THE IMPACT OF TRADE-RELATED HUMAN CAPACITY DEVELOPMENT ACTIVITIES ON SMES IN VIET NAM
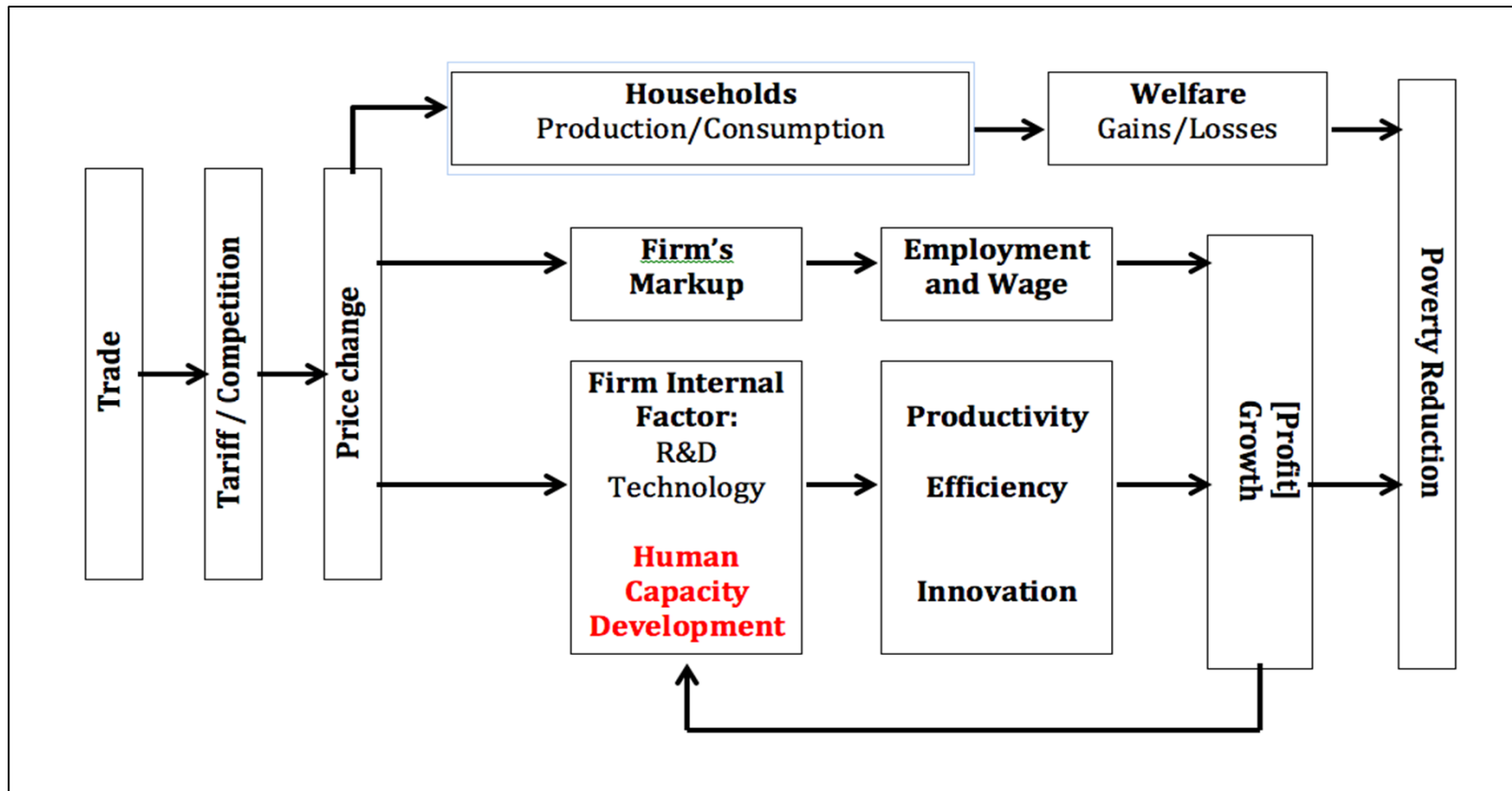
Nguyen Dinh Chuc

Institute of Regional Sustainable Development (IRSD)

THE METHODOLOGICAL FRAMEWORK

Three channels through which international trade influences SMEs performance and poverty

- Firstly, international trade has a direct impact on poverty (household welfare) through changes in relative price induced by tariff reduction.

- Secondly, trade and tariff liberalization could also affect firm's profits then, in turn, the effect on poverty operates through earning of workers, industry and occupational wage premiums, and employment/unemployment.

- Thirdly, gains from trade could operate through increased efficiency and product/process innovation efforts, in which the importance of human capacity development is considered.

THE METHODOLOGICAL FRAMEWORK

LITERATURE REVIEW

Trade – Growth–Poverty

- Frankel and Romer (1999): trade integrated countries have higher income or experience more significant declines in poverty
- Fetrer (2009): decreases in (sea)trade correlates with lower income in the case of the closing of the Suez Canal
- Estevadeordal and Taylor (2013): countries more liberalizing their trade would have higher GDP growth

LITERATURE REVIEW

International Trade and Poverty

- Trade – Price – Poverty
  - Households are affected by price changes and incomes

  - Porto (2006) import tariff reduction had benefited poor households in Argentina

  - Nicita (2009) import tariff reductions in Mexico lowered the prices of agricultural and manufacturing goods, thus, benefited households through the consumption channel   at all income levels.

  - Chi-Chung et al. (2002): welfare gains of USD 1,492 million when all trading countries comply with a given free trade agreement (main rice exporter: (Thailand, Viet Nam, and the United States; and rice importers: Brazil, Europe, Japan, the Philippines, and the former Soviet Union).

  - Minot and Goletti (1998, 2000): rice export liberalization in Viet Nam would raise food prices but also increase average real income and reduce poverty. Rice price increase of 14 to 22 percent could bring about USD 200 million in welfare gains

  - Benjamin and Brandt (2002): significant increases in the price of rice have a largely beneficial impact on rural household welfare

LITERATURE REVIEW

Trade, private sector, and human capacity

- International trade influences the firm performance:
  - First, create opportunities for firms to earn more.
  - Second, operate through the changes in wage and employment.
  - Third, operate through improvement of efficiency and product and/or process innovation, in which the links to human capacity development could be considered.

- International trade creates opportunities for firm's profits:
  - Loecker et al. (2012): trade liberalization lowers factory-gate prices. Price declines are small relative to the declines in marginal costs. In the long-term, higher firm profits lead to new product introductions and growth and thus lead to higher gains for consumers.
  - Ravallion (2001): that trade-induced economic growth could help to create employment opportunities for less-educated workers
  - Pavcnik (2004, 2007): trade-related mechanisms that could affect poverty through earnings of less-educated workers, industry wage premiums, occupational   wage premiums, and effects on worker employment and/or unemployment.
  - Topalova (2007, 2010): declines in relative wages in industries with larger tariff cuts in India.

LITERATURE REVIEW

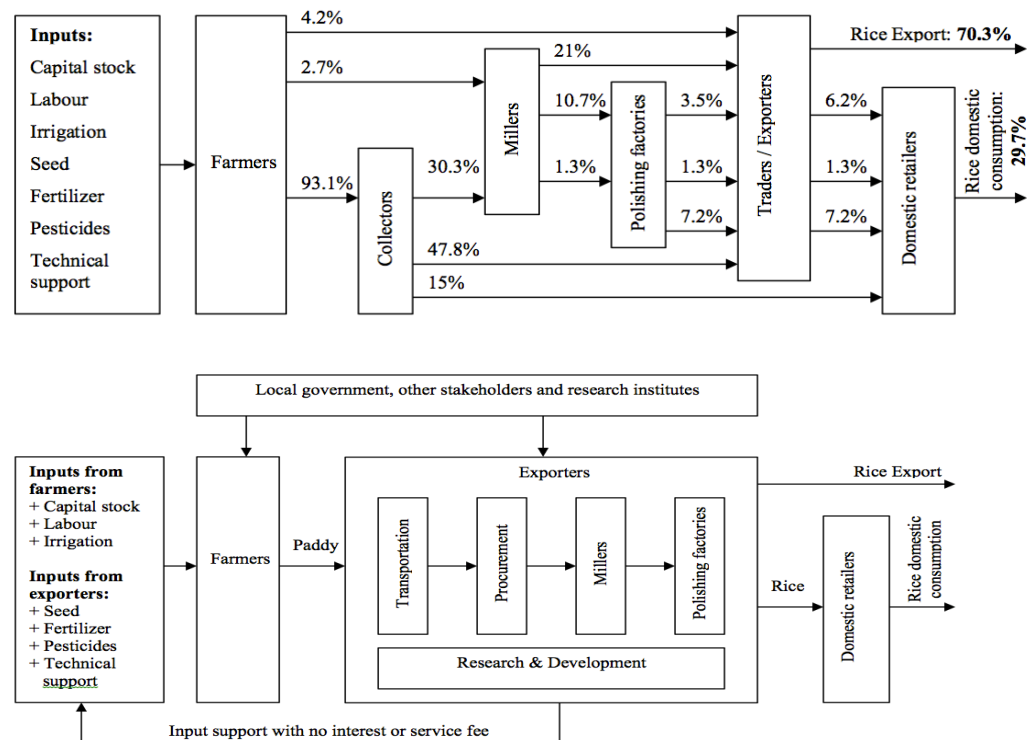## Trade, private sector, and human capacity

- Changes in wage and employment
  - Trade contributes to firm's performance and thus poverty reduction
  - Trade and tariff liberalization lowers factory-gate prices as well as marginal cost
  - Loecker et al., (2012): To gain profit from international trade - reductions in marginal costs, raising markup
  - Loeckeret al. (2012): long-term gains to consumers may be higher to the extent that higher profits lead to new product introductions and growth
- Improvement of efficiency and innovation, in which the links to human capacity development

EMPIRICAL FINDINGS

Agriculture value chain upgrading

- Rice Large-Scale Fields (LSFM) in the Mekong River Delta

Pham and La (2014: implementation of the LSFM in the Mekong River Delta would increase the welfare of households by 4.1 percent in the short term and 4.9 percent in the longer term, and reduce poverty: 0.55 percent among the 10 percent poorest households

EMPIRICAL FINDINGS

Agriculture value chain upgrading

- Approaches to trade-related HCD measures under Viet Nam Challenge Fund
  - Case 1: Developing exports and fresh-cut processing of pomelo in Tien Giang Province
  - Case 2: Semi-washed robusta coffee processing station in Dak Lak Province
  - Case 3: Viet Nam's natural rubber exports

Technological capability and sectoral innovation system

- Viet Nam's natural rubber exports and the Sectoral System of Innovation
- Electronic firms and the role of technological capability in engaging into the Global value chain
  - Viettronics Binh Hoa Joint Stock Company
  - 4P Company Ltd.

EMPIRICAL FINDINGS

Evidence from Viet Nam's SME database

Firms with a deep level of integration depend heavily on their human resource (45.65% of them have more than 100 full-time workers, and 65.22% of them require more than 50 100 full-time workers). On the other way round, a firm with more than 100 full-time workers is likely to be larger exporter than the others.

Labour resource	Level of integration			Total
	Deep	Good	Fair	
Excellent	21	6	10	37
	56.76	16.22	27.03	100.00
	45.65	33.33	25.00	35.58
Good	9	2	10	21
	42.86	9.52	47.62	100.00
	19.57	11.11	25.00	20.19
Fair	15	8	19	42
	35.71	19.05	45.24	100.00
	32.61	44.44	47.50	40.38
Poor	1	2	1	4
	25.00	25.00	25.00	100.00
	2.17	2.17	2.17	3.85
Total	46	18	40	104
	44.23	17.31	38.46	100.00
	100.00	100.00	100.00	100.00

	Key
Pearson chi2(6) = 8.0544 Pr = 0.234	
Cramér's V = 0.1968	Frequency
gamma = 0.2381 ASE = 0.122	Row percentage
Kendall's tau-b = 0.1566 ASE = 0.082	Column percentage

EMPIRICAL FINDINGS

Evidence from Viet Nam's SME database

Except firm in a good level of integration, the majority of workers employed by exporting firms (more than 50%) are low skilled
Results confirm two main arguments: First, international trade creates employment opportunities for the low-skilled worker; Second, export participation of Vietnamese SMEs merely leads to employing more casual workers

Skill-intensity level	Level of integration			Total
	Deep	Good	Fair	
Excellent	11	7	8	26
	42.31	26.92	30.77	100.00
	23.91	38.89	20.00	25.00
Good	10	5	11	26
	38.46	19.23	42.31	100.00
	21.74	27.78	27.50	25.00
Fair	10	5	11	26
	38.46	19.23	42.31	100.00
	21.74	27.78	27.50	25.00
Poor	15	11	10	26
	57.69	3.85	38.46	100.00
	32.61	5.56	25.00	25.00
Total	46	18	40	104
	44.23	17.31	38.46	100.00
	100.00	100.00	100.00	100.00

	Key
Pearson chi2(6) = 6.3005 Pr = 0.390	
Cramér's V = 0.1740	Frequency
gamma = -0.0383ASE = 0.126	Row percentage
Kendall's tau-b = -0.0264 ASE = 0.087	Column percentage

EMPIRICAL FINDINGS

Evidence from Viet Nam's SME database

Among exporting firms, firms with a deeper level of integration always have a higher level of labor productivity

Labour productivity	Level of integration			Total
	Deep	Good	Fair	
Excellent	23	11	16	50
	46.00	22.00	32.00	100.00
	50.00	61.11	40.00	48.08
Good	7	3	10	20
	35.00	15.00	50.00	100.00
	15.22	16.67	25.00	19.23
Fair	10	1	8	19
	52.63	5.26	42.11	100.00
	21.74	5.56	20.00	18.27
Poor	6	3	6	15
	40.00	20.00	40.00	100.00
	13.04	16.67	15.00	14.42
Total	46	18	40	104
	44.23	17.31	38.46	100.00
	100.00	100.00	100.00	100.00

	Key
Pearson chi2(6) = 4.4474Pr = 0.616	
Cramér's V = 0.1462	Frequency
gamma = 0.0791 ASE = 0.130	Row percentage
Kendall's tau-b = 0.0516 ASE = 0.085	Column percentage

EMPIRICAL FINDINGS

Evidence from Viet Nam's SME database

Firms with a deep level of integration tend to upgrade their technology to keep up their exports and income (45.65% of them at the highest level of technology, and 21.74at medium-high tech and 32.61 at medium-low tech; none of them at low tech level).

Technological level	Level of integration			Total
	Deep	Good	Fair	
High	21	4	15	40
	52.50	10.00	37.50	100.00
	45.65	22.22	37.50	38.46
Medium-high	10	6	16	32
	31.25	18.15	50.00	100.00
	21.74	33.33	40.00	30.77
Medium-low	15	7	8	30
	50.00	23.23	26.67	100.00
	32.61	38.89	20.00	28.25
Low	0	1	1	2
	0.00	50.00	50.00	100.00
	13.04	16.67	15.00	14.42
Total	46	18	40	104
	44.23	17.31	38.46	100.00
	100.00	100.00	100.00	100.00

	Key
Pearson chi2(6) = 8.3565Pr = 0.213	
Cramér's V = 0.2004	Frequency
gamma = 0.0124 ASE = 0.132	Row percentage
Kendall's tau-b = 0.0083 ASE = 0.087	Column percentage

CONCLUSIONS

Vietnamese SME participating in international trade depends heavily on their human resource, regarding total full-time workers employed.

International trade has an impact on poverty by creating employment opportunities in the exporting firms

Vietnamese SME with a deep level of integration tends to upgrade their technology to keep up their exports and income

Innovating firms have incentives to expand into international markets to gain from trade