

# **Non-farm Wage Labour and Entrepreneurship in Rural Vietnam**

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# Abstract

In the past decades, an enormous amount of literature has emerged studying non-agricultural economic activities of people living in rural and remote settings in developing countries. Few studies have given much consideration to the heterogeneity of non-farm employment. However, in times of rapid economic developments and ongoing structural change, non-agricultural activities in rural areas include a broad range of jobs and businesses. To reflect this diversity, this dissertation combines three different approaches to study aspects of non-agricultural activities in rural Vietnam: livelihoods, entrepreneurship, and economic geography. In summary, I first deal with the different types of non-farm jobs that rural people engage in from a livelihoods perspective. Then I analyse the importance of proximity to intermediate cities in this process. This is followed by analyses of entrepreneurship in rural areas. I first observe whether non-farm businesses are primarily a response to crises or whether they are exploiting business opportunities. Then I analyse how necessity and opportunity entrepreneurs differ in terms of characteristics and how entrepreneurial motivation affects performance. Finally, I study how greater access to non-farm wage employment affects rural entrepreneurship. The data was collected in three household surveys in rural Vietnam between 2007 and 2010. Major methodological tools are different types of bivariate and multivariate analytical statistics in combination with subjective perceptions of the households themselves. In this way this dissertation contributes to a better understanding of the diversification processes of rural households in rapidly changing socio-economic contexts.

**Keywords:** Rural Vietnam, Non-farm Employment, Entrepreneurship

# Kurzzusammenfassung

In den vergangenen Jahrzehnten ist eine umfassende Literatur entstanden, die sich mit außerlandwirtschaftlichen ökonomischen Aktivitäten in ländlichen und entlegenen Gebieten in Entwicklungsländern beschäftigt. Nur wenige Studien haben dabei der Heterogenität dieser Tätigkeiten viel Beachtung geschenkt. Insbesondere in Zeiten von schnellen wirtschaftlichen Entwicklungen und einem fortschreitenden Strukturwandel bestehen außerlandwirtschaftliche Aktivitäten jedoch aus einer Fülle an unterschiedlichen Beschäftigungen und Unternehmungen. Um dieser Vielfalt zu entsprechen, werden in dieser Dissertation drei verschiedene Ansätze kombiniert, um Aspekte zu außerlandwirtschaftlichen Aktivitäten im ländlichen Vietnam zu untersuchen: Livelihoods, Entrepreneurship und Wirtschaftsgeographie. Kurz zusammengefasst werden zunächst verschiedene Typen von Lohnbeschäftigung im ländlichen außerlandwirtschaftlichen Sektor aus der Perspektive der Lebenshaltung untersucht. Anschließend wird die Bedeutung der Nähe zu mittelgroßen Städten für die Aufnahme von Lohnbeschäftigungen näher beleuchtet. Danach werden ländliche Unternehmensgründungen studiert. Erst wird untersucht, ob ländliche Unternehmen eher der Krisenbewältigung dienen oder ob Geschäftschancen genutzt werden. Dann wird analysiert, wie sich Necessity Gründer von Opportunity Gründern unterscheiden und wie die Gründungsmotivation den Unternehmenserfolg beeinflusst. Zum Abschluss wird der Einfluss von besserem Zugang zu nicht-landwirtschaftlicher Lohnarbeit auf ländliche Unternehmensgründungen analysiert. Die Daten wurden in drei großen Haushaltsbefragungen im ländlichen Vietnam zwischen 2007 und 2010 erhoben. Methodische Werkzeuge sind unterschiedliche bivariate und multivariate Verfahren aus der analytischen Statistik in Kombination mit subjektiven Wahrnehmungen der Haushalte. Auf diese Art und Weise trägt diese Arbeit zum Verständnis von außerlandwirtschaftlichen Diversifizierungsprozessen ländlicher Haushalte in einem sich schnell wandelnden sozio-ökonomischen Kontext bei.

**Schlagwörter:** Ländliches Vietnam, außerlandwirtschaftliche Beschäftigungen, Entrepreneurship

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## Abbreviations

ASMED	Agency for SME Development
CIEM	Central Institute of Economic Management
DFG	Deutsche Forschungsgemeinschaft (German Research Foundation)
DFID	Department for International Development
DGfG	Deutsche Gesellschaft für Geographie
DPI	Department of Planning and Investment
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
GSO	General Statistics Office of Vietnam
HCMC	Ho Chi Minh City
IGU	International Geographical Union
IIA	Independence of Irrelevant Alternatives
ILO	International Labour Organisation
IV	Instrumental Variable
LOWESS	Locally Weighted Scatterplot Smoothing
MOLISA	Ministry of Labour - Invalids and Social Affairs
OLS	Ordinary Least Squares
PPP	Purchasing Power Parities
S.D.	Standard Deviation
S.E.	Standard Error
SME	Small and Medium Enterprises
UN	United Nations
USD	United States Dollar
VASS	Vietnam Academy of Social Sciences
VHLSS	Vietnam Household Living Standard Survey
VLSS	Vietnam Living Standard Survey
VND	Vietnam Dong

# 1 Introduction

In the past twenty-five years, Vietnam has witnessed rapid and historic changes that have transformed the country from being one of the poorest nations in the world into a middle income country with stable economic growth and massively reduced poverty rates.<sup>1</sup> These developments were induced by a turnaround in the economic policy of the communist government. The ‘Doi Moi’ reforms of 1986 started to fundamentally change the centrally planned system by adopting market mechanisms in key areas of the economy (REVILLA DIEZ 1995).

One important consequence of the renovation process was a growing private non-agricultural sector that not only managed to absorb laid off workers from state owned enterprises (GLEWWE 2004), but was also able to generate employment and income for increasingly large parts of the population. Since the beginning of the reforms, employment in agriculture is steadily declining in importance while non-agricultural activities have become widespread phenomena.<sup>2</sup> Similar trends can be observed in most economies of South East Asia (see Figure 1.1). However, Vietnam is among those countries that experiences the most substantial shifts. One feature of the Vietnamese development path is that industrial growth and foreign direct investments are highly concentrated around the two major urban centres, namely Ho Chi Minh City and Hanoi, leading to deep regional disparities within the country (REVILLA DIEZ 1999). Remarkably, despite these regional disparities, structural change has also reached the rural population. From 2002 to 2010 alone, the share of rural people of working age employed in agriculture decreased from 70.7% to 56.7%, while non-farm employment in industry, construction, trade, and services increased correspondingly (GENERAL STATISTICS OFFICE 2011b). Moreover, rural poverty rates also dropped substantially from 66.4% to 18.7% between 1993 and 2008 (WORLD BANK 2011b).

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<sup>1</sup> Between 2006 and 2010, the Vietnamese GDP grew by 7.0% on average which makes it the second fastest growing economy in South East Asia. Between 1993 and 2008, national poverty rates fell from 58.1% to 14.5% (Own calculations based on WORLD BANK 2011b).

<sup>2</sup> The share of agricultural in total employment decreased from 70.0% in 1993 to 51.7% in 2006 (WORLD BANK 2011b)

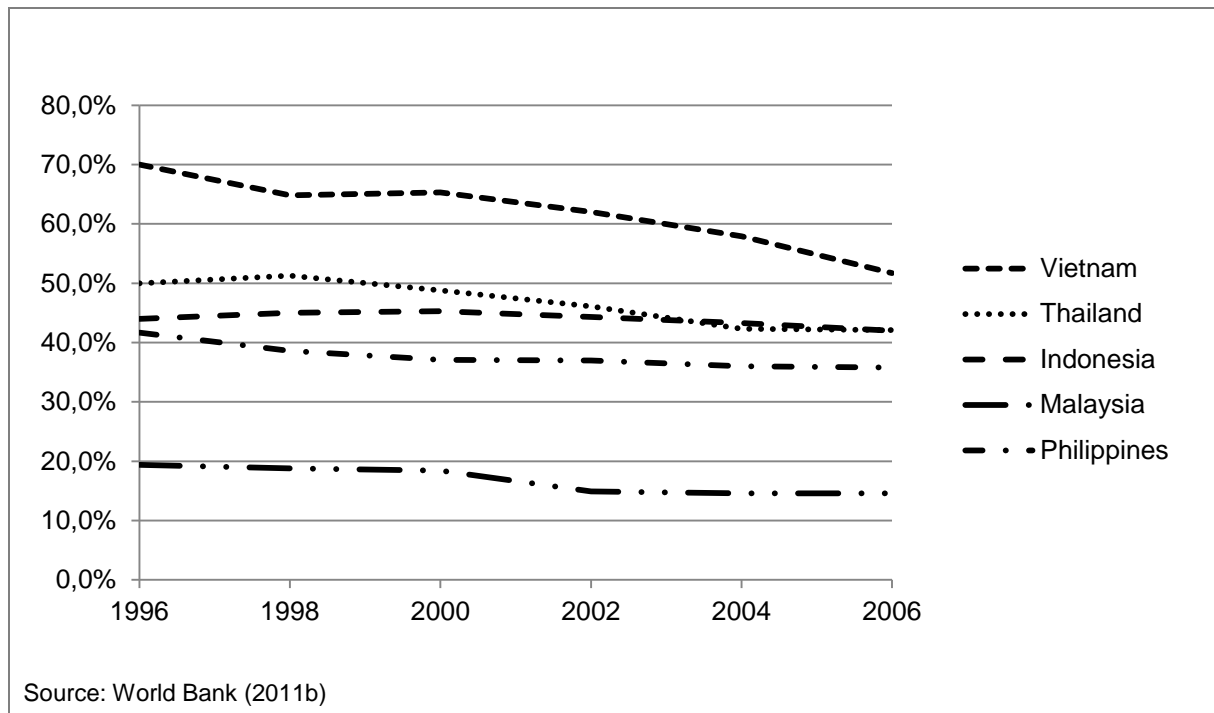


Figure 1.1 Agriculture employment in selected South East Asian countries (% of total employment)

The rural non-farm economy in Vietnam has motivated several studies, among which the relationship between non-farm employment and poverty reduction has attracted considerable attention (VAN DE WALLE/CRATTY 2004; MAUSCH 2010; PHAM/TUAN/THANH 2010). The analyses show that the growing non-farm economy will not be a way out of poverty for every rural household (VAN DE WALLE/CRATTY 2004). However, increasing participation does explain lower poverty levels because non-farm households earn significantly higher incomes than farm-only households (MAUSCH 2010), and non-farm participation significantly increases household welfare (PHAM/TUAN/THANH 2010). This conclusion is also supported by recent official data from the General Statistics Office, according to which richer households work more often in the non-farm sector while poorer households frequently remain in agricultural jobs with low incomes (GENERAL STATISTICS OFFICE 2009a:11). Also data on the firm level confirm this tendency, as wages in medium and large non-farm companies prove to be consistently higher than wages in agricultural jobs (SCHMID 2011). However, enterprises demand high skills from (potential) employees.

Frequently, companies complain about a lack of technical and other working skills among the available workers (SCHMID 2011; MAUSCH 2010).<sup>3</sup>

Most previous studies regard non-agricultural activities of rural households as alternatives to agricultural activities. As a result, they are very often not defined by what they are (for example service or industrial jobs) but simply by something they are not: non-agricultural (LANJOUW 2007). In turn, few studies have given much consideration to the heterogeneity of non-agricultural employment. However, in times of rapid economic developments and ongoing structural change, non-agricultural activities in rural areas include a broad range of jobs and businesses.

This dissertation is a compilation of research papers that further investigates the nature of non-agricultural (or non-farm) wage labour and entrepreneurship in rural Vietnam.<sup>4</sup> The commonality between the two activities is that they are both non-agricultural and are used as diversification strategies by predominantly agricultural households in rural areas. Yet the two types of activities differ in many other respects. Firstly, participation in salaried employment can be expected to depend on different factors than starting a business. Employers have to consider different types of skills before employing workers. Self-employment, on the other hand, is an entrepreneurial activity that depends on personal characteristics, attitudes and motives towards entrepreneurship which are very different from the skills required for wage employment. Secondly, the two types play different roles in the process of economic development. From a dual labour market perspective, non-agricultural wage employment can be regarded as being available in the growing capitalist sector, while self-employment in rural areas can largely be attributed to the so-called ‘subsistence sector’. The classical model assumes that people prefer wage employment over self-employment once the economy develops (LEWIS 1954). Thirdly, from the perspective of entrepreneurship researchers and economic geographers, self-employment has the potential to contribute to regional economic growth (ACS 2006; MUELLER 2007; STERNBERG/ROCHA 2007; VALLIERE/PETERSON 2009;

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<sup>3</sup> This lack of skills increasingly constitutes a challenge for companies, their potential rural workforce, and public policy (DANG 2009).

<sup>4</sup> I follow the definitions suggested by BARRETT, REARDON, and WEBB (2001). Thus, the terms ‘non-farm’ and ‘non-agricultural’ are used synonymously for any type of activity outside the agricultural sector. In contrast, the term ‘off-farm’ signifies activities off their own farm, which also includes agricultural wage labour on other farms.



NAUDÉ 2011). Therefore, entrepreneurship could be an important source of future growth within the rural non-farm economy. Non-farm wage employment of rural household members should instead be seen as a consequence of structural change.

In order to account for these differences, non-agricultural wage employment and self-employment/entrepreneurship are dealt with successively in this dissertation.<sup>5</sup> Conceptually, three different approaches are used to reflect this diversity: livelihoods, entrepreneurship, and economic geography. This study is the first to combine these three perspectives to study non-agricultural activities. In this way, it contributes to the understanding of the diversification processes of rural households in a rural developing context. In summary, I first deal with the process of finding a job in the rural non-farm economy. Then I analyse the importance of proximity to intermediate cities in this process. This is followed by analyses of entrepreneurship in rural areas. I observe whether non-farm businesses are primarily a response to crisis or whether they are exploiting business opportunities. Then I analyse how necessity and opportunity entrepreneurs differ in terms of characteristics and how entrepreneurial motivation affects performance. Finally, I study how greater access to non-farm wage employment influences rural entrepreneurship.

The remaining parts of this introduction provide a basis for the chapters that follow. First, the three major conceptual approaches are discussed (Section 1.2). Afterwards, the major source of data is presented (Section 1.3). Finally, the structure of this dissertation is lined out and summaries of the individual chapters are provided (Section 1.4).

## **1.1 Major conceptual approaches**

The literature on the non-farm economy in developing countries has reached a remarkable extensiveness and has attracted a variety of scholars, including agricultural economists, economists, management specialists, anthropologists, sociologists, geographers, and regional planners (for an overview see HAGGBLADE 2007). In order to at least partly reflect this multidisciplinary academic background and to account for the diversity of non-agricultural activities, three different approaches are combined in this dissertation:

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<sup>5</sup> Although wage employment and self-employment do interact with each other in the rural environment as is shown in Chapter 7.

livelihoods, entrepreneurship, and economic geography. The three approaches allow the analysing of non-agricultural activities from different perspectives, as shown in Figure 1.2. They will be introduced quickly in the following paragraphs.

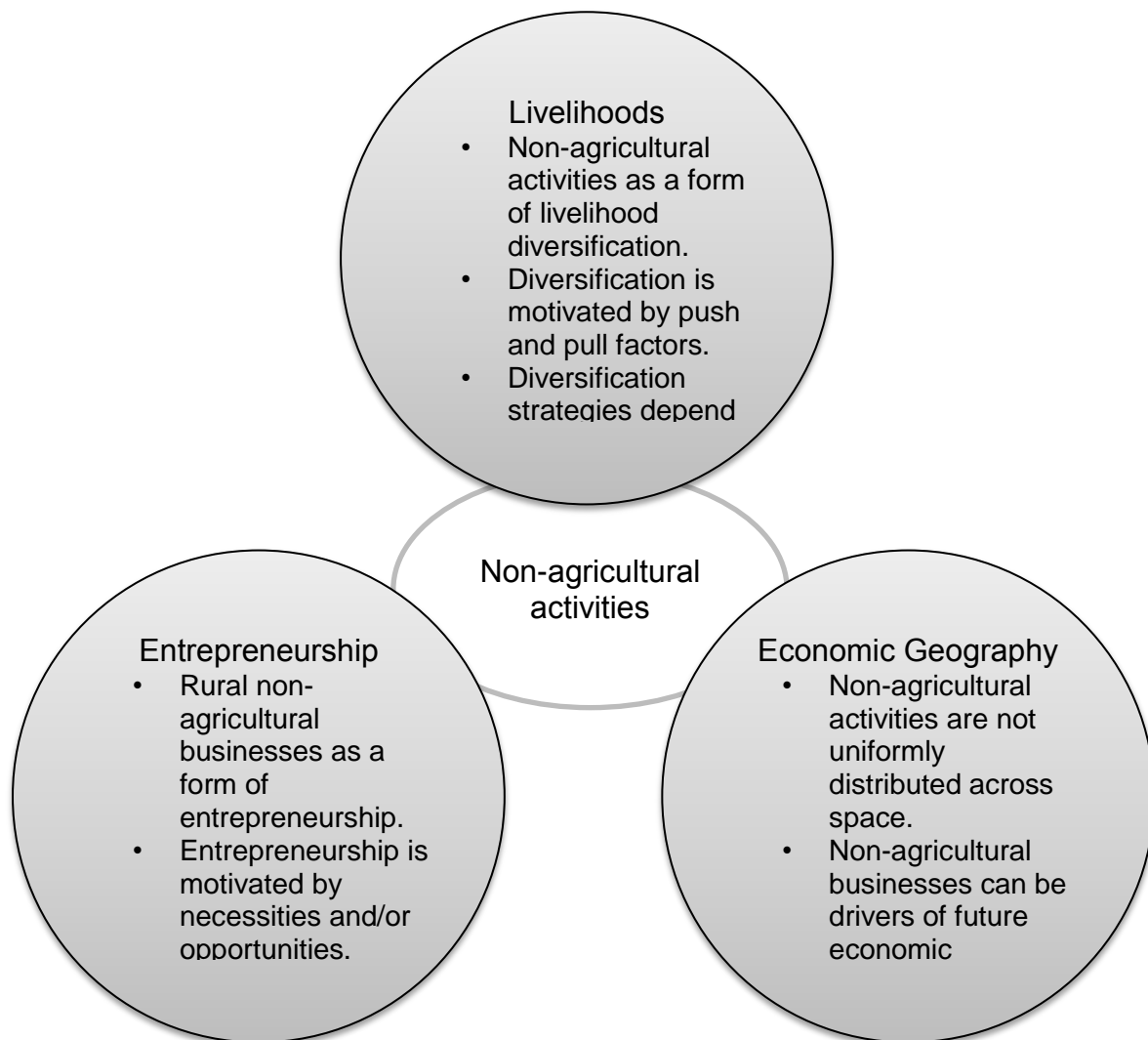


Figure 1.2 Perspectives on non-agricultural activities in rural areas

Livelihoods approaches and the closely related notion of income diversification have attracted considerable attention in the literature on rural development within the past two decades (SCOONES 1998; ELLIS 2000b). In addition, livelihoods frameworks have been shaped and promoted by the United Kingdom development agency DFID, where they have been valuable as an analytical tool to understand people's livelihoods in the (rural) developing world (CLARK/CARNEY 2008). One major characteristic of the bottom-up approach is that it does not a priori assume that rural people are small farmers. Instead, the