



Trade creates jobs in Viet Nam but technology might be harming low-skilled workers

Low-skilled workers in Viet Nam are hardest hit by market reforms and technology, with efficiency coming at the cost of jobs.

Exposure to foreign markets and access to digital technologies raise demand for different types of skills, and while it has been good for the economy, more and more workers are being left behind.

In 1986, Viet Nam started *Doi Moi*, reforms to shift the country toward a socialist-oriented market economy. It was based on integrating Viet Nam into global markets, diversifying exports, and attracting foreign direct investment.

Doi Moi led to remarkable growth in trade and foreign investment, and to income growth for some. The open economy approach evolved jointly with national development strategies centered on agricultural development, light industrialization, and a continued role for state-owned enterprises, while encouraging growth of the private sector.

Since *Doi Moi*, Viet Nam has become one of the most open economies in Asia. In the mid-1990s, it joined regional agreements such as the Association of Southeast Asian Nations and the Asia-Pacific Economic Cooperation forum.

Trade expansion and rapid economic growth moved Viet Nam up from being one of the world's poorest countries to a lower-middle-income economy. Gross domestic product per capita increased from \$100 in 1985 to \$2,100 in 2015.

The number of poor people dropped substantially. Before the reforms, Viet Nam was mainly agricultural, and self-employed farmers made up a large share of the labor force.

Innovation in agriculture fueled the growth of wage employment. So did rising prices for commodity exports and government programs to reduce poverty.

But despite high growth rates and reduced poverty, gains have not been evenly spread, with differences in income inequality between and within regions. Structural transformation from agriculture to manufacturing differs by region and this likely contributes to unequal growth in Viet Nam.

This can be explained by employment shifting away from agriculture and away from lower-skilled to higher-skilled and more productive non-farm jobs.

Despite impressive basic literacy and numeracy achievements, the country still has a skill shortage.

The Internet is one of the most critical technological advancements of the 20th century, affecting economic and social development. Internet connection was first legalized in Viet Nam in March 1997.

The share of the population with a personal computer has been rising, with Viet Nam ranking just behind Malaysia and the People's Republic of China in Asia.

Viet Nam has seen a steady increase in access to the Internet, especially in the northern provinces.

Liberalizing trade and encouraging foreign direct investment have fundamentally changed the nature and organization of production across countries, sectors, and firms, with machines and computers doing away with a lot of manual labor.

These policies have reallocated workers and machinery to their most efficient use.

Together, trade and technology offer the possibility for income and employment growth. At the same time, some worry that technology is replacing routine jobs, harming prospects for lower-skilled workers.

For a country like Viet Nam, with its abundant low-skilled labor, the increase in manual and routine tasks is relatively larger, shifting the composition of the local labor market toward low-skilled employment.

As trade helps spread technology, and as lower communication costs associated with technology promote trade, that trade affects industries differently, depending on whether they are in technologically advanced areas of the country.

As in the US in the 1990s, the widening wage gap can be largely attributed to stronger demand for highly educated workers.

In the US, competition from the People's Republic of China has hurt workers in some sectors, and there aren't enough jobs for workers without a college education.

The shifts in jobs in response to rising globalization has implications for wage inequality. In developed countries, wage inequality has increased. In Viet Nam, however, substantial evidence points to pro-market trade reforms helping significantly reduce poverty and increase formal employment.

Demand for educated, skilled labor is rising because of recent technological developments. Information technology is one industry that has received high levels of foreign involvement in Viet Nam.

It is an attractive destination due to relatively low wages and operating costs, combined with a young workforce with increasing technological and scientific skills, as well as a high percentage of English speakers.

The impact of increased information technology investment has benefited Viet Nam's younger population, who see the opportunity for higher wages.

Trade liberalization has been key in reducing poverty in Viet Nam because its export industries are labor intensive.

Trade increases jobs, but more access to technology means employers require fewer workers to achieve the same amount of output.

This episode was based on research by Jennifer Poole, from the American University and the Institute of Labor Economics or IZA; Amelia Santos-Paulino and Maria Sokolova, both from the United Nations Conference on Trade and Development; and Alisa DiCaprio, an ADBI research fellow at the time the report was published.

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