



# IMPACTS OF CHANGES TO THE POPULATION AGE STRUCTURE ON VIET NAM'S ECONOMY AND POLICY RECOMMENDATIONS

## EXECUTIVE SUMMARY

This executive summary provides key updated information and findings related to the impacts on Viet Nam's economy of changes in the population age structure, and a number of policy recommendations on how to extend the period of the country's demographic dividend, thereby contributing to the country's economic growth. The information and findings presented are drawn from the updated version (2016) of a previously conducted research (in 2015) by the Viet Nam Institute for Development Strategies (VIDS) under the Ministry of Planning and Investment (MPI). The updated research uses the National Transfer Accounts (NTA)<sup>1</sup> and 2014 data.

## KEY FINDINGS

- Population projections produced by the General Statistics Office (GSO)<sup>2</sup> indicate that the period of Viet Nam's "demographic bonus" is estimated to end by 2040. The demographic window of opportunity (or demographic bonus) provides opportunities for what is called a "demographic dividend".<sup>3</sup> However, if the 2014 income and expenditure trends of the population by age continue for the next 35 years, Viet Nam's demographic dividend will end by 2017.
- From a gender perspective, the period of demographic dividend is longer for male than female population (about three years). By area (urban and rural), however, the period of demographic dividend of both areas could end at the same time.

Viet Nam has been undergoing changes in its population age structure, with the share of working age people (aged 15-64) increasing rapidly while the proportion of children (aged 0-14) is decreasing and the proportion of elderly people (aged 65 and over) is expanding at an increasing rate. The process of changes in the population age structure by sex (male

and female) and geographic area (urban and rural) has also been taking place along with the growing share of working age people in the population. Between 1999 and 2014, the proportion of the male population of working age increased from 58.6% to 66.6%, while the share of the female population in the working age group rose from 59% to 66.2%.<sup>4</sup> The respective figures for the urban and rural populations

<sup>1</sup> The National Transfer Accounts methodology (or NTA for short) is used to analyze the role of population by age or age group (or by generation) in the economy based on their labour income and consumption.

<sup>2</sup> Population projections up to 2049 by the General Statistics Office, based on the Mid-term Population and Housing Survey conducted on April 1st, 2014

<sup>3</sup> According to the NTA approach, a country is considered to achieve a demographic dividend when the growth rate of the economic support ratio is greater than 0. The economic support ratio is calculated as the total income of the entire economy by age group divided by the total expenditure of the entire economy by age group (a definition of economic support ratio can be found in the National Transfer Account Manual:Measuring and Analysing the Generational Economy, 2013, United Nations, p. 10).

<sup>4</sup> The male working age range is 15-60, and female working age range is 15-55.

also show increases, with the working age share increasing from 65.6% to 69.1% in urban areas, and from 57.3% to 66.1% in rural areas during this period.

The latest population projections by the General Statistics Office show that this trend is expected to continue at a dramatic rate in the coming time, and thus the period of Viet Nam's "demographic bonus" is expected to last until 2040. This is an opportunity for Viet Nam to take advantage of this trend to enhance economic development. However, these changes also pose many challenges to the country, requiring timely and relevant policies and solutions - such as job creation; raising incomes; reduction of gender inequity; improvement of rural people's living standards to narrow the urban-rural gap; provision of social security and welfare insurance; and addressing environmental problems.

Following the study Impacts of Changes in Population Age Structure on Viet Nam's Economic Growth and Policy Recommendations, which was completed in 2015 based on the NTA approach, VIDS, with assistance from the United Nations Population Fund (UNFPA), continued to collaborate with NTA experts to analyze data from the Viet Nam Household Living Standards Survey 2014 (VHLSS 2014) and other sources. The objectives were to: (1) assess and quantify differences in income and expenditure by sex and geographic area (urban and rural); (2) compare and evaluate the impacts of changes in the population age structure by sex and urban/rural area; and (3) propose policies to harness and make full use of the "golden" opportunities resulting from changes in the population age structure for economic growth, as well as for narrowing socio-economic development gaps between men and women and between rural and urban areas.

## SELECTED MAJOR FINDINGS

*First, the period of demographic dividend of the entire country could end relatively soon.*

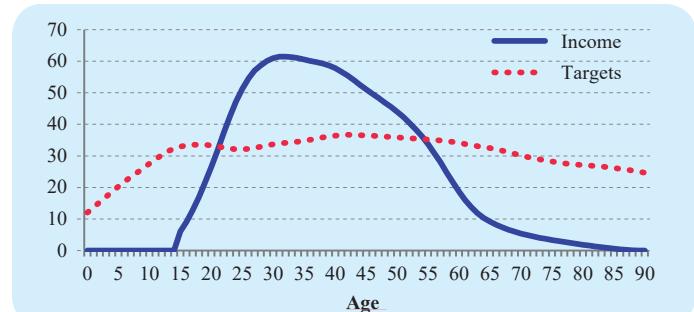
Estimates based on the above-mentioned data, using NTA methodology, show that from a life-cycle point of view, a typical Vietnamese starts to have income at the age of 14, after which his/her income increases rapidly from age 15 to 63, then decreases quickly when he/she reaches 64, and then falls to 0 at the age of 90. At the same time, expenditures for a typical Vietnamese increase rapidly during the period of birth to age 20, then begin to increase more slowly, stabilizing between the ages of 21 to 45, and gradually decreasing from the ages of 46 to 90 (Figure 1).

Results from computations using NTA methodology indicate that a life cycle surplus<sup>5</sup> is generated during the ages of 22 to 54, while a life cycle deficit<sup>6</sup> is generated during the period from birth to age 21 and from age 55 to 90. Given the age structure of Viet Nam's population in 2014, the population aged 22-54 generated a surplus of some VND 862.9 trillion while those aged 0-21 and 55-90 created a deficit of about VND 649.8 trillion and VND 243.7 trillion, respectively.

For the economy as a whole, the life cycle deficit was about VND 30.6 trillion in 2014.

**Figure 1. Average per capita labour income and expenditure by age in 2014**

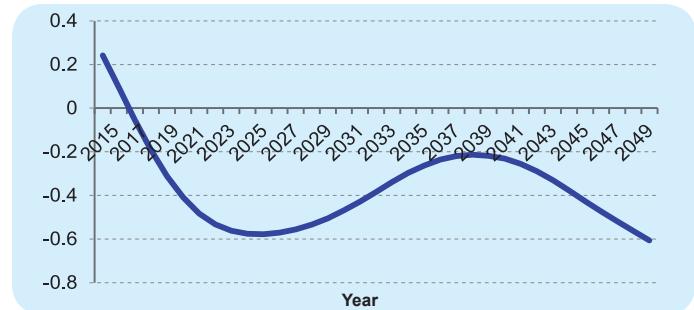
Unit: mill. VND



**Source:** Computed by the VIDS Research Team using 2014 Viet Nam Household Living Standards Survey (VHLSS).

Assuming that the composition of average income and expenditure by age is maintained as it was in 2014, and the population age structure changes exactly as predicted in the latest projections by the General Statistics Office (2016), the period of the demographic dividend for the entire economy would end in 2017 (Figure 2).

**Figure 2. Projected growth rates of the support ratio up to 2049**



**Source:** Computed by the VIDS research team using 2014 VHLSS data.

*Second, there is a big difference in labour income between male and female workers and between urban and rural populations.*

Computations using 2014 data indicate that the average labour income for female workers was approximately VND 24.9 million (or 66.8% of the level for male workers), and the figure for rural workers was some VND 21.2 million (or 42% of the level for urban workers) (Figure 3).

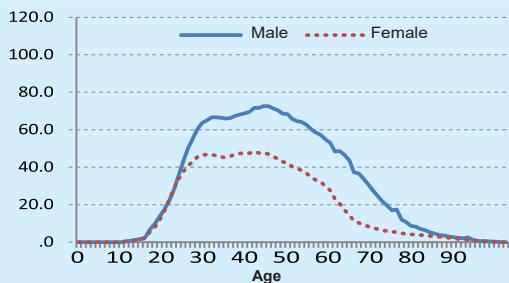


<sup>5</sup> When income is greater than expenditure.

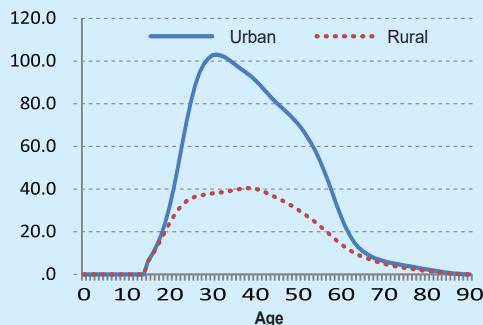
<sup>6</sup> When income is smaller than expenditure.

**Figure 3.** Average per capita labour income by gender and area in 2014

Unit: mill. VND



**Figure 3a:** By sex



**Figure 3b:** By urban/rural area

**Source:** Computed by the VIDS research team using 2014 VHLSS data.

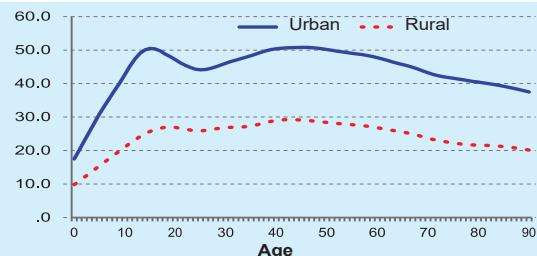
One of the reasons for these differences in income may be that females and rural workers tend to have lower levels of educational attainment, professional training, and technical skills compared to male and urban workers. VHLSS data from 2014 show that females accounted for only 25% of all PhD graduates (the other 75% were males). Similarly, among university graduates, approximately 60% were male while only 40% were female. The proportion of the population with college or higher level educational attainment in rural areas was 3.4%, while the figure for urban areas was 15.3%. Similarly, the share of the population with primary vocational training certificates was 5.4% in rural areas, while the respective figure for urban areas was 10%. The status of employment in rural areas was also less secure compared to urban areas: the shares of workers in rural areas with social insurance, and labour contracts, were 11.1% and 14.0%, respectively, while the respective figures for urban areas were 34.0% and 38.4%.

**Third, there is a big expenditure gap between urban and rural areas, particularly for expenditure on children's education. However, not much difference was observed between males and females.**

Average annual expenditure in 2014 of a rural inhabitant was VND 24.6 million - merely 55.1% of the amount an average urban inhabitant spends (Figure 4). There is a particularly big difference in expenditure on children's education (aged 0-16): the average annual expenditure for children's education in urban areas was 3.1 times higher than corresponding level in rural areas (Figure 5).

**Figure 4.** Average per capita expenditure by age and urban/rural area

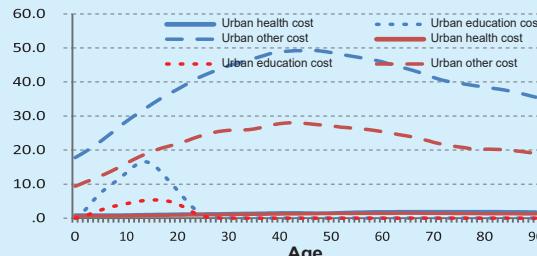
Unit: mill. VND



**Source:** Computed by the VIDS research team using 2014 VHLSS data.

**Figure 5.** Components of per capita expenditure by urban/rural area

Unit: mill. VND



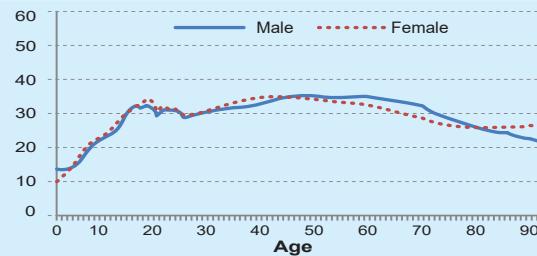
**Source:** Computed by the VIDS research team using 2014 VHLSS data.

These differences in expenditure composition prove that a living standards gap exists between urban and rural areas. In particular, lower expenditure for children's education in rural areas compared to urban areas will affect considerably the quality of education for the rural population and the competitiveness of rural human resources in the future.

From a gender perspective, not much difference was observed between male and female expenditures by age, with an average annual expenditure of over VND 30 million for both groups (Figure 6).

**Figure 6.** Average per capita expenditure by age and sex

Unit: mill. VND



**Source:** Computed by the VIDS research team using 2014 VHLSS data.

**Fourth, males are expected to enjoy a longer period of demographic dividend than females, while for the urban and rural populations this period is expected to end at the same time.**

Assuming that the average income and expenditure composition by age, sex, and geographic area in 2014 continues until 2049, and that the population age structure changes as projected by the General Statistics Office in 2016, males will enjoy a longer period of demographic dividend than females (ending in 2019 and 2016, respectively). This is mainly explained by differences in income from labour and expenditure between these two population groups. The period of demographic dividend

for populations in urban and rural areas, on the other hand, are expected to end at the same time (in 2016). This may be explained by the fact that while the average income from labour of an urban inhabitant is larger than for a rural inhabitant, the average urban expenditure is much higher than in rural areas, resulting in similar periods of demographic dividend for rural and urban populations (both are expected to end in 2016).

## POLICY RECOMMENDATIONS

- (1) The Government should revise, make additions to, and continue providing guidance on how to effectively realize certain mechanisms and policies, with a view to extending the current period of demographic dividend by adopting some of the following solutions:
  - Raising the labour productivity of the entire economy by continuing the renovation and improvement of the quality of education and training, in accordance with international standards; propagandizing, encouraging, and assisting people to pursue training, especially in the professions and fields demanded by employers;
  - Encouraging and assisting people (youth and students in particular) to start new enterprises (to create jobs and increase employment); and
  - Introducing mechanisms and policies to support the guarantee and protection of intellectual property rights for business brands, goods, services, patents and initiatives so as to encourage new business owners; and providing encouragement and using propaganda to attract young workers and those beyond the working age (if they are willing to work) to take a more active part in the labour market.
- (2) The Government should narrow gaps and disparities between males and females, and between the urban and rural populations, in access to opportunities for education and training, employment, income generation, and improvements in living standards by:
  - Pushing forward the adoption of policies to encourage, facilitate, and support females to have greater and more diverse access to education and training opportunities of various types (from primary to secondary training, college, university, and post-university levels);
  - Encouraging enterprises and employers to give priority to and facilitate female workers in accessing relevant jobs, earning a proper income, and reducing the duration of time spent on (unpaid) housework; and
  - Continuing economic restructuring to increase the share of high value-added industries/sectors, and continuing labour restructuring to shift from the agro-forestry-fishery sectors (with relatively low value added and low productivity) to the manufacturing, construction, and services sectors (with high value added and high productivity).
- (3) The Government should create many more new jobs, and encourage and mobilize more participation from workers - females and young workers in particular - in the rural labour market, with the aim of contributing to higher incomes, reduced inequity, and an extended period of the demographic dividend. In particular, the government should:

- Continue the adoption of the “rural and agricultural economic restructuring” policy in a decisive manner;
- Improve the efficiency of employment generation and vocational training for the rural labour force, ensuring that they meet enterprises’ needs in terms of education and skill levels, types of workers, and occupations, thus contributing to full employment of agricultural and rural workers, and at the same time to the improvement of people’s incomes; and
- Undertake propaganda and awareness raising on the role of education and training in improving the quality of human resources, jobs, and income opportunities, creating favourable conditions for rural children to have more opportunities to access modern modes of learning, and to acquire new knowledge and skills to prepare themselves for meeting the increasingly high requirements of the labour market.

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