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**ROLE OF UNEMPLOYMENT INSURANCE IN SUSTAINABLE DEVELOPMENT IN VIETNAM:  
OVERVIEW AND POLICY IMPLICATION\***

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**Abstract.** Unemployment insurance is one of the social policies that have received much attention from economists in many countries over the past decades. Since 1986, the Vietnamese economy was shifted from the centrally-planned economy to a market one leading to a very fast development of the labor market. Having a young population structure, so the unemployment problem and unemployment insurance policy had considered and recognized as the important social issues in this country. In Vietnam, the unemployment insurance policy is an important part of the Social Insurance Law, promulgated in 2008. Our paper aims to analyze the role of unemployment insurance in Vietnam since this policy officially began in 2009. The Vietnamese government has some targets in the formation of the unemployment insurance fund is the maintenance of regular compulsory contributions of parties to labor relations in combination with public budget supports, focusing on creating a stable financial funding for unemployment insurance regime in the long run. Our regression results using the Ordinary Least Squares (OLS) method and the analysis descriptive statistics show that the unemployment insurance policy has a positive effect on reducing faster and stabilizer the unemployment rate of the Vietnamese economy (this policy have reduced the average unemployment rate by 0.66% per year since 2009). Furthermore, the unemployment insurance policy not only helps the unemployed people stabilize their lives but also provides more opportunities for them to faster continue participating in the labor market by many benefits including free counseling services, free employment placement services, free training services for unemployed people in Vietnam. The success of the unemployment insurance policy has been noted in reducing the number of labor strikes by softening the relationship between employers and their workers in Vietnam. Besides, the unemployment insurance policy will help reduce the fluctuations of the economic cycles automatically by increasing the aggregate demand by multiplier mechanic and contributes to support the economic growth in Vietnam in the period 2008-2010. We can conclude the benefits of unemployment insurance help the development of Vietnamese society towards sustainability in the long run. Finally, the article also suggested some policy implications for the policymakers to have a better control the unemployment as well as stabilize the labor market in Vietnam in the future.

**Keywords:** unemployment; unemployment insurance; public policy; social policy; social security; labor force; labor market; sustainable development; strike; worker benefit; Vietnam

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## 1. Introduction

Labor market and unemployment are important issues of economies, which have been received much attention from economists as well as policymakers worldwide. In order to minimize the negative social and economic consequences of unemployment, unemployment insurance is a social security policy chosen by many countries, especially industrial economies. Unemployment insurance policy allows unemployed people to receive a part of their income based on the wages before they lose their jobs (Mankiw, 2009). Besides, the main goal of unemployment insurance is to provide a balance for the expenditure of unemployed workers during the time their job loss (Tatsiramos and Van Ours, 2012).

There were some study results in developed countries showing that unemployment insurance offers many benefits to the economy as well as social development. The unemployment insurance is popularly known as an effective measure in order to assist workers in the market economy. Beside the main role is to providing financial support to stabilize the lives of employees during the period of unemployment time, the other purposes of unemployment insurance are to help the unemployed to quickly find a suitable job by vocational training and job consultant. Mortensen (1977) argued that unemployment insurance would motivate unemployed people to find new employment, as this could continue to ensure their unemployment insurance benefits in the future. According to Hamermesh (1980), unemployment insurance might encourage participation in the labor force because the workers who received a job receive more benefits compared to non-participation. Barron and Mellow (1981) pointed out the positive impact of unemployment insurance funding on job search process of unemployed people. Unemployment insurance can increase labor supply because workers feel better if they stay in their jobs, so unemployment insurance leads to an increase in among employed workers (Yaniv, 1982). Mortensen (1990) also continuously showed that unemployment insurance has a good effect on the job search behavior of the unemployed. However, the larger generous benefits in unemployment insurance will likely result in the higher unemployment rate of the economy, possibly due to the delay in job finding progress when the benefits of insurance may have a substitution of the labor wage (Holmlund, 1998). Besides, Carling et al. (2001) found the impact of unemployment insurance on the transition rate from unemployment to employment in the labor market. Unemployment insurance policy can increase the employment rate and help reduce frictional unemployment as well as the natural rate of unemployment (Mankiw, 2009).

In fact, there are some reasons that make unemployment insurance policy as well as the role of this policy on socio-economic issues, are great interest topics of economists. Because unemployment insurance is not only a good tool for ensuring social security for unemployed people but also an automatic stabilizer of the economy (Holmlund, 1998). According to this regime, when economic growth is slowed down (because of a decrease in the aggregate demand) which can lead to a fast increase in the unemployment rate because the companies lay off the employees. After that, the number of unemployment benefits paid also increased correspondingly. The unemployed people use the subsidy to spend and this money will automatically increase the aggregate demand by multiplier mechanic and contributes to support the economic growth (Mankiw, 2009). Thus, we can conclude that the unemployment insurance policy will help reduce the fluctuations of the economic cycles.

Although many studies have been focused on the unemployment insurance policy in developed countries (Strielkowski et al, 2016; Tvaronavičienė et al., 2018; Volchik et., 2018) however, only a few studies have been conducted in developing countries (possibly due to the fact that many developing countries have not yet applied this policy). However, there is no academic research that analyzes the role of unemployment insurance policy on the economy of Vietnam, one of the fastest developing countries in the world in the past three decades (World Bank, 2017). In Vietnam, the unemployment insurance policy is an important part of the Social Insurance Law signed by the Vietnamese National Assembly in 2006, however, the unemployment insurance regime has only been officially operated since 2009. In fact, unemployment insurance in Vietnam besides provides income

protection (to maintain household's consumption) for those who have lost their jobs during the unemployed time, this policy also has some benefits including free vocational training, free consultant, and job search service. So unemployment insurance is considered one of the core policies to ensure social security for the workers in Vietnam in the long run. However, there is a gap in experimental research focused on the role of unemployment insurance policy in this country. Therefore, our article maybe is the first empirical study that uses and analyze the unemployment insurance data in Vietnam, so we also find some new evidence which bases to suggest some valuable implication policies for the Vietnamese policymakers in the future. Besides, as the fastest growing economy in Southeast Asia, the experiences of implementing the unemployment insurance policy in Vietnam are good references to policymakers in other countries.

Our paper is structured into 4 sections. Besides section 1, which is the introduction, there are 3 additional sections. Section 2 presents an overview of the labor force, unemployment, and the unemployment insurance policy in Vietnam. Section 3 analyzes some of the major effects of unemployment insurance policies on the labor market as well as the social economy. Finally, the conclusions and policy implications are given in Section 4.

## **2. Overview of unemployment and unemployment insurance policy in Vietnam**

Beginning from the group of lowest income countries (in the early 1990s, the GDP per capita in Vietnam was stuck at a very low level, between \$200 and \$300), the Vietnamese government tried to strongly change this situation by an economic revolution which was named 'Doi Moi' in Vietnam during the three decades by now. Besides, this Asian country did a series of economic and political reforms and steered its economy to becoming a "socialist-oriented market economy". With many success results were achieved, today, Viet Nam is considered as one of the stars of the emerging markets universe. In particular, since 2009, Vietnam's economy was ranked in a group of emerging markets worldwide by the Economist Intelligence Unit (EIU). This group is named 'CIVETS' which has six economies including Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa. This group is expected to become a new motivation for the world economic growth in the next decades (McGregor, 2011). According to the statistics from the General Statistics Office of Vietnam (GSO, 2018), Vietnamese economy stays in the "golden population structure" period because the number of people in its labor force is nearly two times compared the people outside. In 2016, Vietnam has 54.44 million people aged 15 and over in the labor force, accounting for more than 58.73% of the total population (92.69 million people). Of these, male laborers are 28.07 million (calculated as 51.6% of the labor force) and female laborers are 26.37 million workers (accounting for 48.4% of the labor force). Thus, the young structure of the population and abundant labor force are the strengths of Vietnam in economic development. The labor resource is also a strong point to attract a huge among foreign direct investment to Vietnam's economy with more than \$ 320 billion and 25,524 projects in the total number.

However, the young population structure also creates pressure on Vietnam's economy in the target to create more and more new jobs for the new employees. When the economic growth is slowed down that will lead to decrease the number of new jobs, so the "golden population structure" advantage is immediately shifted to the risks coming from increasing underemployed as well as rising unemployment and causing social instability. Facing a rapidly growing population - the total number maybe reaches at 95 million people in 2018, half of whom are under 35, and up from 60 million people in 1986 and is expected to expand to 120 million before tailing off around 2050. Besides, there is an emerging middle class—currently accounting for 13% of the population, but expected to reach 26% by 2026 (World Bank, 2018). So Vietnam has spent large public investments in every education levels as well as invested a lot in its human capital and training infrastructure. The leaders of the country believe that this is very necessary, it will help the sustainable development because a growing population also means a growing need for jobs (Vanham, 2018).

**Table 1.** The main statistical indicators about economic system of Vietnam (2017)

No	The national indicator	Statistical number
1	Area (1000 km <sup>2</sup> )	330,9
2	Population (Million)	92.69
3	Labor force (Million)	54.44
4	Average GDP per capita (USD)	2385
5	Average FDI per capita (USD)	386
6	Average Investment per capita (USD)	806
7	Economic growth (%)	6.81
8	Inflation, CPI (%)	2.6
9	Unemployment in urban (%)	3.1
10	Trade Openness	2.1

*Source:* The author calculates from the General Statistics Office (GSO, 2018)

In 1987, Vietnam created its first law on foreign investment, starting to enable foreign companies to enter the domestic market. Besides, the Vietnamese government's drive towards an open economy also included domestic reforms with public corporations as well as private companies (Vanham, 2018). With the economic innovation promoted in Vietnam over the past three decades, besides the state economic sector, the Vietnamese government has re-developed the private business sector as well as made a strong strategy to attract more and more foreign direct investment from worldwide. The positive results of the economic renovation can be seen in the rapidly increasing in the national output as well as the sharply decreasing in the unemployment rate in Viet Nam during the period (World Bank, 2017). The statistics showed the unemployment rate was quite high as about 13% of the Vietnamese labor force in 1989 (the beginning period of the economic innovation), however, the unemployment rate was calculated only as 3% of the labor force in 2017 (GSO, 2018).

The high growth rate in the population by nearly 2.3% per year in the period 1980-1990 had added a large number of labors to the national labor force year by year, placing pressure on the Vietnam labor market in the next periods. In this period, unemployment had always been in a stress situation, with the number of people losing job was more than 12.7% of the Vietnamese labor force. In the 1990-2000 period, the unemployment rate continues fell but remained relatively high compared to other developing countries, for example in 1996 the unemployment rate of Vietnam's economy was about 6% which was significantly lower than its average unemployment rate for the previous decade. In order to faster reducing the unemployment rate in a sustainable manner as well as to implement social security for the unemployed people, the unemployment insurance policy for job losers has been popularly discussed in Vietnam in the period of 2005-2007. After that, Vietnam issued a national unemployment insurance policy in 2008 and officially implemented this policy in 2009 (specifically, the Social Insurance Law was passed by the National Assembly on June 29, 2006, in which, the provisions on unemployment insurance regime officially had been taken effect from January 01, 2009). To operate the contents of the Social Insurance Law, the Vietnamese government signed the unemployment insurance document with the Decree No 127 (2008) and continuously adjusted this policy by a number of its decrees in the next time. Besides, the Ministry of labor-Invalids and Social Affairs (MOLISA) has also issued a number of guidelines for implementing the unemployment insurance policy in Vietnam. The unemployment insurance policy is really a new breakthrough policy in the labor market, which aimed to help the unemployed stabilize their lives, would ease the heavy load on the national budget and companies from this social issue.

**Table 2.** The main documents for implementation of unemployment insurance policy

Publication	Department	Year of approval	The main content
Social Insurance Law	National Assembly	2006	Regulations on unemployment insurance policy
Decree No. 127	Government	2008	Guiding the implementation of the unemployment insurance regime
Circular No. 04	The Ministry of Labor, Invalids and Social Affairs	2009	Guiding the implementation of the unemployment insurance regime
Decree No. 100	Government	2012	Guiding the implementation of the unemployment insurance regime
Decision No. 55	Government	2013	Determining the level of vocational training support for unemployed people
Employment Law	National Assembly	2013	Additional provisions on unemployment insurance and the framework for public management of employment.
Decree No. 28	Government	2013	Guiding the implementation of the unemployment insurance regime
Circular No. 28	The Ministry of Labor -Invalids and Social Affairs	2015	Guiding the implementation of the unemployment insurance regime
Decision No. 959	Government	2015	Guiding the implementation of the unemployment insurance regime
Decision No. 828	The Ministry of Labor-Invalids and Social Affairs	2016	Guiding the implementation of the unemployment insurance regime
Resolution No. 44	Government	2017	Reduce the unemployment insurance contributions extracting from the employees' wage

*Source:* The author collects from Vietnam's Government database

According to the Government's Decree 127 (2008) and the Employment Law (2013), the financial benefit of the unemployed people is the monthly payment equal to 60% of the average monthly wage and based on the average salary paid for the six months preceding the time of unemployment. Unemployment allowance duration is calculated based on the month of unemployment insurance premium of the employee. The minimum received duration is 3 allowance months and the maximum received duration is 12 allowance months. In the detail, if an unemployed labor has contributed the unemployment funding in the period including full 12 months to 36 months, he would be entitled to 3 months unemployment allowance as the total number. When his contributed month number increase 12 months, the allowance duration would add one month for the allowance period but the maximum level does not exceed 12 months. However, an employee who have paid unemployment insurance premiums for more than 36 months, the unpaid months (not full 12 months) for unemployment benefits are reserved as a basis for calculating the period of unemployment benefits for the next unemployment benefit period when he qualifies for unemployment benefits as regulated points of the unemployment policy.

Besides, the unemployed people are who have lost their jobs or terminated their labor contracts according to the provisions of labor legislation or terminated their working contracts according to the labor law provisions of Vietnam. The unemployment insurance policy aims to: (i) provide unemployment benefits to unemployed people (see Table 3), (ii) provide free training for the unemployed people and (iii) free support to rapidly find new jobs. Therefore, since January 2009, a worker losing his job has been entitled to the benefits based on the unemployment insurance policy. The revenue of the unemployment insurance fund was contributed as 3% of total employment wage, in which, 1% by the employers, 1% by the workers and 1% from the national budget.

However, the rate for the employer was downed from 1% to 0.5% based on the government's Resolution No. 44 (since June 1, 2017).

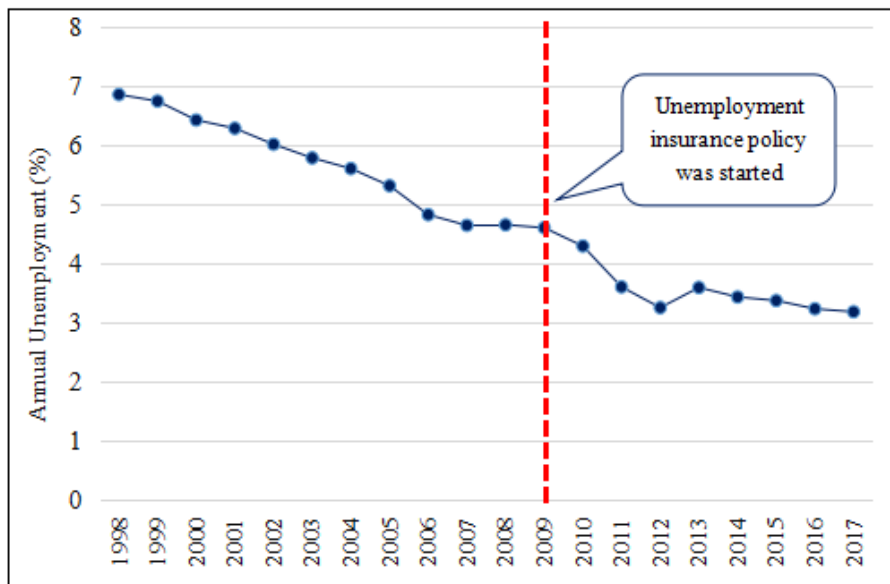
**Table 3.** The Unemployment insurance benefit in Vietnam

The running time of benefits	Unemployment insurance participation period	The value of monthly unemployment allowance
3 months (minimum level)	from full 12 months to 36 months	As 60% of the average monthly wage of six consecutive months before unemployment
4-6 months	from exceeding 36 months to 72 months	
7-11 months	from exceeding 72 months to 132 months	
12 months (maximum level)	from exceeding 132 months	

Source: The author collects from Vietnam's Government database

Since 2009 (the unemployment insurance regime was run at the first time), the unemployment rate has been sharply fallen which indicating that unemployment insurance policy has made positive contributions to reducing the number of unemployed people by many ways including expenditure allowances in the unemployment time, vocational training, and job search service. According to the statistics of the General Statistics Office of Vietnam (GSO, 2018), the annual unemployment rate sharply decreased from 4.65% in 2008 to 3.18% in 2017 (because the lack on the database in Vietnam, so in this study, we are only using the statistic values in urban areas instead of the unemployment rate of Vietnam).

Comparing before and after the operation time of the unemployment insurance policy, we can see a difference in the unemployment trend of the Vietnamese economy. The average unemployment rate in the period 1998-2008 was about 5.74% per year, then in the period 2009-2017 the rate of unemployment was only 3.61% per year. Thus, we see a breaking point in the unemployment rate trend after the unemployment insurance policy was started in Vietnam (see Figure 1). In addition, the continued drop in the unemployment rate along with the increase in the labor force has made this success more prominent. Figure 1 shows that job creation and unemployment reduction policies have been extremely successful over the past 10 years in Vietnam.



**Fig.1.** The unemployment rate in the period 1998-2017

Source: The author calculates from the research data (GSO, 2018)

It should be noted that Vietnam's unemployment rate tends to be sideways for three years, 2007-2009, suggesting that despite the World economic crisis (2008) had negative impacts on the economy which result in a decrease in the growth rate (in particular, the economic growth rate has fallen from 8.5% in 2007 to 5.32% in 2009). Implying that the operation of the unemployment insurance policy has helped Vietnam's unemployment rate not increase in the same period when there was a strong decline of the gross output. Besides, during the crisis period, we can see the aggregate demand of the economy was slowed down which led to a surplus situation in the supply of products and result in many companies were bankrupt in this period. However, the unemployment insurance had contributed as an automatic stabilization tool of the Vietnamese economy. According to this mechanism, when we see a decrease in the aggregate demand which can lead to a fast increase in the unemployment rate because many companies lay off their workers. So the allowance money and a number of unemployment benefits paid also increased correspondingly the rising of unemployment. After that, the unemployed workers use the subsidy to expenditure and the money flows will automatically increase the aggregate demand by multiplier mechanic and contributes to support the economic growth. In the case of Vietnam's economy, the economic growth was restored very rapidly from the 5.32% in 2009 to 6.78% in 2010 as an evidence from the automatic stabilization role of the unemployment insurance on the economy. The evidence in the Vietnamese economy is also a good note that the unemployment insurance maybe encourages participation in the labor force because the workers who received a job receive more benefits compared to non-participation (see Hamermesh, 1980) or the unemployment insurance policy can raise the labor supply as well as among employed workers because they would feel better if they stay in the jobs (see Yaniv, 1982).

For a more in-depth analysis of the impact of unemployment insurance policy on the unemployment issue in Vietnam, the quantitative regression will be used with the unemployment data of the economy. In the detail, we estimate a function which calculates the relationship between the unemployment rate (the dependent variable) and two independent variables including the time trend and the dummy variable denoted the impact of unemployment insurance policy. The annual data is used for the period of 1992-2017 with 26 observations. The estimated function is presented in the following equation:

$$\text{Unemployment}_t = \beta_1 + \beta_2 \text{Time}_t + \beta_3 \text{UIP}_t + \varepsilon_t \quad (1)$$

In which, Unemployment variable is the unemployment rate in the period, Time variable is denoted as the trend time in the study period and UIP is the dummy variable which measures the impact of the unemployment insurance policy on the unemployment rate of the Vietnamese economy. Finally, the error term is represented by  $\varepsilon$  and  $t$  denotes time periods, with  $t \in [1, 26]$ .

The unemployment insurance variable is defined in the bellowing form:

$$\begin{cases} \text{UIP} = 0 \text{ with the year} < 2009 \\ \text{UIP} = 1 \text{ with the year} \geq 2009 \end{cases}$$

The unemployment function (1) will be estimated by the Ordinary least squares (OLS) method. In addition, the Chow-Breakpoint test (Chow, 1960) for time-series is used to identify the impact of the unemployment insurance policy on the unemployment rate. The breaking time is choosing the year of 2009 for the testing method (this year in which the policy was begun). According to the Chow (1960) testing method, we will have a test of whether the true coefficients in two linear regressions on different data sets of the unemployment rate equation are equal. Based on the unemployment function (1), the data is split into two groups (first group and second group), then we have two different functions in the below paragraphs,

$$\text{Unemployment}_t = \lambda_1 + \pi_1 \text{Time}_t + \gamma_1 \text{UIP}_t + \varepsilon_t \tag{2}$$

$$\text{Unemployment}_t = \lambda_2 + \pi_2 \text{Time}_t + \gamma_2 \text{UIP}_t + \varepsilon_t \tag{3}$$

The null hypothesis of the Chow test assumes that  $\lambda_1 = \lambda_2$ ,  $\pi_1 = \pi_2$ , and  $\gamma_1 = \gamma_2$ , and we have an assumption that the errors are independent as well as a normal distribution with unknown variance. We denote  $S_C$  is the Sum of squared residuals from the combined data,  $S_1$  is the Sum of squared residuals from the first group, and  $S_2$  is the Sum of squared residuals from the second group. Besides,  $N_1$  and  $N_2$  are the numbers of observations in each group and the total number of parameters is  $k$ . The statistic of the Chow test is calculated as the following equation:

$$\text{Chow\_stat} = \frac{[S_C - (S_1 + S_2)]/k}{(S_1 + S_2)/(N_1 + N_2 - 2k)} \tag{4}$$

After that, the Chow test's statistic follows the F distribution with the degrees of freedom are included  $k$  and  $N_1 + N_2 - 2k$ . The results of OLS's estimation and Chow-Breakpoint test are presented in the table below.

**Table 4.** Estimation results of Unemployment function

Dependent variable: Unemployment rate			
Variable	Coefficient	Std. error	t-statistic
Constant	7.121335***	0.185623	38.36458
Time	-0.129103***	0.017818	-7.245655
UIP	-0.665523**	0.280896	-2.369283
R-Squared	0.9215		
F-statistic	135.0399 [0.0000]		
Chow Breakpoint test (Year = 2009) = 2.835086* [0.0803]			

Notes: \* significant at 10%; \*\* significant at 5%; \*\*\* significant at 1%;

Source: The author calculates from the research data.

The regression result shows some findings in line with the unemployment trend of the Vietnamese economy. The result points that the unemployment rate decreased by an average of 0.12% per year over the study period (1992-2017) at the statistical significance of 1% level. The negative sign (-0.66) of the coefficient of the dummy variable at the statistically significant of 5% level implies the unemployment insurance policy has had a significant effect on the unemployment rate. In which, the unemployment insurance policy has reduced the average unemployment rate by 0.66% per year since 2009. The Chow-Breakpoint test has a value as 2.835086 at the 10% significance level also confirms that there is a breakout in the trend of the unemployment rate at the year of 2009 (this is another evidence about the impact of the unemployment insurance policy on the unemployment rate in Vietnam). In conclusion, the results of the regression, as well as the Chow-Breakpoint test, confirm that the unemployment insurance policy has significantly reduced the unemployment rate in Vietnam during the study period.

There is not only the role of the unemployment insurance policy in stabilizing the labor market but also the impacts of other macroeconomic policies. In fact, the beginning and operation of the unemployment insurance policy in Vietnam coincided with the World economic crisis booming in 2008 and spreading to the developing countries, including Vietnam (World Bank, 2010). Therefore, during this period, the Vietnamese government also issued many strong policies in order to support the business community. According to the Government's Decision No. 131 (2009), the monetary policy was expanded quickly which focused in reduce the interest rate by 4% for the enterprises for 8 months with the total amount of assistance funding from the national budget about \$ 1 billion for the supporting program. The Government also operated four solutions that were urgently implemented,



including: (i) reduce the income tax (by 30%) or postpone income tax (for 9 months) for businesses, (ii) reduce as 50% of the value-added tax for 19 groups of products and services, (iii) increase the public expenditures for the poverty people and social well-being, and (iv) financial support for vulnerable people in the society (Hung, 2009). These supporting policies had positive impacts in the short run as they helped support both aggregate supply and aggregate demand thereby reducing the number of bankrupts companies due to the negative impact of the World economic crisis.

However, these support policies were also criticized by some economists that tax cuts (both direct and indirect taxes) could lead to budget deficit as well as increased tax pressures in the next fiscal years (Bikas et al. 2017). Besides, a strong raising in public expenditures also simultaneously increased the deficit level. In the context that the Vietnamese government has been facing large fiscal deficits for many years so these solutions could have a harmful effect on economic growth (Tung, 2018). In addition, the mutant credit flowings into the economy also brought high inflationary rates in the period 2010-2012, after that, the high inflation could have a negative impact on economic growth in Vietnam (Tung and Thanh, 2015) or might lead to a instability in macroeconomics (Korauš et al. 2017).

On the other hand, most of the short-term support policies (eg, the allowance policy in the interest rate) have ended by the end of 2011 as well as the foreign investment inflows also sharply slowed down as the result of the world economic crisis, while the unemployment rate in Vietnam has steadily declined in a long-term trend over time (see Figure 1). Thus, it can be concluded that although there are positive effects from other macro policies, the unemployment insurance policy has had an important positive impact on the unemployment as well as the labor market in Vietnam in the long run.

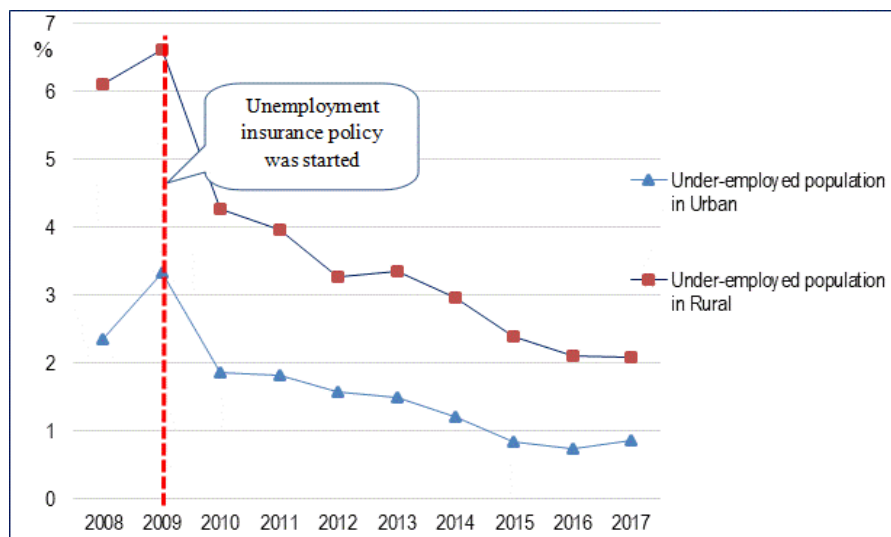


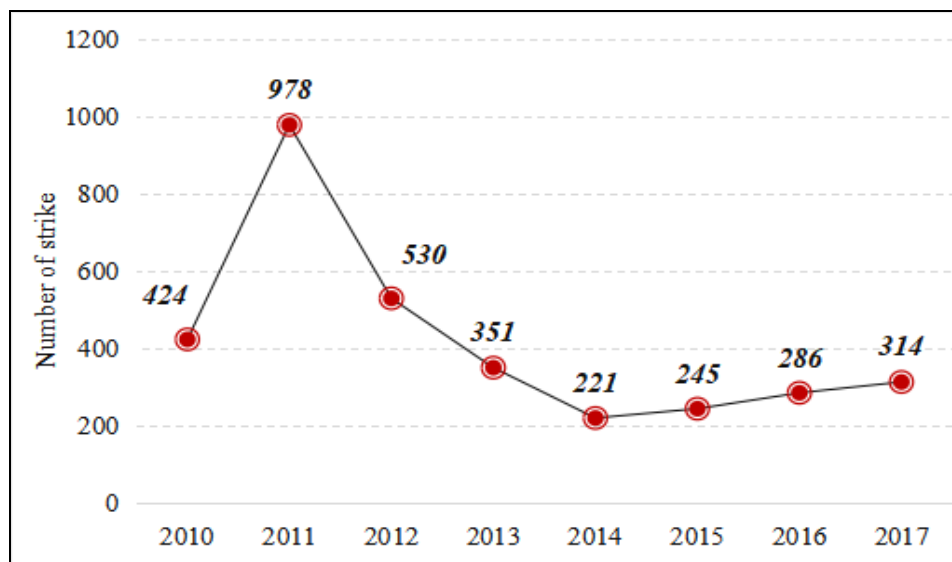
Fig.2. Under-employed rate in the period 2008-2017

Source: The author calculates from the research data (GSO, 2018)

The statistics from the General Statistics Office of Vietnam continue to show that under-employed rate also declined sharply in the period 2008-2017. The decline in the average rate of under-employed labor occurred in both urban and rural areas (see Figure 2). Based on the concept of General Statistics Office of Vietnam that the under-employed population include persons who have jobs that in the reference period (7 days prior to the survey time point) satisfied all three following criteria: Firstly, willing to work additional hours: (i) wants to work

overtime (some) work to increase time; (ii) wants to replace one of the jobs being done by another one to be able to work overtime; (iii) to increase the hours of one of the existing jobs; (iv) or a combination of the above three types. Secondly, available to work additional hours, which means that in the future (for example a week), if there are job opportunities they are willing to work overtime immediately. Thirdly, the fact they had worked less than a threshold relating all work completed during the reference week. Like other countries that are implementing of 40 hours worked per week, “time threshold” to determine the under-employment status in Vietnam is “less than 35 hours worked during the reference week” (GSO, 2018).

In particular, the under-employed rate in the urban area fell from 3.33% in 2009 to 0.85% in 2017. In the same period, in the rural area, the under-employed rate has also fallen from 6.61% in 2009 to 2.07% in 2017. The decline of the under-employed rate in both urban and rural region is a clear demonstration of the success of public policies on labor field and in the connection role between labor supply and labor demand (in which, there is a very important role of the unemployment insurance policy). Based on the statistics, we can see the good impact of the unemployment insurance regime by promoting employment security for workers as well as flexibility for businesses community. The unemployment insurance program played an important role through the training subsidies for the unemployed workers as the way to assist the unemployed workers to rejoin the labor market as soon as possible. The declining trend of the under-employed rate in the study period indicates a positive impact of unemployment insurance funding on job search process of unemployed people. The unemployees have more motivation to return the labor supply because they can receive many benefits when they stay in the jobs so the under-employed rate, as well as the unemployment rate, can be sharply decreased in the labor market (see Barron and Mellow, 1981; Yaniv, 1982; Mortensen, 1990; Carling et al., 2001).



**Fig.3.** The number of strike in Vietnam, 2010-2017

*Source:* The author collects from the Ministry of Labor-Invalids and Social Affairs

The unemployment insurance policy also contributes to soften the conflicting relationship between employers and employees in Vietnam. Another positive performance of the unemployment insurance policy is reflected by the number of labor strikes tending to decrease sharply in the period 2010-2017. From a record high with 978 strikes in 2011, the number of the strikes fell strongly to 221 in 2014. Although the number of strikes has risen to 314 by 2017, however, this fact could be explained by the number of companies as well as the number of

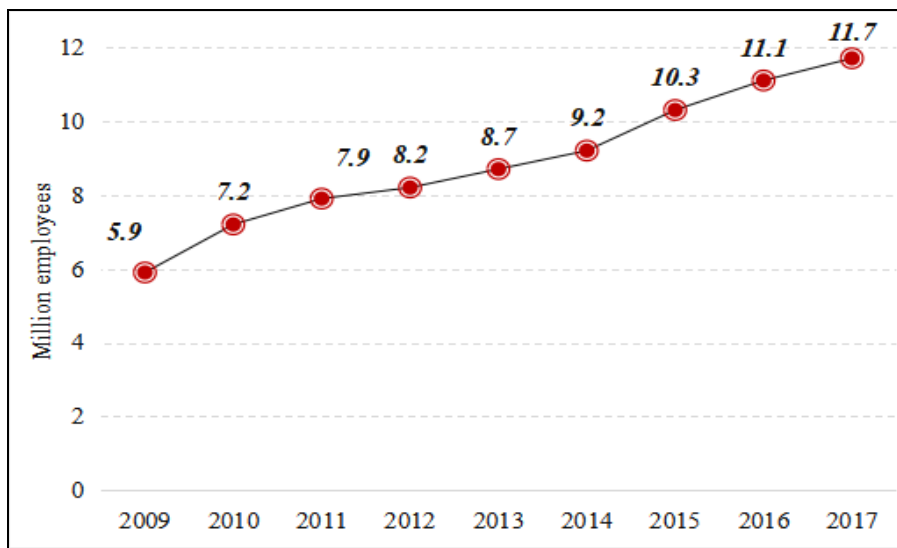
employees in the labor force also strongly increased in the same period. Thus, the reduction of the strike's number is also an evidence that the unemployment insurance policy has contributed to smoothing and warming the relationship between employers and workers in Vietnam. For employers, when the unemployment insurance regime is operated, they do not have to spend large amounts of money to pay severance packages and pensions for laborers who lose their jobs (Diem, 2010). The financial burdens of companies will be shared, especially in the periods of economic crisis when their production scales down and many employees are laid off at the same time.

### 3. The achievements in the performance of the unemployment insurance policy

During the period 2009-2017, the unemployment insurance policy has been supported by many opinion sides in Vietnam, from the business community and the workers as well as policymakers in the government. The statistical reports of the General Statistics Office of Vietnam show that the unemployment insurance policy has achieved many good achievements in many aspects of the socio-economic in Vietnam. These achievements can be substantiated based on the figures below.

#### 3.1. The increase of unemployment insurance budget

The unemployment insurance policy was implemented in Vietnam, which is a major change in social security regime involving the working relationships in this economy. The operation of unemployment insurance offers some benefits to employee and society, this policy also increases the labor costs for the businesses (because the companies have to pay 1% of their salary fund) as well as reducing the income of employees (the workers must pay 0.5% of the received salary). However, since 2009, the number of employees participating in the unemployment insurance regime has increased rapidly over the years, with an average increase of 7.9% per year. These statistics show the correctness and suitability of the policy to the worker community in Vietnam.



**Fig.4.** Number of insured employees on employment insurance system in 2009-2017

Source: The author calculates from the research data (GSO, 2018)

Specifically, there was a significant increase from 5.9 million employees joining the regime at 2009 (the first operation year) to 8.2 million in 2012 and reach to 11.7 million participants in 2017 (an increase of 1.9 times compared to 2009). The average increase rate of employee numbers joining the unemployment insurance regime

was 7.9% per year in the period of 2010-2017. As the coming result, the increase in the number of participants has led to the total revenue of the unemployment insurance budget has also increased rapidly over the years which has created a solid foundation for the performance of the policy in the long run. In this section, we will discuss more detail about the revenue, expenditure and budget status of the insurance fund. If the total revenue of the fund was only VND 5740 billion in 2010, then reached VND 12734 billion in 2013 (up about 2.2 times). The revenue from unemployment insurance fund declined slightly in the period 2014-2016 because many businesses were bankruptcy in the same period. However, the unemployment insurance fund's revenue increased sharply to VND 17368 billion in 2017 (approximately 3.02 times comparing in 2010). Since June 2017, the Vietnamese government has agreed to cut a half of the contribution of unemployment insurance by employers to 0.5 percent of their salary fund for raising the competitiveness of the business community. On the other hand, the Vietnamese government also stopped its contribution to the unemployment insurance fund because of its current huge surplus, so the employers and the employees are the only contributors in the future.

The unemployment insurance expenditure for unemployed people, job search service as well as job training service which were increasing in the period 2010-2017. The fund spending has an average risen of around 17.8% per year during this period. The fund spent only VND 539 billion in 2010, then by 2014 has increased to 4820 billion and in 2017 the expenditure on the unemployment insurance fund reached 8330 billion. The spending was speeding-up over time has shown that unemployment insurance offers many benefits for the unemployed people on some aspects such as unemployment benefits, vocational training, and job placement. Although spending has increased, however, revenues have always been higher than fund expenditures (see Figure 4), creating a budget surplus for the fund, sustainability of the activity, and security for management in the field of labor and unemployment insurance regime in Vietnam in the coming time.

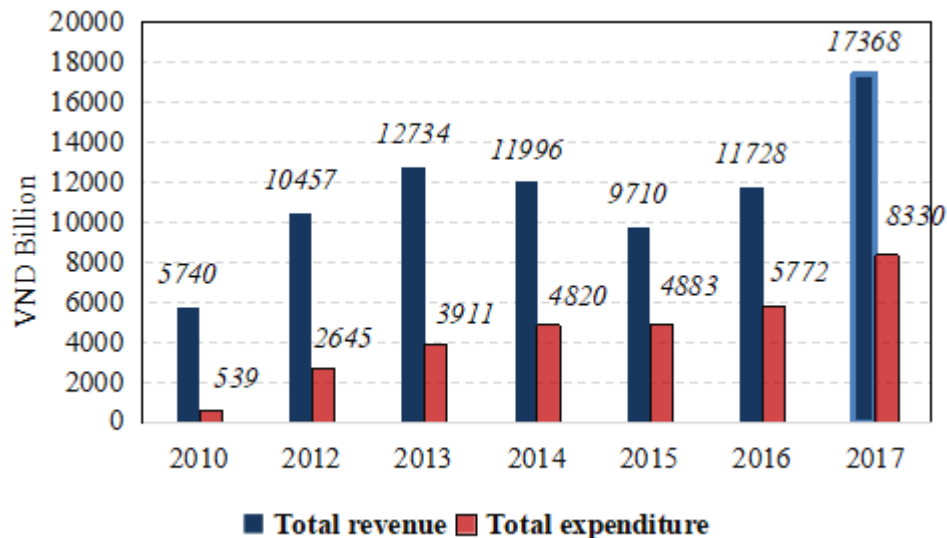
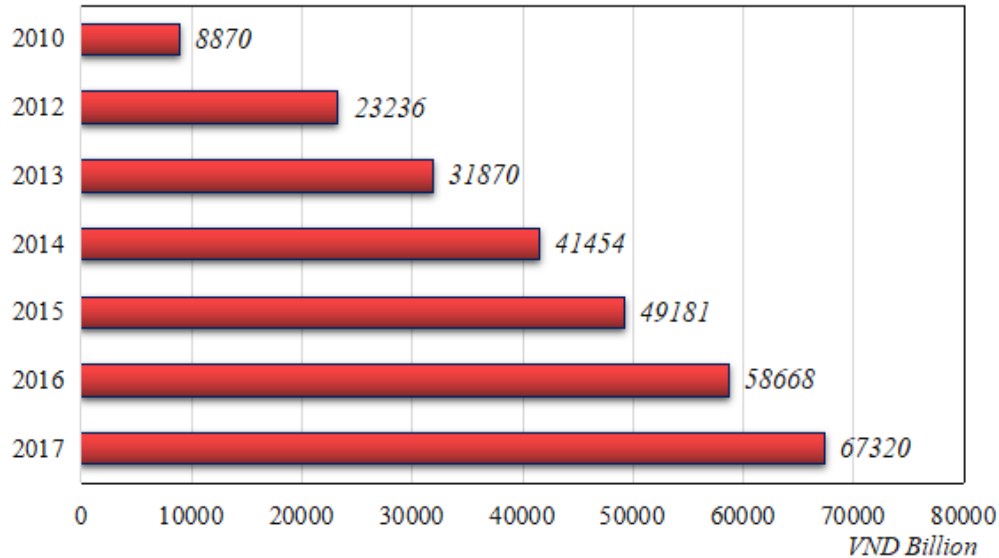


Fig.5. Revenue and Expenditure of employment insurance system in 2010-2017

Source: The author calculates from the research data (GSO, 2018)

According to data of the General Statistics Office of Vietnam on the budget balance between the revenue and the expenditure, the unemployment insurance fund has an accumulated surplus of about VND 67 trillion at the end of 2017 (this surplus might be included the interest of fund at 10% per year in Vietnam) and would be forecasted to continuously increase in the coming time. In the detail, the budget had a surplus of VND 8870 billion and this

number has risen to VND 44454 billion in 2014 and reached a cumulative VND 67320 billion at the end of the fiscal year 2017. The value of budget surplus increased steadily throughout 2009 -2017 provides the long-term sustainability of the unemployment insurance fund (GSO, 2018).



**Fig.6.** Accumulated surplus value of employment insurance budget in 2010-2017

*Source:* The author calculates from the research data (GSO, 2018)

However, the supervisors of the unemployment insurance fund have reported an increase in bad debt in the contribution money of the companies due to difficult business conditions or corporate bankruptcy. In addition, many companies have stopped operating, or have used the insurance money to invest in their business which causing risks to sustain of the unemployment insurance fund in the future. In addition, the managers of the fund expect the applying of information technology for unemployment insurance regime will reduce the cost of unemployment insurance management system in the coming time.

### 3.2. *The number of employees is entitled to unemployment benefits*

Since the starting time to now, the unemployment insurance policy has an important role in the ensuring social protection which is always regarded as a regular mission of the Vietnamese government as well as the whole society. In the period of 2009-2013, the unemployment insurance is not only a good tool for ensuring social security for unemployed people but also an automatic stabilizer mechanic of the Vietnamese economy to successfully passing the world economic crisis period. When the economic growth rate was slowed down from 8.05% per year in the period of 2003-2007 to 5.9% per year in the period of 2008-2012, which put a sharp rise in the unemployment rate because many companies cut off the employees in order to against the bankruptcy risks. Thus, the number of unemployment benefits paid also increased immediately and also automatically raise the aggregate demand by multiplier mechanic and contributes to support the businesses as well as the growth rate (see Holmlund, 1998; Mankiw, 2009). The unemployment insurance policy has achieved great success not only in supporting unemployed people stable their life but also contribute to ensuring social security in Vietnam. The payments and services provided within the scope of unemployment insurance are the unemployed allowances, illness insurance, finding a new job and vocational training. Some main achievements of unemployment insurance policy in Vietnam can be collected in the following table.

**Table 5.** Number of employees receiving benefits from unemployment insurance

Content	Unit	2014	2015	2016	2017
Number of the unemployed people were entitled to the policy benefits	Thousand people	517.5	545	586.2	619.6
Number of the unemployed people received the job placement advice	Thousand times	125.7	132.3	144.6	159.1
Number of the unemployed people were supported by the vocational training program	Thousand people	45.6	59.6	68.5	74.7

*Source:* The author collects from the Ministry of Labor-Invalids and Social Affairs

In the overall, during the period 2010-2017, the unemployment insurance system has covered nearly 3.5 million people received unemployment benefits. In addition, the statistics were collected only in the period 2014-2017 showed that there were 2.2 million people were entitled to unemployment insurance benefits, 248 thousand unemployed people were retrained as well as 561.7 thousand of the new jobs were introduced during the time. The rapid increase in the number of people receiving unemployment benefits over the years has shown the role of ensuring the social security of the policy in the context that the Vietnamese economy has been facing many difficulties in the development during this period. However, on the other side, there are some social opinions indicate that unemployment insurance benefits can be hard to apply because many Vietnamese employed people are still working in the informal labor regime (In which, the enterprise do not have any official contract with the labor in order to avoid with the unemployment insurance regulations).

### **Conclusion and policy implication**

This article aims to analyze the role of unemployment insurance policy in Vietnam in the period 2009-2017. Our investigated study shows that this policy has had a positive impact on the labor market operation in the Vietnamese economy. In particular, the unemployment insurance regime has helped to reduce the unemployment rate during the operation period. The quantitative result using the Ordinary Least Squares (OLS) method estimates that the unemployment insurance policy has a positive effect on reducing faster and stabilizer the unemployment rate of the Vietnamese economy. In detail, the policy has reduced the average unemployment rate by 0.66% per year since 2009. The policy also provides many benefits to unemployed workers through unemployment benefits, vocational training as well as job search service. Besides, the unemployment insurance policy has played an active role in reducing the number of strikes in Vietnam by softening the relationship between employers and their workers in the productive period.

The executing documents related to the unemployment insurance policy also need to be simpler in order to facilitate the registration of unemployment benefits as well as increase the transparency of information relating to benefits for the unemployment employees. In the coming time, the policymakers in Vietnam need to continue to promote the implementation of the unemployment insurance policy covering the business community. Strengthening the inspection and monitoring of the policy implementation at enterprises in order to continuously increase the number of participants in unemployment insurance in the coming time. Given the growing cumulative surplus of the unemployment insurance fund, it is advisable to cut the level of contribution rate as well as increased unemployment benefits to a higher level. Another urgent solution is that the government need to continue the application of information technology, automate the unemployment insurance management system to cut costs for the system in the coming time. In the future, the government need to have a reduction of the level of pay for unemployment insurance fund of employers, besides, it is also necessary to adjust the level of

contribution to the unemployment insurance fund from the workers to ensure the average equality with both sides in the labor market. Besides, the policymakers need to have a database about the number of employees in the informal sector in the economy as well as the strong solution towards the employers in executing the unemployment insurance policy. Because the informal employees are the weak objects in the labor market as well as the society, who are missed every benefit from the policy. Although having many different opinions, finally, our paper also emphasizes that the unemployment insurance policy will continuously have an important role in supporting sustainable development in Vietnam in the future.

However, there are some limitations which are still living in our paper. Although the main aspects reflect the role of the unemployment insurance policy in Vietnam has been tried to deeply analyze, however, our article is having some limitations in quantifying the effects of other macroeconomic policies on unemployment rate or the impact of the foreign investment inflows on the unemployment status in the same period. These limitations of our article are also matters for continuous analysis in subsequent studies in Vietnam in the future.

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