

PEP impact brief

Vietnam

Impact of trade liberalization on nonfarm and farm labor participation in rural Vietnam

2014-2016



Project milestones

- Spring 2014 Initial consultation between the research team and a representative of the Central Economic Committee
- May 2014 Selection of project for PEP support under the PAGE initiative
- July 2014 Consultation seminar at the Vietnam Centre of Economic and Policy Research
- Spring 2015 Preliminary results are presented to key research users including the Office of the State President and the Ministry of Agriculture and Rural Development
- June 2015 Team presents preliminary findings at the Eighth Vietnam Economists Annual Meeting
- June 2016 Team organizes PEP national policy conference in Hanoi, key research users and policy actors attend
- June 2016 Team leader presents findings at the Third China Meeting of the Econometric Society in Chengdu

Context

The Vietnamese agricultural sector is braced for change as the country enters into the Trans-Pacific Partnership (TPP) free trade agreement. With more than 70% of the population living in rural areas and depending on agriculture for their livelihoods, the impact of a free trade agreement will certainly be felt across country.

The TPP is the next step in Vietnam's economic reforms, which began with the Doi Moi in the late 1980s, and moved the country from a planned economy to a "socialist-oriented market economy". Trade liberalization policies, particularly those that reduce tariff and non-tariff barriers, produce a significant increase in the trade of intermediate goods. This is especially true for developing countries that depend on foreign technology to be able to expand production and reduce costs.

Studies show that importing intermediate goods, such as agricultural fertilizer, is beneficial to a country's economy. In the case of Vietnam, the 23% drop in fertilizer prices and the 27% increase in the volume of chemical fertilizer imported to Vietnam between 1993 and 1998 are attributed to the trade liberalization policies in place during this period.

Local research team

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PEP publications

Working paper 2016-11
 Policy brief 133



Producing reliable evidence to inform trade policy decisions in Vietnam

Trade liberalization policies lead to significant labor reallocation effects as nonfarm labor moves to the farm sector in rural Vietnam

However, little is known about what impact trade liberalization policies have on rural households in terms of employment and productivity.

A team of local researchers therefore chose to examine the transformations in the agricultural sector to assess whether these changes help or hinder development in both the agricultural and nonfarm sectors of rural Vietnam, as well as how labor is divided between the two sectors.

As fertilizer represents the largest component of farm input expenses, affecting both agricultural production and household welfare, the research team chose this variable to study the effect of imported intermediate goods on the agricultural sector in rural Vietnam.

Key findings...

The team's findings indicate that trade liberalization policies have significant labor reallocation effects in rural Vietnam.

An increase in the volume of chemical fertilizers leads to increased involvement of rural households in agriculture, while nonfarm participation significantly decreases. This is attributed to the increased demand for chemical fertilizers (due to the drop in price), creating new incentives for rural households to move into the agricultural sector, to stay in the sector, or to increase their engagement.

The liberalization of chemical fertilizers also provides more on-farm labor opportunities for smallholders than it does for owners of larger farms, because smallholders tend to have a surplus of on-farm family labor. As such, the increased volume of chemical fertilizers has a **greater impact on farm participation for households with small landholdings than it does for those with large landholdings.**



The research team analyzed panel data from the 1993 and 1998 Vietnam Living Standards Surveys for 3,258 rural households, looking particularly at the price of chemical fertilizer and the land allocation to individual households.

The researchers used a regression econometric model to estimate the impact of the trade liberalization of chemical fertilizers on nonfarm and farm participation, the relationship between the volume of chemical fertilizer and other agricultural performances, and the effect of the volume of chemical fertilizers by initial (1993) status and land size.

...and conclusions

Joining the Trans-Pacific Strategic Economic Partnership Agreement (TPP) means that Vietnam will have to reduce tariffs on imports with some of these changes expected to significantly affect the rural sector.

The team's analysis, focusing on a specific "price policy" option (i.e. trade liberalization of chemical fertilizers between 1993 and 1998), can provide useful evidence to inform and assist in current trade policy decisions.



Strengthening local expertise for policy analysis in Vietnam

Before being able to produce such high quality empirical evidence, the team members first developed their expertise in cutting-edge micro econometric analysis methods and tools, including various regression and modeling techniques. The team members also developed their knowledge of Stata software for data and statistical analysis.

The knowledge that the team developed during this project, and with PEP support (see grey box), has helped several members to successfully complete their master's or Ph.D. theses.

Incorporating these new methodologies and expertise, Ms. Linh Dong Thi Thuy's master's thesis was accepted by the International Institute of Social Studies in the Netherlands. She was also invited for a (PEP-funded) study visit to the Australian National University in Canberra, where she developed a network of academic contacts and applied for a Ph.D. scholarship.

Ms. Huong Thanh Ho has been accepted to present her work using instrumental variables and modeling techniques, which she learned during the PEP study, to the Institute for European Studies in Vietnam.

Furthermore, the team leader was awarded research funding by Deakin University in Australia to empirically investigate the impact of trade liberalization on the nutrition of children in rural Vietnam using many of the same methodologies as in the PEP study. His research paper, on the effect of the increase in the price of rice that

In addition to funding, all PEP-supported research project teams benefit from intensive training activities (at the onset of the project), access to related resources (recommended readings, training materials, software tools, etc.), a unique international peer-review experience, as well as ongoing mentoring and technical support provided by PEP mentors (world leading experts in relevant research methods/areas) all throughout the project lifecycle.

accompanied Vietnam's trade liberalization policies had on children and poverty in rural Vietnam, was published in the Journal of the Asia Pacific Economy (vol. 21, 1) in 2016.

Following consultation activities (as described on page 4), the Central Economic Committee invited the team firstly to present their findings, and secondly to undertake a joint research project with the Committee. The consultation and dissemination activities also led to the team leader being invited to collaborate on a project for the Vietnam Institute for Economic and Policy Research.

Finally, having demonstrated their expertise in econometric analysis methods, the team will soon receive a small grant provided by the Vietnam Institute for European Studies to carry out a study on the "Impact of the US-Vietnam bilateral trade agreement on child development in rural Vietnam".

"The skills and knowledge of econometric tools I developed during the PEP study allowed me to successfully defend my master's thesis at the International Institute of Social Studies in the Netherlands, and apply for a Ph.D. scholarship in Australia."

- Huong Thanh Ho

Engaging with key policy makers, advisors and stakeholders

PEP findings to inform trade liberalization policy decisions



Spring – summer 2014
Consultation meetings between research team and policy actors/research users



Spring 2015
The team discusses preliminary findings with key research users



June 2016
Team organizes a national policy conference in Hanoi, which is attended by key policy actors and featured in the national media



June 2016
Team leader presents findings at the Third China Meeting of the Econometric Society in Chengdu

From the outset of the project, and before it was selected for PAGE funding, the research team recognized the importance of engaging with stakeholders and policy actors, in particular representatives of political offices and government ministries and institutions, in order to ensure the relevance of and interest in their research.

The team initially consulted with representatives of the Central Economic Committee and the Ministry of Agricultural and Rural Development, who expressed their interest in policy analysis relating to rural-urban migration and rural living standards respectively. The comments received during the planning stages of the study allowed the team to improve their proposal by including further analysis on the relationship between farm and nonfarm labor in rural areas, and thus better addressing the knowledge gaps perceived by the policy actors and research users.

Once preliminary findings had been established, the team presented their analysis to various stakeholders including the Vietnam Institute of Economics, the Centre for Analysis and Forecasting, the Ministry of Labor, War Invalids and Social Affairs, and the Institute of Regional Sustainable Development.

The team also presented their preliminary findings at several events including a policy advisory seminar organized by the Vietnam Centre of Economic and Policy Research. The representative for the Ministry of Agricultural and Rural Development, Ms. Le Thi Thu Trang, stated that the team's findings linking the farm and nonfarm sectors are particularly relevant and will allow her to present strong empirical evidence during policy development. Similarly, Ms. Le Thi Huong of the Central Economic Committee stated that the team's findings would contribute towards a policy draft to be submitted to the government.

The research team has presented their findings at a number of conferences, both in Vietnam and abroad, notably the Eighth Vietnam Economists Annual Meeting (2015) in Thai Nguyen, Vietnam, and the Third China Meeting of the Econometric Society (2016) in Chengdu, China. These conferences provided the opportunity for the team to discuss their findings with academics and policymakers, as well as to be featured in media reports.

Finally, in June 2016, the research team organized a PEP-funded policy conference in Hanoi, Vietnam, in collaboration with the Vietnam Institute for European Studies, specifically to share and discuss their findings with the both the stakeholders and policy actors who had previously consulted on the project as well as those who had not, such as the representative for the Vietnam Chamber of Commerce and Industry. The policy conference also benefitted from substantial media coverage from two television channels and three national newspapers.