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VIET NAM: WILL MARKET TRANSITION INCREASE POVERTY?

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Viet Nam: will market transition increase poverty?

***Abstract:** Results of Viet Nam's first large-scale household survey show the incidence of absolute poverty in to be widespread, concentrated in the countryside and quite variable between geographical regions; moreover, the average poverty incidence is considerably higher in Viet Nam than most of its Southeast Asian neighbours. Although some poverty targeting is needed, it is argued below that promoting pro-poor policies will depend principally on providing improved rural economic and financial infrastructure, maintaining favourable terms-of-trade for food agriculture and creating off-farm employment. Cautious optimism is justified in light of Viet Nam's current high growth, its relatively egalitarian distribution of land assets and the stress laid on agricultural reform throughout the *doi moi* period. At the same time, the data suggests that a fall in absolute poverty will be accompanied by a rapid rise in relative poverty; this problem can be alleviated only if more effective means are found of channelling resources towards the country's poorest regions and amending the financial and administrative basis of social provision.*

Introduction

It has become part of the conventional wisdom to see increased poverty as part of the price of adjustment and economic growth, particularly in the case of market-transition economies (MTEs). Below it is argued that, in the case of Viet Nam, although there is some grounds for arguing that relative poverty was redistributed following the 1988-89 adjustment and "breakout to the market economy",¹ there is no conclusive evidence that absolute poverty has increased. On the contrary, the breakout mainly helped the country's poor, the peasantry. If the Viet Nam's ambitious 8 percent GDP growth-rate target for the year 2000 is met, the evidence suggests that although some increase in relative poverty will occur (ie, a rise in the Gini coefficient), absolute poverty will fall dramatically. Moreover, this conclusion appears to be robust; ie, it remains true regardless of whether Government sets specific poverty reduction targets.

What is less clear is how large an increase in relative poverty will accompany growth without poverty targeting? Here, we argue that with a modest

¹ The phrase is Adam Fforde's.

(and achievable) degree of poverty targeting, the problem of relative poverty need not become serious. This conclusion depends in essence on two characteristics of the Vietnamese economy: first, Viet Nam enjoys an egalitarian distribution of land assets and, second, the Vietnamese model² of outward-orientated growth is likely to be accompanied by continued low inflation and favourable terms-of-trade for food-agriculture.

The article is divided into five parts. Section 1 provides relevant background, particularly on Vietnamese stabilisation policy and its implications for poverty. In Section 2 the current nature and incidence of poverty is examined in detail. Section 3 considers alternative growth scenarios based respectively on 'current policies' and 'poverty targeted' policies. Section 4 considers the likely evolution of food-agriculture and, in particular the domestic terms of trade (DTT) for agriculture. A brief summary and concluding remarks are set out in Section 5.

I. General Background

Viet Nam is still predominantly agricultural; of the total estimated employed labour force in 1992 of 31.8 million, 23.0 million (72%) were engaged in agriculture and little more than one tenth in industry. Just over four-fifths of the population lives in rural areas. Estimated 1983 GDP on an SNA basis was around USD 200 per capita; although this is significantly higher than earlier estimates,³ it still suggests that Viet Nam's GDP is low enough to place it clearly in the least-developed country category, roughly at a similar level as Bangladesh. Population growth in 1993 was estimated at 2.2 percent; in the medium term a population growth rate of around 2.0 percent per annum seems reasonable. In short, although Viet Nam's per capita GDP is growing at around 6% per annum the country remains very poor, and most of the poor live in the

² From an historical and developmentalist perspective, many features of Viet Nam's "socialist market economy" are those envisaged classically by Bukharin and later by Kalecki. Ironically, in a post-communist world, these same policies are those advocated for Viet Nam by leading multilateral and bilateral aid donors, particularly the World Bank.

³ See World Bank (1993a) compared to, say, UNDP (1990).

countryside.

Although Viet Nam is a low income, least-developed country, in relation to a number of social indicators it performs considerably better in the international league tables than would be suggested by levels of per capita income. According to UNDP (1994), Viet Nam ranked 153 among 173 countries in terms of GDP per capita (on a purchasing power parity basis)—but taking into account key social indicators of development, Viet Nam ranked only 116th among the 173 countries in terms of the overall Human Development Index. Viet Nam's human development is at a higher level than any other Asian economies at a per capita income level. In terms of life expectancy (67 years) and infant mortality (45 per 1000 live births), Viet Nam is closer to the Philippines than Bangladesh. In terms of primary school enrolments (85%) Viet Nam does as well as any country in Asia, and is among the best in literacy rate (88%). The distribution of selected social indicators by expenditure quintile is shown in Table 1.

Why did Viet Nam not achieve as high a level of economic activity in the past as might have been expected, given the quality of its human resources? In part, the difficulties have been political: over decades during which the rest of South East Asia was laying the foundations of its current development, Viet Nam was at war.. Also, the country suffered the consequences of economic embargo for more than a decade. But it also under-performed because of mistakes in economic strategy and policy. The gap between economic performance and human potential means that with a transformed policy environment, with an effective set of economic institutions and policies in place there now is every prospect of fast growth over the medium term providing there is reasonable access to the required complementary resources (ie, capital and appropriate technology).

Future government and donor interventions in poverty reduction need to be designed in light of the ongoing process of economic reform or *doi moi* (renovation). The Vietnamese economy has performed outstandingly in recent years with real GDP growth averaging 7 percent over the period 1989-93 (driven

Table 1: Distribution of Social Indicators by Expenditure Quintile, 1992-93

	Poorest	II	III	IV	Richest	VN
Household Size (persons)	5.3	5.1	5.1	4.9	4.5	5.0
Children/family (age 0-14)	2.5	2.2	1.9	1.6	1.3	1.9
Literacy (% adults aged 15+)	79.2	86.8	88.8	89.7	94.2	88.1
Years of Schooling (average per adult 15+)	5.1	5.7	6.1	6.5	8.0	6.4
Total fertility rate (Child per woman)	4.9	3.8	3.5	2.4	1.8	3.3
Piped Water (% access)	0.7	0.9	4.0	10.5	39.1	11.0
Electricity (% access)	28.7	39.0	44.2	54.7	73.0	64.9
Bicycle (% access)	48.9	62.4	68.0	70.0	73.0	64.9
Motorbike (% access)	0.6	2.0	3.5	8.3	35.3	10.7

Source: World Bank (1994b), Table 1.2,p 18.

by export growth of around 25 percent per annum) while a drastic stabilisation programme has caused inflation to fall from 311 percent in 1988 to 5.3 percent at the end of 1993.⁴ Viet Nam's "remarkable experience"⁵ in achieving stabilisation with growth was based initially on a combination of radical budgetary discipline, exchange rate unification and---as we have argued elsewhere---a

⁴ See World Bank (1994a) and VECA (5), 1994.

⁵ The phrase is from Adrian Wood (1989).

dramatically favourable shift in food agriculture's terms of trade.⁶ Since then, major elements in consolidating that growth have been improvements in economic policy and the institutional and legal framework which have encouraged production efforts and higher levels of investment in commercial production and services. The Government has greatly reduced central controls over economic life, gradually abolished most subsidies to state enterprises, and intends to concentrate public investment on the improvement of the social and economic infrastructure required to promote efficient commercial investments.

Reform has been successful partly because an orthodox central planning system had not established deep roots, having been attempted throughout the whole of Viet Nam for only a brief period; ie, 1976-80. The severe economic difficulties experienced in Viet Nam at the end of the 1970's prevented the consolidation of the centrally planned system.⁷ The reform process was spurred by the critical condition of the economy in 1979-80, partly caused by the cessation of Western and Chinese aid. As early as January 1981, a decisive shift in agricultural policy (Decree 100) generalized the end-product contract system, already in widespread use. That involved a significant move towards autonomy for the farm household production unit, with peasant households farming collective land under contract, and supplying to the market produce in excess of contracted deliveries. In the same period, the role of the informal private sector in such areas as retail trade, handicrafts and artisanship was officially accepted. This began a process of liberalizing agricultural and small scale trade and craft activities which fundamentally changed the character of the economy, providing a basis for resilience during the subsequent decade of economic difficulties.

A clear political commitment a process of economic reform (*doi moi* or

⁶ See Irvin (1994) and Irvin (1995); although food terms-of-trade deteriorated after 1991, they improved again in 1994.

⁷ As Van Arkadie (1993) argues, the fact that the centrally planned economy was not consolidated and never worked effectively in its own terms in many respects made the process of *doi moi* easier. Effective control was never established over rural production throughout the country, even before the reform process started. Especially in the southern half of Viet Nam, the state planning apparatus never penetrated effectively into the rural economy, and throughout the country Viet Nam in the 1980's was never a planned economy in the sense that the activities of the various productive units in the economy were integrated through the plan.

renovation) reform was initiated in September 1985 by the Central Committee and amplified at the Sixth Party Congress in December 1986, where. Although the implementation of *doi moi* involved a number of important reforms, liberalisation fell short of full transition to a market economy; the main result was that inflation accelerated to an average annual rate of 375% for the period 1986-88. In consequence during 1988-89, a second and far more radical wave of reforms was initiated, this time with great success. Starting in January 1989, monetary policy was tightened, positive real interest rates were introduced and Government cut its fiscal deficit, chiefly by reducing the state bureaucracy by a third, demobilising half a million army personnel and cutting budgetary subsidies to state-owned enterprises (SOEs) resulting in 800 000 layoffs.

Agricultural reform was consolidated in April 1988 (Decree 10), when farmers were given 15-year leaseholds, subsequently amended in 1994 resulting in *de facto* privatisation. At the end of 1987, a law on foreign investment was approved, and in 1989 the State Commission for Co-operation and Investment was set up, to license and co-ordinate foreign funded projects. As the government accepted an increasing role for the private sector, it had to establish an appropriate legal and administrative environment. A new role for the private sector was formally endorsed in July 1988, with the issue of "new regulations for the non-state economic sector". Many new laws have since been passed (e.g. in December, 1990, a company law was enacted, along with a law defining rights of private ownership and transfer of property and in early 1991 a new law was enacted defining the role of private trade) although the legal framework necessary for the orderly operation of the private sector is still incomplete, and the application of many laws still depends on the discretion of local governments.⁸

⁸ Following the reforms of the 1980's, the organization of agriculture shifted to a system with the family farm as the basic production unit. Co-operatives continued to control access to land and water and the farmer bartered a portion of the farm output with the co-operative for input and services supplied. State farms are restricted to about 4% of Viet Nam's agricultural land and concentrate on the production of industrial crops; by and large the expansion of "industrial" or "cash" crops has been much slower in recent years than that of the household sector. Over time, the role of the cooperative has declined, particularly in the South, but in some areas (particularly in the North and Centre of the country) the cooperatives remains in a strong position as a source of input supply; moreover, the cooperatives in some cases are in a position to withdraw land from households if, for example, they fall into debt. The household has control over production decisions and the surplus left after meeting various obligations to the

Table 2: Selected Macroeconomic Indicators, 1990-93

Item	1990	1991	1992	1993
<hr/>				
Annual Change				
Real GDP	5.1	6.0	8.6	8.1
Agriculture	1.5	2.2	7.2	3.8
Industry	3.0	8.6	13.3	12.9
Services	10.8	8.6	7.2	9.4
Inflation (end-of-year)	67.5	67.6	17.5	5.2
Ratios to GDP				
Gross Investment	11.7	15.1	17.1	19.4
Gr. Nat. Savings	7.5	13.2	16.2	11.2
Current Account	-4.2	-1.9	-0.7	-8.3

Source: World Bank (1994b), Table 2.1, p.4

The Seventh Party Congress (July 1991) committed the Party to continuing with the implementation of *doi moi*.⁹ Government administration was to be restructured and streamlined to provide more effective management of the economy. Subsidies to state enterprises were ended credit allocation was to follow commercial criteria. The state enterprise sector was to be consolidated and concentrate on key sectors and the environment for private business was to be improved. In 1993, the mid-year 5th Plenum of the Central Committee passed an important package of measures including a new Land Law, Land Use Tax and decrees on extension, veterinary activities, farm-family production loans and the allocation of agricultural land to farm families.¹⁰ Most important, responsibility

cooperatives and to local authorities (which can be onerous). The private sector has become increasingly involved in the marketing and transport of agricultural output .

⁹ The detailed implications of *doi moi* for economic policy were set out in the government's Socio-economic Stabilization and Development Strategy to the year 2000 (1991).

¹⁰ It should be noted that these decrees are aimed not at farmers (*nong dan*) but farming families (*cu nong dan*); legally, the head of the farming family is no longer gender specific (VECA, 1993: 79).

for technical service work and infrastructure provision has been transferred to SOEs in the rural sector.

Government has continued to implement reforms on many other fronts too, and made a clear commitment to continue the process at the donors' conferences held in Paris in November 1993 and 1994 which, together, made aid pledges amounting to nearly USD 4 bn.¹¹ Vietnam's target rate of GDP between now and the year 2000 is just over 8 percent; assuming continued export growth of 20 percent per annum and after allowing for private inflows, the World Bank estimates the country will require about USD 1 bn in annual aid flows to sustain this growth.¹²

Thus, some of the most difficult policy decisions related to the creation of a functioning market economy have already been taken. The most pressing challenges in the next few years will be in developing the institutions required to support the new economic system which is emerging, including public administration reform, renewed attention to social services, improvements in the legal framework and the development of commercial courts, the further development of financial institutions, particularly in rural areas and the strengthening of agricultural marketing. Even without the implementation of any large-scale privatization programme, the Vietnamese economy is now only to a minor degree under the direct management of the central government; share of public sector output in GDP is 27% (comparable to Malaysia) and the degree of openness as measured by the share of trade in GDP) is over 50% (comparable to South Korea).¹³

III. Poverty in Viet Nam

¹¹ See FEER (1994) and FEER (1995). In September and October, 1993, Vietnam cleared its arrears with the IMF; a month later the IMF provided a USD 223 mn credit while World Bank and the ADB pledged loans worth USD 800 mn for infrastructure development. In November, 1993, aid donors led by Japan pledged USD 1.86 bn while in 1994, the aid donors' conference -pledged an additional USD 2 bn.

¹² See World Bank (1993a).

¹³ See Irvin (1994).

Despite these impressive achievements, a number of observers have commented on the rising incidence of poverty and warned on the dangers of too rapid a transition to a free market. The 1989 stabilisation package included measures which reduced the size of the public sector by a third; job losses over the ensuing three years included some 200 000 civil servants, an estimated 800 000 SOE employees and half a million demobilised soldiers.¹⁴ On the positive side, generous redundancy provision was made for state employees (a year's salary), rapid growth enabled many of the retrenched to be reabsorbed and current expenditure on social services did not fall significantly (see below). But, as early as 1990, the World Bank noted that the State was too poor to provide universal free health and education and that frozen salaries for teachers and health workers together with lack of investment in social infrastructure were threatening traditional standards of social service provision.¹⁵ At the Party's Fourth Plenum in January 1993, the General Secretary, Do Muoi, reported that the incidence of disease and illiteracy was rising.¹⁶ Since 1993, Viet Nam's improved fiscal position has enabled some of these problems to be tackled more effectively. But in the words of the late Alec Nove, "one hopes that the (correct an necessary) commitment to encourage markets will not go too far and that the very poor are not left without a minimum of support and relief."¹⁷

How extensive is poverty in Viet Nam and how does the country fare in relation to the rest of Southeast Asia? The short answer is that although the incidence of relative poverty is low, the incidence of absolute poverty is quite high. Taking the national Gini coefficient as a measure of relative poverty, Viet

¹⁴ See Irvin (1994).

¹⁵ In education, grades 1-3 are free while grades 4 and above cost the equivalent of US\$0.15-0.40 per month indexed to inflation. Payment in kind is allowed; textbooks too are sold at between US\$ 0.15-0.40. In health, the basic fee per consultation ranges from 7 to 25 cents. An appendectomy costs US\$3.40. People able to provide a certificate from their village or neighbourhood committee that they are too poor are treated free of charge. IUDs and other forms contraception not only are free, but a positive incentive of US\$ 1-5 is given. See World Bank (1990).

¹⁶ See FEER (1994).

¹⁷ Nove (1991) cited in Ronnas and Sjoberg eds (1991).

Nam's figure (0.35) is about the same as China in 1990 and is better than current figures for the Philippines (0.41), Thailand (0.43) and Malaysia (0.48). By contrast, the incidence of absolute poverty in Viet Nam (51 percent) is alarming when compared to selected countries of the region; eg, China (9 percent), Indonesia (15 percent), Thailand (16 percent) and the Philippines (21 percent).¹⁸

Four points should be noted at the outset. First, 80% the population lives in the countryside and rural poverty incidence (57%) is much higher than that of urban areas (26%); ie, 90% of the poor live in the countryside. Second, inter-regional differences poverty are striking: the poorest areas of the north-west and north-central regions are considerably worse off than the rice growing areas of the northern and southern river deltas, particularly the Mekong Delta. Third, poverty is strongly associated with on-farm employment suggesting that creation of (and access too) off-farm employment will be a key feature of a "redistribution with growth" strategy.¹⁹ Fourth, the current incidence of poverty in Viet Nam cannot be attributed to stabilisation and the breakout to the market of 1988-89; if anything, the high inflation in the mid-1980s was far more maldistributive than the period of stabilisation which followed.

The major source of income distribution data for Viet Nam is the Vietnam Living Standards Survey (VLSS) covering 4800 households for 1993-94, the results of which are summarised in World Bank (1994b).²⁰ The VLSS established a poverty income line based on an average daily intake of 2100 calories; when weighted for urban-rural purchasing power, this translates into an annual per capita income of 1.07 mn Dong (VND) at the ruling exchange rate of

¹⁸ See World Bank (1994c); it should be noted that no studies exist for Cambodia or Laos where the level of absolute poverty is almost certainly higher in the rural areas.

¹⁹ The obvious reference is to Chenery et al. (1974); however, Vietnam has already had a good deal of redistribution, crucially of land assets. A more sensible goal would be "growth without serious maldistribution". What is contentious is finding a working definition of "serious maldistribution" and a set of pro-poor policies which will not jeopardise growth.

²⁰ The survey was carried out by the General Statistics Office and the State Planning Commission from October 1992 to October 1993 and was funded by UNDP and Swedish SIDA.

Table 3: Rural and Urban Growth Rate, Gini Coefficient and Poverty Index by Region

	1993 GDP growth rate (%)	Gini Coef.	Poverty Headcount index (%)
RURAL			
Northern Uplands	3.1	0.25	62.8
Red River Delta	4.6	0.26	55.0
North Central	2.5	0.25	73.6
Central Coast	6.3	0.31	54.0
Central Highlands	11.3	0.30	50.1
Southeast	14.3	0.37	45.2
Mekong Delta	7.7	0.30	52.0
URBAN			
Northern Uplands	3.1	0.25	34.3
Red River Delta	4.6	0.21	15.4
North Central	2.5	0.31	17.1
Central Coast	6.3	0.31	36.0
Southeast	16.2	0.33	17.1
Mekong Delta	7.7	0.41	28.4
VIET NAM	7.5%	0.36	50.9%

Source: World Bank (1994b), Table 2.1, p 27.

VND 11,000 to one US dollar. Comparing the poverty per capita-income line to the distribution of per capita expenditure based on the VLSS, 51 percent of the population falls below the poverty line; ie, is considered "poor". At the same time, the results of the study must be treated with care. First, the VLSS treats all households as purchasers of their calorific requirements at locally-based market prices; ie, where rural household income contains a non-marketed food component, its value is imputed. To the extent that rural households tend to under-report non-marketed production, they will appear poorer than they actually are. Second, the methodology considers the proportion of households falling below the poverty line (the "headcount" approach) rather than how far below the line they fall. It is unclear whether the use of "poverty gap" approach would have

produced results significantly different from those of the "headcount" approach. Third, the survey was carried out during a period of relatively low rice prices; hence, net rice producers (the majority of peasants) tend to come out worse off than net rice purchasers. Different rice terms-of-trade would affect not only the figure for overall poverty but its rural-urban incidence. Without wishing to minimise the degree of absolute poverty in Viet Nam, the VLSS estimate of an overall "headcount" poverty incidence for Viet Nam in excess of 50% is probably best treated as an upper limit.

Bearing these qualifications in mind, it is instructive to look at the incidence of relative and absolute poverty in Viet Nam's seven major regions. In absolute terms, the poorest is the North Central region (south of the Red River delta down to Hue) with an incidence of 71% of the population below the poverty line while the next poorest is the Northern Uplands (the mountainous area northwest of Hanoi) with a figure of 59%. Four regions cluster within a few percentage points below the national average: the Central Highlands, the Central Coast including Da Nang, the Red River Delta including the Hanoi-Haiphong-Thai Binh triangle and the Mekong Delta. The Southeast region (essentially the HCMC-Bien Hoa-Vung Tau triangle) has the lowest poverty incidence of 33 percent.²¹

Regional income disparities are even more striking when disaggregated on an urban-rural basis (see above Table). The highest figure for urban poverty incidence is 36% in the Central Coast region and the lowest is approximately 16% in the main northern and southern urban triangles. But the highest urban falls below all figures reported for the rural areas which range from 74% in the North Central region to 45% in the Southeast. Moreover, the faster a region is growing, the lower its poverty index appears to be; eg, the lowest GDP growth figure (2.5%) is for the rural area of the North Central region, that which has the highest poverty index while

²¹ The 7 regions comprise 53 provinces: Northern Uplands (Ha Giang, Tuyen Quang, Cao Bang, Lang Son, Lai Chau, Lao Cai, Yen Bai, Bac Thai, Son La, Hoa Binh, Quang Ninh, Vinh Phu, Ha Bac); Red River Delta (Ha Noi, Hai Phong, Ha Tay, Hai Hung, Thai Binh, Nam Ha, Ninh Binh); North Central (Thanh Hoa, Nghe An, Ha Tinh, Quang Binh, Quang Tri, Thia Thien Hue), Central Coast (Quang Nam-Da Nang, Quang Ngai, Binh Dinh, Phu Yen, Khanh Hoa, Ninh Thuan, Binh Thuan); Central Highlands (Gia Lai, Kon Tum, Dac Lac, Lam Dong); Southeast (TP Ho Chi Minh, Song Be, Tay Ninh, Dong Nai, Ba Ria-Vung Tau); Mekong Delta (Long An, Dong Thap, An Giang, Tien Giang, Ben Tre, Vinh Long, Tra Vinh, Ca Tho, Soc Trang, Kien Giang, Min Hai).

the opposite is true of the urban Southeast. Equally, an inverse relationship appears to exist between relative poverty as measured by the Gini coefficient and absolute poverty as measured by the "headcount" index.²² Taking these two things together, it would appear that the current pattern of regional growth will alleviate absolute poverty but increase inequality (bearing out the Kuznets growth-equality "tradeoff" hypothesis). This is not in general because market-led growth 'expels' peasants from the land by consolidating plots into larger capitalist agricultural units, but rather because there appears to be an excess supply of rural labour in the Lewis sense.

Table 4: Diversification of Income Sources and Poverty Rate

	Farm only	Self-employment and/or wage only	Rural Poverty Rate
	(all figures are percentages)		
Northern Uplands	47.2	1.0	62.8
Red River	27.3	1.6	55.0
North Central	34.5	1.4	73.6
Central Coast	34.2	4.6	54.0
Central Highlands	37.8	3.1	50.1
Southeast	20.7	14.2	45.2
Mekong Delta	18.0	9.6	52.0
Viet Nam	30.1	4.8	57.2

Source: World Bank (1994c), Table 3.3, p 65.

A further noteworthy feature is that poverty appears to be inversely related with diversified sources of income as shown in the Table below. Poverty is highest amongst households relying solely on farming and falls as household members gain access to off-farm wage employment or self employment. This is particularly the case at the regional level. If regional employment diversification is defined as the

²² Regressing the Gini coefficient on the (natural log of) the headcount index for the rural regions yields an R-squared of 0.73 and a negative slope coefficient which is highly significant (T-stat = 3.7 for 5 degrees of freedom).

proportion of people whose income is derived from other forms of employment besides on-farm employment, there is a clear association between regional employment patterns and regional poverty incidence. For example, the rural poverty rate is highest (63%) in the Northern Uplands region which has the highest total share of on-farm employment (47%) and the lowest share of rural wage- or self-employment (1%); by contrast, the lowest rural poverty rate (45%) is to be found in the Southeast region which has the second lowest rate of on-farm employment (21%) and the highest share of wage- or self-employment (14%). In general, therefore, although Viet Nam is relatively egalitarian on average, the absolute level of poverty is high and considerable differences exist both between different regions and between urban and rural areas within any given region.

Viet Nam today is at a poverty level comparable to that prevailing in Thailand in the mid-1960s and in Indonesia in the early 1970s. If international comparisons are apposite, one may argue simply that "growth is the key" to poverty alleviation; eg, Thailand fell from 59 percent (1962) to 26% (1986) and Indonesia from 40% (1976) to 17% (1987).²³ According to World Bank figures, the most impressive case is that of rural China which went from 33% (1978) to 11% (1984); ie, absolute poverty was reduced by two-thirds in the space of just six years. Thus, the argument goes, although Viet Nam is one of the poorest countries in the Southeast Asia region, current levels of rapid GDP growth could alter these figures quite dramatically over the next decade. This is the question to be addressed in the section which follows.

III. Growth and Poverty Alleviation: alternative scenarios

How is growth likely to influence absolute poverty? For the period 1995-2000, three (somewhat stylised) scenarios are possible. Scenario I uses the current official average annual GDP growth rate of 8% (Vietnam's target rate until 2000) based on the (simplest) assumption is that all regions continue to growth at their current rate. This scenario leads to a fall in the overall incidence of poverty but an increase in

²³ See WDR (1990).

regional disparities. The second scenario envisages the country achieving a higher annual average GDP growth rate of 10%, again assuming that the regions grow at different rates. Such a scenario is considered "more realistic" by some observers in light of the under-recording of savings and investment activity in the informal sector.²⁴ Finally, one might envisage an "ideal" poverty reduction strategy in which all regions grow at the 8% targeted average.

Table 5: Regional Poverty Reduction assuming 8% GDP growth Rate

of:	GDP	1993 Headcount	Poverty incidence in Year 2000 at growth rt.	
	rt.	index (%)	8%	10%
RURAL				
Northern Uplands	3.1	62.8	50.8	45.0
Red River Delta	4.6	55.0	36.2	29.0
North Central	2.5	73.6	67.7	66.3
Central Coast	6.3	54.0	28.3	20.9
Central Highlands	11.3	50.1	9.6	6.0
Southeast	14.3	45.2	1.4	0.6
Mekong Delta	7.7	52.0	16.7	10.8
URBAN				
Northern Uplands	3.1	34.3	23.8	20.3
Red River Delta	4.6	15.4	8.2	5.7
North Central	2.5	17.1	10.9	27.8
Central Coast	6.3	36.0	14.5	10.6
Southeast	16.2	17.1	0.5	0.2
Mekong Delta	7.7	28.4	11.0	7.5
VIET NAM	7.5%	50.9%	29.0%	
25.0%				

Source: World Bank (1994b), Table 2.1, p 27.

As will be apparent from the accompanying Table, inter-regional differences in projected annual growth rates are notable, ranging from 16% in the urban areas of the Southeast to only 2.5% in the rural Northern Uplands and North Central

²⁴ See VECA (1994).

areas. If Viet Nam's 8% GDP growth target is achieved, its overall absolute poverty incidence will fall from over 50% to 29% by the year 2000. On a "headcount" basis, absolute poverty will have virtually disappeared in the Southeast urban region (0.5%) and will have fallen to quite low levels in the urban regions of the Red River Delta (8.2%); by contrast it will be relatively high in those (rural) areas where it is already high. Hence, if the current pattern of growth continues, Viet Nam will become absolutely less poor, but it will also become less egalitarian; ie, its Gini coefficient will rise.²⁵ If the 10% "high growth" scenario is achieved, the incidence of absolute poverty will have fallen to 25% by the end of the century. Finally (not shown in the Table), if all regions were to grow at the national average of 8%, poverty incidence would decline to 23 percent and the Gini coefficient would remain unchanged.

Which of these scenarios seems most plausible? Although the third would be most desirable, the implied shift in regional resource allocation through poverty targeting is considerable and it is likely that such a redistribution would have an unfavourable impact on aggregate savings and growth. By contrast, the second "high growth" scenario is arguably within reach, and is nearly as effective in terms of average poverty reduction. Moreover, there are at least three factors which lead to somewhat more optimistic conclusions about the persistence of regional growth disparities: the recent striking improvement in public finances; the strong emphasis currently given to the modernisation of economic and social infrastructure coupled with improved targeting of expenditure towards the poor; and the likelihood that food-agriculture's terms of trade will improve as a result of crop diversification and a high rate of growth in domestic rice demand. These issues are addressed in the following section.

IV. Public Investment and Rural Growth

Although rapid growth may increase relative poverty in the short-term, ultimately growth remains the key to the alleviation of absolute poverty. Moreover,

²⁵ This result will be of particular interest to those economists who hold to the Kuznets hypothesis.

priority to agricultural growth is of crucial importance, as is priority to growth without macro imbalances. Rapid inflation hurts the poor most. The target, as seen above, is to lower the overall incidence of poverty to 30% or less by the year 2000. But since unequal regional growth is likely to remain a persistent problem---the poorest areas (eg, Northeast & North central coast) tend to grow the slowest---some migration is inevitable. This problem is aggravated by Viet Nam's high population density (900 sq. km) and relatively high rate of projected population growth (2.0%). Nevertheless, assuming 8% GDP

growth with regional growth patterns unchanged, "almost half the poor in Viet Nam would be lifted out of poverty by the decade's end". (World Bank, 1994b:26)

The second most important poverty-alleviating factor will be the growth of agriculture. Raising rural incomes not only will alleviate poverty directly, but will generate off-farm rural employment opportunities. There is already evidence that off-farm rural employment is growing quickly, both in general and in the country's poorer regions (Table 6). The key to sustained agricultural growth is productivity. At the moment, a key constraint on productivity growth is access to inputs (including irrigation water and fertiliser) and access to markets. Rural economic infrastructure is thus a vital enabling element in this strategy---precisely where the multilateral donors are concentrating their efforts.

Much of Viet Nam's successful record of macrostability since 1989 is explained by the prudent policies of fiscal management pursued by the government. Overall government expenditure fell from 21 percent of GDP in 1990 to 15% in

Table 6: Non-agricultural earnings as a percent of total earnings

Region	percent
1990	
Red River Delta	30
Mekong Delta	31
South Central	29
Central Highlands	17
Northern Uplands	9
1992-93	
Northern Mountains	37
Red River Delta	60
North Central	54
South Central	79
Central Highlands	35
Southeast	89
Mekong Delta	59

NB: definitions differ between the surveys

Source: VECA (1994) Table 10, p 81

**Table 7: Government Sectoral Expenditure and Revenue (GDP Share);
1990-93**

Item	1990	1991	1992	1993
	— all figures in % share GDP—			
EXPENDITURE				
Administration	1.6	1.7	2.2	2.3
Social Sectors	3.6	3.5	4.5	6.4
Health	0.9	0.8	1.3	1.2
Education	1.1	1.0	1.4	2.8
Pensions/Social Relief	1.7	1.7	2.1	2.4
Economic Sectors	3.7	1.0	3.4	5.6
Industry	1.8	0.1	2.1	4.2
Agriculture	0.3	0.1	0.3	0.2
Irrigation	0.6	0.3	0.4	0.5
Transport	0.8	0.4	0.6	0.8
Commerce & Services	0.2	0.1	0.1	0.1
Other (ex interest)	11.1	8.2	9.8	11.5
All current	15.7	12.4	14.9	20.0
All capital	5.2	2.8	5.8	7.0
Consolidated	20.8	15.2	20.7	27.0
REVENUE				
Budgetary revenue	14.7	13.5	19.0	22.3
Tax (private sector)	2.3	2.6	6.5	4.1
Tax (SOEs)	8.7	7.7	10.3	11.5
External Trade	1.8	1.4	2.0	4.3
Other	2.0	1.8	3.3	2.5
OVERALL DEFICIT	-6.1	-1.7	-1.7	-4.7

Sources: World Bank (1994b) Table 2.2, p. 50; World Bank (1994a) Table 2.1, p.4; World Bank (1994c), Table 1.2, p.7

1991. The brunt of adjustment fell on capital spending. Social sectors were generally "protected"; health, pensions and 'social relief' spending as a share of GDP varied by only a fraction of a percentage point. But capital expenditure on social sectors was cut in the 1989-91 period, which in turn protected recurrent expenditure.

Starting in 1992, the fiscal situation improved substantially, tax revenue rising

in particular as a result of fiscal reform and a widening of the tax base.²⁶ in 1993, financial stringency was relaxed somewhat and Government expenditure rose to 27% of GDP, but much of the extra spending was on industry. The budget share of the important pro-poor sectors---agriculture, irrigation, transport---was lower after the 1992 fiscal recovery than before 1989, so real per capita spending on these sectors fell. The "social" sectors---pensions, education, health---have been budget-neutral; ie, their share has remained constant, and the absolute level of spending has increased in proportion with increased budgetary spending. However, there has been some reallocation of expenditure within the social sectors; eg, education has gained more than health and social relief.

The most important point, though, is not merely the growth of social services spending and inter-service allocation but its targeting. Although Viet Nam had good social services in the past, these have deteriorated somewhat as government finance was squeezed in the adjustment process; hence the need to use existing resources more effectively. This means providing more resources for junior and secondary education, and perhaps greater privatisation of university education as in other parts of Southeast Asia.²⁷ Viet Nam spends half its educational budget on higher education which does not reach the poor. Certainly, the abolition of school fees and provision of free books for rural primary education should be an immediate goal. Viet Nam has a large programme of social transfers, pensions and social relief amount to 10% of public sector budget---nearly as much as on health and education combined. The main beneficiaries of pensions are Government employees. About 40% of govt expenditure on social transfers is captured by the richest 20%. Equally, in health: "Overall, the poorest 20 percent of the population receives only 11 percent of all health subsidies while the richest quintile captures 30 percent" (World Bank, 1994b: viii).

²⁶ In particular, private tax take rose because of rapid private sector expansion; a profits tax was introduced applicable to both private and public enterprise and import duties tripled. The share of revenues from oil actually fell to less than one-sixth of the total. While turnover tax continues to be important for SOEs, it is planned eventually to introduce a flat-rate VAT.

²⁷ This is one of the questions discussed at length in the debate over the "East Asian Miracle"; see World Bank (1993b) and Amsden (1993).

A further crucial aspect of poverty alleviation is the reform of local government finance. At present, spending at the provincial and district level accounts for about one-third of total expenditure.²⁸ Because the system of financial transfers between central, provincial and district authorities is quite complex, the account which follows is necessarily oversimplified. Broadly speaking, central government (the State Planning Committee and the Ministry of Finance) uses standardised 'norms' to set both revenue collection and expenditure targets for each province. In general, provinces are assigned the proceeds from certain taxes (eg, land and housing taxes, licensing fees and so on) and expected to collect more than they spend, the difference going to central government. As part of the annual budgetary process approved by the National Assembly, central 'surplus' funds are reallocated to the provinces in light of their special requirements. The process is time-consuming in terms of bargaining, and local authorities have little discretion in deciding how to spend both their 'own' money and central government's contribution since all capital and current expenditure plans must be centrally approved. However, in general, the richer provinces collect and spend a higher amount per capita than the poorer provinces, and this inequality is only partially offset by intra-governmental transfers. Moreover, large capital expenditure projects are the domain of central government but related maintenance expenditure is the responsibility of local authority. In consequence, central government provision of infrastructure for one of the poorer regions (eg, a road project) may have the unintended consequence of diverting provincial monies from other areas of priority need (eg, secondary school maintenance).

Because government finance in Viet Nam has for historical reasons been decentralised resulting in 'fiscal weakness' at the centre, the general tendency in recent years has been to recentralise; this is one reason why fiscal performance in recent years has improved. At the same time, a key issue is not so much whether the provinces should have more money, but whether they should have greater discretion in spending the money they receive. The new draft budget law currently

²⁸ The 1992 figure was 35% while the 1993 figure was 29%.

before the National Assembly goes some way towards simplifying the present system of intra-governmental transfers, and replacing provincial expenditure norms by discretionary block grants. At the same time, responsibility for health and education would be shifted entirely to Central Government. The introduction of grants seems a good thing, but it is far from clear that regrouping social services under central government will result in the more efficient delivery of these services to the most vulnerable sections of the population.

The final issue to be discussed is food-agriculture's terms of trade. In an earlier paper, the author argued that an the freeing of agricultural prices and unification of the exchange rate which formed part of the 1988-89 reform package were crucial to Viet Nam's achievement of 'stabilisation with growth' (Irvin, 1994). The deterioration of terms of trade which followed in 1991-92 can be largely explained in terms of the very rapid growth in Viet Nam's marketed rice output and the simultaneous fall in world market prices for agricultural commodities resulting from world recession. However, world market prices in some areas (eg, coffee) have started to recover and there is some evidence that, overall, farmer's terms of trade are improving.²⁹ What is the likely picture in the medium term, particularly for Viet Nam's staple foodgrain, rice?

Although Viet Nam is currently the world's third main rice exporter (after the US and Thailand), exports are only about 15 percent of total production. The average paddy yield per hectare in 1993 was 3.4 tonnes, a considerable improvement over the average figure of 2.8 tonnes achieved in the previous decade. Since average paddy yields in southern China are of the order 4.5 tonnes³⁰, it is tempting to argue that considerable scope exists in Viet Nam for increasing total production and exports. However, a recent study of Vietnamese rice production

²⁹ See Vu Moi (1994) "The terms of trade between farm products and industrial goods" Prices and Markets, June (in Vietnamese) cited in VECA (1994).

³⁰ According to World Bank (1993a), average paddy yields were 4.6 tonnes in Guizhou and 4.2 in Yunnan provinces.

Table 8: Expenditure Elasticities for Cereal Consumption, 1992-93

Expenditure Quintile	Mean cereal consumption as % of total expenditure	Elasticity/ ^a
1	64.1%	0.54
2	57.4%	0.30
3	51.3%	0.10
4	42.3%	0.08
5	26.4%	
Simple average	48.3%	0.25

a/ defined as the % increase in cereal consumption divided by the % increase in total expenditures between the quintiles.

Source: Viet Nam Living Standards Survey (1994), Hanoi: General Statistics Office, Table 6.5.1

makes three important points.³¹

First, Viet Nam's average paddy yield figure masks very substantial variations between provinces ranging between 1.5 and 5.0 tonnes per hectare. In the main rice growing areas (the Mekong and Red River Deltas), yields are already approaching the 4 tonne mark, so there is limited scope for improvement. Second, according to the best estimates of the World Bank's Viet Nam Agricultural Marketing Study (June, 1994), production growth will average 1.9% over the next decade, even allowing for new investments in irrigation, drainage and other complementary economic infrastructure; ie, rice production will approximately match population growth. Third, calculating Viet Nam's average income elasticity for rice as 0.25 and assuming per capita income to grow at 6% per annum, per capita demand will grow at 1.5% per annum and total rice demand therefore at around 3.5% per annum. The conclusion is that the rate of growth of demand (3.5%) will outstrip the rate of supply growth (2%) by 1.5 percentage points; ie, the current export surplus will be

³¹ See Van Arkadie, Koersig and Irvin (1995) (forthcoming).

absorbed domestically in about a decade.³²

Assuming this argument to be true, and further assuming that policy-makers will be reluctant to (generally more expensive) imports, it seems fair to conclude that there will be upward pressure on rice prices. Moreover, since the poor are mainly farmers, the faster their incomes rise, the greater the pressure since their income elasticity of demand is greater than the national average used above. This pressure will be reinforced if the real exchange rate is stabilised by nominal devaluation which, under current conditions, would improve rice's domestic terms of trade. But an obvious *caveat* is that such an improvement will only affect farm incomes if it is passed on as income to farmers rather than as rent to export licensors.

VI. Conclusions

There are three principle conclusions to this paper. First, as we have seen, the incidence of absolute poverty in Viet Nam is very high compared to neighbouring NIEs. This should come as no surprise given that, unlike its neighbours, the country endured two devastating wars over twenty years followed by fifteen years of isolation from the international community. Second, poverty is not the result of adjustment policies. If anything, the "breakout" to the market of 1989 benefited the bulk of the poor, the peasantry. Third, the incidence of poverty varies considerably between regions and, most importantly, between town and country. Ninety percent of the nation's poor are peasants; poverty alleviation will depend crucially on facilitating the rapid growth of rural incomes. Doubtless, rapid and sustained growth over the next decade will do much to alleviate absolute poverty. However, if growth is of an entirely "free market" variety, it is likely that inter- and intra regional disparities will increase. Viet Nam will become less poor, but also far less egalitarian. The potentially destabilising social and political implications of a rapid increase in relative inequality under conditions of transition to a market economy are evident from the experience of parts of the former "second world" communist countries.

³² The time period may be considerably shorter if Viet Nam decides to build large emergency stocks of rice.

This would be a depressing conclusion were this state of affairs inevitable. But as we have argued, various poverty alleviating measures are both desirable and possible. The main enabling factor for a pro-poor strategy to work is macroeconomic stability. Viet Nam's record in this respect is unequalled amongst MTEs, and indeed is an enviable one whether compared to most low-income African countries or to selected middle-income countries of Latin America. Against a backdrop of macro-stability and export-led growth, and fuelled by aid and investment from the international community, institutional reforms have been or are currently being enacted which will ease the transition to a market economy without excessively compromising equity. The most important of these are in the rural areas where, against the backdrop of a relatively egalitarian distribution of land, property rights have been institutionalised, rural trade has been liberalised, economic and social infrastructure is being put in place and access to credit and inputs are raising productivity.

The next vital factor in the creation of a viable framework for poverty-alleviating growth is the development of a modern financial system. While a discussion of Viet Nam's achievements in this area lies outside the scope of this paper, attention has been paid to the reform of central and local government finance. MTEs are notorious for their fiscal vulnerability and reform of the fiscal-financial system is a crucial element of macro-stability. In the space of a few years, Viet Nam has exercised expenditure restraint without greatly compromising social spending and increased the share of revenue in GDP to over 20 percent. This has enabled the budget deficit to remain small and to be financed by domestic borrowing and concessional aid. Monetisation has been largely avoided, as reflected by the current inflation rate of 5.5 percent. Investment has surged to 20 percent of GDP, driven in part by a resurgence in public investment (now 7% of GDP) and a newly dynamised private sector. Large commitments exist for aid-funded public investment in vital infrastructure, although the speed of disbursement is constrained by the limited administrative capacity of central government. Equally important, the domestic budgetary process is becoming more transparent, particularly with respect to flows between central and provincial authorities. As we have seen, a combination

of stronger fiscal muscle at the centre and expenditure flexibility at provincial level is essential if resources are to be channelled and used effectively in the country's most deprived regions.

Beyond the task of improving rural infrastructure, accessing markets and credit and providing adequate rural educational and health services lies the crucial matter of diversifying sources of rural employment and income. This should not be taken to mean that Viet Nam can afford to neglect foodgrain production. Peasant prosperity will depend essentially on food-agriculture's terms of trade. Here, we have argued, government has a considerable variety of instruments at its disposal and markets, if allowed to function properly, will tend to converge on improving them. Timely adjustments in the nominal exchange rate can ensure that the incentive to export is not eroded. Improved access to markets, to credit and, particularly, to export certificates can ensure that the benefits of exchange rate adjustment and other price incentives reach the farm family. At the same time, the growth in foodgrain producers' income will in itself improve and sustain food-agriculture's domestic terms of trade since peasant's income elasticity of food demand is highest. Peasant prosperity will also help promote the growth of off-farm employment, diversifying income sources and reducing risks. The growth of rural credit institutions---ranging from the Agricultural Bank to the current proliferation of joint liability groups---is encouraging development in supporting this process.

This paper covers a range of issues related to growth and poverty alleviation, any one of which merits fuller treatment. Equally, there are various issues---the changing structure of agricultural output, agricultural investment, credit institutions and so forth---which we have barely touched. But the essential message is clear. Viet Nam has already established a distinct and highly promising 'model' of transition to a market economy characterised by high growth and low inflation. It is now on the threshold of defining institutions and policies to address the question of whether such a model can reduce absolute poverty as effectively as its Asian neighbours without abandoning the goal of equity. It would seem sensible to address the issue of relative poverty now---at an early relatively egalitarian stage of growth---rather than later.

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