards, which restricts their ability to save, invest, or manage financial emergencies. According to a report by the Asian Development Bank, approximately 70% of informal workers do not have access to formal financial services [9]. With that being said, informal workers often rely on illegal lending practices, which often have high interest rates and exploitative terms. Some lenders charge interest rates as high as 30% per month [5]. Informal workers will face significant financial burdens if they are engaged in informal lending.

3.1.2. Impact 2: Social Impact

Workers in the informal sector face more challenges than economic ones. The first is that workers lack access to essential social protections, such as health insurance, unemployment benefits, and pension schemes. As of 2021, approximately 15 million informal workers did not enroll in any kind of social insurance, leaving them vulnerable to economic shocks [8]. Besides economic shocks, informal workers are also not able to seek help when they are injured during work when they are unemployed, and when they have conflicts with employers. This reduced their quality of life and increased risks at work. Besides, few workers in the informal sector sign paper will contract when they are employed, which subjects them to labor exploitation, back pay, and unsafe working conditions.

3.1.3. Impact 3: Gender Impact

The gender impact caused by the informal sector is also concerning. More women are engaged in the informal sector, often doing own-account or family work. According to the International Labor Organization, 20 million women are employed informally in Vietnam, many of whom work in sectors such as agriculture, retail, and domestic services [4]. For women, Those jobs are often underpaid. To be more specific, the gender pay gap is severe in the informal sector, with women earning an average of \$2.50 per day compared to males' \$4.00 per day [4]. The gender economic disparities reflect women's financial instability and might further result in families struggling to meet basic needs.

3.2. Problems Analysis

3.2.1. Problem 1: Lack of Incentives to Formalize

Although, as previously mentioned, the government refined the Resolutions and Labor code to help transform the informal sector into the formal sector, there was not much progress. Informal businesses and workers lack incentives to transition to a formal economy. To be specific, the complicated registration processes, high cooperation tax, and limited access to the market are reasons why informal businesses are unwilling to transform. In addition, the informal sector often operates in a 'grey area' where regulation is not strictly enforced. The lack of oversight further discourages businesses from seeking to transition. Besides, as the informal sector is so widespread that there are approximately 8.4 million informal household businesses in Vietnam, it forms a culture of working in the informal sector that also restricts workers from seeking to work in the formal sector [4].

3.2.2. Problem 2: Skill Gaps and Mismatch

One of the main reasons for persistent informal employment is skill gaps. Workers participated in the informal sector because they were not skilled enough to secure job opportunities in the formal sector. The International Labor Organization reports that only 4 million workers in Vietnam have undergone vocational training [8]. This lack of skills is more serious among women and rural workers, who often have limited access to education and training opportunities.

Additionally, younger workers are often employed in informal employment due to a lack of experience or qualifications [10]. Many young people enter the labor market without the necessary skills or education, leading them to accept informal jobs that do not provide long-term stability or potential growth.

3.2.3. Problem 3: Lack of Enforcement

While the government does provide new policies and laws to reduce the informal sector, the enforcement remains challenging. The first reason is that there are not enough resources for enforcement agencies. Both the government and its organizations lack the resources and capability to monitor and regulate the informal sector. There are not enough local labor inspectors, and they don't have the right to oversee informal firms or productions, especially when the informal employment is located within a household, such as housekeeping [6].

In addition to external factors, the regulatory frameworks set by the government to protect labor rights and protections are fragmented and inconsistent. As a result, the framework led to confusion among both employers and workers. The International Labor Organization notes that the lack of cohesive policies to address the specific needs of informal workers also contributes to ineffective enforcement [8].

4. Suggestions

4.1. Create More Incentives for Formalization

To address the problem of firms and individuals' lack of incentives to transition from the informal sector to the formal sector, the government should reduce the obstacles that obstruct individuals and firms. The obstacles include complicated registration processes, high cooperation tax, and limited access to the market. As a result, the government should simplify the business registration process. For example, local governments can create an online registration system to ease the process. The government should also reduce the tax rate, promote low-interest loans, and prepare assistance funds for firms at the start-up stage, encouraging them to formalize. In addition, the government can promote propaganda to introduce citizens to the benefits of transitioning from informal to formal so that information failure is reduced, and both individuals and firms have more incentives to formalize.

4.2. Reducing and Bridging Skill Gaps

One significant reason for the widespread of the informal sector is that less educated labor forces are left with fewer choices [10]. To address this issue, the government should continue to invest in education and vocational training programs in different industries. By building more schools, future labor forces will be more skilled and more prepared for jobs in formal sectors. By collaborating with domestic education institutions, the government can increase vocational training programs, and current workers can increase their skills and prepare themselves for jobs in the formal sector. The programs should be designed to be flexible, affordable, and suitable for current workers.

4.3. Enhancing Enforcement of Labor Regulations

While the government refines laws and regulatory frameworks, it lacks enforcement due to a lack of inspectors and a lack of permissions to inspect because informal sectors are located hidden inside households [6]. As a result, the government should increase funds for police departments to increase the number of inspectors who focus on the informal sector. The government should also train the inspectors to make sure they know the typical symbols of what is likely to be the informal sector. In addition, the inspectors should be empowered to monitor and regulate informal businesses. Besides, the government should improve the regulation by listing specific fines and penalties so that it increases the consequences of being involved in the informal sector.

4.4. Reducing Gender Inequalities

Women are particularly vulnerable in the informal sector [4]. They suffer more from unstable employment and low income. As a result, government should refine laws and regulations to promote equal pay. They should also create more incentives or programs to create job opportunities for women to participate in the formal sector. In that way, female labor forces can get rid of the informal sector while reducing wage disparities.

5. Conclusion

The research analyzes the relationship between Vietnam's economic growth and its employment structure, with a specific focus on the informal sector. Research suggests that while Vietnam experienced significant economic growth after the Doi Moi Reform, the employment structure in Vietnam did not improve. Specifically, the informal sector became more widespread. Since the informal sector takes up a large amount of the market share, it presents challenges to workers, including lower wages, lack of social protections, and gender disparities.

To reduce the scale of informal sector, the study suggests several appropriate strategies: simplifying the formalization process, increasing education opportunities and vocational training programs, and enhancing the enforcement of labor regulations. These measures aim to promote the transition from the informal to the formal sector. As a result, a more equal labor market and sustainable economic growth will be achieved in Vietnam.

The significance of this research lies in its focus on addressing employment and social issues in Vietnam. By reducing the scale of the informal sector, labor rights are protected, and Vietnam's economy has more potential to achieve long-term growth.

However, the study can be limited by the reliance on secondary data. Future research could benefit from primary data collection, such as through surveys or interviews. As a result, future research can dive deeper and gain deeper insights into the experiences of informal workers and the effectiveness of proposed interventions. This would enhance the understanding of Vietnam's labor dynamics and benefit more targeted policy recommendations. Consequently, the problems can be better addressed.

References

- [1] Mạnh, Phạm Hồng. *Relationship between economic growth and employment in Vietnam*. *Journal of Economic Development* (2014).
- [2] Le, N. P. (2020). *Education, Employment, and Income: An Overview of Rural-Urban Gaps in Vietnam: Education, Employment, and Income: An Overview of Rural-Urban Gaps in Vietnam*. *Vietnam Journal of Agricultural Sciences*, 3(2), 647-661.
- [3] Hoang, X. T. (2012). *Employment and income distribution in Vietnam during economic transformation*. *Journal of the Asia Pacific Economy*, 17(4), 617-634. <https://doi.org/10.1080/13547860.2012.724551>
- [4] International Labour Organization (ILO). (n.d.). *Decent work country programme Vietnam 2017–2021*. Retrieved from <https://www.ilo.org/media/345966/download>
- [5] Nguyen, D. T. (2023). *The impact of economic growth on employment: Evidence from Vietnam*. *International Journal of Economics, Finance and Management Sciences*, 6(10), 71-80.
- [6] Nguyen, Q. A. (2018). *Vietnam, A. H. Non-Farm Employment and Labor Market in Rural Vietnam: Trends and Determinants*.
- [7] Cling, J. P., Nguyen, T. T. H., Nguyen, H. C., Phan, T. N. T., Razafindrakoto, M., & Roubaud, F. (2010). *The informal sector in Vietnam: a focus on Hanoi and Ho Chi Minh City*. Hanoi: The Gioi Editions.
- [8] Anh, N. N., Thuong, N. T., Nguyen The Ha, Nga, T. T. T., & Van Thuy, N. (2015). *Labour market transitions of young women and men in Viet Nam*. ILO.
- [9] Handayani, S. W. (Ed.). (2016). *Social protection for informal workers in Asia*. Asian Development Bank.
- [10] Nguyen, H. T. (2017). *Education and employment in Vietnam: An analysis of returns to education*. *Journal of Education and Work*, 30(8), 833-847. <https://doi.org/10.1080/13639080.2017.1404011>