

Labour Market segmentation and poverty:

Summary Research in Vietnam

Research team

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Objectives of the research

- Nature and mechanism of labour market
- The status of Labour market segmentations in Vietnam
- Impact on the poor and poverty
- How labour market can help reduce poverty

Concept

- **Difference in wages between non-poor and poor is due to**

(1) Differences in human capital: **The neo-classical approach**

(2) Differences in the returns of human capital in different segments: **The labour market segmentation approach**

(3) Differences in market transactions and accesses:

Methodology

- (1) an earnings decomposition analysis: how much of the low earnings of the poor can be attributed to labour market segmentation as opposed to low human capital or unobservable characteristics.

$$\overline{\ln(w)}_{NP} - \overline{\ln(w)}_P = \beta(\overline{S}_{NP} - \overline{S}_P) + [(\overline{\alpha}'_{NP} - \overline{\alpha}'_P) + (\overline{\beta}'_S S_{NP} - \overline{\beta}'_S S_P)] + (\overline{\varepsilon}_{NP} - \overline{\varepsilon}_P)$$

- (2) an earnings mobility analysis, and
if individual workers move easily and often between different segments or between 'good' and 'bad' jobs within the same segment, then LMS will have an impact on temporary but not chronic levels of poverty.
>>> analysis look at **earnings of the same workers at different points in time.**

(3) a market access analysis

- Actual and perceived **labour market barriers**.
- The biggest constraints on finding 'good' jobs?
- What other individual **characteristics increase the chances of finding 'good' jobs** (ability to move, social networks, etc.)?
- How important is the **quality of education** as opposed to the quantity of education as a barrier to finding 'good' jobs?
- Do certain **labour market segments** becomes more difficult to move to other segments?

Data used

- Vietnam Living Standard Survey data of all three periods: 1992-1993, 1997-1998, 2002
- The final data sample including 6348 **wage workers**: 2384 are poor, account for 38%, and 3964 are non-poor, account for 62%.
- **Survey 48 firms** in textile, garment, shoes and construction; interviewed more than **500 workers** working there

Vietnam Labour market characteristics

- Labour surplus with low quality
- Weak demand
- Large self-employment, low wage employment
- Low labour mobility
- Shortage and mismatching in skills
- Large number of poor HH working in the “second layers”,

Some evidences

Employed people by sectors and residence

	Urban	Rural	Total
Formal (%)	30,18	5,76	11,02
Informal (%)*	69,82	94,24	88,98
Total (thousand people)	7.721	28.125	35.846

Nguồn: số liệu thống kê, nỗ lực của Ủy ban Dân số năm 1999, TCTK

* Including people in agriculture sector

Some evidences

The poor is less represented in formal secctor

	Employment sectors		Total
	Formal	Informal	
Poor	77.9	22.1	100
Non-poor	83.1	16.9	100
Total	81.33	18.67	100

c. Rural vs. Urban market

- More than of 90% of poor wage employed living in rural area compared to only 60% in the urban area.
>>> increased migration from rural to urban area.

Table 4: Distribution of the wage working poor by rural - urban, %

	Rural	Urban	Total
Poor	90,4	9,6	100
Non Poor	60,1	39,9	100
<i>Total</i>	<i>70.18</i>	<i>29.82</i>	<i>100</i>

Source: Vietnam Living Standards survey, 2002

Wage differences from Regression results

- The poor having 10% of wage lower than non poor
- Urban workers earns 8.4% higher than rural
- Male earns 10% more than female
- FDI sector has the highest wage level whereas the lowest is of state sector.
- Farming vs. non farm: about 7.5 percent.

The "poor effect" is statistically significant

- the poor is less benefiting from an investment on additional year of schooling

Rate of return of poor vs. non poor, %

Educational level	Yearsofschooling	Poor	Non-poor
Primary	5	-0.14%	0.65%
Below secondary	9	2.10%	2.88%
Upper secondary	12	3.77%	4.56%
Vocational	14	4.89%	5.67%
Technical	15	5.45%	6.23%
Undergraduate or above	18	7.12%	7.91%

Why wage gaps: decomposition results

- Urban -Rural: Human capital of individuals contributes 31.73%; LMS -15.77% and 52.5 % is due to "market access" of poor .
- *Male - female*: the “second term” has (-) reflects that female overrepresented among non-poor, males overrepresented among the poor.
- Farming -off-farm: mainly due to the diff in human capital
- Formal vs. informal jobs: the uncertainty of income or other wage-related bonuses.

Wage differences between poor and non-poor

	First term	Second term	Third term
Rural and urban area	31.73%	15.77%	52.50%
Sexes	38.92%	-15.39%	75.03%
Farming and non-farm	40.32%	6.04%	53.64%
Formal and informal sec	39.57%	-1.28%	61.71%

Access to the labour market: The case of rapid growth Danang city

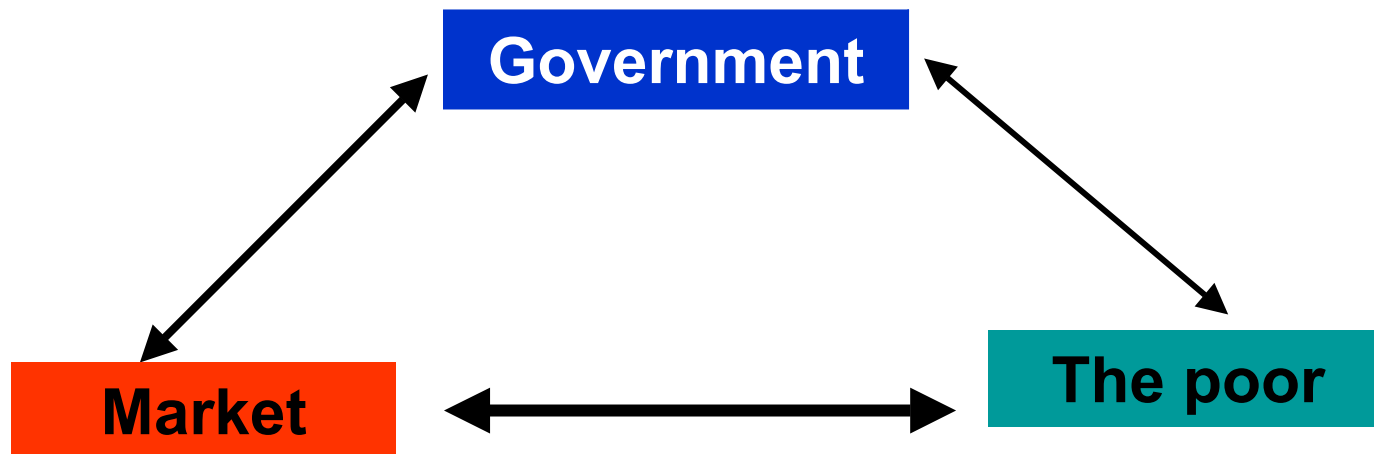
- Labour market **has getting more important** for the poor
- General labour demand of the city increases, for the works where *the poor can engage, demand is declining.*
- *Most of the poor works on the jobs with low qualification or manual works, simple works in service sector; seasonal jobs without labour contract*
- most of the poor **not benefiting from social insurance** schemes (such as annual paid leave, health care to labor force rehabilitation) and other fringe benefits.
- unstable timing schedule (15-17 days per month), but with **long daily working hours** (about 10 hours per day)

Role of Institutions

- Migrant/Residential restrictions
- Un-favor Investment policies
- Legal framework: Minimum wage, wage policy and management, social security policy...
- Land, credit policies
- Poverty reduction policies

How to make market works for the poor

- **New challenges:** New poverty line, high poverty rate (31%) with new issues for poverty reduction strategies
- **3 “forces”** to escape from poverty:



How to make market works for the poor

- **Enhance human capitals** of the poor: Continue to support poor with free education, health and other supports with direct government program for 2006-2010
- Create **more opportunities** for the poor to participate in Labour Market: special continuous education and technical skills of the poor labourer; credit, agricultural intensification...
- Improve **working conditions** of the poor (employment, wage and salary, compensation..)
- provide them with **job information**, developing a system of job-matching services center and career consultation
- **Encouraging** private sectors to employ poor people, labour- intensive enterprises and in rural areas;

How to make market works for the poor

- **Off-set the negative impacts** of development process on the poor (Urbanisation and industrialisation have good long term effect on poverty reduction, but not in the short-run).

>>> For the case in Danang:

- Compensation on land lost should go with **occupational transition**, skill upgrading for the households to labour market;
- Development of public work program for the poor
- Reduce market transactions

How to make market works for the poor

- Developing social insurance schemes for the poor:
 - + Introduction of unemployment benefits
 - + Increase coverage for the informal sector.
 - + Introduce voluntary schemes
 - + Enhance the social safety nets

Thank you