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Privatization and poverty reduction in Vietnam : Optimal choices and potential impacts

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The reforming of state-owned enterprises (SOEs)' sector and considerable achievements in terms of poverty reduction are certainly the most striking features of Vietnam's economic transition.The main objective of this PEP-supported study was to examine how privatization could contribute better to economic growth and to understand the conditions under which privatization would result in higher poverty reduction.

The researchers have applied advanced techniques of general equilibrium modelling for an integrated analysis of multi-sectoral activity, as well as to simulate and measure the impacts of ownership restructuring on future growth trends, job creation, labor markets, etc. In other words, their analysis has focused on the optimum distribution of economic activity across various options of ownership structure.

The findings and conclusions are manifold and sorted as a list of ensuing policy recommendations below

Need to conduct another SOE reform and to reduce the size of center-state-owned firms

Simulation results show that at the optimum choice of privatization level, the role of center-state-owned firms weakens, which suggests that the **center-state-owned firms' actual performance, at the present, is inefficient**. Moreover, the inefficiency of SOEs will very likely result in the collapse of many (SOEs).

Therefore, another radical SOE-reform needs to be conducted in order to avoid the economic and social damage that shall result from poor economic performance of the centre-state sector.

Need to change perspective and policies regarding foreign-owned firms and promotion of foreign direct investment (FDI)

Policymakers in Vietnam have long agreed that FDI is one of the main sources of the country's economic growth. Consequently, the last decade has seen the implementation of numerous policy measures to set conditions for the attraction of foreign investments.

The study's results show, however, that **at the optimum choice of privatization level, the 100% foreign-owned firms' potential is less than their actual performance**. Why? Because:

1- In Vietnam, foreign-owned firms contribute to trade deficit, as their intermediate demands for production are mainly imported goods.

2- Many of these firms often report losses, as they have been manipulating "transfer pricing techniques", making it hard for revenues to be controlled by the tax department.

The researchers' recommendation is to favor (only) a selection of licensed foreign investors, rather than all-embracing encouragement of full (100%) foreign ownership.

Need to encourage the development of a high-skilled labor force of industrial workers

It is expected that the current situation of Vietnam's labor force's skills will be a "bottle neck" for economic growth in the near future. In order to sustain the country's recent economic expansion, Vietnam must encourage the development of workers who can increase productivity, as well as manufacture high-technology and high value-added products and services.

Indeed, the results show that, at the optimum choice of privatization level, jobs are created but only for skilled workers and technicians, whereas **job losses are expected for unskilled and low-skilled labor**.

One of the main lessons from the experience of ASEAN tigers is that, as wage rates will continue to increase, the advantage of low-cost labor will become less of an incentive for firms' investment decisions in labor-intensive sectors. The improvement of labor's quality will therefore be necessary.

New policies shall be implemented to address issues of unemployment and labor migration

The Government's 1956 program of vocational training for rural labor force, which provides both agricultural and non-agricultural skill training for 7.8 million rural workers (until 2020), is the only current national measure in terms of vocational training in Vietnam.

This program's design, which aimed essentially to address the issue of "agricultural out-migration", was based on the assumption that the formal economy could generate large numbers of jobs to eventually absorb the flow of migrant agricultural workers and of unemployed unskilled and low-skilled workers.

This study, however, shows that such an assumption is not likely to hold true, as results from simulations suggest that **there is a trade-off between further privatization towards economic efficiency gain (growth) and job creation in Vietnam**. Indeed, considerable job losses are to be expected for unskilled and low-skilled workers at optimum privatization level, which would amplify unemployment resulting from "agricultural out-migration".

Finally, Vietnam already has a thriving informal economy, especially in rural areas where the jobless often take refuge. As most unemployed workers of 35 or more years of age are not considered eligible to work for business firms, they are being neglected by the implemen-tation of the 1956 program in many provinces. This particular group, which is forced to turn to the informal sector for livelihood, shall thus be considered especially vulnerable and a main target group in future policy or program design.

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