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ECONOMIC REFORM AND WELFARE IN VIET NAM

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Abstract

Economic reform in Viet Nam started around 1980 and accelerated in the late 1980s. Economic and social indicators show that the transition of the economy has been highly successful. Rapid and widespread growth has lifted living standards of the majority of the population. Continued rapid growth will be required to reduce the remaining poverty and to catch up with other Asian countries. In terms of macroeconomic requirements such rapid growth is possible although not guaranteed. Future growth strategies need to be more employment-oriented in order to prevent sharp increases in unemployment and income inequality.

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ECONOMIC REFORM AND WELFARE IN VIET NAM

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1 *INTRODUCTION*

The transition of the Vietnamese economy started around 1980, when some partial reform measures were introduced to overcome the problems faced by the centrally planned economy. More radical steps were taken around 1989 when prices and trade were liberalized. At present the transition is complete in the sense that Vietnam has a market economy.

The transition has been highly successful. Economic agents in all sectors of the economy, as well as foreign investors, have responded to the new opportunities and the new incentives. In the five-year period 1992-1996 the average growth rate has been close to 9 per cent per year. Incomes have risen and poverty has declined. All available economic, social, demographic and nutritional indicators suggest that significant gains have been made during the transition.

Progress has been widespread but not equal. Some sectors, regions and individual economic agents have done better than others. Growth in the rural areas has been slower than in the cities, in the mountain regions less than in the river deltas, in state enterprises faster than in the private sector. To some extent these differences are inevitable, some sectors, regions and economic agents are more dynamic than others. But government policies have also contributed to the skewed development. The transition has probably left few people worse off, before almost everybody was poor, now many have escaped the direst poverty. But the remaining poor have less chances than before; their access to basic social services like education and health care is reduced due to increased private cost of such services.

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1 I am grateful to Tran Kim Dung and Butch Montes for comments that helped to improve this paper.

The transition to the market having been successfully made, Vietnam now has to face the future. As one of the poorest countries in Southeast Asia, extended rapid growth will be necessary to catch up with other countries in the region and to reduce poverty at home. Under the current conditions it would appear that, in terms of macroeconomic requirements, such rapid growth is possible although not guaranteed. It is, however, likely that further growth along current paths will sharpen inequalities. Present growth patterns are rather unbalanced and do not create sufficient employment opportunities to employ the large and rapidly growing labour force. More equitable and employment-oriented growth would require a shift of government policies in favour of agriculture, the private sector and social services.

In the next section of this paper, the history of the transition of the Vietnamese economy is summarized. Section III uses available economic and social indicators to assess the impact of the transition on the welfare of the population. The final section looks ahead and identifies some challenges on the road to rapid and equitable growth.

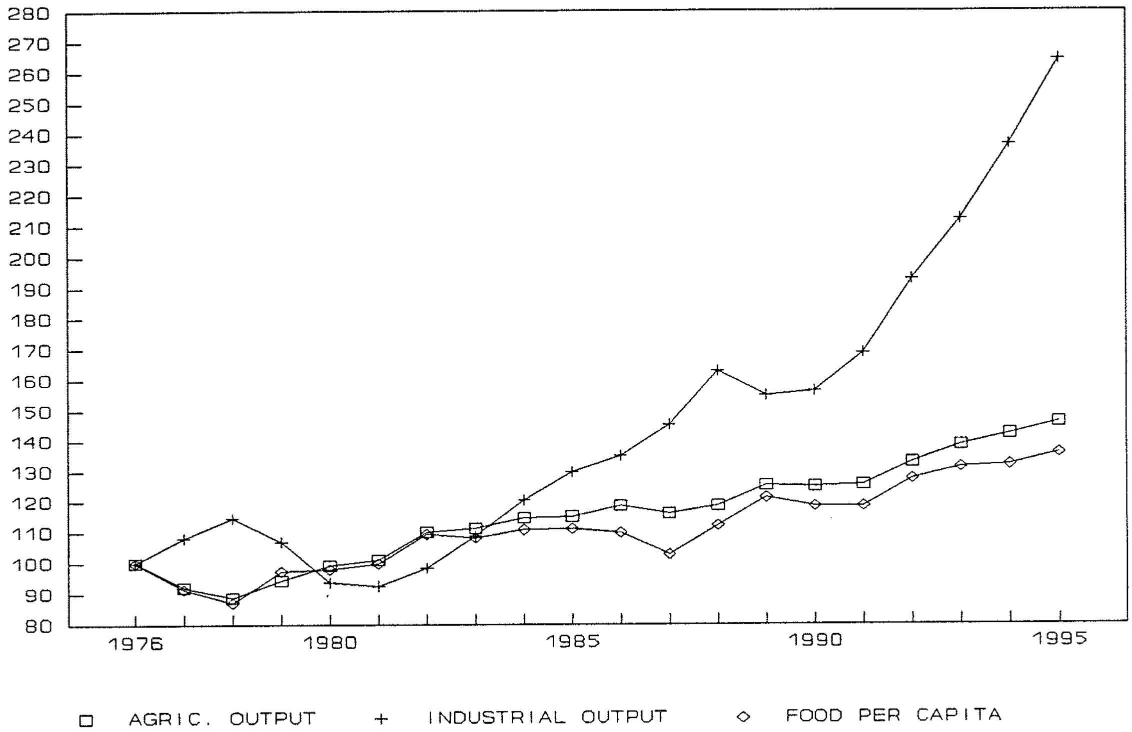
2 *ECONOMIC REFORM IN VIETNAM*

The reforms in Vietnam find their origin in disappointing economic performance and external shocks. The outcomes of the first five-year plan after re-unification were very disappointing: actual output stayed far behind stated plan targets. Production stagnated in the second half of the 1970s; industrial output even declined. Figure 1 gives the gross output *per capita* at constant (1989) prices.[2] Agricultural output *per capita* stagnated between 1976 and 1980 and industrial output actually declined between 1978 and 1981. At the same time, Vietnam's military involvement with Cambodia reduced the inflows of (Western) aid. This was the background for a first round of reforms initiated around 1980.

The Directive 100 of 1981 is the first step in agricultural reform. Faced with emerging food shortages and with farmers' unrest, the directive gave more autonomy to individual farmers. Household farms were allocated plots of land to cultivate under contract with the cooperative. Farmers undertook to produce a certain quantity of a crop to be sold to the state at a fixed price. Production beyond the contracted quantity could be used for own use or for

[2] The ***Note on data sources*** at the end of the paper identifies the main sources of data used for the figures and tables in this paper.

Figure 1
Gross Output per capita at constant (1989) prices
(1976=100)

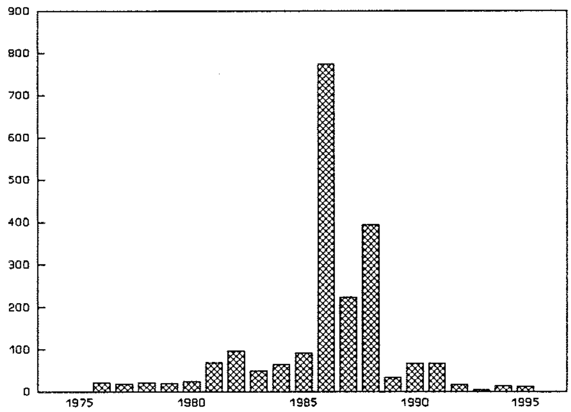


free sale. Cooperatives continued to control the distribution of inputs and the marketing of outputs. The effect of this measure was a steady increase of agricultural output between 1981 and 1986 (see figure 1).

The industrial sector is dominated by the state-owned enterprises (SOEs). Up to 1980, the policy priority in this sector, in line with the Soviet model, was heavy industry. Ambitious targets were formulated in the subsequent 5-year plans for, for instance, electricity, steel, coal and cement production. Around 1980, after substantial failures in meeting these targets, policy priorities shifted to agriculture and to light industries producing consumer goods. At this time there was also a loosening up of the central planning control (Vo Dai Luc 1994). Firms were given some leeway to produce, beyond their plan targets, for the free market. These reforms led to an acceleration of industrial growth in the early 1980s.

However, these early and partial reforms did not lead to a pattern of sustained growth. The inefficiency of the SOEs made substantial government subsidies necessary which contributed to a large fiscal deficit and rapid inflation (see figure 2). Also in the agricultural sector problems remained (Vo-Tong Xuan 1995). The main problem was the too centralized nature of decision making. The central decision on which crop the farmers had to produce did not always meet the local conditions. Failures of the state to indeed procure the contracted amount or to timely deliver the required inputs undermined the effectiveness of the system and regular attempts by the cooperatives to increase the amount of the contract undermined the confidence of the farmers. These problems were reflected in the stagnation in agricultural output *per capita* between 1986 and 1988. More seriously, food output *per capita* did not grow very much between 1982 and 1986 and declined in 1987. The growth in agricultural output between 1981 and 1986 was mainly due to the increased output of non-food crops. In 1987 bad weather further added to the problems.

Figure 2
Annual rate of inflation



The system of dual prices (one for the contracted output and one for the above-contract output) was difficult to administer. Contract prices had to be continuously adjusted to keep track with market prices. An attempt in 1985 at price and currency reform badly failed, resulting in large losses of SOEs, a large budget deficit and a very high level of inflation.

The more radical attack on these problems started in 1986. The 6th Party Congress of 1986, confronted with problems of production and inflation, made the fundamental political decision to go for economic reform and decrees and laws in subsequent years implemented this decision. The Resolution 10 of 1988 gave the details of these reforms for the agricultural sector. The property rights of the households were strengthened through longer-term land-use rights contracts. It gave farmers a free choice which crop to grow. It set prices of crops and of inputs free and privatized the distribution of inputs. Later farmers were also released from the obligation to sell contracted amounts of rice to the state. Private trade in output was now allowed. The 1993 Land Law further extended land-use rights, and made such rights transferable, giving farmers more security of tenure.

These reforms have resulted in a private agricultural sector operating on free input and output markets. Cooperatives still exist, but in most places their functions have been reduced to giving advise and, occasionally, in providing credit or jointly purchasing of machinery or organising infrastructural or irrigation facilities.

The 1986 Party Congress shifted priorities away from heavy industry towards agriculture and light industry, with a particular emphasis on the production of food, consumer goods and goods for export. It was decided to move towards a multi-sectoral economy where, next to state-owned enterprises, there would be non-state firms. State firms were given more financial autonomy and market coordination took the place of central planning control. These changes in policy direction were embodied in a series of laws and resolutions that were promulgated in the following years. Of particular interest is the Law on Foreign Investment (1987) and Resolution 16 of 1988 on small-scale and private sector activities. This resolution established the rights of these non-state economic units to operate and the conditions for their operation (Ronnas 1992). In 1990 this was followed by the issuing of a Company Law and a Private Business Law.

The reform of the state enterprise sector was, however, not just a matter of shifting priorities and moving to a multi-sector economy. The efficiency of the sector had to be enhanced. State enterprises were, at the same time, the main source of government revenue and the main user of government subsidies. The substantial public sector financial imbalances were reflected in very high rates of inflation, over 300 percent per year during 1986-1988. The fight against inflation, that was engaged seriously in 1989, thus included elimination of government subsidies to the state enterprises. The enterprises were given greater financial autonomy and responsibility. Their input and output prices were set free and they were free to decide on procurement of inputs, production and output marketing, investments, hiring and firing of personnel and setting of wages. Government subsidies were terminated but state-owned enterprises obtained preferential access to commercial bank loans.

At the same time, a decree was issued requiring all centrally and locally state-owned enterprises to register anew. This re-registration was used to dissolve some loss-making state enterprises and to merge some others. The outcome was a sharp reduction in the number of state-owned enterprises from about 12,000 to 7,000 (World Bank 1995a). This rationalization involved substantial lay-offs of workers. The decline in industrial output in 1989 and 1990 (see figure 1) illustrates the drastic adjustment that took place.

Reforms went beyond the directly productive sectors. Vietnam used to have the traditional Soviet-type mono-bank system with the large state bank combining central bank and commercial bank functions. After 1988 the State Bank of Vietnam (SBVN) shifted its credit activities to four separate state-owned commercial banks. At the same time new laws set down the conditions under which new banks could be established. By the end of 1995 there were four state-owned commercial banks, 46 joint stock banks, 4 joint venture banks, 18 foreign banks and 71 representative offices of foreign banks (*Vietnam Investment Review*, 5 February 1996). Most of the business of the banks is with state-owned enterprises. To some extent, the state-owned commercial banks have taken over from government the task of financing the state enterprises' activities. The access of the private sector to banks loans is still very limited and restricted to some short-term loans. As in other transitional economies, the commercial banks hold a substantial proportion of bad loans (McKinnon 1993). The World Bank report estimated that, by the end of 1994, the non-performing loans may account for 25 percent of all assets of the state-owned commercial banks (World Bank 1995a).

The reforms and laws listed above helped to create or formalize the institutions of the market economy. The year 1989 is the watershed year when the remaining vestiges of central planning were eliminated. In that year all price controls were removed, interest rates were sharply increased and became positive in real terms, the exchange rate was sharply devalued and external trade was liberalized.

The economic reform measures of the late 1980s were a combination of stabilization and reform, not unlike the stabilization and structural adjustment policies implemented in many developing market economies in the 1980s. The need for stabilization in the late 1980s had put government spending under pressure: government investments were cut back and current spending was curtailed. Tight monetary policy with high real interest rates aimed to curtail inflation.

The reasons for the radical intervention in 1989 were both external and internal. The internal imbalances were reflected in the high rates of inflation during 1986-88. The external factor was the collapse of communism in the Soviet Union and Eastern Europe which had a severe political, but also economic, impact on Vietnam. Up till 1989 most of the external trade was within the framework of the Council for Mutual Economic Assistance (CMEA or COMECON) with the Soviet Union and countries in Eastern Europe, but after 1989 trade with these countries sharply declined.[3] On top of this came the decline and, by 1991, the almost

[3] In 1988 73 per cent of Vietnam's imports came from Eastern Europe and the Soviet Union and 54 per cent of exports went there. Starting in 1989 both the absolute value of these imports and exports and their share in Vietnam's total trade fell rapidly. By 1994 only 6 per cent of imports and 3 per cent of exports were with the former CMEA countries.

complete disappearance of foreign aid from the Soviet bloc. These contractionary impulses were, however, more than compensated by the strong supply response to the reform measures.

Studies on the economics of transition tend to differentiate between a *shock therapy* and a *gradual approach* to transition. The first approach is more typical of the countries in the former Soviet Union and Eastern Europe, while the gradual approach was followed in China and Vietnam. The shock approach is associated with declining output and deep social crisis and the gradual approach with rapid growth (see e.g. Woo, 1994). Vietnam's approach to reform during the 1980s was hesitant and gradual, but the series of reform measures taken around 1989 can well be interpreted as a shock therapy.

Fforde and De Vylder (1996) argue that foreign observers tend to overemphasize the impact of policy measures and to underestimate the micro adjustments that had taken place during the 1980s. In their view, economic agents (farmers and SOEs) were continuously adjusting to crises and opportunities and many of the policy reforms were, in fact, responding to adjustments that were taking place. In their view the contract system and the growth of activities outside the plan had commercialized the economy and these adjustments and gradual reforms of the 1980s made the successful 'big bang' of 1989 possible (Fforde & De Vylder 1996).

3 THE IMPACT ON WELFARE

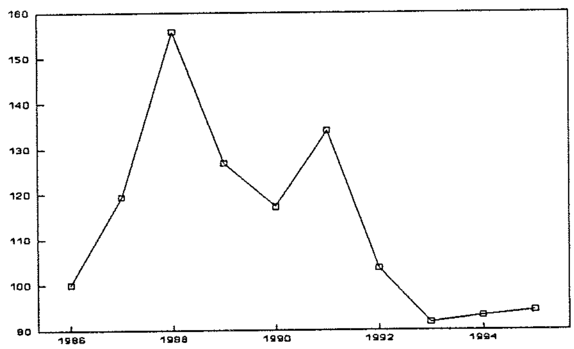
3.1 Reforms and growth

As argued above, economic reform in Vietnam came in two stages. A first series of reform measures were introduced around 1980. They had a positive impact on agricultural and industrial production (see figure 1), but these positive effects were gradually undermined by growing instability and inflation. The reforms around 1989 were more radical and had a more sustained impact; they have been followed by very high growth rates. It is also recognized that the benefits of this growth are wide-spread: the great majority of the population saw its situation improve and is now better off than before.

Production in the newly liberalized private household sector increased immediately and strongly as is reflected in the high growth rates for the agricultural and the services sector in 1989 (see table 1). This directly increased the income of a great share of the population. Real exports almost doubled in 1989 with the agricultural reforms resulting in a substantial export surplus (1989 was the first year with rice exports after many years of rice shortages) and with oil exports coming on stream. Growth in the industrial sector, dominated by state-owned enterprises, stagnated in 1989 and 1990 due to the removal of protective prices and easy government subsidies and to the loss of the CMEA market, but since 1991 industrial growth has been rapid and sustained. The high interest rates led to a sharp increase in deposits, the tight monetary policy thus in fact increased credit availability (the M2/GDP ratio increased from 18 per cent in 1988 to 29 per cent in 1989).

These positive supply responses explain how Vietnam could stabilize and grow at the same time. In subsequent years, increasing flows of foreign investment and the resumption of Western aid further added to the positive developments. These strong responses can only be understood against the background of the preceding repression. They do not reflect the 'normal' response of economic agents to changes in relative prices, they reflect the grabbing of opportunities that did not exist before.

Figure 3
Terms of trade
agriculture - non-agriculture



The initial impact of the reforms was on the agricultural sector, where the majority of the population earns its living. Figure 1 showed that gross output in agriculture increased after the first reforms in 1981, but then fell back in 1987 as inflation eroded real agricultural prices and bad weather hit the sector. The reforms of 1988 and 1989 induced a growth spurt in these years, which, after a fall back in 1990 and 1991, continued in the 1990s (see table 1).
The price liberalization helped to turn the terms of trade in favour of agriculture (see figure 3).[4] One of the characteristic policies of

[4] It is difficult to find a satisfactory indicator of the relative prices facing the agriculture sector. Some concentrate on the price of rice *versus* the price of fertilizer, others on the price of rice *versus* the price of industrial goods. The problem is that, before 1989, there was a dual system of prices, the contract price and the price negotiated for the quantities sold above the contract. This makes it difficult to calculate an average price. Figure 5 gives the ratio of the GDP deflator for agriculture over the deflator for the rest of the economy.

central planning in Vietnam had been to keep agricultural prices low so as to generate a high surplus in the state industrial sector (Fforde & De Vylder 1996). During the 1980s the government set the prices for contracted agricultural output and determined the volume of the contract. The agricultural terms of trade could be manipulated by (i) changing output prices, (ii) changing the size of mandatory deliveries, and (iii) changing the price of inputs (such as fertilizer) over which the state maintained a monopoly. Although the price reforms of 1981 and 1985 did increase the price of rice, they did not improve the terms of trade for farmers, when the terms of trade are defined as the relative price of rice *versus* fertilizer (Nguyen Thi Song An 1996). After the price and trade liberalization of 1989 domestic agricultural prices tend to follow international prices, but the state can and does still manipulate the terms of trade through the monopoly of state trading firms over agricultural exports (particularly rice), through its exchange rate policy and through export taxes.

The terms-of-trade index (1986=100) was favourable during the period 1987-1991. This plus the land reform that gave a greater certainty of tenure gave the farmers a strong incentive to increase production. In the years after 1991 the terms of trade were less favourable. Agricultural growth resulted from:

(1) an increase in the area sown. Total cultivatable area did not increase as it is limited by land availability, but the area sown increased due to irrigation and more intensive cropping from around 8.6 million hectares in 1985/86 to around 10.4 million in 1994/95. Most of this expansion ended up in rice lands (about 1 million) and in land under industrial crops (close to half a million ha).

(2) an increase in yields per hectare. The yields of most crops increased. There were substantial increases for products like rice, maize, cotton, sugar and coffee. The reforms provided incentives for the more intensive use of inputs and for more intensive cultivation.

(3) diversification. As noted under point (1), most of the new acreage went to rice cultivation, but in relative terms the acreage under other crops increased much more, thus diversifying agricultural output significantly.

The reforms also opened up the opportunity for the establishment of private small-scale labour-intensive firms in construction, industry and services and the growing incomes provided the demand for such enterprises.

Table 2 shows the rapid growth of small-scale private industrial firms since the mid-1980s. Most of these establishments are small household enterprises, only a few have a more formal organization. The majority of these firms are active in food processing, textiles and sewing, construction materials and wood products. To some extent these private firms replace industrial cooperatives. The number of such cooperative industrial firms declined from 35,629 in 1985 to 1,729 in 1995.

The number of people working in private trade, restaurants and services more than doubled since 1989. The services sector is usually repressed under central planning, hence the reforms opened new opportunities and the growing incomes provided the demand. An emerging tourism market provided further opportunities, the number of arrivals of foreign visitors increased from 280,000 in 1990 to 1.6 million in 1996. The outcome was very rapid growth in the services sector in the early 1990s.

Table 1 Growth GDP

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Growth real GDP (%)	...	3.7	5.9	8.0	5.1	6.0	8.6	8.1	8.8	9.5
- agriculture	...	-0.6	3.9	6.9	1.5	2.2	7.1	3.8	3.9	4.7
- industry	...	8.8	5.3	-2.6	2.9	9.0	14.0	13.1	14.0	13.9
- services	...	5.5	9.2	18.3	10.8	8.3	7.0	9.2	10.2	10.9

Source: General Statistical Office (GSO)

Table 2
Indicators of private sector growth

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Number of private industrial establishments ('000s)	207[1]	-	319	335	378	448	369	456	498	524
Number of persons working in private trade, alimentation and services ('000s)	577	640	718	793	836	899	952	1038	1116	1770
Construction: - contribution to GDP (%)	2.7	2.4	2.7	3.6	3.9	4.0	5.6	7.4	7.6	7.1

Notes:
1 1985
Source: GSO

Construction is another sector with rapid growth, as reflected in the sharp rise in its contribution to GDP. The private sector claims a growing share of this; private construction made up about one third of total value added in the mid-1980s, and this share has increased to more than half in recent years.

Table 2 brings together data on these three private economic sectors, small-scale industry, services and construction, that are characterized by easy entry and labour intensity. Through the growth of agriculture and of these other private small-scale activities employment and income opportunities were created and a large part of the population saw its income increase.

Table 1 shows the sectoral growth rates, with the services sector and particularly industry growing much faster than the agricultural sector and (not shown in table 1) the state sector growing faster than the non-state sector. Table 3 shows the resulting change in the composition of GDP.

Initially, in the late 1980s, the share of agriculture increased as the industrial sector suffered from external and policy shocks, but then the normal pattern of structural change in a growing economy sets in, with a declining share for the agricultural sector and growing shares for industry and services. More remarkable is the changing ownership pattern, the contribution of the state sector to GDP falls up to 1990, but then increases again. The fluctuations in the share of the state sector are the outcome of two processes. Firstly, there is the process of structural change. The state has a small role in the agricultural sector and a much larger share in the industrial and services sector. The increasing share of the latter two sectors in GDP and the declining share of agriculture thus also imply a growing share for the state. But, secondly, within the industrial sector the share of the state sector is increasing (to about 70 per cent of industrial output in 1994) and within the services sector it remains rather stable at a high level (between 45 and 50 per cent of total services production).

The rapid growth of output of SOEs may be surprising in view of the sharp reduction in the number of enterprises mentioned above. However, most of the SOEs that were closed or merged were rather small and contributed little to total output.[5] The rapid recovery of growth can also be explained from the substantial excess capacity that existed in many SOEs and which could be used to increase output when demand increased. New investment by SOEs

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5 The state enterprise sector is highly concentrated. It is reported that the ten largest enterprises account for 49 per cent of all SOE assets and for 31 per cent of all SOE output.

stagnated between 1985 and 1990, but increased sharply afterwards. Moreover, most foreign-invested projects come in the form of joint ventures with SOEs and their output is counted as part of state output.

In Vietnam there has been a transition to the market, but no transition to a private sector economy. In this Vietnam is rather unique, in other economies in transition the size of the state sector is being reduced, in Vietnam it is growing.

Table 3

Gross Domestic Product by sector (percentage distribution)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Agriculture	38.1	40.6	46.3	42.1	38.7	40.5	33.9	29.9	28.7	27.5
Industry	28.9	28.3	24.0	22.9	22.7	23.8	27.3	28.9	29.6	30.1
Services	33.0	31.1	29.7	35.0	38.6	35.7	38.8	41.2	41.7	42.4
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
State sector	37.6	35.8	32.5	33.2	32.5	33.3	36.2	39.2	40.2	42.2
Non-state sector	62.4	64.2	67.5	66.8	67.5	66.7	63.8	60.8	59.8	57.8

source: GSO

The 1989 reforms also included trade liberalization and devaluation of exchange rate. The result was a rapid growth of exports. Since 1989 exports to and imports from the CMEA countries declined rapidly, but the loss of the traditional CMEA market was taken without a dint in the overall export performance. The shift in trade, away from CMEA and towards the world market, implied a shift from a stagnating market to the dynamic Asian market. By a stroke of luck, oil exports came on stream just at the time that the CMEA market was collapsing. Agricultural and trade reforms combined to invite a sharp increase of agricultural export supplies. Some industrial exports emerged (particularly textiles and garments) and earning from tourism increased sharply (see table 4).

Table 4
Main exports of Vietnam (in mln USD)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
oil	-	30	79	200	390	581	756	844	866	1040
coal	29	10	13	21	38	48	47	70	71	94
rice	-	-	-	316	272	225	300	363	429	438
coffee	2	24	25	31	25	74	86	110	234	500
tea	4	2	3	3	2	14	16	26	15	33
rubber	2	6	6	14	16	50	54	74	95	182
seafood	95	113	124	133	220	285	302	427	489	600
cashew	-	-	-	-	13	26	41	44	-	-
textiles & garment	65	30	18	20	20	156	221	336	550	700
shoes							5	68	122	200
others	298	395	465	582	735	583	647	488	729	1513
Total merchandise exports	495	610	733	1320	1731	2042	2475	2850	3600	5300
Revenue from tourism	-	-	-	-	-	95	121	196	376	514
Grand Total	495	610	733	1320	1731	2137	2596	3046	3976	5814

As table 4 shows, Vietnam's export structure is still strongly biased towards primary commodities. Taking agriculture, fishery and oil and mining products together more than three quarters of merchandise exports leave Vietnam is unprocessed form. All export items have recorded high rates of growth in recent years. Foreign exchange earnings from coffee, tea, textile and garments, shoes, and tourism are growing exceptionally fast. All of these represent labour-intensive activities. Their growth is thus likely to create substantial employment. Earnings from foreign visitors are, in recent years, equivalent to ten per cent of merchandise exports.

Table 5

Foreign direct investment per sector

(Accumulated registered value 1988-95)

Sector	Value of registered FDI projects (mln US dollar)	Percentage distribution
Agriculture & Forestry	457,4	2.4
Oil & Mining	2,089.8	11.1
Transport & Communications	1,062.3	5.6
Industry	7,489.4	39.8
Services	7,736.5	41.1
Total approved projects	18,835,4	100.0
Actual investments	5,585.0	29.7

Source: Ministry of Planning and Investment

In 1987 a Foreign Investment Law was issued and the 1989 reforms made Vietnam attractive to foreign investors, particularly those from nearby Asian countries. The inflow of foreign direct investment (FDI) started slowly but has accelerated sharply in recent years. Initially, FDI concentrated on the oil and services sectors, but in more recent years virtually all FDI is aimed at the services and the industry sectors. Actually implemented foreign investment form a large share of total capital formation, in recent years FDI accounts for more than one third of total investment. Data from the Ministry of Planning and Investment (MPI) suggest that output of foreign invested enterprises account for about 13 per cent of GDP and 25 per cent of government revenue (*Vietnam Investment Review*, 20/1 1997). Exports by foreign invested enterprises (including oil, but excluding tourism earnings) account for around 35 per cent of total merchandise exports. It is thus clear that FDI made a substantial contribution to the growth of production capacity and of income.

The reforms and the gradual normalization of the relations with the United States have re-opened Vietnam's access to Western aid. Consecutive meetings of the donor consortium have pledged large sums of foreign aid. Actual disbursements have come more slowly but are now substantial, in 1995 they amounted to 640 million USD.

3.2 Employment

Table 6 shows the employment structure along the same lines as table 3. The distribution over the productive sectors is remarkably stable. The declining share of agriculture in GDP is not translated into a declining share in employment. And the growing share of the state sector in GDP is combined with a declining share in employment.

Between 1986 and 1994 employment in the state sector declined by 1.1 million, as the government agencies and state enterprises were rationalized and consolidated. On top of this, the army was slimmed down, putting another half million on the labour market.[6] But employment in the non-state sector increased by 6.8 million (see table 6). The annual growth rate of the labour force, between 1986 and 1995 was 3.2 per cent, while the growth rate of registered non-agricultural employment as recorded in table 4 was only 2 per cent per year. Even though it is likely that the statistics may fail to record some new employment, the difference between the two growth rates is large and is reflected in increasing open unemployment. Despite the rapid employment growth in the private sector, it is estimated that unemployment is rising and stands at around 7 per cent (Center for Population and Human Resources Studies, 1995, p 16).

It is argued that the social cost of the dismissals in the state sector after 1988 were minor because (i) the dismissed workers received adequate compensation; (ii) most could be quickly absorbed in the rapidly growing private sector; and (iii) in Vietnam, unlike for instance China, the provision of social services is not linked to the place of employment, the loss of job did thus not imply also a loss of access to social services (World Bank 1995b). Moreover, many of those that were working in the state sector were moonlighting to supplement their incomes. One study estimated that the income from the salary presented only 55.6 per cent of total income of state employees (Le Manh Hung 1996, p 221). The loss of the state job then implies a loss of only part of income.

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6 There was further pressure on the labour market due to the repatriation of refugees and because the outflow of contract labour to the former Soviet Union and Eastern Europe came to an end.

Table 6
Employment by sector ('000s)

	1980	1986	1990	1991	1992	1993	1994
Agriculture	15,140	20,246	21,895	22,483	23,208	23,898	24,587
Industry	3,258	3,872	4,210	4,214	4,275	4,370	4,470
Services	3,241	3,850	4,189	4,277	4,336	4,450	4,612
TOTAL	21,639	27,968	30,294	30,974	31,819	32,718	33,669
State sector	3,316	4,028	3,240	3,144	2,976	2,968	2,934
Non-state sector	18,323	23,940	27,054	27,830	28,843	29,750	30,735
	percentage distribution						
Agriculture	70.0	72.4	72.3	72.6	73.0	73.0	73.0
Industry	15.1	13.8	13.9	13.6	13.4	13.4	13.3
Services	14.9	13.8	13.8	13.8	13.6	13.6	13.7
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
State sector	15.3	14.4	10.7	10.2	9.4	9.1	8.7
Non-state sector	84.7	85.6	89.3	89.8	90.6	90.9	91.3

source: McCarty et al. 1993; IMF 1996

Table 7
Value Added per worker (in 1989 prices)

	1986	1990	1995
Agriculture	536	559	586
Industry	1518	1603	2670
Services	2196	2652	3565
Total	892	975	1267
State sector	2021	2949	5654
Non-state sector	680	738	847

Source: GSO

Most of the new employment opportunities are in sectors that are labour-intensive but also have low labour productivity, so that incomes generated tend to be low. Table 7 gives estimates of labour productivity changes. It should be noted that both Value Added estimates and employment estimates of some of the sectors are questionable, so that the labour productivity, as quotient of two uncertain estimates is even more questionable. Still, the data in table 7 may be indicative of broad trends.

There has been a rapid growth of labour productivity, particularly after 1990. This growth concentrated on the industrial and the services sector. The output per worker increased only little in the agricultural sector. Agricultural growth has taken place through the extension of sown acreage and the more intensive cultivation of this area, reflected in increasing yields per acre. The area of cultivatable land has not increased and so the land-labour ratio has declined sharply but, as noted above, more of the land is double cropped and cultivation has intensified, thus increasing the demand for agricultural labour. Still, the increase in demand is outpaced by the growth of the labour force. A growing number of those registered as being employed in agriculture are in fact only partially employed and are engaged in low return activities. Underemployment rates in the rural areas are estimated as high as 30 per cent. The agricultural sector seems to operate as the employment sink. As the agricultural sector is absorbing excess labour, output and income *per capita* stagnate despite the rapid growth of total agricultural output. This stagnation is behind the increasing gap between income in agriculture and in the other sectors of the economy, as productivity and incomes in other sectors have grown rapidly, income inequality has increased.

There has been a very rapid growth of labour productivity in the state sector. There is the combination of, on the one hand, increased output and, on the other, declining levels of employment. The rationalization of the state sector had thus significant positive effects. This is also reflected in the rapid growth of average income of state workers from 57,200 VND per month in 1990 to 274,200 VND in 1993 (or 132,400 at 1990 prices) (MOLISA 1994).

3.3 Poverty and income inequality

Although incomes have grown, Vietnam remains a poor country. Its current *per capita* GDP is estimated at around US $ 300. Poverty will have fallen in recent years with rapid growth, but no comparable surveys are available to say by how much. But poverty remains widespread, according to Vietnam Living Standard Survey (VLSS, see note on data sources), 51 % of VN population lived below poverty line in 1993.

The new opportunities are not equally distributed over the country. As tables 3 and 5 showed some sectors progressed more than others and, for reasons of ecology and access, some regions benefitted more than others.

Poverty and inequality in Vietnam can be approached from three, overlapping perspectives: location, occupation and assets. The poor are concentrated in certain geographical areas, in particular occupations and sectors and they are characterized by their lack of possession of, or lack of access to, assets such as land, capital and credit, human capital and entrepreneurial talent.

In table 8 the seven regions of Vietnam are ranked by the level of their *per capita* consumption expenditure as recorded in the VLSS of 1992/3. The gap between the regions is substantial. The expenditure in the poorest region (the Northern Central Coast region) is less than half that of the richest region (the Southeastern region around Ho Chi Minh City). Of course, the regions are all rather large and within regions there are sharp differences as well.

Table 8

Regional income inequalities

Region	Consumption expenditure p.c ('000VND)[1]	Poverty rate (%)[2]	Growth rate Income 1985-95[3]	Gini-coefficient[4]
Southeast	2,008	32.8	11.2	34.9
Mekong Delta	1,506	42.7	6.6	35.4
Central Coast	1,457	48.5	2.1	31.0
Red River Delta	1,349	49.0	6.7	28.6
Central Highlands	1,159	50.1	4.3	29.5
Northern Uplands	1,007	58.6	4.3	24.9
North Central	974	70.9	4.4	27.9
Vietnam	1,373	50.9		36.4

Notes:

1 From VLSS 1992/3

2 From VLSS 1992/3, percentage population below poverty line

3 GDP figures by region are not available. The growth rate is based on data for the volume of food production per region and for the gross output of industrial production (at constant prices). The growth rates are thus only an approximation.

4 From VLSS. World Bank 1995b (p 27) gives the Gini-coefficients for urban and rural areas separately. The data given in the column are just the average for the rural and the urban rate in the region.

There is a direct relationship between the level of expenditure and the incidence of poverty. The region with the highest level of *per capita* income and expenditure has the lowest proportion of population below the poverty line. This link confirms that rapid income growth is the best way of reducing poverty. But it is clear that economic growth, as it is happening in Vietnam now, is not enough. First of all, economic growth tend to be strongest in the regions that are already relatively rich. And secondly, these regions that are already relatively rich and have higher growth, also tend to have a higher level of income inequality as reflected in the Gini-coefficients. It would thus appear that economic growth in Vietnam may lead to a further concentration of poverty in certain regions and will increase inequality both between and within regions.

The VLSS data can be used to list some characteristics of the poor in Vietnam, apart from their low income:

- 90 per cent of the poor live in rural areas and are predominantly engaged in agricultural activities; of the households whose head is occupied in agriculture, 59.9 per cent fall below the poverty line (World Bank 1995b). Poor households tend to have smaller land holdings;
- the size of their households tends to be larger as they have more children per family, with women having a higher fertility rate;
- their children suffer more from malnutrition, wasting and stunting;
- the poor have a lower literacy rate and have completed fewer years of schooling;
- they use the health services less frequently;
- poverty is not gender determined. In fact, households with female heads are less likely to be poor;
- the poor tend to live in remote areas with less access to piped or safe water, to hygienic sanitation, to electricity. They are also less well linked to passable roads and to permanent markets;
- in general, they own smaller and non-permanent houses. Only a few have items like radio, furniture, bicycles. None have more expensive assets like televisions, refrigerators, motorbikes, videos or washing machines;
- they have a very small capacity to save and thus own little wealth. They have hardly any access to borrowing, especially not from formal financial institutions.

With the rapid growth, the incidence of poverty has declined. The growth process implied rapid structural change (shifting the sectoral balance away from agriculture and towards industry and services) and growing disparities among regions, with urban areas particularly around Hanoi and Ho Chi Minh City, doing much better than rural areas, and rapidly growing disparities within sectors and within regions between those that could fully benefit from new opportunities and those that could not. The outcome of these three factors is a sharp increase in income inequality.

Pre-reform Vietnam was a relatively egalitarian society. The Northern part of the country had been shaped by years of collective effort and the integration of the Southern economy in the collective mould had reduced the pre-1975 inequalities that had existed there. Although there are no comparable surveys available to assess the income distribution before the reforms, it seems fair to conclude that inequality was low.[7] The commune system in agriculture controlled the income-generating activities of the majority of the population. Basic necessities (such as food and housing) were kept cheap through price controls and basic social services (health care and education) were provided cheaply or for free. Good teachers and health care workers could be maintained despite low wages as they had no alternative employment opportunities. Hence a good system of education and health care could be provided at low cost, resulting in exceptionally good social indicators for a country at Vietnam's level of income.[8] Pre-reform Vietnam was a society with low, but relatively equally distributed, incomes and a broad provision of basic social services.[9]

Developments since then have fundamentally changed this picture. All indicators presented in the previous section show improvements. Economic reform in Vietnam has been an unmitigated success, the great majority of the people are better off than they were before. Incomes have increased, although they remain low, but inequality has significantly increased. While most farmers are better off, they have not become part of the 'new rich'. According to the VLSS, the sources of income for the highest income quintile are:

- agriculture 17.5 %
- non-farm self-employment 52.1 %
- wages 23.2 %
- pensions, subsidies 3.1 %
- other sources 4.0 %

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7 Dao The Tuan (1995, p 143) gives estimates of Gini coefficients based on GSO surveys of 26.3 for 1989 and 29.8 for 1992. As reported in table 8, the VLSS gives a Gini coefficient of 36.4 for 1993. Such a sharp increase between 1992 and 1993 seems unlikely and the two surveys may thus not be fully comparable.

8 Vietnam ranks 120 out of 174 countries on the UN's Human Development Index for 1995, considerably higher than it ranks in terms of its *per capita* income.

9 See Lu Aiguo (1996) for a similar account for pre-reform China.

(see VLSS p 218).[10] It would thus appear that most of the 'new rich' are to be found in newly emerging non-farm private sector. This group will also be the main source of household savings, more than 70 per cent of all household savings are made by the highest income quintile and thus mainly out of income from non-farm self-employment.

Another element of the new rich, not so well captured by the statistics, are those in positions in state enterprises and government whose greater autonomy gives them control over the firm's surplus or those that can grab the 'fringe benefits' that come from positions of monopoly and from control over assets or that are associated with the inflows of foreign investment and aid.

Table 9 presents an Asian perspective on the Vietnamese income distribution. Inequality in Vietnam, as in China, is relatively high compared to other low-income Asian countries. The Gini coefficient is high, the income share of the poorest 20 per cent of the population is low and the share of the richest 20 per cent is high. It should be noted that if the comparative perspective is widened to include all low-income countries, Vietnam is less of an outlier, several poor countries in Africa and Latin America have income distributions that are significantly more unequal than that of Vietnam.

The income statistics listed below give only a partial indication of the levels of living of the population. The impression given by the above economic statistics about increasing levels of living, however, is confirmed by other indicators.

Table 10 includes demographic statistics on which data are available for different points in time. They all show improvements over the period of transition. Life expectancy has increased by five years since 1980. Infant and child mortality, and the total mortality rate, have fallen significantly. The incidence of low birth-weight has fallen.

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[10] The income sources of the lowest quintile are

-	agriculture	59.3 %
-	non-farm self-employment	15.3 %
-	wages	22.6 %
-	pensions, subsidies	2.7 %
-	other sources	0.1 %

(see VLSS p 218)

The top quintile of income earners is not rich. Its average annual income *per capita* is about USD 200 as against USD 45 *per capita* in the lowest income quintile (VLSS p 216). The really rich are a very small group at the top of the income distribution.

Table 9
Income distribution in a comparative perspective

	GNP p.c 1994 ($)	Gini	Income shares lowest 20%	Income shares highest 20%
Low-income countries				
Nepal	200	30.1	9.1	39.5
Vietnam	200	35.7	7.8	44.0
Bangladesh	220	28.3	9.4	37.9
India	320	33.8	8.5	42.6
Lao PDR	320	30.4	9.6	40.2
Pakistan	430	31.2	8.4	39.7
China	530	37.6	6.2	43.9
Sri Lanka	640	30.1	8.9	39.3
Middle-income countries				
Indonesia	880	31.7	8.7	40.7
Philippines	950	40.7	6.5	47.8
Thailand	2410	46.2	5.6	52.7
Malaysia	3480	48.4	4.6	53.7
South Korea	8260	40.0	7.4	42.2
Taiwan	10850	31.0	-	-
Hong Kong	21650	45.1	4.3	52.8
Singapore	22500	49.0	-	-

Source: World Bank Tables (World Bank 1996) and Krongkaew 1994.

Table 10

Trends in demographic and nutritional indicators

Life expectancy at birth[1]	
1994	68
1990	67
1980	63
Total fertility rate[2]	
1993	3.1
1989	3.8
Infant mortality (per 1000 life births)[3]	
1989-93	44.2
1984-88	46.0
1979-83	54.8
Under five mortality (per 1000 life births)[4]	
1989-93	55.4
1984-88	68.7
1979-83	82.1
Low birth weight (under 2.5 kg)[5]	
1994	6.4
1991	10.8
Crude birth rate[6]	
1993/4	25.3
1985/9	31.0
Crude death rate[7]	
1992	7.1
1989	8.4
1976	11.6
Maternal mortality (per 1000 deliveries)[8]	
1990	1.1
1980	2

Notes:

1 Source: World Bank World Tables and Kerkvliet & Porter 1995, p 15. The UNDP gives for 1993 an estimate of 65.2 years, (male 62.9 and female 67.3)

2 Source: Intercensal Demographic Survey (ICDS). World Bank (1995b) gives for 1992/93, on the basis of VLSS 3.3.

3 Source: ICDS

4 Source: ICDS. The sharp fall between 1984/88 and 1989/93 is due to the fall in mortality between one and five years, infant mortality changes little between these periods. The fall is ascribed to the effective immunization programme.

5 Source: Pham Huy Dung (1996), based on Ministry of Health data. The World Bank (1995b) gives for 1992/93 a figure of 5.6 per cent.

6 Source: ICDS

7 Source: Center for Population and Human Resources Studies, 1995.

8 Source: Pham Huy Dung 1996

The improvements in the crude birth rate, the total fertility rate and in maternal mortality indicate that women have participated in the process of progress. The economic and social position of women is relatively strong, when compared to that of women in many other countries. Labour force participation is high, about 90 per cent of adult women work outside the house. There is discrimination on the labour market; women in employment earn less than men and this gap has probably increased with the transition. Sill, as noted above, households headed by women, i.e. about one third of all households, are less likely to be poor. And, as will be noted below, women also equally participate in education.

3.4 Social services

Education

Educational attainment is high for a country of Vietnam's level of development. The gross enrolment ratio for primary education is in excess of 100 per cent, indicating substantial over-age enrolment due to late start and repetition. The ICDS reported for 1994:

age-group	ever attended school	finished primary
15-19	93.0	75.8
20-24	92.8	80.4
25-29	94.2	81.1

These figures suggest that almost all Vietnamese children go to school, but that a substantial number of them drop out before they finish primary school. The lower proportion of 15-19 year olds that have finished primary school (compared to older age-groups) suggests that some of that age-group are still in school, although the official age for the primary school is 6-10 years. The VLSS reported that 84 per cent of the 6-10 years old and 69 per cent of the 11-14 year olds were attending school in 1992/3 (VLSS, p 49)

With such high participation in primary schooling it is not surprising that literacy is high. The VLSS 1992/3 estimated the literacy rate for population of 10 years of age and older at 87 per cent, 91 per cent for males and 82 for females and a urban literacy rate of 93 per cent against 85 for rural areas (VLSS 1994, p 55).

Table 11

Educational achievement by gender

age group	Finished primary education		Finished Upper Secondary Education	
	Male	Female	Male	Female
15-19	76.5	75.2	6.7	6.4
20-24	80.5	80.2	16.8	19.2
25-29	83.7	78.6	20.5	16.0
30-34	84.7	77.2	16.9	14.8

Source: ICDS

The ICDS reported that about 80 per cent of the recent cohorts finished primary school and that about 70 per cent attended any secondary education, this would mean a rather high rate of progression between primary and secondary. On the other hand, only about 18 per cent of the younger age cohorts finished upper secondary school, so that the drop-out rate at this level is very high (ICDS 1996).

The levels of educational attainment are lower in rural areas and vary with household wealth and income. Also regional differences occur with levels being lower in the Northern and Central Highlands and in the Mekong Delta. Related to the regional pattern is the lower level of attainment for ethnic minority groups (Nguyen Thi Canh 1996). Educational attainment does not vary by sex. The figures in table 11 show that the gender gap in education has been closed in recent years (the exception is the ethnic minorities where the female participation in education is lower).[11]

[11] UNDP (1995) suggests that the gender gap is re-emerging with girls dropping out more in primary and lower secondary education. This does not agree with statistics of the GSO on pupils dropping out of school in a sample of cities and provinces. According to these data, in the schoolyear 1993/4, the proportion of pupils leaving school were:

		Total	Male	Female
primary	1.9	2.0	1.7	
lower secondary	4.1	4.3	3.9	
upper secondary	1.9	2.4	1.3	

At the primary level the main reason for leaving is economic (50 per cent of the cases). Economic reasons explain 35 per cent of cases for lower secondary and 26 per cent for upper secondary. Economic reasons are more dominant in explaining girls leaving school than boys (GSO 1996).

Table 12

School enrolments (thousands)

Schoolyear beginning in	Primary	Lower Secondary	Upper Secondary	Technical Secondary	Universities & Colleges
1985	8,170	3,142	851	117	89
1986	8,375	3,197	911	136	91
1987	8,509	3,202	912	133	91
1988	8,474	2,919	817	126	100
1989	8,450	2,597	662	122	105
1990	8,786	2,572	524	121	106
1991	9,091	2,699	554	100	90
1992	9,527	2,813	570	92	117
1993	9,783	3,164	706	98	123
1994	10,029	3,658	843	108	137
1995	10,218	4,313	1,019	116	173

Source: GSO

The enrolment numbers in table 12 show a period of decline and stagnation that started around 1988 and affected all levels and types of education. Primary enrolments started growing rather soon again, but the stagnation lasted longer for other levels of education and still continues in technical education. The most likely reason is that the government introduced school fees and other contributions for the parents. Although no school fees were introduced for primary school, direct and indirect cost for parents also at this level increased. The trend of declining enrolments in technical education is worrying for a country in the process of industrialization.

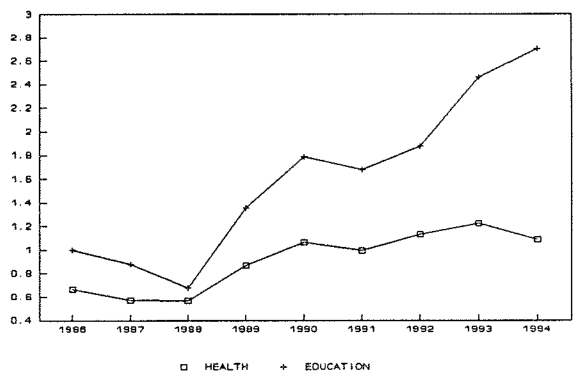
The VLSS gives as private educational expenditure per student per year in VND:

primary	73,000
lower secondary	175,000
upper secondary	355,000
post secondary	688,000

(VLSS , p 73)[12]

These figures can be compared with the estimates of total annual consumption expenditure *per capita*, as given in table 8, to show that for a household with children educational expenditure will take up a considerable part of total expenditure.

Figure 4
State budget expenditure on health and education as % of GDP



The World Bank study estimates that the state subsidy covers 48 per cent of total cost of primary education, about 30 per cent of secondary education cost and 78 per cent of the cost of post-secondary education (World bank 1995b).

It is not surprising that the increased private cost of education led to a stagnation in the growth of student numbers. But the stagnation was only temporary, in the early 1990s enrolments started to grow again. The fact that the substantially higher private cost of education did not reduce participation is due to the increase in income that made it possible for parents to shoulder the cost of

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12 The World Bank report based on the VLSS gives even higher numbers. Out-of-pocket expenditures on fees, PTA contributions, uniforms, books, transport, food and lodging and other schooling cost, add up to:

primary	83,000
lower secondary	206,000
upper secondary	436,000
post secondary	789,000

World Bank 1995b, p191

The *Viet Nam News* of 24/10 1996 reported on proposals to substantially increase school fees in Hanoi and Ho Chi Minh City. In Hanoi it is proposed to charge a fee of 10,000 to 20,000 VND per month for primary school (legally, primary education is free, so the fee had to be given another name) and to increase the fees of lower secondary (to 20,000 to 25,000 from the present 5,000) and upper secondary (to 25,000 to 30,000 from 8,000). Such monthly fees, on top of which will come other contributions and cost, will make education very expensive.

education, but it also reflects the high value and priority given to education. It is likely that education requires now a much higher share of household expenditure than in the past. The higher cost of education will make it more difficult for the poor to participate. Table 13 gives the enrolment ratios by income quintile. At all levels of education, the poor have a lower participation rate. In fact, the poor hardly participate in education after lower secondary schools.

In the years 1986-88 state expenditure on education (as percentage of GDP) stagnated (see figure 4), but already in 1989 they started to increase again and in subsequent years, educational expenditure increased sharply, rising from around one per cent of GDP in 1986 to 2.7 per cent in 1994.

Despite these higher public and private expenditure on education, the relative salary of teachers have stayed behind with the general increases in income. The average income of state employees working in education increased from VND 64,200 per month in 1991 to 309,600 in 1995 (or 146,660 in 1991 prices) (IMF 1996b). This seems to be a considerable improvement, but the 1995 salary is still low and inadequate to maintain a family. Teachers will receive some additional income from school fees, but will still feel the need to engage in out-of-school activities to supplement income. These secondary jobs will reduce the attention and time they can devote to the school. Good students can no longer be attracted to teacher training and good and experienced teachers leave the profession in large numbers to search for better-paying jobs (Fforde & De Vylder 1996). As a result the quality of education suffers considerably.

Table 13

Net enrolment rates by income quintile 1992/3

	Poorest	II	III	IV	Richest
Primary	67.7	77.3	80.7	84.7	86.2
Lower secondary	18.6	25.7	36.3	44.2	56.0
Upper secondary	1.9	3.0	6.9	12.8	27.6
Post secondary	0.0	0.4	1.0	1.9	7.0

Source: World Bank 1995b, p 84.

Educational expenditure are strongly concentrated on post-primary education. State expenditure on primary education account for only about one third of total educational expenditure. This distribution gives an in-built anti-poor bias in public educational subsidies. The levels of education on which most state funds are spent are not much attended by the poor (see also World Bank 1995b, p 89).

Health services

Commune health centres are found in virtually all communes to provide first line health services. But their functioning has suffered from the dismantling of the rural cooperatives that used to finance them. Many centres have closed down and of others the effectiveness is reduced as there is no money for the replacement of equipment and medical supplies.

Like in education, in 1989 user fees were introduced in health services and utilization rates declined. The number of consultations of public health services declined from 2.10 per 1000 persons in 1987 to 0.93 in 1993. Also the number of inpatients declined (World Bank 1995b, p 205). Three reasons are given for this decline. Firstly, the increased cost after the introduction of fees, secondly the declining quality of service as public subsidies were reduced and thirdly the growing availability of private health services.

By 1993 about two thirds of all outpatients consultations were done by private doctors and virtually all medicine was purchased in private shops. More than 80 per cent of all health expenditures were privately financed.[13] The government has created a health insurance scheme that by 1996 covered about seven million people, mainly public sector employees and retirees and school children. The government seeks to enlarge the coverage of the scheme, but its present financial basis seems weak (WHO 1996).

Despite the privatization and the increased cost, the level of medical care remains relatively high in Vietnam. According to the ICDS 1994:

- 79 per cent of urban and 53 per cent of rural women enjoy some form of pre-natal care;
- 90 percent of urban and 38 of rural births take place in a health facility;

[13] In 1993 the state budget on health services amounted to 1.4 billion VND. According to the VLSS household expenditure on health totalled 7.5 billion VND. Of this amount about 3 billion was paid on fees and drugs related to the use of public health services and the rest was paid to private providers and on self-medication.

- 87 per cent of urban and 72 per cent of rural children receive some form of immunization;
- 57 per cent of all women ever used (and 44 per cent currently use) modern methods of contraception.

But the increased cost of health services does make it more difficult for the poor to participate. The VLSS reported that 14.5 per cent of persons in the poorest income quintile and 27.2 per cent in the highest quintile consulted medical services for illness in the last month before the survey. *Per capita* health expenditure varies from 43,670 VND for the lowest income quintile to 197,030 for the richest quintile. The utilization rate of health services (public and private, including hospitals, doctors, paramedics, but excluding self-medication) increased from 0.79 contacts per person per year for the poorest income group to 1.52 per person for the highest income quintile (World Bank 1995b, p 205).

Figure 4 above presented the trend in government expenditure on health as percentage of GDP. The ratio declined up to 1988 and then recovered. After 1990 the ratio remained stable. It seems that, since the economic reforms, total expenditure of education and health have substantially increased and that a major share of these expenditure are now borne by the users. They can afford to pay more as their incomes have risen. At the same time the increased private cost endangers the access of the poor to basic services.

Government expenditure on social security is rather large at about 13 per cent of total government spending, or between 3 and 3.5 per cent of GDP. Virtually all of this is used to pay pensions to retired civil servants and military personnel. The amounts that remain for programmes targeted at the poor are very small (World Bank 1995b). There are local programmes for employment generation and poverty alleviation, but the amounts involved are small, much too small to have a significant impact on the big problem.

3.5 Reforms and welfare, conclusions

Dreze and Sen (1995) argue that "One way of seeing development is in terms of real freedoms that citizens enjoy to pursue the objectives they have reason to value, and in this sense the expansion of human capability can be, broadly, seen as the central feature of the process of development" (Dreze & Sen 1995, p 10). Growth of income will be instrumental in increasing capabilities and options open to people. Improved health and education may also expand opportunities, apart from being valuable in themselves. And, significantly in the case of Vietnam, removal of excessive government controls will increase the range of choice people have. From this perspective it is undeniable that the economic transition in Vietnam has fostered development. When the VLSS asked in its community questionnaire whether the quality of life of the commune had increased in the last five years, 114 out of 120 communes answered yes (World Bank 1995b, p 9). In a 1993 survey of the General Statistical Office respondents were asked to evaluate the change in their living standards since 1990. The answers were:

	Total	Urban	Rural
better	51.8	47.3	52.7
worse	17.5	19.9	17.0
the same	30.7	32.8	30.3

(MOLISA 1994, p 97).

The transition brings greater individual economic opportunity and freedom, but also greater risks and the collective structures that existed to cover personal risk have largely disappeared. Apart from the greater uncertainty there are also concerns about growing individualism and about the increased occurrence of social vices like cooruption, which is widespread, drunkenness, drug abuse and prostitution.

There are probably not many that were hurt by the reforms and the subsequent growth. But many of the poor may have been so isolated that the growth spurt has passed them by.

4 CHALLENGES AHEAD

The question now arises whether the economic model that has emerged can generate sustained growth, guaranteeing further cuts in poverty and increases in welfare for the entire population. It is undisputed that Vietnam needs rapid economic growth, both to reduce poverty and to catch up with its Southeast Asian neighbours, most of which have started on the path of rapid growth several decades ago. Many studies emphasize the unambiguous relationship between growth and poverty: high growth leads to a decline of poverty (Dreze & Sen 1995, World Bank 1995c, Lal & Myint 1996). The best anti-poverty strategy would thus be rapid growth.

But rapid growth is not enough. The analysis above showed that even the very rapid growth of recent years could not create enough employment to occupy the growing labour force. The poor in Vietnam live in, often remote, rural areas where they are underemployed in agricultural activities, often on small plots of land of low quality. They possess little human capital and have limited access to social services (education, health), to infrastructure (roads, markets) and to credit. The persistent poverty is not caused by the transition to the market but by the fact that the poor cannot participate in the market as they lack wealth, human capital, employment opportunities and access to social and economic services. A continuation of the pattern of growth that occurred in the last ten years is likely to increasingly pass by the poor and to create a hard core of permanent poor. Hence, growth need not only to be rapid but also employment and poverty oriented. Vietnam thus faces two questions: the first is whether rapid growth is possible in the years to come and the second is whether this growth can be so directed that it will generate more employment and reduce poverty and inequality.

4.1 Rapid growth

The macroeconomics of rapid growth are straightforward. Rapid growth requires high rates of investment and saving, an efficient allocation of investment resources, and a high growth of exports to earn the foreign exchange required to finance the import demand arising from the high levels of investment and the growing incomes. The requirements for high rates of saving and of export growth can be relaxed if foreign capital is available to finance growth. However, dependence of foreign capital may create macroeconomic problems such as external debt burden and appreciation of the exchange rate (see Jansen & Vos 1997).

The investment rate of Vietnam in 1995 was 27 per cent of GDP, up from 14 per cent in 1990. The efficiency of investment, as measured by the incremental capital-output ratio (ICOR), has been extremely favourable. The ICOR over the period 1991-95 was around 2.5, which is exceptionally low. During these years Vietnam had high rates of growth despite relatively low rates of investment. But much of the growth directly after the reforms was due to one-time gains. The reforms and the liberalization opened new opportunities and created new incentives, to which many people responded by intensifying their efforts. This hard work is behind the rapid growth in, for instance in agriculture and small-scale services, which could be achieved without much investment. Another source of growth has been the excess capacity that existed in many SOEs and that was brought into operation when demand increased. Such sources of growth are only temporary and future growth will now require much higher levels of investment. The ICOR is already rising to a level around 2.8 in 1994/5. It is likely to increase further as the share of infrastructure investment will rise.

The Public Investment Programme 1996-2000 (PIP) of the Government of Vietnam (SRV 1996) optimistically assumes an ICOR of 2.9 to 3 for this period. Even on this optimistic assumption Vietnam will have to invest between 27 to 30 per cent of GDP to achieve the desired growth rate of 9 to 10 per cent per year. On this basis the PIP estimates that over the period 1996-2000 a cumulative amount of 41.4 billion USD needs to be invested. This amount will be distributed as follows:

15.6 bln $	Government investment, financed by	
	- 5.2 bln	government savings
	- 3.4 bln	domestic borrowing
	- 7.0 bln	development aid (ODA)
5.9 bln $	SOE investment	
6.9 bln $	Investment by private companies and households	
13.0 bln $	Foreign direct investment	

Domestic sources of finance will add up to 15.5 per cent of GDP and foreign sources to 14.5 per cent of GDP. Foreign sources will finance 48 per cent of all investment, an exceptionally high share. Are these assumptions realistic? A look at the data for 1995 can give some indication. In 1995 total capital formation was equivalent to 27 per cent of GDP, around the PIP target. This was financed for about 60 per cent by domestic and about 40 per cent by foreign sources. These proportions are more favourable than foreseen in the PIP for 1996-2000. Still, the dependence on foreign capital is exceptionally high, raising questions about the build-up of foreign debt and the debt-servicing capacity of Vietnam.

The public and publicly guaranteed external debt in hard currency by the end of 1995 was equal to 4.5 billion US dollar.[14] The official external debt does not include the debt

[14] There is also a substantial debt in non-convertible currencies, mainly the rouble. The real burden of this debt depends on the exchange rate at which it is valued, a subject of negotiations between Vietnam and Russia.

accumulated to finance foreign investment which by 1995 was estimated at 2.7 billion US dollar, bringing the total hard currency debt to 7.2 billion.[15]

Assuming that the financing as foreseen in the PIP up to 2000 is forthcoming and that the GDP growth plans are realized, this will result in a rapid accumulation of external debt. Most of the aid comes as (soft) loans rather than grants and also the greater share of foreign investment is financed by loans rather than by equity capital. On these assumptions the external debt will grow to around 20 billion US dollars in the year 2000. The ODA part of this debt will be on concessional terms, but the FDI part (by 2000 more than 50 percent of all debt) will be on commercial terms, making Vietnam vulnerable to fluctuations in the international interest rate. The Debt/GDP ratio would increase from around 40 per cent in 1994/95 to 70 per cent in 2000. The Debt/Export ratio is a better indicator of the debt burden since export earnings have to generate the foreign exchange required to service the debt. The trend in the Debt/Export ratio will depend on the growth of exports. If exports grow at 20 per cent per year, the Debt/Export ratio would remain stable around 150 per cent, but if export growth would be slower (e.g. 15 per cent per year) the ratio would increase. If exports would grow as fast as GDP (i.e. at 10 per cent per year) the Debt/Export ratio would increase to more than 220 per cent in the year 2000. Usually, Debt/Export ratios over 200 per cent are seen as a sign of danger (Cline 1995). The fact that a large part of the Vietnamese debt will be on highly concessional terms will make the danger less immanent.

Of course, all of the above is based on assumptions. Actual conditions may be more favourable. The calculations made above for the year 1995 indicated that the dependence on foreign financing may, in fact, be less than assumed. On the other hand, to the claims for debt service, one has to add the claims on foreign exchange by foreign investors wanting to repatriate profits. The conclusion must be that, if Vietnam wants to maintain its international creditworthiness in the medium and long run, it has to

(a) reduce its dependence on foreign financing by increasing its domestic savings, and

(b) realize a very rapid growth of export earnings.

Can these requirements be met?

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15 Most foreign investment projects are joint ventures. The legal minimum share for the local partner is set at 30 per cent. Usually, the local partner only brings in the land since they have no capital to contribute. The value of the land then limits also determines the equity the foreign partner can bring in. If more finance is required it has to come in the form of loans. In addition, foreign partners may prefer loan financing to reduce their own risk; it is estimated that between 50 and 70 per cent of foreign investment is debt-financed.

savings

Government savings are the difference between revenue and current expenditure. For many years in the 1980s government savings had been negative, but in recent years fiscal performance has improved strongly. Government revenue has increased from around 15 per cent of GDP around 1990 to 24 per cent in 1995. At its present level the tax ratio is comparatively high and it may be difficult to increase it further. Current government spending also increased, but less than revenues, so that government savings could increase up to a level of 5 per cent of GDP in recent years. As it may be difficult to increase revenue much more and to contain the growth of current expenditure, it would be unrealistic to expect sharp increases in government savings.

Information on savings by other sectors in the economy is scarce. Profits of SOEs in 1995 are reported to be 1.1 billion US dollar, equivalent to 5.4 per cent of GDP.[16] These profits could make a substantial contribution to the SOE investments planned. It is likely that a considerable share of these profits come from oil exploration. As will be noted below, many reports comment on the inefficiency of most SOEs. If these reports are true, appropriate policies to increase efficiency may lead to higher profits and savings.

Data on household savings are still scarcer. The VLSS gives little insight in household saving behaviour. For all income groups the reported expenditure exceeds income, suggesting negative savings. It is, of course, not unusual for household surveys to underestimate incomes. The VLSS also reported on wealth (physical and financial assets) owned by household, this is the accumulated value of past savings. The wealth/income ratio increases with income:

lowest income quintile	7.3 %
second quintile	8.8
third quintile	11.4
fourth quintile	17.3
highest income quintile	63.1

It is clear that the poorest households save very little. The richest quintile owns about 70 per cent of all wealth, and does most of the saving. The wealth/income ratios suggest relatively low household savings ratios. As noted above, and like in other Asian countries, most of the household savings come from incomes earned by self-employed households outside agriculture. Household savings are the profits of household firms (see also Jansen 1990). The

16 This figure was reported in the *Vietnam Investment Review* of 30 December 1996, but it is not clear whether the figure is before or after tax payments and whether it includes or excludes profits of joint ventures in which SOEs participate.

growth of the small-scale family-based private sector that was observed above (see table 2), will have led to an increase in household savings and the further development of that segment of the economy will help to increase savings further.

exports

So far, export growth has been exceptionally rapid. Even in 1996, when exports in much of Asia were under pressure, Vietnamese exports grew by about 30 per cent in real terms. Exports are still dominated by primary products: oil and coal (about 25 per cent of merchandise exports) and agricultural and fishery products (close to 50 per cent). Manufactured exports are just now emerging, textile, garments and shoes account for about 15 per cent of all commodity exports (see table 4 above). Tourism, as an export of services, is also rapidly growing, its earnings are now equivalent to close to 10 per cent of merchandise exports.

Three questions may be raised about the prospects of export growth. Firstly, oil exports will depend on available reserves and new finds. Experts appear optimistic about production and export growth in the medium term, but more reserved about the longer term prospects which would depend on the success of ongoing explorations (see Dapice et al. 1994, chapter 10).

Secondly, the rapid growth of exports of agricultural commodities like rice, coffee, tea, rubber and of marine products in recent years is a reflection of the low basis from which they started. At a certain moment the growth of these products will reach the limits of available land and technology and after that point growth will be slower. The agricultural terms of trade moved unfavourably in recent years and this will affect agricultural output.[17] One factor that turns the terms of trade against the exporting agricultural sector is the overvaluation of the exchange rate.

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[17] Regression analysis suggests a link between the growth of agricultural output and the agricultural terms of trade:

$$g_{agr} = \underset{(4.08)}{5.7} + \underset{(2.17)}{0.10}\, g_{tot(-1)}$$

$R^2 = 0.22$

between brackets: t-ratios

g_{agr} growth agricultural output at constant prices

$g_{tot(-1)}$ growth agricultural terms of trade, lagged one year.

The agricultural terms of trade of figure 5 are available for only a short period, too short really for econometric analysis. These results should thus be considered tentative only.

This is the third problem. The overvalued exchange rate will also reduce the profitability of the manufactured exports. The overvaluation makes imported goods relatively cheap; many local firms complain that they cannot compete with imported goods that are cheap and may have higher quality, for instance some paper mills had to close down. The overvaluation of the exchange rate makes investment, including foreign investment, in the manufactured export sector less attractive. Most foreign investment in the industrial sector has so far been aimed at producing for the local market.

The overvaluation of the exchange rate is a policy that does nothing to improve the income distribution. It hurts the rural agricultural areas that generate exports and use few imports and it benefits the urban industrial sector that uses most of the imports, but so far produces few exports. As noted above, the poor are concentrated among those working in the agricultural sector. To the extent that they produce for export, their incomes are kept low by the overvalued exchange rate. On the other hand, the overvalued exchange rate benefits the state and foreign-invested enterprises that account for most of the import of intermediate and capital goods and the urban rich who consume imported consumption goods.

The conclusion is that both savings and exports could continue to increase provided appropriate policy measures are taken. Savings will have to come from efficient SOEs and from small household firms. Policies to stimulate such savings would entail the rationalization of the state sector and the promotion of the private sector; progress on both these policy aspects has been slow in recent years. Continued export growth in the future may require a shift in incentives, in particular in the exchange rate. During 1996 there were some discussions in local newspapers about the desirability, or not, of devaluing the dong, apparently a reflection of differences of opinion at the top on this issue. No action was taken.

Rapid growth of savings and exports could reduce the dependence of Vietnam on external finance and reduce the debt burden, thus strengthening the basis for long-term and stable growth.

Looking at the experience of the last two years it would appear that the high investment/high growth scenario of the Public Investment Plan of the Vietnamese government is feasible. The ICOR may rise somewhat and export growth is unlikely to continue at the high rates of recent years, but with some appropriate macroeconomic and microeconomic measures the continuation of rapid growth in the medium term would seem ensured.

4.2 *Poverty and inequality*

There is little doubt that continued rapid growth will further reduce poverty in Vietnam. The World Bank did some projections based on the VLSS. If the growth rate up to the year 2000 would be 10 per cent per year, poverty incidence would fall to 25 per cent, down from its 1993 level of 51. If the growth rate would be 8 per cent the poverty incidence would decline to 29 per cent and if the growth rate would fall to 6 per cent, poverty would stick to a level of 35 per cent by 2000 (World Bank 1995b).[18] Other historical and comparative studies have also found this positive relationship between growth and poverty alleviation (e.g. Lal & Myint 1996, World Bank 1995c)

The relationship between growth and equality is less uniform. Some countries have experienced rapid growth with rising income inequality and others combined rapid growth with greater equality (Lal & Myint 1996). Vietnam clearly falls in the first group. And this pattern seems to apply more generally to economies in transition. The *World Development Report 1996* presents data for 8 countries in the former Soviet Union and Eastern Europe; in all of them inequality increased and, in the five countries for which there were comparable data, also poverty increased (World Bank 1996, p 68/69). Cornelius and Weder add information on the three Baltic states of Estonia, Latvia and Lithuania also showing sharp rises in inequality (Cornelius & Weder 1996). Of course, these countries in the former Soviet Union and Eastern Europe do not provide a case of rapid growth and rising inequality. In fact, many of them experienced no growth at all. China is, with Vietnam, a case of a transition economy experiencing rapid growth and rising income inequality.

It is not surprising that transition brings inequalities. As mentioned earlier, at the start of the transition process, Vietnam was a relatively egalitarian economy at a low level of income. When such an economy liberalizes and starts to grow, it is unlikely that all regions and all sectors, and all economic agents in these regions and sectors, can equally participate. Some have more opportunities, better conditions, or greater abilities than others. The World Bank report notes that the growing inequality in the European countries was mainly due to

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[18] These projections are based on the assumptions that
(i) regional differences in growth rates will be the same as in 1993;
(ii) the income distribution within regions remains unchanged;
(iii) population growth is the same in all regions.
If poorer regions would grow as rapid as richer regions, the decline in poverty incidence would be much stronger.

the sharp rise in the income share of the top income quintile (World Bank 1996, p 70), here are the persons who strike it rich in the free economy.

But as observed in table 9 by now the income inequality in Vietnam has become relatively high in an Asian comparative perspective and current trends suggest a further increase. Related to the trends in inequality are the trends in employment discussed above. The rapid growth creates new jobs, but the labour force is growing fast and unemployment remains high and is possibly rising. Certainly underemployment in the agricultural sector is rising, keeping the average labour productivity and income in the sector low. At least two elements of the current development strategy contribute to this trend. Firstly, the development strategy is strongly biased towards urban/industrial activities and against rural and agricultural activities. Secondly, there is a bias in favour of the state sector and against the domestic private sector.

Sectoral balance

Vietnamese growth is biased towards regions that are already relatively rich and towards sectors that have already a higher productivity. Foreign investment contributes to this concentration. As table 5 above showed, most FDI goes to the rapidly growing industrial and services sector. And about 80 per cent of FDI ends up in the areas in and around Ho Chi Minh City and Hanoi. Poor regions and the agricultural sector receive almost no FDI. It is not surprising that investment is concentrated on rapidly growing regions and sectors. If, however, the government is concerned about unemployment and the growing inequalities it has to try and do something about these imbalances. This would require a change of development strategy. During the days of central planning the priority was with industrialization, initially the emphasis was on heavy industry, but this shifted in the 1980s to light consumer good and export industry. Since the reforms this strategy has not really changed. Still most government attention, and expenditure, is focused on urban, industrial activities.

Lal and Myint find, on the basis of their comparative study, that labour-abundant countries, like Vietnam, that manage to grow through increased agricultural exports and increased labour-intensive manufactured exports are likely to combine growth with equality. This outcome will be strengthened if it is possible to include remote, and poor, regions in the agricultural export drive (see Lal & Myint 1996). In the recent experience of Vietnam only a part of that package could be realized: agricultural exports grew rapidly and manufactured exports are emerging. The opening of remote areas is a task still to be done and the promised outcome, growth with equity, escapes Vietnam for the time being.

The performance of the agricultural sector has not been bad, its growth rate during the 1990s has been close to 4 per cent per year, about as fast as agricultural output can grow. As argued above, farmers responded to the reforms by tilling the land more intensively and by investing in new crops. Future growth will depend on the progress on the three aspects listed above: new lands, higher yields and new crops.

At present government capital and current spending on agriculture is relatively low (at about 6 per cent of total government spending, or 1.5 per cent of GDP), biased towards irrigation (about two thirds of all expenditure), and, within irrigation, biased towards investment rather than maintenance and operation (see FAO 1995). The investment in irrigation was responsible for the expansion of paddy land between 1991 and 1995. For continued agricultural growth further investment in irrigation and drainage are required to create new acreage and to increase yields. But this will not be enough. To increase incomes, research into new crops and varieties and extension service to advise farmers will be essential. At present, agricultural research in Vietnam is fragmented and the extension services have yet to recover from the collapse of the cooperatives.

Poverty is concentrated geographically (see table 8). To correct these imbalances government interventions should focus on backward areas. But this is difficult to realize. *Per capita* expenditure by provincial governments ranged, in 1992, from 335,000 VND in Hanoi to 60,000 VND in the Hai Hung and Soc Trang provinces. Rich provinces like Ho Chi Minh City, Quang Ninh and Ba Ria/Vung Tau have much higher expenditure *per capita* than poor provinces.[19] There is some re-distribution as rich provinces generate more government revenue (as collected by the provincial government) than the provincial government spends; the rest is transferred to the centre which can use it to increase expenditure in poorer provinces. But these transfers are much too small to bring about a significant re-distribution (World Bank 1995b). Poverty is especially concentrated in remote and isolated areas. To open these areas to the market, rural infrastructure needs to constructed rapidly, but so far this aspect has been neglected in government investment (Dapice et al. 1994).

Agricultural credit is expanding rapidly. The Bank for Agriculture is now reaching about 30 per cent of rural households, extending, in 1994, about 1.1 billion USD in credit. But this falls far short of the estimated total credit needs of the sector. In 1996 the Bank for the Poor started operation, initially using the offices of the Bank for Agriculture. It small

19 The expenditure by the central government cannot be allocated by province.

loans are particularly aimed at poor rural households. Its existance is too recent to assess its impact on poverty.

State and private sector

The transition of Vietnam presents a paradox. On the one hand, economic liberalization has gone far and Vietnam is now a market economy. On the other hand, political power still rests with the Communist Party, which continues to extol socialist themes. The CPVN of Vietnam (CPVN) has repeatedly stated that it wants to establish a multi-sector economy with the state as *the leading sector.* At the practical level, this implies that the Party expects the state-owned enterprises (SOEs) to lead the development process. There has been hardly any progress in equitization or privatization. The private sector - in the local jargon the *non-state* sector - is tolerated rather than stimulated and is not favoured in the allocation of credit, licenses, etc.

The *World Development Report 1996* gives an index of liberalization for 28 transition economies; all of them have liberalized their economies, many more radically than Vietnam. The share of the state sector in total output at present is, in many of the other transition economies, larger than it is in Vietnam. But Vietnam is the only transition economy where between 1990 and 1995 the *share of the state sector in total output increased* (World Bank 1996, p 14/15). In all other countries the share of the private sector increased, in many cases quite considerably. Vietnam has thus made the transition to the market, but is not willing to make the transition to the private economy.

Policies are applied to support the growth of the state sector and, many argue, to obstruct the growth of the private sector. The results were seen in table 3 and 7, output and labour productivity of the state sector have increased sharply. But the SOEs employ only a few, so that the incomes generated tend to be highly concentrated. The question arises whether Vietnam can grow rapidly and equitably with the state as leading sector. Four considerations may be given.

1 As observed before, output of SOEs increased while employment declined. It would thus seem that efficiency must have increased. However, the performance of the SOEs is very uneven; many SOEs report losses and others complain that they cannot compete against the local production of foreign-invested enterprises (e.g. softdrinks or detergents) or against imported goods (e.g. steel and paper). Complete statistics are not available, but such reports

suggest that the state sector has still a long way to go before it is fully efficient and competitive.[20]

2 To cover losses and to protect inefficient firms, SOEs need special treatment. The reforms of 1989 meant that SOEs could no longer count on subsidies from the government budget. But other privileges remain. SOEs have easy access to bank loans, they can negotiate their tax payments, and they can request government protection of their market. The forced lending to SOEs reduce the access of other sectors to bank credit. Another implication of this practice is that banks hold many loans of weak SOEs, loans on which no interest or principle is being paid. The bad loans undermine the confidence in the financial system. The growth of the financial system has been very disappointing.

3 There are, of course, a substantial number of SOEs that are efficient and that do make profits. The autonomy of these enterprises has increased with the reforms, but accountability and control is weak. Profits may be used to distribute bonuses among management and staff rather than for re-investment. SOEs with good profits pay higher wages than other SOEs (Dapice et al. 1994). There are also stories of funds and assets of SOEs being used illegally by management for private activities, also a form of privatization but probably not one that deserves encouragement.

4 SOEs are privileged in many respects over non-state enterprises. They have easier access to land, to licenses, to the bureaucracy, to tax breaks, to bank loans, etc. (Dapice et al. 1994). Most private enterprises are young (i.e. established since the reforms, most of them since 1988) and their main problem is the lack of capital (Ronnas 1992). Their growth depends on the cash flow available since they have little access to financial institutions. Actually, private firms often face harassment from the side of officials. The main problems encountered are difficulties in obtaining business licenses, in getting land use rights, and

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[20] The *Far Eastern Economic Review* of 2/3 1995 reported that 75 per cent of SOEs made profits, but that in most cases the rates of return were very low, another 15 per cent broke even and the rest made losses. The total bad debts of SOEs were estimated at 800 million USD, which would be equivalent to about 25 per cent of commercial bank assets.

Efficiency is hampered by state intervention. There are many examples of poor project planning, with projects with low rates of return being pushed for other reasons (see Dapice et al. 1994). Intervention also extends to the appointment of senior management by the ruling government agency, clearly management skills may not always be the deciding criterion. Management of SOEs finds it difficult to dismiss staff against political opposition; 45 per cent of SOEs were reported to have excess labour (CIEM 1996, p 185).

restrictions in the foreign trade regime (World Bank 1995d). An advantage of private firms is that their small size and informal organization enables many of them to escape tax payments.

In summary, the state sector contains many inefficient firms, while in other firms management and workers are pampered. The result is that the profits, i.e. the re-investable surplus is repressed. Moreover, incomes are concentrated on the small numbers working in the state sector, contributing the growing inequality. State enterprises are much more capital intensive than private enterprise, while the rate of return on capital is much lower (Ronnas 1992). For a given amount of invested capital, state enterprises thus create less employment and less profit. In some activities capital intensity may be unavoidable as there is little choice of technology, but in many cases there is choice and it appears that SOEs tend to go for the more capital-intensive options.

The repression of the private sector may also reduce investment opportunities and incentives for private savings. The harassment by officials and the protection given to SOEs may prevent private firms from growing beyond a small size. They may also reduce the desire of the owners to invest, and save, since a bigger firm would only attract more attention and harassment.

One important instrument of the government in its struggle against poverty and inequality is the social services. The poor are also poor in terms of educational achievement and participation in health care. A study included in the World Bank report on poverty shows that crop productivity is positively influenced by education and health status, and by access to roads, irrigation and extension services (World Bank 1995b). An investment in human capital through expenditure on education and health will thus help to improve the incomes of the poor. As was noted above, participation in education and health services meets with rising private cost. Of course, the poor drop out first. and, in this way, a vicious circle may start that will make the escape from poverty more and more difficult. Higher public subsidies would be required, but given the currently difficult fiscal position, it is unlikely that these can be funded. Another approach would be a better targetting of public subsidies; at present there are questions about the incidence of government expenditure, in some cases the incidence is anti-poor.

In summary, barring unforeseen disasters, rapid growth in the medium term seems possible. Such rapid growth will, in itself, have a positive impact on poverty alleviation, but is likely to further increase income inequality. With the decline in poverty many economic, social and demographic indicators may continue to improve.

The government has an important role in steering the growth process in directions that would ensure the longer-term sustainability of growth and that would make it possible for all to participate in the growth process. This would require government interventions to reduce the dependency on debt-finance, to stimulate exports, to support the agricultural sector through investment and maintenance of irrigation, through extension services and through investment in rural infrastructure. A drastic rationalization of the state enterprise sector and a more supportive attitude towards the non-state sector are necessary to increase domestic savings and to shift to a more employment-oriented development strategy. Witout such interventions a sharp increase in inequality is likely. The increasing differentials between income groups in participation in education and health services will, if allowed to go on, create a underclass of hard core poor. Special programmes targeted on the poor and social safety nets may help to prevent that, but it should be realized that the scale of poverty is so large, and the budgetary means so limited, that such special programmes can have a small effect at best. The main contribution in the fight against poverty has to come for a re-direction of the development strategy along the lines set out above.

Note on data sources

The statistical information about the Vietnamese economy is incomplete and unreliable. National Accounts on the basis of definitions of the UN System of National Accounts have been estimated since 1986, but published data are incomplete and do, for instance, not allow a good analysis of the investment and saving process. Production data are published in great detail, but information on prices and incomes is scarce. Export and import statistics are available, but no complete balance of payments is published. The government budget and monetary and financial statistics are not regularly and systematically released, the researcher has to rely on incidental IMF or World Bank report (which, fortunately, can be easily bought, in copied form, on the streets of Hanoi).

The tables and figures in this paper are mainly derived from publications of the General Statistical Office (GSO). In particular two publications were useful:

GSO (1996) *Statistical Yearbook 1995*, Statistical Publishing House, Hanoi.

GSO (1996) *Impetus and present situation of Vietnam society and economy after ten years of Doi Moi*, Statistical Publishing House, Hanoi.

Much of the information on poverty and income distribution is based on the Vietnam Living Standards Survey executed by the State Planning Committee (SPC) and the General Statistical Office (GSO) with technical support of the World Bank. In this paper this survey is referred to as 'VLSS'. The main findings were published in the report of the SPC and GSO. The World Bank used the material of the survey to write its report about poverty in Vietnam.

SPC and GSO (1994) *Vietnam Living Standards Survey 1992/3*, Hanoi.

World Bank (1995b) *Vietnam, Poverty Assessment and Strategy*, World Bank, January 1995.

Another source of useful information on social aspects are the reports on the Intercensal Demographic Survey conducted by the General Statistical Office in 1994. In the paper this source is referred to as "ICDS'. A number of reports were available:

- *Vietnam Intercensal Demographic Survey 1994, Major Findings*, Statistical Publishing House, Hanoi

- *Vietnam Intercensal Demographic Survey 1994, Education in Vietnam, Trends and Differentials*, Statistical Publishing House, Hanoi

- *Vietnam Intercensal Demographic Survey 1994, Contraceptive Knowledge and Practice, Patterns and Differentials*, Statistical Publishing House, Hanoi

- *Vietnam Intercensal Demographic Survey 1994, Infant Feeding Practices in Viet Nam*, Statistical Publishing House, Hanoi

- *Vietnam Intercensal Demographic Survey 1994, Birth Spacing and Child Mortality in Viet Nam*, Statistical Publishing House, Hanoi

A useful source of information on earlier years is:

McCarty, A., M. Paunlagui and Vu Quoc Huy (1992) *Vietnam Data Bank 1976-1991*, National Centre for Development Studies, Research School of Pacific Studies, Australian National University, Canberra.

Statistical Appendix

This appendix brings together information on some pertinent economic, demographic and social indicators that was not given in the main text.

Population growth rate (UNDP)

1989-94	2.3 %
1995	2.1 %

Marriage rates (% females married)

	1994	1989
age group 25-29	79.6	82.0
30-34	89.5	88.8

Median age of women at marriage 1994: 21.35

Birth to women under 20:

3.4 % of women under 20 have given birth

Mean number of preferred children: 2.8

(source: ICDS)

Malnutrition of children under 5 (CPHR):

Total	51.5
of which	
degree I	39.5
degree II	10.9
degree III	1.6

Wasting and Stunting (VLSS):

	Wasting	Stunting
% of 0-6 mths old	1.9	11.1
7-12	6.8	30.8
13-24	9.4	59.0
25-36	3.8	54.0
37-48	5.4	56.7
49-60	6.6	61.5

Food consumption (VLSS)

	food share	calories per day
Quintile I	0.70	1591
II	0.65	1855
III	0.60	2020
IV	0.54	2160
V	0.47	2751
Overall	0.59	2075

Poverty (VLSS)

	head count	Poverty gap	Poverty severity
urban	25.9	7.1	2.7
rural	57.2	17.1	7.0
total	50.9	15.1	6.1

Access to safe water (UNDP) 1993 36 %

Number of durable goods per 100 households (VLSS)

Radio	11.8
colour tv	9.2
b&w tv	13.3
fan	42.2
motorbike	12.3
bicycle	84.2
sewing machine	16.0
airco	0.1
washing machine	0.3
refrigerator	4.1

Number of school classes (primary+lower secondary+upper secondary) and number of hospital beds per 1000 population (GSO):

	classes	beds
1995	5.90	2.60
1990	5.27	3.10
1985	5.57	3.52

Gross enrolment ratios (Ministry of Education and Training)

1989/90 1990/1 1991/2 1992/3

	Primary education (as % of 6-10 years old)	Lower secondary (11-14 years)	Upper secondary (15-17 years)
1989/90	97	46	16
1990/1	103	45	12
1991/2	103	44	12
1992/3	105	45	13
1993/4	108	49	16
1994/5	115	55	19

Number of prostitutes 1994 (MOLISA) 73,943

Number of drug addicts 1994 (MOLISA) 171,437

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