GLOBALIZATION, INDUSTRY ADJUSTMENT AND EMPLOYMENT TREND

THE CASE OF VIETNAM’S TOURISM INDUSTRY

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I. INTRODUCTION

1. Objectives of study
   Analyzing the development and position of Vietnam’s tourism industry under the impacts of globalization.

2. Methodology
   The research employs descriptive statistics and qualitative analysis together with consultations on the impacts of integration on labor market.

3. Target groups and scope
   - Target groups: Performance, employment trend and competitiveness of tourism industry under impact of globalization.
   - Scope: Vietnam’s tourism industry in 2000-2007

4. Data to use
Researches on tourism indicate that:

- Tourism is a channel that *generates income in foreign currencies and attracts investment*.  
- Tourism *creates over 1 million jobs, contributing to poverty reduction* and cultural exchange, and improved external trade relations.  
- 35% of visitors have returned to Vietnam.  
- *Labor quality in tourism industry remains low*. 50% of employees are untrained, and lack of tourism skills.  
- *Vietnam is in the top ten countries having the highest growth rates in 2005* (7.7%)
Researches on tourism indicate that (cont.):

- The competitiveness of Vietnam’s tourism is weaker than China and countries in the region.
- Vietnam’s tourism industry is facing several challenges as follows: (1) Piecemeal, fragmented and unmanaged planning; (2) The human resource in tourism industry is not meeting market requirements; (3) A huge potential exists for the developments of tour products such as adventurous mountain climbing, sea diving, etc. but most of them are still primitive and not fully exploited. However, risks of tourism disguise, environment pollution and social evils begin to appear in Vietnam; and (4) although tourism advertising and promotion have been carried out in recent years, but the result was low (to date, Vietnam has no national representative office abroad).
III. TRADE LIBERALIZATION AND POLICY ADJUSTMENTS OF VIETNAM’S TOURISM INDUSTRY

Tourism cooperation with countries:

- Has signed 40 bilateral and multilateral agreements on tourism cooperation, and spent tens of millions of dollars on training and developing the human resource.
- As a member of UNWTO in 1981, Pacific Asian Tourism Association (PATA) in 1989, and ASEAN Tourism Association in 1996.
- Active participation in ASEAN Tourism Forum (ATF); Tourism Fair in Russia, ... Vietnam National Administration of Tourism has for the first time advertised on CNN.
Tourism cooperation with countries:

- Vietnam’s commitments on tourism services in WTO (1/2007):
  - Commitments on travel agency service, tour operation, hotel booking and food and drink catering, but Vietnam did not make commitment on tour guide service.
  - Only allows foreign companies to establish travel agency and tour operating joint-ventures with Vietnamese partners, with no limitation on shares. 100% foreign owned investment is not permitted. Branches are not yet permitted, there is no limitation of Vietnamese partners in joint-ventures.
  - There is *no restriction on National treatment*, except that tour guides of FDI enterprises must be Vietnamese nationals.
  - Vietnam commits no limitation regarding mode 1 and mode 2. Regarding mode 3 Vietnam has removed restrictions on foreign investors in joint-ventures, cooperation contracts in travel agency and tour operation. Regarding mode 4, Vietnam has not yet
Policy adjustments

- Before 1990, the state owned sector had the monopoly. Since 1990, the Government has issued licenses to other economic sectors also, but non-state owned enterprises are not allowed to operate in travel business. Since 2001, enterprises of all six ownership types have participated in tourist business.

- Policy of privatizing state-owned enterprises. Inefficient state enterprises that are not flexible enough to adapt to market changes are the target of privatization.

- Enterprises operate more effectively after equitization and the living standard of the employees is improved.

- The Law on Tourism became effective, meeting the requirements of business reality and contributing to the improvement of the regulatory system. The Law on Tourism is more compatible with international laws and common practices, especially regarding immigration issues and visa exemption for Vietnamese living overseas.
Policy adjustments

Development Strategy of Vietnam’s tourism in 2001-2010 approved by Prime Minister is base to make a development plan for the hotel system in 2006-2010, establishing ranking criteria for some class of tourist accommodation facilities and regulations of added services in the hotel system, making this business more professional to cope with the regional and world market; Issued tourism’s program of action 2007-2012 with the aim to “develop tourism as a leading economic sector through an effective use of the advantages of the nature, ecology, cultural and historical tradition, mobilizing domestic resources and foreign cooperation, contributing to the industrialization and modernization; gradually making Vietnam a regional tourism center, and by 2010, Vietnam shall be in the group of countries with developed tourism industry of the region.”
IV. DEVELOPMENT OF VIETNAM’S TOURISM UNDER IMPACT OF GLOBALIZATION

Number and size of enterprises

- In 2000, there were 2,374 enterprises in tourism industry, but the number has risen to 7,582 in 2006, an average increase of 868 enterprises per year, or 21.4% per year in 2000-2006 period. In comparison with service industry tourism enterprises account for about 10%.

- After regional financial crisis 97 number of tourism enterprises increased greatly. The average growth rate of subsidiary transport and tourist services is 27.9% per year in 2000-2006 while that growth rate of restaurant and hotel is 17.8%. Regard structure, percentage of tourist and transport enterprises has accounted 32.5% in comparison with 67.5% of restaurant and hotel in 2006.

- Small enterprises with less than 50 employees account for 90% 90% in 2006, large enterprises have tendency of decrease.

- SOEs sharply declined to 6.6% in 2005 while non-state enterprises growth quickly, accounting for more than 90% in 200.

- Hanoi, HCM city also Red River Delta and South East are places where most tourism enterprises are concentrated thank to advantage of primary infrastructure and services. Other regions are weaken as their linkage and cooperation between these regions are not close and insufficient.
Figure 1: Number of enterprises in hotel/restaurant sector and subsidiary travel and transportation service, 2000-2006.


Figure 2: Enterprise structure in tourism industry, 2000-2006.

Investment in Tourism Industry

- Tourism facilities have been improved together with more big international events taking place in Vietnam. However, the lack of luxurious and large hotels are pressing problems facing to Vietnam’s tourism.
- FDI investment in tourist services has increased remarkably since 2007 when Vietnam became an official member of WTO; from 1998 to 2006, the number of FDI projects attracted by Vietnam’s tourism was 203 with total registered capital above USD 5 billion. In 2006 alone, FDI investment in services sector reached US$10.2 billion, in which the share of tourism was 30%.
- Average spending in tourism overseas marketing and advertising has been only VND 20 billion per year, much lower in comparison with other countries. A new feature is the spending for advertisement on CNN since 2007.
- Hotels and restaurants are more capital-intensive than subsidiary travel and transport services, but the gap is being narrowed, especially in the tour services, in order to increasingly meet international standards.
Performance of Tourism Industry

Number of Visitors:

- The number of foreign and domestic tourists increased rapidly in early 1990s. The number of foreign tourists reached 1 million in 1994, one year earlier than planned figure and 6 years earlier than UNWTO’s prediction.

- 1997 Asian financial crisis made the number of foreign tourists slowed down. Subsequent to year 2000, together with recovering of economic growth and FDI, the number of foreign tourists was higher.

- Due to SARS, the number of foreign tourists decreased but the number of domestic ones increased. However, big natural disasters and wide-spread bird-flue impacted income, leading to slightly increase in the number of domestic tourists in 2001 and 2003. In the remaining years, the figure reached above 1 million.
Figure 3: Number of tourists, 1990-2007 (million)

Number of Visitors (continues):

- The number of Vietnamese outbound tourists has not yet been high due to their not-yet-high income.
- In 2007, domestic tourists reached 19.2 million, 4.6 times higher than foreign tourists.
- Various improvements in administration, brand name promotion and sector development policies towards integration are taking place in the tourism industry but they have not yet been very effective, leading to not-yet-high number of inbound tourists.
**Foreign Tourist Markets (departure)**

- Although the number of visitors to Vietnam since 2005 due to changes in China’s migration policy, China remains the potential departure markets of Vietnam.
- Vietnam’s visa-free policy for ASEAN countries and some Northern European countries had positive effects and these effects were more pronounced when Vietnam became official member of WTO in 2007.
- Pure tourists only account for 58% in 2007, meaning high potential for attracting visitors to Vietnam.
- Most of foreign tourists travel to Vietnam by air (75.4% in 2006). Although this is one of the most popular transportation ways of tourists, it is very costly. If the road systems, international roads or seaways are employed, much more visitors will come.
**Net Revenue of Tourism Industry**

- Revenue of both hotel/restaurant and travel businesses has increased annually. In 2006, the revenue of the latter reached VND 33,567 billion or 1.7 times larger than that of the former.

- There was a strong shift in the net revenue composition of the hotel/restaurant and travel businesses. In 2000, shares of them were, respectively, 50.7% and 49.3% while in 2006, the share of the latter was 28% higher than that of the former.

- According to Vietnam National Administration of Tourism, the social income from tourism in 2007 was 22 times as much as in 1990, reaching more than US$3 billion per year and accounted for 4% of GDP. According to the calculation by UNWTO, this figure was US$7.6 billion, accounting for 11.2% and being 3.6 times bigger than direct revenue (using PPP method).
Added value
State-owned tourism sector narrowed in number due to equitization and merger but its VA share, decreased from 52.2% in 2003 to 38.1% in 2005, is still high in comparison with other economic sectors. The VA of non-state sector increased from 28% to 32.3% over the same period. The FDI sector increased 9.8 percentage points in three years, reaching 29.6% in 2005.

Average labor productivity, 2000-2006, million VND

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<td>Hotel and restaurant</td>
<td>36.0</td>
<td>42.5</td>
<td>46.6</td>
<td>50.0</td>
<td>57.5</td>
<td>65.7</td>
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<tr>
<td>Subsidiary travel and transportation services</td>
<td>79.7</td>
<td>82.3</td>
<td>93.4</td>
<td>107.1</td>
<td>111.4</td>
<td>165.8</td>
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<tr>
<td>Tourism</td>
<td>54.4</td>
<td>63.3</td>
<td>71.9</td>
<td>79.8</td>
<td>86.2</td>
<td>114.1</td>
</tr>
<tr>
<td>Services</td>
<td>132.4</td>
<td>101.7</td>
<td>110.6</td>
<td>142.6</td>
<td>154.3</td>
<td>114.4</td>
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Source: calculation from primary data of enterprise survey conducted by GSO
The labor productivity of hotel/restaurant, travel and transportation services increased annually, but the productivity in the travel and transportation services was twice as high as in hotel/restaurant business.

The labor productivity in tourism industry is as much as 40-60% productivity in the services sector but had upward trend during 2000-2005. The TFP results of the tourism industry prove the certain effects caused by technological change of the industry and generally, productivity increased, except the slight decrease in 2002.

Labor productivity, considered under the relationship between salary expense and the added value, shows the labor content in each VA unit of the tourism industry is higher than that of the service sector.
Labour, employment of tourism industry

- Compared to hotel/restaurant, the number of travel businesses is as much as 1/3 while their labor forces are about only 7.4 percentage points different and their growth rate are almost similar (10.9% and 11.6%, respectively).
- The tourism industry has smaller labour force than garment industry but it also attains two-digit growth rate.
- The labor force of tourism industry is as much as 12.5% of service sector.
- Share of women in labor force of tourism industry is smaller than that of garment industry (41% in 2006). The hotel/restaurant sub-sector has larger labor force than travel one (53.3% vs 26.6% in 2006)
- Laborer’s income in tourism industry is higher than in service sector. Labour income in hotel/restaurant is lower than in subsidiary transportation due to its seasonal characteristics.
Labour, employment of tourism industry (Continues)

- Laborers in the service sector are highly qualified. However, in the subsectors where qualification and skills are highly required, there is a shortage, in both number and quality, although training has been steadily provided.
- By 2007, the number of qualified tour guides who received certification was 6,000 but it is still far behind the increasing demand by tourism businesses. Particularly, the labors with such specializations as tour guides with some non-international foreign languages, marketing, public relation and so on have been steadily in shortage.
- Labor discipline and group cooperation by laborers in general and by the laborers in the tourism industry have been still weak.
Competitiveness in the international markets

☑ Vietnam has a huge potential for tourism and is emerging as a safe and charming destination.

☑ Price competitiveness of tourism in Vietnam is low, 50% lower than in countries as Thailand, Malaysia, Singapore, and so on but its number of inbound tourists is being much lower than that of those countries.

☑ Vietnam was ranked 10/124 countries in 2007 and 7/130 countries in 2008 in term of price competitiveness of tourism but still lower than its main competitors in the region like Thailand, Malaysia, Indonesia.

☑ Weak infrastructure makes Vietnam belonged to one of the 4 countries at the list bottom (121/124) in this indicator.
Competitiveness in the international markets (continues)

✓ Vietnam has too few airports and airplanes and there are no direct flights to important and potential markets

✓ Vietnam has a long coast line, but there is no seaport constructed for tourism.

✓ The competitiveness of destinations and of travel enterprises is low and there is no sound competition among them.

✓ Vietnam possesses many world famous landscapes, a diversified culture, a long history, and a large and young labor force but it appears that all these advantages have not been exploited effectively.
Competitiveness in the international markets (continues)

- The scale of promotion for market development has not yet been sufficiently large. Vietnam’s natural treasures are still dormant potentials.
- Travel products are monotonous, undiversified and the service quality is low.
- The product range is not diversified, and does not have unique features of its localities. Goods quality is not high enough to attract visitors as a “Shopping Paradise”. Like Thailand, Singapore, etc.
- Travel business in particular and tourism industry in general have not enhanced their competitiveness yet nor exploited their advantages.
V. CONCLUSIONS AND RECOMMENDATIONS

Conclusions

- Vietnam’s tourism has been developing rapidly. There were mainly state-owned enterprises at the beginning but now non-state and FDI enterprises have also joined force.
- Most investments are in hotel/restaurant business while travel businesses are accounting for low share.
- Up to 90% of tourism enterprises are small-scaled with the total employees of under 50 employees, so they are limited in meeting the demands for infrastructure and service quality.
- The employees in tourism have increased rapidly, the quality of the employees is generally higher than the services sector. However, labor quality needs to be improved to meet the increasingly higher requirements in tourism service quality. The tourism industry is facing a severe shortage of skilled labor.
Conclusions (continues)

- The administrative reform and the opening and integration policy with ASEAN, EU, US, and the policy towards overseas Vietnamese and so on have rapidly increased the revenue of tourism industry in the past years. However, the events such as the 1997 financial crisis, SARS, bird flu and other natural disasters have negatively affected the sector’s revenue.

- In the regional competition, Vietnam’s competitiveness regarding natural resources is fairly high. The price level is also competitive. However, other issues such as procedures, tourist infrastructure, labor quality and legal framework are inadequate. Vietnam’s tourism has not fully exploited its competitive advantages and so it has not yet developed as it is in the region.
Recommedations

In order for tourism to develop and enhance its competitiveness, it is necessary to emphasize reform and introduce policies focusing on the following:

- Improve Vietnam’s ranking
- Diversification of tourism by exploiting advantages of natural conditions such as tourist by sea, and river;
- Integration of economic development programs with the improvement of tourist infrastructure including airlines, road and waterway systems.
Recommendations (continues)

- Diversification of tourist products. Combination of traditional tourist forms with new forms such as adventure tourism, ecotourism, economy tourism, etc. in order to diversify tourist groups
- Improvement and enhancement of tourism promotion; Investment in image promotion, service quality improvement, preserve of the culture and adopting foreign cultural values
- Development of both domestic and overseas markets with tour packages; Combination of tourist purpose with international workshops, cultural events and domestic and overseas festivals.
**Recommendations (continues)**

- Development of human resources in terms of both skills and foreign languages to provide high quality service to the customer. This is especially true for the travel service.
- Together with tourism development, it is necessary to pay due attention on the protection of the natural and social environment and security and defense issue.
Thank you!