TECHNICAL REPORT

Poverty Reduction in Vietnam 1988 to 1997/98

A Country Case Study

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In the early 1980s Vietnam was one of the poorest countries in the world. Economic growth was stagnant and poverty was widespread. Hunger was also a major problem because the production of rice, the main food staple, was insufficient to feed the country's growing population. Hundreds of thousands of people were fleeing the country in unsafe boats.

Beginning in 1988 Vietnam adopted an economic development program known as *doi moi* (renovation). Since then, the country's record of economic growth and poverty reduction has been one of the most impressive in the world. Between 1988 and 2000, GDP growth in Vietnam averaged 7.1 percent per year (Table 1). This strong economic growth was broad-based and led to a remarkable decline in poverty. According to the World Bank, the headcount index of poverty fell by one-half: from 75 percent in 1984 to 37.4 percent in 1997/98 (Dollar and Litvack 1998; Glewwe et al. 2000).[1]

Table 1
Level and Composition of Economic Activity in Vietnam 1985 to 2000 (percentage growth per year)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP growth	3.8	2.8	3.6	5.1	7.4	5.1	6.0	8.6	8.1	8.8	9.5	9.3	8.1	5.8	4.8	5.9
Exports of goods and services	NA	NA	NA	NA	NA	12.9	29.9	24.7	9.1	51.9	25.4	37.4	13.3	15.8	NA	NA

NA—not available
SOURCE: *World Bank, 2001 World Development Indicators (2001)*

How has Vietnam been able to achieve these impressive rates of poverty reduction? To what extent were these reductions in poverty the outcome of a poverty reduction strategy rather than a more general development strategy? What were the specific government policies and programs that led to this poverty reduction?

[1] As a point of reference, the World Bank's Millennium Development Goals call for a 50 percent reduction in the headcount incidence of poverty over a 25-year period. Vietnam achieved such a reduction in about 14 years.

Answering these and similar questions was the focus of this paper. It is based on secondary sources and data and is divided into four parts. Because Vietnam's success cannot be explained without reference to the country's recent past, the paper briefly describes the Vietnamese economy before 1988. It then summarizes the program of *doi moi* (renovation) that was implemented to stimulate economic growth and reduce poverty in Vietnam. *Doi moi* was a broad development program rather than a specific poverty reduction strategy and focused on three elements: agricultural development, macroeconomic reform, and trade liberalization. The report analyzes the impact of this general development strategy on poverty and inequality in Vietnam. While poverty fell in virtually all sectors of the economy, inequality increased. Finally, the report summarizes the basic lessons learned from this country case study.

Vietnam's Recent Past (1970–1988)

Following the unification of North and South Vietnam in 1975, the Communist government tried to extend the central planning model of development, with state ownership of industry and collective agriculture, to the more prosperous South. The decisive year was 1978, when the government tried to close the petty services sector in Ho Chi Minh City (Saigon) and imposed agricultural collectivization on the southern peasantry. Both of these actions met with strong resistance. This unstable situation was aggravated by two factors: first, the dispatch of Vietnamese troops into Kampuchea in 1978, which led to a cessation of Western aid; and second, a bitter border dispute with China in 1979, which led to the withdrawal of Chinese assistance. By 1980, Vietnam found itself supporting a large army in the field under conditions of severe foreign exchange shortage, falling production, and rising inflation (Irvin 1995).

The Vietnamese reform process started slowly. Because the Communist Party was divided over the need for reform, government policy in the early 1980s was limited and ad hoc. For example, only limited efforts were made to encourage agricultural growth and cut subsidies to state-owned enterprises. As a result, successive efforts at currency reform led only to steady increases in the rate of inflation: from 166 percent per annum from 1980 to 1985, to 371 percent during the period 1986–88 (Irvin 1995, 729–730).

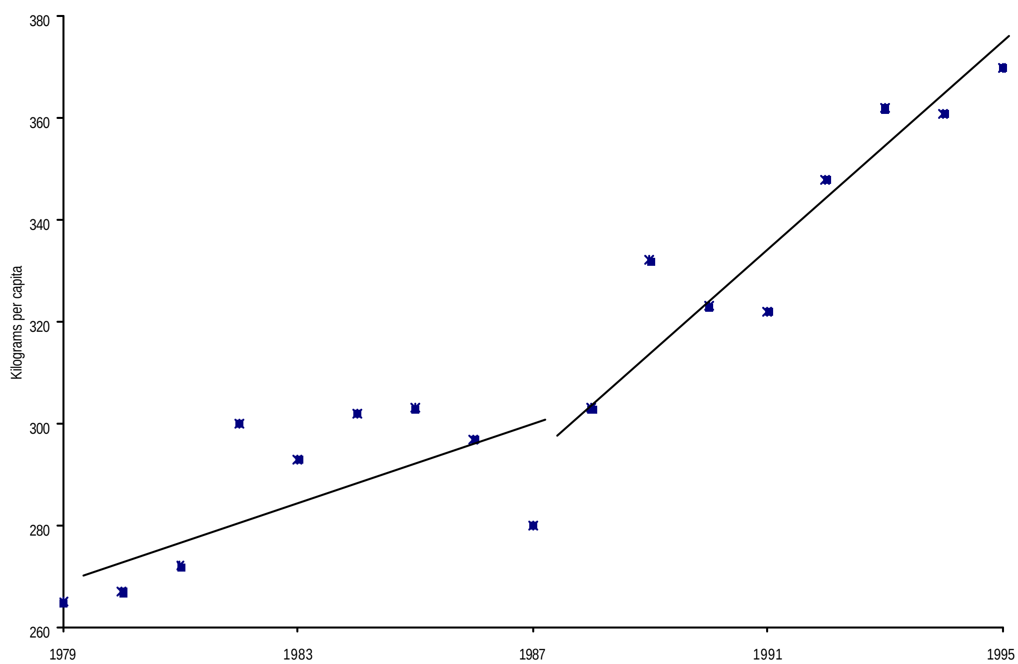
In 1988/89 the government initiated a second and far more radical set of reforms, known as *doi moi*. These reforms, which met with great success, focused on three elements: agricultural development, macroeconomic reform, and trade liberalization. In agriculture, the collective system and administrative pricing were abandoned; in the macroeconomic field, monetary policy was tightened, and budget subsidies to state-owned firms were ended; and in trade, the surge in domestic rice production created a large (and profitable) surplus for export-led growth. It is useful to discuss each of these three reforms in some detail.

Vietnam's Program of Economic Reform

Vietnam's program of *doi moi* was a general development strategy that began in the agricultural sector. Beginning in 1988, agricultural collectives were dismantled and land was distributed among peasant households. At first, the property rights to land were left vague. However, in 1993 a new law clarified that peasants had the right to use the land distributed to them for 20 years, and that this right could be renewed. Just as important as the redistribution of land was the reform of agricultural pricing. In 1989 the system requiring the compulsory delivery of agricultural output to the state at low, official prices was abolished. This move greatly improved the production incentives of farmers.

For example, the official price for rice was about one-tenth the free market price. After prices were allowed to rise above their artificially low levels, annual per capita food production surged (Figure 1).[2] By 1995 per capita rice production (nearly 375 kilograms) was about 25 percent higher than in the mid-1980s.

Figure 1
Annual Per Capita Food Grain Production in Vietnam, 1979 to 1995



SOURCE: *Dollar and Litvack (1998, Figure 1.1)*

Reforms in the agricultural sector in general, and in the rice sector in particular, were very important to the poor in Vietnam. Not only does about 80 percent of the population live in rural areas, and seven out of every ten households grow rice, but most of the poor in Vietnam live in households headed by agricultural workers. As shown in Table 2, between 1992/93 and 1997/98 the percentage of agricultural households living in poverty fell from 69 to 48.1 percent (Glewwe et al. 2000, 13). While half of the households involved in agriculture are still poor, the decrease in the

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[2] About 77 percent of the cropped area in Vietnam is in paddy rice (Wiens 1998, 71).

headcount incidence of poverty for agricultural households was the largest among all occupational groups.

Table 2
Poverty in Vietnam by Occupation of Household Head, 1992/93 to 1997/98

Occupation of Household Head	Poverty Headcount (%)		Poverty Gap (%)		Poverty Gap Squared (%)	
	1992/93	1997/98	1992/93	1997/98	1992/93	1997/98
White collar	24.1	10.1	6.0	2.0	2.1	0.7
Sales	27.7	13.2	7.0	2.0	2.5	0.5
Agriculture	69.0	48.1	23.0	13.0	9.8	4.9
Production	44.5	25.8	12.0	6.0	4.2	1.9
Other / no work	59.0	26.3	24.0	6.0	12.1	2.1

Note: Poverty lines are calculated on the basis of the national poverty line, which includes the cost of basic food and nonfood requirements in each survey year.

SOURCE: *Glewwe et al. (2000, Table 1)*

At the same time that the government was reforming agriculture, it was also trying to cope with serious macroeconomic problems, especially high inflation and an overstaffed state sector. The basic problem was that the government and state-owned enterprises were spending too much and this excess was being financed by state credit and aid from the Soviet Union. Strong measures were introduced to deal with this situation, particularly after the collapse of the Soviet Union curtailed assistance from that source. In 1989 production and consumption subsidies were eliminated from the budget, positive interest rates were established, and loans to state enterprises were priced more appropriately. These reforms led to a major restructuring of the public sector. Between 1988 and 1992, about 800,000 workers—one-third of the state-enterprise labor force—were laid off. In addition, about half a million soldiers were demobilized and returned to the civilian labor force. These structural adjustments helped to reduce the large government budget deficit and bring the expansion of credit under control. As a result, inflation began to fall to a more manageable rate, about 10 percent per annum, during the period 1993–95 (Irvin 1997, 786).

Vietnam's efforts at restructuring its economy were unique in at least two respects. First, Vietnam successfully pursued structural adjustment without financial assistance from the International Monetary Fund (IMF) or the World Bank. During the early 1990s, major stakeholders in these organizations were opposed to financial assistance to Vietnam. Although Vietnam received important policy and technical advice from the major international organizations and pursued the types of orthodox reforms that they typically recommend, it received no financial aid. Second, Vietnam's successful efforts at structural adjustment did not cause a recession. Although average GDP growth did slow to 5.5 percent in 1990–91, it quickly accelerated to an average 8.8 percent during the period 1992–95 (Table 1).

One of the main reasons that Vietnam was able to avoid a recession was the dualistic nature of the Vietnamese economy. Because Vietnam had a large and rapidly growing agricultural and service sector, which employed about 85 percent of the labor force, the military demobilization and large cutbacks in the state sector had surprisingly little effect on the economy at large. The redistribution of agricultural land to peasants and the freeing of agricultural prices[3] unleashed such a large production response from the rural sector that the Vietnamese economy was able to grow fast enough to absorb the displaced state workers. In its employment surveys the Vietnamese Ministry of Labor found that most laid-off state workers were absorbed within one year by the rapidly growing private sector (World Bank 1993).

Trade liberalization represents the third and final element of the *doi moi* program. In 1989 Vietnam began opening itself to international markets by unifying its multiple exchange rates. In that year the official rate was devalued from 900 to 5,000 dong per dollar, the rate then prevailing in the black market. This bold devaluation, coupled with a relaxation of administrative controls on imports and exports, led to a surge of growth in exports. Since 1990 real export growth has averaged more than 25 percent per year (Table 1). In the beginning, rice and oil exports were a major part of this success, but in more recent years it has included such goods as cash crops (coffee, tea, rubber) and labor-intensive manufactures (clothing, garments) (de Vylder 1995, 65). Vietnam's export surge not only helped spur agricultural and industrial production, but it also helped to finance the country's growing import demand.

According to a study by Desai (1998), Vietnam is one of the transition economies that is most open to foreign trade and investment. This is important because a number of studies have found that open economies experience more rapid economic growth. Sachs and Warner (1995), for example, estimated that a shift from a closed to an open trade regime adds more than two percentage points to GDP growth. In this respect, Vietnam's success with export-led growth provides additional evidence of the value of trade liberalization.

Impact of Economic Reform on Poverty and Inequality

Fortunately, there are household-level data that can be used to evaluate the impact of Vietnam's general development strategy on poverty and inequality. In 1992 / 93 and again in 1997 / 98 Vietnam undertook two large-scale household surveys that were designed to monitor changes in living standards. The 1992 / 93 survey covered 4,800 households, while the 1997 / 98 survey included 6,000 households. Both surveys were nationally representative and had similar sampling procedures and questionnaires. This makes their results comparable over time.[4]

Glewwe et al. (2000) has used these two surveys to estimate changes in poverty and inequality in Vietnam from 1992 / 93 to 1997 / 98. Using per capita consumption as the basic poverty indicator and calculating a national poverty line based on the cost of basic food and nonfood requirements, Glewwe's poverty figures are shown in Table 3.

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[3] According to Irvin (1995, 740), the post-1988 favorable shift in agriculture's terms of trade is crucial to understanding how the Vietnamese economy was able to grow in the absence of significant foreign assistance.

[4] For more details on these surveys, see Glewwe et al. (2000).

Table 3
Poverty in Vietnam by Urban/Rural and Region, 1992/93 to 1997/98

	Poverty Headcount (%)		Poverty Gap (%)		Poverty Gap Squared (%)	
	1992/93	1997/98	1992/93	1997/98	1992/93	1997/98
All Vietnam	58.1	37.4	18.0	10.0	7.9	3.5
URBAN/RURAL						
Urban	25.1	9.2	6.00	2.00	2.30	0.5
Rural	66.4	45.5	21.0	12.0	9.20	4.4
REGION						
Northern Uplands	78.6	58.6	27.0	17.0	11.8	6.5
Red River Delta	62.9	28.7	19.0	6.0	7.3	1.8
North Central	74.5	48.0	25.0	12.0	10.5	4.1
Central Coast	49.6	35.2	17.0	11.0	7.9	4.7
Central Highlands	70.0	52.2	26.0	19.0	14.0	9.4
South East	32.7	7.6	9.0	1.0	3.7	0.4
Mekong River	47.1	36.9	14.0	8.0	5.6	2.7

Note: Poverty figures are calculated on the basis of the national poverty line, which includes the cost of basic food and nonfood requirements in each survey year.

SOURCE: *Glewwe et al. (2000, Table 1)*

Three items are noteworthy. First, no matter what poverty measure is used—headcount index, poverty gap, or squared poverty gap—poverty fell in the nation and in urban and rural areas between 1992/93 and 1997/98. According to the headcount index, which measures the percentage of the population living beneath the poverty line, national poverty fell from 58.1 to 37.4 percent. According to the more sophisticated poverty gap index, which measures in percentage terms how far the average expenditures of the poor fall short of the poverty line, national poverty also fell, from 18 to 10 percent. These are considerable achievements over a five-year period. Second, the figures in Table 3 show that poverty is more widespread and severe in rural areas than in urban areas. In 1997/98 the headcount index of poverty in rural areas was about five times higher than that of urban areas (45.5 percent versus 9.2 percent). Third, the poverty figures for the various regions show that there are important geographical correlations to poverty in Vietnam. According to the data, the Northern Uplands and the Central Highlands are the two poorest regions, with headcount indices of poverty of over 50 percent in 1997/98. In these two regions low land productivity, limited commercialization, and lack of nonfarm employment opportunities are closely associated with poverty (Wiens 1998, 64).

Poverty in Vietnam also has ethnic dimensions; Table 4 presents poverty rates by ethnic group. In Vietnam the ethnic Vietnamese (Kinh) constitute about 84 percent of the population, and the Moung are the only ethnic group comprising more than 2 percent of the population. Table 4 shows that with the exception of the Chinese minority (who live mainly in urban areas), poverty rates are generally much higher for non-Vietnamese ethnic groups. While the headcount index of poverty fell for all non-Vietnamese ethnic groups (except the Dao) between 1992/93 and 1997/98, headcount ratios of poverty are generally above 70 percent for most non-Vietnamese groups. These results suggest that future poverty reduction efforts will need to address the special problems faced by non-Vietnamese ethnic groups.[5]

Table 4
Poverty in Vietnam by Ethnic Group, 1992/93 to 1997/98

Ethnic Group	Poverty Headcount (%)		Poverty Gap (%)		Poverty Gap Squared (%)	
	1992/93	1997/98	1992/93	1997/98	1992/93	1997/98
Vietnamese (Kinh)	55.1	31.7	16.0	7.0	6.6	2.4
Tay	81.3	63.8	28.0	15.0	11.7	5.3
Thai	82.3	71.1	33.0	20.0	16.0	7.7
Chinese	11.8	8.4	3.0	2.0	1.6	1.0
Khome	75.4	57.5	28.0	15.0	13.3	5.7
Moung	89.6	80.6	31.0	25.0	13.3	9.9
Nung	91.8	72.0	31.0	16.0	12.3	5.2
H'mong	100.0	91.8	65.0	36.0	43.3	16.9
Dao	88.5	100.0	45.0	33.0	24.2	13.1
Other	90.0	75.8	41.1	31.0	23.4	15.7

SOURCE: *Glewwe et al. (2000: Table 1)*

While poverty fell in Vietnam during the 1990s, what happened to income inequality? Two income measures, the Gini coefficient and the Theil T measure, both show an increase in income inequality. Between 1992/93 and 1997/98 the Gini coefficient increased by 7 percent (from 0.329 to 0.352), and the more sensitive Theil T measure rose by 17 percent (from 0.196 to 0.230).[6] Although these increases in inequality are relatively small, especially given the low base rate for income inequality in Vietnam,[7] they do mean that during the 1990s the richer groups of the population saw greater increases in their incomes than those in poorer groups. For example, between the two survey years the mean per capita expenditures of those in the highest (richest) decile rose by 53.3 percent, while those in the lowest (poorest) decile increased by only 23.3 percent (Glewwe et al. 2000, Table 3). In Vietnam, widespread poverty reduction seems to have been accompanied by increases in income inequality benefiting those at the upper ends of the income distribution.

Identifying the reasons for increasing income inequality in Vietnam would require more research, but it is possible to decompose the Theil T inequality measure to shed light on the sources of income inequality.[8] As calculated by Glewwe et al. (2000), the results of the decomposition of the Theil T measure are shown in Table 5. The table shows that the three largest sources of between-

[5] In January 2001 large-scale protests by minority ethnic groups broke out in the Central Highlands. These protests focused attention on the rising income and educational gaps between Vietnamese and non-Vietnamese ethnic groups.

[6] Anand (1983) and Tsakloglou (1993) have shown that the Theil T measure is more sensitive to changes at the tails of an income distribution. A mathematical expression of the Theil T measure follows Table 5.

[7] Any country such as Vietnam that is making the transition from a centrally planned (Communist) economy to a market-based economy tends to have an increase in income inequality. See, for example, the changes in the Gini coefficient that occurred in Eastern Europe and Central Asia in the 1990s (World Bank 2000).

[8] For a review of the methodology on decomposing the Theil T inequality measure, see Anand (1983).

group inequality in Vietnam are those between urban and rural areas, geographic regions, and occupations.

Table 5
Changes in Between-Group Inequality in Vietnam as a Percentage of Total Inequality as Measured by Decomposing the Theil T Inequality Measure

Region or Group	1992/93	1997/98
Urban/Rural	21.1	31.2
Geographic r egion (7 groups)	13.4	21.8
Ethnic group (10 groups)	10.1	10.3
Occupation of household head (7 groups)	16.6	23.7
Education of household head (7 groups)	7.8	14.4
Sex of household head	2.1	2.5

Note: Data show only the between-group component of the inequality decomposition of the Theil T measure. The full decomposition of this measure includes both within-group and between-group components. Because the within-group decomposition is not shown, figures in the table do not sum to 100.0

SOURCE: *Glewwe et al. (2000, Table 5)*

The Theil T inequality measure can be written as:

$$T = \sum_{i=1}^{n} \frac{1}{n} \frac{y_i}{\mu} \log \frac{y_i}{\mu}$$

n —number of households
y_i —expenditure of household and
μ—mean expenditure

Consider first the differences between urban and rural areas. In 1992/93 about 21 percent of overall inequality was due to differences in average expenditures between urban and rural areas; by 1997/98 this figure had increased to 31 percent. This suggests that the gap between urban and rural incomes in Vietnam is rising. Next, consider the differences between the seven geographic regions. In the first year 13.4 percent of overall inequality was due to the differences in average expenditures between regions; by the second year this figure had risen to 21.8 percent. In other words, some geographic regions, most likely those in the more dynamic and commercial south, are pulling ahead of other regions. Finally, consider the differences between the seven types of occupations. In the first year, differences in mean expenditure levels between occupational groups accounted for 16.6 percent of overall inequality; by the second year this figure had increased to 23.7 percent. Some occupations—probably white collar occupations in urban areas—have been doing much better than other occupations (such as agricultural workers in the northern regions).

Conclusion

This paper has used secondary sources to review the character and determinants of poverty reduction in Vietnam. Two findings emerge.

First, the impressive rates of poverty reduction in Vietnam between 1988 and 1997/98 were achieved more as a result of a general development strategy than any specific poverty reduction program. This general development strategy, *doi moi*, focused on three elements: agricultural development, macroeconomic reform, and trade liberalization. This development strategy, which began in the agriculture sector and involved radical reforms in Vietnam's whole economic structure, was able to generate high enough rates of GDP growth—an average of 7.1 percent per year—to spark strong income increases (and poverty reductions) in almost every sector of society.

Second, although the pattern of economic growth generated by the development strategy in Vietnam was quite wide and broad-based, it did lead to a rise in income inequality. Between 1992/93 and 1997/98 the Gini coefficient of inequality increased by 7 percent because those at the top end of the income distribution witnessed greater increases in their income than those at the bottom end of the distribution. While identifying the reasons for this increase in income inequality would require more work, these increases in inequality seem to be related to rising income gaps between urban and rural areas, different geographical regions, and different occupations.

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