

The relationship between inflation and unemployment in vietnam



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PART I

Vietnam's economic growth depend on two main factors: internal (the stimulus of economy export and import) and external factors (global environment market and Vietnam's competitiveness).

In general trend, Vietnam's GDP has gone up from 7, 8% in 2004 to 8. 5% in 2007. But, it just reached only 6. 2% (2008) and 5. 3% in 2009 because of financial crisis.[2]

In 2009, Vietnam economy has a positive change: GDP increased over the quarters for all year, this increasing is about 5. 32%. In this year, the GDP growth despites a lower growth rate of 6. 2% in 2008 but has exceeded 5% target set[3].

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Vietnam's economy is divided into three large sector economy: agriculture, forestry and fisheries.

In 2008 Vietnam exported about 64.8 billion U. S dollars, of which approximately 32.1 % of export value was the heavy industry and minerals; 45.2% was light industry and handicraft; 32.5 % were agricultural, forestry and fisheries. During that same year, the import value reached 60.8 billion dollars, of which the estimated 30.2% of imports were machinery, equipment, tools of all kinds and 63.7% were raw materials data, only 6.1% for consumer goods.

“ Vietnam's average income – real GDP per capita – has grown rapidly since the country launched the Doi Moi Reform, growing at an average annual rate of 5.06 percent between 1986 and 1997 (pre-Asian Financial crisis) and at the higher rate of 5.64 percent between 1997 and 2009 (Figure 2.1).

Vietnam stood out as one of the fastest growing economies in the world during this period allowing it to reach the lower middle-income group in 2008 when its per capita income exceeded USD 1,000. And it continues to make significant progress since, despite the recent financial crisis”[4]

The foreign investor considered that Viet Nam is a second fascinating destination next to China in the Asia- Pacific area. FDI capital have an important part in National budget and to help also Vietnam economy higher growth in the last few years.[5]

In 2010, the economic growth has estimated at 6.5%. The growth is the fastest in Southeast Asia but it still inferior China, South Korea, Taiwan and Thailand when they were at similar stages of development. But the price
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could exceed 12% in the coming period, indicating the risk of raising inflation.[6]

In the near future, Vietnam's economic growth progress will focus largely ability to attract foreign investment and make a change in Vietnam's economic competitive ability. Vietnam will have to go head-to-head with China in attracting increased amounts of foreign direct investment.

PART II

INFLATION

Inflation is one of the major challenges to Vietnam's economy. It is also the reason for slow growth of the state of the economy of Vietnam. Inflation is understood as the uncontrolled increase in price. It mean the devaluation of Vietnam currency.

Because of the fluctuation of the US economy, the exchange rate between Vietnam dong against US changed a lot within general increasing trend which is showed in the figure beside[7]. As a result of that, most of company applied USD in their transaction instead of Vietnam dong, especially in export goods. Beside that, several of Vietnamese person who want to save their money in USD. Both of the reasons make the exchange rate kept moving up and up.

The escalation of price make the consumer price index in Vietnam has also increase as show in figure next to with rise 1, 05% in October, 2010 by higher prices of education and food sectors.[8]

It is also make the cost of goods or products grow up. Viet Nam is one of the most country import very much (90% GDP), the higher price of fuel, material cause the higher price of goods or products. The company will produce less and the price of goods keep increasing.

The inflation in Viet Nam does not stop fluctuation. It relative low in the mid-2000s and keeps going faster in recent years. The inflation over the limit (9%). In 2007, the inflation is the double-digit inflation. Between 2008s and 2009s was particularly severe with the highest percent of inflation- nearly 25%. The inflation is going down in 2010 (7%) because of the government policy.[9]

On the other hand, the payment on the government is one of the biggest reasons, which cause the inflation. If the government pay more money for goods and services, the money they pay is go directly into the economy, which cause the higher demand. Example: The price of rice export in 2007 go up 15% from 2006 so the demand of rice export go up. At that time, the supply cannot meet the demand because of the disaster or another factors. All factors cause the demand -pull inflation which makes price of goods, products or services grow up.[10]

Viet Nam is a small economy in the Asia, but Viet Nam makes an impressive by speed of economic grow. So that is the reason why Viet Nam must pay for their fast and big success. To prevent the inflation, the government should do many thing to prevent the growing of inflation. They need to control the money they give to the economy-increase the value of money. On the other hand, the government must use their “ power” to lower price some

necessary things such as food or family use in other to help the poor people and make the balance between demand and supply.

PART III

UNEMPLOYMENT

The unemployment rate in Viet nam is a particular problem. There are some reasons for this issue. It makes demand and supply of labor unequal, in fact, more supply than demand so that unemployed has rosin.

What is unemployment? Unemployment is a “ statement” that economists use to represent all of people who in working age and can’t find a job or the workers who lost their job, but they are valuable for work at current wage rates. “ Unemployment rate is the number unemployed expressed as a percentage of the labour force.”[11]

The statistics below which shows the unemployment rates in the different urban areas in Viet Nam form 1996 to 2008[12]: The highest rate was about 7% of Vietnams’ population in 1998, and the general trend went up from 1996 – 1998 and then went down 1999- 2008, except 2009. Most of unemployees are in the big city and major economic area like Ha Noi, Ho Chi Minh city, Da Nang or Dong Nai provinces.

%

Firstly, Vietnams’ population growth has reached 86 million people (2009) [13], the sixth in Southeast Asia, and also highly increase in annual. Its nearly 50% of population are in working ages. It makes the socioeconomic development and creating new jobs always under the pressure. Most of

Vietnamese workers graduated high school only. The others who finished college or university with poorly qualified to work, or low at technical skills because Vietnamese education system and training system has many problems. w

Year

Population

(million)

Number of people in working age

(million)

2005

82.4

42.8

2006

83.3

44.0

2007

84.2

45.2

2008

85.1

46.5

2009

86.0

47.7

Figure 2: The relationship between Vietnams' population and labor force.

Secondly, the unsuitable population unbalance arrange among vary areas and business lines.[14]Most of the immigrant are form the rural areas. They move to lives in the big city where placed lots of industrial parks. It makes the urban population is getting crowded. So on, the unemployment rate are always high.

The competition between the firms are the third cause for unemployment. They had competed together in many business field, especially in technology. Therefore, the small ones will close down.

On the other hand, thousand of manufactory has reduced its employees because of global economics decline and the financial crisis in 2008. The company can not sell or export their goods and services. Some of them has to stop working and the workers lose their job. As a result of that, the number of unemployed workers keep going up.

PART IV

THE RELATIONSHIP BETWEEN INFLATION AND UNEMPLOYMENT

The same with many countries all over the world, Vietnam's Economy also has the inflation and unemployment. The unemployment and inflation have the close relationship with the reasonable inflation rates can make decrease the unemployment rates and promote the economic growth.

The Viet Nam economy was the same with what the Phillips curve show about. In the short run, when the inflation rate was low, the rate of unemployment was high and when the inflation rate was high, the unemployment rate was low.

In 2003, Vietnam GDP was less than 7% with the inflation rate was 3% and the unemployment rate was 7%^[15]. The Government wanted to decrease the unemployment rate around 5%, so the Government used the monetary policy by pouring out the money into the economy. It increased the money supply and decreased the interest rates. As a result, people were easy to borrow money from the bank because it was cheap. The businesses had a lot of changes to increase their businesses; they wanted to invest more and more; they hired more people to work for. Therefore, in 2004 the unemployment rate began to go down about 5, 6%^[16], it also made the GDP increased and reached 8, 48% while the inflation rate went significantly up around 9, 5%^[17]. We can obviously see in the chart below: EMBED Excel.

Chart. 8 s