

# What has made Viet Nam a poverty reduction success story?

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## Summary

Viet Nam has achieved its Millennium Development Goal (MDG) of halving its poverty rate - 10 years before the deadline set by UN. Other social indicators such as education enrolment, healthcare insurance coverage and access to amenities (electricity, clean water and sanitary facilities) have improved significantly. Notably, at the aggregate level, social inequality measured by the Gini index has increased only mildly from 0.34 in 1993 to 0.37 in 2004, despite a high annual economic growth rate of about 8 per cent in the last decade. Viet Nam has also made commendable improvement in achieving economic and social rights as well as expanding civil and political participation.

Viet Nam has actively integrated itself into the global market and onto the political scene since it embarked on an 'open door' economic policy in 1986. It has strived to maintain stable and good relations with its neighbours and other world superpowers. This favourable external environment has facilitated a large flow of foreign direct investment (FDI) into Viet Nam's economy. Re-integration with the world has pushed Viet Nam to further reform its legal and economic institutions to comply with international standards and practices. Formal membership of the World Trade Organisation (WTO) on 7 November 2006 has opened up more economic opportunities for both domestic and foreign firms as well as further its compliance with the rule of law.

Through out this process, Viet Nam's government has demonstrated leadership and ownership of the country's development. It bravely abandoned the central-planning system and embraced a free market system. Fortuitously, despite the absence of support from international financial institutions that, for example, some Eastern European countries had, Viet Nam successfully managed the transition from a controlled economy to a market economy. The sequence of economic reforms that Viet Nam followed a logical progression that started with agricultural land reform aimed at producing not only enough food for its population but also surplus for export. Later on, labour intensive manufacturing developed quickly and created employment for rural poor and the young who enter the workforce. Recently, Viet Nam started to look at the electronics and high-tech sectors in the hope of becoming an industrialized country by 2020.

However, there are still challenges that Viet Nam has to surmount to become a medium income country given its current per capita GDP of \$550. Diminishing returns to capital and its inefficient investment will pose a challenge to growth in coming years. The integration into world markets might weaken the government's ability to address poverty and social inequality due to harsher economic competition and binding rules that limit government subsidies to the poor and the disadvantaged. The potential social instability caused by the increasing inequality between ethnic minorities and the Kinh majority, rampant corruption and increasing political participation is a great challenge for Viet Nam.

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Nevertheless, the success that Viet Nam has achieved and the challenges it is facing provide interesting lessons for the developing world.

## **1 The Socialist Republic of Viet Nam : a brief introduction**

Viet Nam is located in the heart of South-East Asia, one of the most economically dynamic regions in the world. It borders China, a self-claimed 'peaceful rising' power and a globally expanding market. Viet Nam has more than three thousand kilometres of coastline that is conducive to international trade and cultural exchange. However, three fourths of Viet Nam's areas are mountains that impede economic development and reinforce social and economic disparity. According to statistics released in 2005, the population of Viet Nam was about 82 millions with 75 per cent living in rural and mountainous areas. There are 54 ethnic groups in Viet Nam with the Kinh (Viet) accounting for 85 per cent of the total population.

Historically, Viet Nam was founded in 1945 but its independence from France was only officially acknowledged by the Geneva Agreement in 1954. Since then, Viet Nam was temporarily divided into the North, which was supported by the Soviet Union and China, and the South, which was heavily supported by the US. The two parts were reunited in 1975, two years after the withdrawal of the American troops in 1973. In 1978, Viet Nam entered Cambodia to oust the murderous Khmer Rouge regime. In 1979, China attacked Viet Nam and the two countries went through a brief but bloody border conflict. The consequence of the Cambodian intervention was an international embargo and isolation by the West that reinforced the embargo imposed by the US on the North Viet Nam since 1964.

In the 1980s, as a result of devastating wars, international embargoes, declining support from the Soviet Union and the inefficiency of the central-planning economic system, Viet Nam faced great economic difficulties and social instability. Consequently, Viet Nam embarked on 'open door' economic policies called *doi moi* that were officially announced at the Sixth Communist Party Congress in 1986. In 1989, Viet Nam withdrew troops from Cambodia, which led to the re-establishment of diplomatic relations with European countries. One year later, Viet Nam normalised its relationship with China and in 1992, Viet Nam became a member of ASEAN. Two years later, the US lifted the embargo and the relationship between Viet Nam and the US was normalized in 1995. Currently, Viet Nam is expecting to get the Permanent Normal Trade Relation status with the US following the achievement of WTO membership in November 2006. This step marks Viet Nam's full integration into the world.

## **2 Viet Nam political context and the leading role of VCP**

Viet Nam is a one-party state. The Viet Nam Communist Party (VCP) has its cells and members in nearly every village and neighbourhood in the country. According to the current constitution, VCP is the power leading the state and society<sup>1</sup>. Consequently, almost all leading positions within the state, the government and the legislature at all levels<sup>2</sup> are filled by party members. This situation ensures the supreme leading role of VCP in all sectors and classes.

The presence of the VCP has been expanded via mass organisations that also have their outreach to village and communal levels<sup>3</sup>. Through mass organisations, the VCP can mobilize the whole society to implement its missions and objectives. Therefore, when VCP issues an appropriate policy that addresses the needs of people, the implementation can be very quick and effective. Conversely, if a policy is inappropriate, there would be 'silent resistance' from people and local authorities. In Viet Nam, there is only independent monitoring and mass organisations are expected to perform the role of bottom-up consultation in Viet Nam. They provide feedback from grassroots to policy makers and transmit the policy messages from the centre to the grassroots. However, due to the top-down system, the feedback process is not sufficiently responsive and it takes a longer time for the government to

revise or abrogate a mistaken policy. This posed a new challenge for Viet Nam when it transformed itself into a market economy and opened its society.

Generally, VCP follows the ruling consensus in making important decisions. Despite its monopoly, VCP normally has to balance the interests among regions (North, Central, South), ideologies (conservatives and reformists) and foreign powers (China, Europe, the US.) The ruling consensus could be one of the most decisive factors in determining the gradual pace of reform in Viet Nam, which is discussed later. Currently, there are 160 members of the Central Committee who were elected from 207 candidates at the party congress that is organised every five years<sup>4</sup>. Basically, all provinces, except Dac Nong, have a representative on the Central Committee (normally the provincial party chief). There are more representatives from important cities such as Ho Chi Minh and Hanoi. Similarly, the ministers are normally members of the Central Committee and important ministries such as the Ministry of Defence and the Ministry of Public Security have more representatives. The main tasks of Central Committee are to set the direction and strategy for the country that can then be implemented by the government. From 160 members of the Central Committee, 14 members were elected to Political Bureau – these are the most powerful leaders who oversee the country's business and make important decisions.

Besides the ruling consensus, VCP also adheres to two other underlying principles: national sovereignty and ethnic solidarity. These principles have led to great concern among the party about the increasing inequality between ethnic minorities and the Kinh majority. This concern has deepened due to the social unrest in the Central Highlands that resulted largely from poverty and inequality. Recently, VCP is concerned about the rampant corruption that has incited rural unrest. The pervasive corruption has undermined the credibility of the VCP leadership and raised questions in society about the capability of the one-party system to control corruption. At its recent party congress, VCP expressed the view that corruption is the most serious threat to the survival of the regime. Consequently, it has to accelerate social and political reforms to address corruption - uncharted waters for the VCP.

### **3 Viet Nam's Development Success Story to Date**

Since *doi moi* started in 1986, Viet Nam has achieved impressive social and economic changes that have improved the lives of millions of people throughout the country. The economic growth rate has been quite high and stable at around 7-8 per cent a year. According to Viet Nam Living Standard Survey<sup>5</sup>, during the period of 1993-2004, consumption-based poverty rate plummeted from 58.1per cent in 1993 to only 19.5per cent in 2004. This is exceptional in relation to the UN's Millennium Development Goals (MDG) of halving poverty in 25 years from 1990 to 2015. Other social indicators such as school enrolment rate, health-care insurance coverage and access to amenities (electricity, clean water and sanitary facilities) have also improved. For example, the enrolment rate for upper secondary school has gone up from 7.2per cent in 1993 to 63per cent in 2004. The health insurance coverage also increased sharply from 16per cent in 1998 to 38per cent in 2004. The access to electricity almost doubled to reach 94per cent in 2004 from only 48per cent in 1993. The possession of TV set rose sharply from 22per cent in 1993 to 78per cent in 2004. Furthermore, inequality (measured by Gini index) has increased very modestly from 0.34 in 1993 to 0.37 in 2004. This is considered by many international donors as a great success; Viet Nam has achieved a high economic growth rate while maintaining a relatively equal society.<sup>6</sup>

**Table 1: GDP growth rates, poverty reduction rate and some social indicators**

Year	Poverty rates	GDP growth rate (average for period)	per cent of HH owning a TV set	Gini index	per cent of HH having access to clean water	Enrolment rate (net)	
						Lower secondary	Upper secondary
(1991) - 1993	58.1	7.53	22.19	0.34	26.2	30.1	7.2
(1994)-1998	37.4	8.12	55.71	0.35	40.6	61.7	28.6
(1999)-2002	28.9	6.38	67.89	0.37	48.5	72.1	41.8
(2003)-2004	19.5	7.48	78.05	0.37	58.6	90.1	63.0

Source: Nguyen Thang et al, 2006, WB 2004 and GSO

Besides its success in social and economic spheres, Viet Nam has created a stable political environment. While maintaining the supreme leadership of the communist party, it has gradually improved the quality of governance and civil participation. Despite the controversy surrounding the speed of political reform in Viet Nam, Viet Nam has successfully balanced economic growth and political stability to a large extent. Political stability has been cited by investors as one of the Viet Nam's strengths that contribute to the security of their investments<sup>7</sup>.

The success of Viet Nam in promoting economic growth was widely attributed to the comprehensive reform that transformed the central-planning economy into a dynamic market economy. Macroeconomic stability has led to a high rate of direct foreign investment (FDI) and international trade. The success of land reform and the implementation of favourable agricultural policies have established a foundation for a broad-based economic growth, especially at the beginning of *doi moi*. The rather flexible and literate labour force has helped to attract investment and absorb new technology. The quality of the labour force has been invigorated by universal education and health-care policies implemented by the government. These economic reforms have been possible thanks to the stable political context that Viet Nam has been able to maintain.

### 3.1 Gradual transition and sequencing of development

Before *doi moi*, Viet Nam adopted a Soviet-style socialist economy by expropriating individual properties and nationalising assets such as land and capital to form cooperatives in the North. After reunification, a similar process took place in the South in 1976. However, collective ownership in agricultural production proved to be a failure due to the lack of incentives. The controlled pricing system that offered low prices to cooperatives for their products, in the hope of maintaining low living costs for the waged sectors, prohibited the cooperatives from producing at their full potential. This in turn led to a shortage of food. Furthermore, because of the disequilibrium between supply and demand in the controlled economy, the price of goods and services was higher on black market. This led to a diversion of resources from the 'formal' economy to the 'informal' one. These factors, coupled with the ineffective use of subsidies to obsolete state-run industries, plunged Viet Nam into an economic crisis at the end of 1970s and the beginning of 1980s.

In September 1985, the government decided to liberalise the price system and monetise state employees' wages. The rise in living costs led to a large budget deficit that forced the government to increase money supply. The uncontrolled printing of money caused galloping inflation of more than 300 per cent a year. This forced the government to transform the economy and allow market forces to determine the price of goods and services as well as the allocation of resources. Fortunately, despite the absence of support from international financial institutions that some Eastern European countries

enjoyed, Viet Nam was able to curb its hyperinflation, stabilise its economy and successfully manage its transition.

The *radical therapy*<sup>8</sup> that Viet Nam applied was considered a success thanks to three key factors. First, the non-state sector in Viet Nam accounted for about 85 per cent of the total workforce. There was an 'informal economy' run in parallel with the formally controlled distribution system of the government before *doi moi*. In other words, Viet Nam had had some experience in market economy that the Soviet Union did not have. Therefore, when the government revitalised the market force, the non-state sector was free to adapt and grow. Second, before the radical therapy applied in 1986, Viet Nam actually had implemented several reforms such as the commercialisation of agricultural inputs and outputs and the establishment of a rudimentary capital market within state-owned industries in early 1980s. Therefore, the *radical therapy* was actually just an acceleration of reform that had started before *doi moi*. This 'learning by doing' approach allowed the Vietnamese government to adjust their policies according to the development of market. Third, there was strong political support for further reforms, especially from the more commercialised South. This political determination was developed out of the initial success of partial liberalisation in the agricultural sector as well as the need to respond to the threat of the social unrest. These typical features contributed to the success of the gradual transition from the planned economy to a market economy<sup>9</sup>.

Generally, from the beginning of *doi moi*, Viet Nam has followed a rational sequence of development. It first successfully transformed its economy from a centrally planned economy to a dynamic market economy by radically liberalising the pricing system, as discussed above. The successful application of market forces has led to a more efficient use of scarce resources. It also created incentives for people to work and invest in the economy. It then liberalised the agricultural sector on which more than 80 per cent of its population depended. The favourable agricultural policies have maintained the sector's growth rate of three to four per cent a year despite epidemics and natural disasters. Using Jeffrey Sachs' metaphor, Viet Nam was able to reach the first rung of the development ladder by itself by producing enough food for its population. As a Vietnamese saying goes: '*co thuc moi vuc duoc dao*' (a hungry belly has no ears). Food security has provided a stable social and political foundation for Viet Nam to reach the next rung of the development ladder: manufacturing. The intensive labour sectors such as textiles and apparel, agricultural and seafood processing have absorbed millions of workers and farmers that enter the labour market every year. Recently, Viet Nam started looking at electronics and the high-tech sector. The announcement of Intel Corporation to construct a \$1 billion factory in Viet Nam was considered to be the start of Viet Nam's effort to industrialise its economy. The rise of savings and investment rates<sup>10</sup>, coupled with the expansion of market opportunities after WTO accession have provided Viet Nam with an opportunity to become an industrial country by 2020, an intention expressed as the tenth Party Congress.

### **3.2 International integration**

The withdrawal of Vietnamese troops from Cambodia in 1989 marked its re-integration into the international community. Since then, Viet Nam has successfully maintained a stable external environment for its economic growth. Its foreign policy orientation of 'multilateralisation and diversification of relations' with an expression of 'making friends with all countries' has proved to be an enabling foreign policy direction for Viet Nam. Externally, this foreign policy helped Viet Nam to improve and establish relations with its old foes such as France, the US and Japan without antagonising its allies such as Russia and China. Internally, it could balance the difference in ideology among the older and younger generations of leaders within the communist party, as well as in society generally. Viet Nam now has significant economic and improved political relations with France, the US, Japan and China<sup>11</sup>. This conducive external environment has created a stable environment in which to attract foreign investment to Viet Nam.

The first Foreign Investment Law of Viet Nam was passed in 1987. As described by Melanie Beresford of Macquarie University, it was a very liberal law by South-East Asian standards that allowed profit

repatriation, tax exemption and concessions for enterprises investing in priority areas that Viet Nam wanted to promote. Since 1987, Viet Nam has reformed its investment environment by improving its legal and market institutions to attract foreign investors. According to Ministry of Planning and Investment, FDI has increased from US \$262 million in 1988 to US \$7,655 million in 1996. Due to the Asian financial crisis in 1997, the FDI flow shrank to below US \$2,000 million in 1999 but recovered recently and reached the level of about US \$5,000 million in 2005<sup>12</sup>. It is expected that the total registered FDI in 2006 will hit a record of US \$10,200 million.

The integration of Viet Nam into the regional and global market has increased its foreign trade sharply. The import and export of goods and services increased from 15.03 and 6.68 per cent share of GDP respectively in 1986 to 67.89 and 60.36 per cent respectively in 2003. The labour intensive and agricultural products such as textile and apparel, shoes, furniture, rice and seafood processing comprised a large share of Viet Nam's exports. The import of raw materials for export products (textiles) and machines and equipment has increased rapidly to meet the required production inputs of the economy. Clearly, the expansion of international trade in labour intensive manufacturing has created more jobs for a young population and it also helps to employ the migrants from rural areas to industrial centres that mitigate the pressures on agricultural sector.

According to Nguyen Thang, the implementation of the Viet Nam-US bilateral trade agreement (BTA) since 2001 has accelerated the expansion of Viet Nam economy. The employment growth rate in the enterprises that export goods to the US has increased at 17.8 per cent, 32.1 per cent and 37.5 per cent in 2002, 2003, and 2004 respectively. The FDI inflow has also accelerated and reached \$30 billion at the end of 2004. The public administration reform to improve market and investment promotion has also helped Viet Nam to attract more ODA. From 1993 to 2004, international donors have disbursed \$14 billion out of a total \$29 billion committed<sup>13</sup>. It is widely expected among economists and donors that WTO membership will further expand economic opportunities despite the tough challenges that it will have to face.

Furthermore, accompanying FDI and international trade is the transfer of new and modern technology as well as management skills that sustain the growth of the Vietnamese economy. In last decade, FDI has been a catalyst to boost the state sector reform and private sector liberalisation in Viet Nam. In the process, state-owned enterprises (SOEs) and private businesses have been seeking new technologies to upgrade the competitiveness of their products. In Viet Nam, high quality Vietnamese products have established a positive image in society about the quality of products made in Viet Nam. Domestic firms now consider brand name as one of the key strategies to maintain and increase market share<sup>14</sup>.

### **3.2 Internal resource liberalisation and mobilisation**

The first round of internal resource liberalisation could be attributed to the land reform that took place in 1988. Two years after *doi moi*, Viet Nam issued Resolution 10 to allow cooperatives to be dismantled. Instead, farming land was allocated to households for a period of 15 years, or 50 years in case of perennial crops. Consequently, families had the rights to make decisions regarding the use of their land. The change in 'ownership' of land led to a massive increase in agricultural products. Viet Nam shifted from a net importer of rice to being currently the second largest exporter in the world. The increase in agricultural products and income also led to an increase in demand for industrial products. This change was convincing evidence to prove that once farmers have the rights to own property, they increase investment and produce more goods for their families as well as for society. Amongst policymakers, this was considered as the first round of resource harnessing in Viet Nam.

The second round of internal resource mobilisation in Viet Nam was the implementation of the Enterprise Law in January 2000. Since then, there have been a large number of private enterprises established. According to Ministry of Planning and Investment (MPI) statistics, there were over 100,000 new enterprises, with a capital of VND 187 trillion, joining the market over the period 2001-

2004. The recognition of the role of the private sector in the economy was an important step for Viet Nam in freeing its resources for investing in the economy and generating jobs. According to David O. Dapice, from 2000 to 2002 the entire formal private sector created 1.75 million new jobs, compared to near zero growth in jobs for the entire public sector<sup>15</sup>. According to General Statistics Office (GSO) statistics, the number of workers employed by the non-state sector increased from 35,317,600 in 2002 to 36,813,700 in 2004 (GSO website, 2006).

Another parallel reform is the restructure and equitisation of SOEs. In November 1991, Viet Nam decided to equitise some SOEs to gain experience and to increase capital for economic development<sup>16</sup>. After five year of piloting, in May 1996 the government issued decree 28/CP to provide principles for the equitisation of SOEs. In June 1998, decree 28/CP was replaced by decree 44/CP that provides clear guidelines for SOE reform and equitisation. Particularly, decree 44/CP allows market forces to determine the price of the SOEs and allows employees to buy stocks at 30per cent lower than the market price.

Since its start, Viet Nam has restructured 4,447 SOEs and equitised 3,060 SOEs. Despite the reduction in the number of SOEs, the state sector is still the influential player in key industries. Currently, SOEs still account for 40per cent of GDP and contribute 50per cent of government revenue. According to the Enterprise Reform and Development Committee, the equitised enterprises are operating quite well. On average, they have experienced a 44per cent increase in charter capital, 23.6per cent in revenue and 139per cent in profit. They also increased their contribution to government revenue by 25per cent and employee's salaries by 12per cent<sup>17</sup>. Thanks to this success, Viet Nam decided to accelerate the reform of SOEs. On 7 October 2006, the Prime Minister mapped out the equitisation schedule up to 2010 with the objective of maintaining only 554 SOEs operating in strategic economic lines.

In general, Viet Nam considers domestic economic enterprises as the foundation of its economy and the state sector is the leading element. In contrast to the former Soviet Union that privatised its economy in a hasty manner, Viet Nam wants to increase the efficiency of the SOEs and keep them as a key determinant in the economy. The gradual exposure of SOEs to free market competition with the foreign and private sectors has strengthened efficiency and competitiveness. The equitisation has also brought in capital for further investment in new technology, and resulted in the expansion of the market as well as in the scale of the firms. From this perspective, Viet Nam's approach to state sector reform is quite similar to that of Taiwan, which gradually exposed its SOEs to market competition in 1960s. It is different from the Soviet Union and some African countries that disbanded or heavily subsidised their state sectors<sup>18</sup>.

### **3.2 Educated young workforce and progress towards gender equity policy**

The success of economic policies has been backed up by an assiduous and literate workforce. Viet Nam is a highly egalitarian society where women, farmers, ethnic minorities and the disabled have more equal access to education, healthcare and other social benefits than their counterparts in some other countries of the region. The Human Development Index (HDI) for Viet Nam is higher than many other countries of similar per capita income. According to UNDP, the HDI for Viet Nam is 0.709, which gives it a rank of 109 out of 177 countries<sup>19</sup>. As presented in Figure 1, despite the much lower GDP per capita in Viet Nam (about a half), its HDI is comparable with that of Algeria.

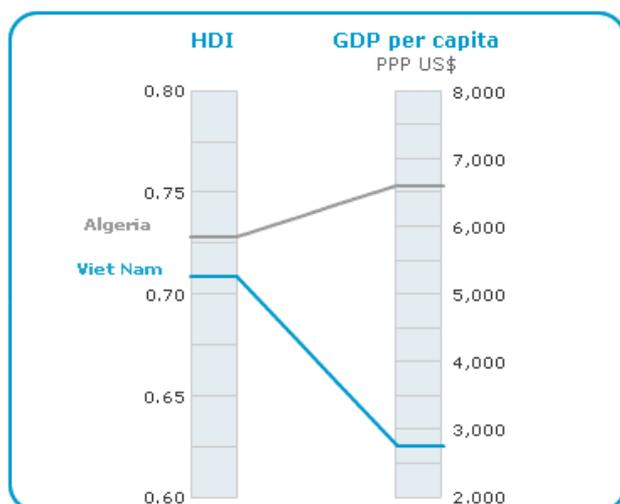


Figure 1: HDI and GDP Source: UNDP website

Clearly, this capable workforce enables Viet Nam to implement its reforms, attract FDI and absorb new technologies to increase the productivity of the economy.

In Viet Nam, women play a significant role in production, social work and domestic business. During the wars, women played the leading role in agricultural production and manufacturing as men fought on the battlefields. Many of them also joined the Pioneering Youth Force that provided logistics and performed other tasks during the wars. Consequently, the participation of Vietnamese women in production, and in the social and political spheres is very progressive in comparison with other neighbouring countries.

Another obvious factor that determined the success of women's participation in the economy was their capability to join the workforce. Despite existing disparity between men and women, the level of education and health-status of Vietnamese women is quite high. This is due to the egalitarian distribution of income, social services and economic opportunities during the period of the cooperatives and the subsidised system. Recently, the investment in education for girls and efforts to bridge the gap in opportunities between girls and boys have been made by the government through various national programmes such as Education for All, Immunization and Family Planning Programmes.

According to a research conducted by the WB cited by Froniga Greig et al<sup>20</sup>, in Viet Nam women comprise 53 per cent of all farmers. Among rural women, 71 per cent of Kinh women and 87 per cent of ethnic minority women work in agricultural sector. They are the key force in promoting the growth of the agricultural sector in Viet Nam since *doi moi*. Recently, women have contributed greatly to the growth of the manufacturing sector such as textile, apparel and shoes. According to statistics, women comprise 70-80 per cent of labour force in this labour intensive sector. Among them, more than 60 per cent women are migrants. The share of women labour migrants from overseas has increased from 37 per cent in 2003 to 54 per cent in 2004. Clearly, Vietnamese women have contributed greatly to the growth of the economy. It is safe to say that without their participation, Viet Nam would not be able to achieve the level of development as it enjoys today.

This progress is possible thanks to a strong commitment by the government to gender equity and the active engagement by Viet Nam Women's Union (WU) and National Committee for the Advancement of Women (NCFAW). These are two active institutions working exclusively on the role of women and gender equity. Their commitment and active advocacy have been reflected via the ratification of the Convention on the Elimination of all forms of Discrimination Against Women (CEDAW) Convention in 1982 by Viet Nam government. Internally, the Constitution of Viet Nam embodied the principle of

gender equality of men and women. Viet Nam is also developing a Law on Gender Equality and a Law on Domestic Violence. Within the governmental structure, there is an increasing interest in gender responsive planning and budgeting. The Social and Economic Development Plan (SEDP) 2006-2010 includes a gender analysis and indicators for achieving gender equity. The National Strategy for the Advancement of Women is also another key policy document to set priorities and expected outcomes related to gender equality in Viet Nam.

## **4 Viet Nam's Success in reducing poverty: Contributing factors**

### **4.1 Mass organisation and social mobilisation for poverty reduction**

There is a famous saying that every Vietnamese learns by heart: "la lanh dum la rach, la rach it dum la rach nhieu." The saying uses a metaphor to say that the better off should help the poor and the less poor should help the poorer. This spirit has been widespread throughout society and maintained via various movements. In Viet Nam, there are different mass organisations such as the Women's Union and the Farmers' Association operating under the umbrella of the Fatherland Front – a national structure to unite Vietnamese people in social and political movements. Recently, the Fatherland Front and its associated mass organisations have considered poverty reduction as one of their political missions. They have organised various movements and campaigns to raise the awareness of society about poverty and the need to help the poor and the disadvantaged. Notably, the Fatherland Front organises the 'month for the poor' takes place each year in December to raise resources to help the poor. They involve not only the general public but also business sector. The Fatherland Front seeks to maintain the solidarity of Viet Nam society and cultivate a 'social responsibility' culture in the emerging business sector.

In July every year, the Golden Cup is awarded in recognition of the contribution of individuals and organisations to humanitarian acts in poverty reduction and community development. This event is attended by government and broadcast live on national TV. These movements and events serve to remind Vietnamese citizens and their government about the importance of poverty reduction and community development and encourage political leaders to pursue a more pro-poor agenda.

### **4.2 Strong government commitment to poverty reduction and socially inclusive development.**

Since *doi moi*, despite the pursuit of the market economy, social equity is still a goal of the government and has been institutionalized in many official documents and direct poverty reduction programs.

#### Direct poverty reduction

Efforts to help the poor were initiated in Ho Chi Minh City at the beginning of the 1990s when the city experienced some economic prosperity. In 1992, the city decided to increase public expenditure to improve access for the poorest people and communes to preferential credit, housing and food. This initiation quickly became a popular movement around the country and the idea was bought into by the Viet Nam Communist Party and government with the launch of the Hunger Eradication and Poverty Reduction Programme (HEPR) in 1998. Since then, the elimination of chronic hunger and '[the income] gap among population groups and geographical areas by accelerating the socio-economic development of the disadvantaged'<sup>21</sup> has been highlighted in all Viet Nam Communist Party Congresses. Various National Target Programmes have been formulated to tackle poverty, weak infrastructure in poorer regions, malnutrition among children, malaria and other preventable diseases<sup>22</sup>.

**Vietcombank** is one of the largest commercial banks in Vietnam. It is a good example of socially responsible business. In all ATM machines, Vietcombank allows people to make donations directly to a bank-account that reserves funds for poverty reduction and helping the disadvantaged. This is a good example of targeting donations from the middle income and upper classes for poverty reduction (Nguyen Thang)

Every year, there is always a big programme broadcast live on national television about poverty reduction, supporting the poor and the disabled. These events keep reminding Vietnamese society, its political leaders and business sector about social responsibilities to eradicate poverty and to help the unfortunate.

The total investment for national target programmes is not large in comparison with national income. The total fund for the HEPR over 2001-2005 is about \$600 million – or about 0.8 per cent of total GDP in 2005. However, it provides direct opportunities for the poor to improve their livelihoods and reduce the cost of health-care and education. Furthermore, through these national programmes the government gains political support from the poor as well as other social classes. These efforts help to maintain the stability of Vietnamese society. Clearly, political and social stability is a pre-condition for economic growth and sustainable development. Therefore, despite the mixed impact of these two programmes, Viet Nam decided to extend this effort with some modification in next five years 2006-2010.

#### External resource for poverty reduction

Recently, with the support of international donors, NGOs and UN agencies, the Vietnamese government has actively institutionalised and nationalised many other international development and poverty reduction initiatives such as PRSP<sup>23</sup> and Millennium Development Goals (MDGs). These international commitments have been translated into periodic five-year Social and Economic Development Plans (SEDP) and Viet Nam Development Goals (VDGs). According to Frances Stewart and Michael Wang of Oxford University, Viet Nam was one of a few countries to commit itself to implementation of the 20/20 initiative – 20 per cent of aid and 20 per cent of expenditure to be spent on basic social services<sup>24</sup>. One practical example is the National Education for All (NEA) action plan (2003-2015) approved by the Prime Minister in July 2003. In this action plan, Viet Nam committed to an 'equitable, socially inclusive and sustainable pattern of growth.' It also committed to increase the share of the government budget devoted to the education sector to 20 per cent. Consequently, the expenditure on education is expected to rise from 3.7 per cent of GDP in 2002 to 4.2 per cent of GDP in 2015 – one of the highest in Asia<sup>25</sup>.

The Viet Nam government has been successful in mobilising external resources for poverty reduction. It allows INGOs to work in various areas, notably at grassroots level in poor and mountainous provinces. It highly values financial and other kinds of support from international donors. At the same time, the Viet Nam government is determined to follow its development strategy and poverty reduction programmes. Thanks to the strong leadership of the government and a good partnership, donors and INGOs have tried to align their support and development assistance with government development programs instead of creating a parallel system. In Viet Nam, almost all development assistance has been either transferred directly to the government budget (DFID, WB, ADB) or implemented through the governmental structure. This partnership has become sustainable as thousands of development projects have strengthened the ways of working of government staff with great emphasis on participatory and empowerment approaches. A mutually respectful relationship also allows development agencies to discuss sensitive issues with the government. It also increases the chance to advocate changes of policies at national level and to make aid more effective.

In Viet Nam, there are many different joint forums where government, donors and NGOs discuss poverty, sectoral policies or harmonisation of funding mechanisms. One prominent example is the Poverty Working Group (PWG) or its offshoot Poverty Task Force (PTF) that consists of government agencies, donors and INGOs who meet regularly to share information, policies and studies on poverty. The construction of the CPRGS for Viet Nam was coordinated by PTF and its members. Thanks to this coordination mechanism, as reviewed by Frances Stewart and Michael Wang, the CPRGS process in Viet Nam was ranked highly in terms of popular participation and consultation. The process was also an opportunity for all stakeholders, especially government agencies to improve understanding of the causes of poverty and appropriate policy solutions. This helps all stakeholders to

tackle poverty causes, reverse poverty trends and lift the poor out of poverty by devising various target programmes on poverty reduction and socio-economic development plans.

### Pro-poor development policies

#### *Favourable agricultural policies*

In contrast to African countries where governments levied the agricultural sector heavily to subsidise the industries in a hope for rapid industrialisation<sup>26</sup>, Viet Nam considered the agricultural sector as an important part of the economy. This was a sensible decision as the agricultural sector provided livelihoods for about 72 per cent of the workforce at the beginning of *doi moi*, especially for the poor. This strategy also secures national food security, one of the top priorities of Viet Nam given its experience of hunger and dependence on foreign aid before *doi moi*.

In 1980, faced with the shortage of agricultural inputs, Viet Nam allowed provinces to trade agricultural products with foreign partners for necessary inputs despite its closed economy status at that time. In 1988, the first radical agricultural policy was to give farmers the rights to 'own'<sup>27</sup> land that led to the impressive growth of agricultural outputs. Food production increased from 19.5 million tons in 1988 to 21.7, 32.5 and 39.5 million tons in 1991, 2001 and 2005 respectively<sup>28</sup>. At macro level, the fast growth of agricultural outputs and income contributed to the reduction in the income gap between rural and urban areas in 1980s and early 1990s.

The annual growth rate of agricultural sector has been quite stable at around 3 to 4 per cent in last ten years, despite the fact that its share of GDP shrank. This is possible because of support from the government through irrigation schemes, and seeds and technology improvement programs. The support of the government has helped farmers to deal with avian flu, other natural disasters, and the fluctuation of world prices. The steady growth of the agricultural sector has also helped to stabilise the social and political environment for economic development. The high and stable growth rate of agricultural sector led to the increase in demand for industrial products that helped to stimulate the growth of the industrial and service sectors due to the increase in demand and domestic consumption.

#### *Intensive labour manufacturing and migration*

The next rung of the development ladder that Viet Nam climbed was labour-intensive manufacturing. The industrial centres were located around HCMC and Hanoi. Consequently, there has been an influx of migrants from rural areas to cities and industrial zones. The growth of textile, apparel and shoe industries has absorbed a large number of young workers from poorer farmer families. By 2003, the manufacturing sector accounted for 11.17 per cent of the total labour force and its share has increased steadily at more than one per cent a year<sup>29</sup>.

Despite various problems that migrants face due to an administrative system still maintained from earlier times, the flexibility of the labour forces and migration has contributed to the redistribution of economic growth between urban and rural areas. According to Nguyen Thang, migration (internal and international) could be one of the factors keeping social inequality in Viet Nam under control. Rural-urban migration within a country is common for the poor. According to Le and Nguyen quoted by Hoang Xuan Thanh et al, more than 23 per cent of households received remittances during the year before the survey, and remittances accounted for 38 per cent of household expenditure. International migration is available to the low-end of middle-income households who have loans or savings to afford it. Remittances from overseas Vietnamese reached \$3.2 billion in 2004 - a huge source of income for many households in Viet Nam<sup>30</sup>.

#### *State budget collection and allocation*

Viet Nam has a centralised budget system that gives the national government the power to collect tax revenues and redistribute its resources to provinces according to a formula decided by the central government. In 2003, domestic revenue (excluding oil) accounted for 51.67 per cent of total state revenue with SOEs contributing nearly 19 per cent. The revenue from the private sector is quite stable

and stands at around 6.5 per cent average from 2000 to 2003. The revenue from the foreign sector has increased slightly, from 5.22 per cent in 2000 to 6.80 per cent in 2003. The revenue from oil and import-export taxes contributes about 25 per cent and 22 per cent respectively of state revenue<sup>31</sup>. Clearly, the state budget relies heavily on oil that is subject to the world crude oil price. The expected reduction in import-export tax when Viet Nam further liberalises its economy could have a dramatic impact on its revenue. Currently, the National Assembly is debating the Personal Income Tax and Corporate Tax in the hope of increasing its share from around 2 per cent in order to make up for any possible reduction in import-export tax. Interestingly, the proposal to tax interest gained on capital has faced strong rejection. This could signal a regressive tax system. As one foreign economist stated, 'The tax system in Viet Nam could favour the rich more than the American one does'.

Currently, the Viet Nam government spends about 32.91 per cent of its budget on investment and 52.77 per cent on social and economic services. The spending on education is quite good and on the rise from 11.63 per cent in 2000 to 12.63 per cent in 2003. However, the spending on health-care is quite low and decreased from 3.17 per cent to 2.96 per cent in 2003. This is a bad sign for the poor and overloaded health-care system in Viet Nam. Other big spending needs are pension and social insurance, administration and economic programs that account for 9.08 per cent, 6.27 and 4.51 respectively<sup>32</sup>.

The fiscal policies can be classified into two categories: recurrent budget transfer and state investment budget. For the recurrent budget, the government deliberately directs more funds to poorer provinces. Industrial centres and the richest provinces received nothing from the government while mountainous and remote provinces received large subsidies that accounted for about 21 to 84 per cent of their total expenditure<sup>33</sup>. The correlation between per capita transfers and poverty rates is positive as shown in Figure 2a. This means that the higher poverty incidence that one province has, the higher recurrent state budget the province receives. This budget transfer is very important to cover the cost of education and health-care for the poorer provinces. It helps to maintain social stability and provides poor people with access to basic social services.

Different from the recurrent budget transfer that favours the poorer provinces, the state investment is 'pro-growth'. The investment for growth was directed more to economic hubs such as HCMC and Hanoi through national infrastructure projects including building roads, bridges and ports. The correlation between per capita investment and poverty rate is negative as shown in Figure 2b.

It is arguable whether more investment into economic hubs would generate more economic growth and thus more tax revenue for the government to redistribute to poorer provinces. However, it is also possible to argue that more state investment should be directed to poorer regions so they can catch up with other regions. The latter could be a sensible scenario given the income inequality among regions and social groups as well as the consolidation of foreign and private investment in coastal provinces and big cities. Once the economic hubs can grow and be self-sustaining, the government should invest more in disadvantaged areas to connect them with the mainstream of economic growth.

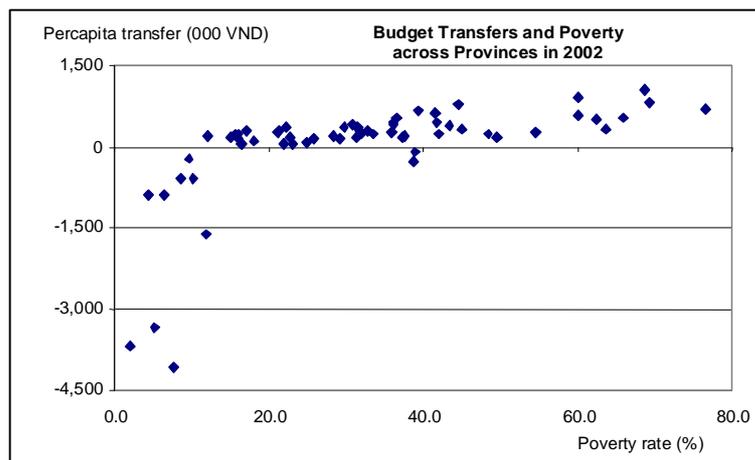


Figure 2a: Budget transfers and poverty across provinces in 2002

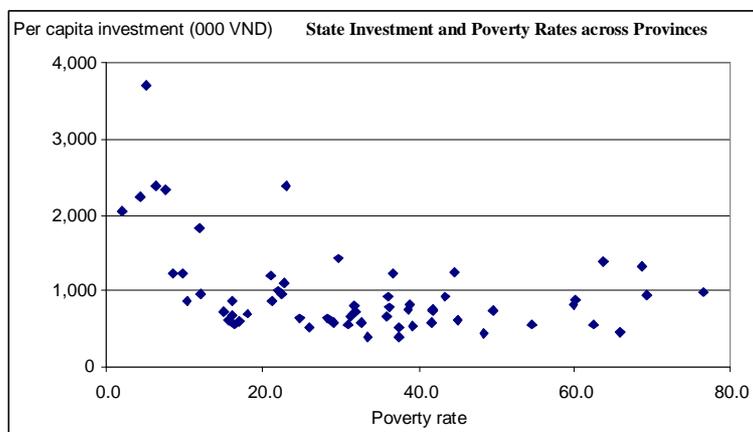


Figure 2b: State Investment and Poverty Rates Across Provinces  
 Source: Viet Nam Development Review (VDR) 2004

### Fast economic growth and incremental civil participation

In history, Vietnamese participated greatly in national missions to protect the country from aggressive invasions. Without the wholehearted and mass participation of its citizenry, Viet Nam might have not been the independent and united country it is today. The sacrifice of individual interests for the collective, and for national objectives has been a deep-rooted tradition within Vietnamese society. Coupled with a Confucian culture and a long period of subsidisation and a top-down system, the modes of participation and the objectives of the mass of the population in Viet Nam are unique and different from other countries. According to Pamela McElwee of Arizona State University, contrary to the international focus on 'participation for participation's sake', Viet Nam followed a more pragmatic approach that regards 'participation as a way to improve government services, to increase accountability and authority and to reduce the number of rural protests and public complaints.'<sup>34</sup>

### *Economic transformation and improved governance*

Generally, there has been an expansion of freedom in economic, civil and political rights in Viet Nam since *doi moi*. Viet Nam has recognised and protected the rights of citizens to own property since 1988. Since 2000, it expanded the rights of individuals to do business in almost all types of economic transactions except for illegal activities and 'strategic sectors' that concern national security and sovereignty. It has attempted to address poverty and social inequality through fiscal policies and various national target programmes on poverty reduction and basic social services provision. Through its mass organisation system and governmental structure from the central to village levels, the Viet Nam government is generally very responsive and effective in helping victims of natural disasters

(flood, drought and typhoons) and epidemics (SARS and Avian flu). In Viet Nam, the chairperson of a locality could be dismissed if he or she let his/her citizens suffered from starvation and hunger, according to the government policy.

Recently, due to social unrest and rampant corruption, there has been a trend to promote broader participation of citizens in local governmental business. There has been a call for greater transparency in the government's planning, execution, budgeting and financial monitoring. Starting with small development projects funded by INGOs at the beginning of the 1990s and then bigger international donors' programs, Viet Nam has piloted the participation of villagers in the supervision of development programmes. There has been a very positive impact on the quality of the small-scale constructions through people's participation. Therefore, in 2004, Viet Nam has institutionalized the participation of local people in infrastructure programmes by making it a law.

In 1998, Viet Nam instituted a new policy known as 'grassroots democracy' that provides mechanisms for ordinary people to exercise their rights to participate in government activities that affects them. This move reflected the efforts of Viet Nam to promote the transparency of government operation and expand the involvement of the people. Along with the grassroots democracy decree, Viet Nam also promoted the decentralisation of the government system to engage better with people and increase the effectiveness of the system. At the core of this process, participatory budgeting and management has been decentralised to lower levels of government. All these efforts aim to better the operation of government and improve the credibility of the VCP.

#### *Improvement of representative participation*

Beside the improvement of direct participation of citizens in local government business, there has also been improvement in the quality of the representative body. In Viet Nam, village heads, the only post associated with the administrative system, have recently started to be elected directly by local people. This is a radical move to experiment with the use of popular elections as a means to improve the quality of government as well as the participation of people. McElwee (2006), in reviewing various studies, concluded that village headpersons received top marks as the most effective and important government actors. They are more trusted and accessible than other levels of government. Importantly, they normally stand by local people in negotiations with higher government-level officials and thereby protect the needs and interests of local communities. This is a positive signal and could be an encouragement for Viet Nam to use elections for other posts in the governmental structure, notably the chairpersons of communal People's Committee and head of functional departments, in a similar way.

The quality of representative bodies, notably People's Council at communal, district and provincial levels and the National Assembly at the central level has been strengthened. Recently, there have been about 10-15 per cent of National Assembly members who are not members of the VCP. The proportion of women is 27.3 per cent of current members. Over 90 per cent of members hold a university degree and only 14 per cent of them came from the private and business sectors. The image of the NA has been improved significantly within society since a 1998 ministerial question-and-answer sessions that was broadcast live on TV. The transparency and accessibility of NA sessions have attracted great attention from population at large. Consequently, there has been a sharp increase in questions and inquiries from citizens sent to their representatives. This has increased the credibility and power of the NA. According to McElwee (2006): 'the legislature is also more autonomous, as bills proposed by the government have been rejected or subjected to major revision more often than in the past. The NA now plays a larger role in supervision of government activities through monitoring of citizens' complaints and petitions.' If this trend continues, Viet Nam will have more accountability that forces the government to comply with the rule of law.

#### *Expected broader political participation and the rule of law*

Clearly, the expansion of economic and social rights as well as civil and political rights in Viet Nam is an incremental process. It could be said that Viet Nam is following the 'endogenous modernisation

model which expanded the economic opportunities before accommodating the increasing the civil and political needs of its citizens. This democratisation process is a response by the VCP and the government to society's needs and to the pressure that has resulted from the reform of the economy and international integration. Recently, there has been a wave of free debates about political freedom in the national media and on Internet forums that started before the 10<sup>th</sup> Communist Party Congress in 2006. Anecdotes indicate that there has been an increase in free debates about corruption, the leading role of communist party and democratic governance among society. The development of a middle-income class, mostly in urban areas and the increasing power of private sector has, to some extent, made the freedom of expression and political participation a practical and strategic need. The role of the media in fighting corruption has been legally recognised and that led to greater opportunity for free and independent opinions. Coupled with the binding regulation of WTO, it is expected that the rule of law will be applied more pervasively in Viet Nam.

## 5 Remaining concerns

At the aggregate level, the economic picture in Viet Nam is very positive. However, if these impressive aggregate development indicators start to unravel, there would be great challenges ahead for Viet Nam to achieve its development goal of becoming an industrial country by the year 2020.

First, there is a gap in both income and non-income development indicators between social groups as well as geographic areas, which is increasing at an alarming rate. Looking at the poverty map (Figure 3), there are two conspicuous features: geographic poverty and ethnic poverty. In the past ten years, the rates of poverty reduction in Viet Nam have been varied among the different regions and ethnic groups. In general, poverty reduction rates were high in the North East and in the Red River Delta while the North West and North Central Coast performed poorly. In relation to the total population, the poor live mostly in the Mekong Delta (17per cent), the North East (17.2per cent), the Red River Delta (13.6per cent) and in North Central (21.1per cent). However, the rates of poverty are higher in Central Highland (33.1per cent) and North West (58.6per cent)<sup>35</sup>.

The poverty reduction rate among ethnic minorities is slower than that among the Kinh and Hoa. According to Nguyen Thang et al, between the period 1993-2004 the poverty rate among ethnic minority reduced by 25 per cent while the reduction among Kinh and Hoa was 40 per cent. In 2004, ethnic minorities accounted for 12.6per cent of the total population but were disproportionately represented in the poor community with 39.3per cent. It seems that to lift ethnic minorities who live in mountainous areas out of poverty would be the most challenging question for Viet Nam in the coming years, given its current policies.

Second, the past measures such as the release of its physical assets (land, labour and infrastructure in 1980s and 1990s) to achieve a high economic growth rate and fast poverty reduction have been diminished. A high rate of investment that sacrifices current consumption is facing a diminishing rate of return and inefficient investment. According to David Dapice<sup>36</sup> the capital-output ratio (investment rate over GDP growth rate) of Viet Nam is much higher than that of India and China. For the period 1998-2002, this ratio for India is four, China is five while Viet Nam is six. This suggests a less efficient use of investment for economic growth in Viet Nam. In order to maintain its competitiveness and high rate of return, Viet Nam needs to revamp its education and technology research and transfer - that is never an easy task given its poor quality education system and scarce resources.

Third, the role of government in economic investment, poverty reduction and social service provision could be challenged once Viet Nam has joined WTO. The dominance of economic efficiency and international competition could accelerate the inequality among social groups and geographic regions and minimize the government's ability to provide subsidies to protect the poor from shocks.

Finally, given the increasing complexity of the economy and social interests the Communist Party is facing a daunting job to lead the process of development. It has successfully organised the economic

reform but social and political reforms have just started. The power structure in Viet Nam is being transformed with the emergence of the private and international business sector that could undermine the voices of the poor and the socially excluded. Consequently, there might be less resources allocated via the government budget mechanisms to the poor and to social welfare. As a result, the legitimacy of the Communist Party that heavily relies on rural poor could be undermined. Furthermore, the integration of Viet Nam into the global market has exposed Vietnamese people to other cultures, beliefs and values. Freedom of expression, self-determination and political participation has gradually become a need among the society, especially the emerging middle class. Therefore, how to maintain the pluralism of the society within a one party state is the question that Viet Nam has to seek an answer for.

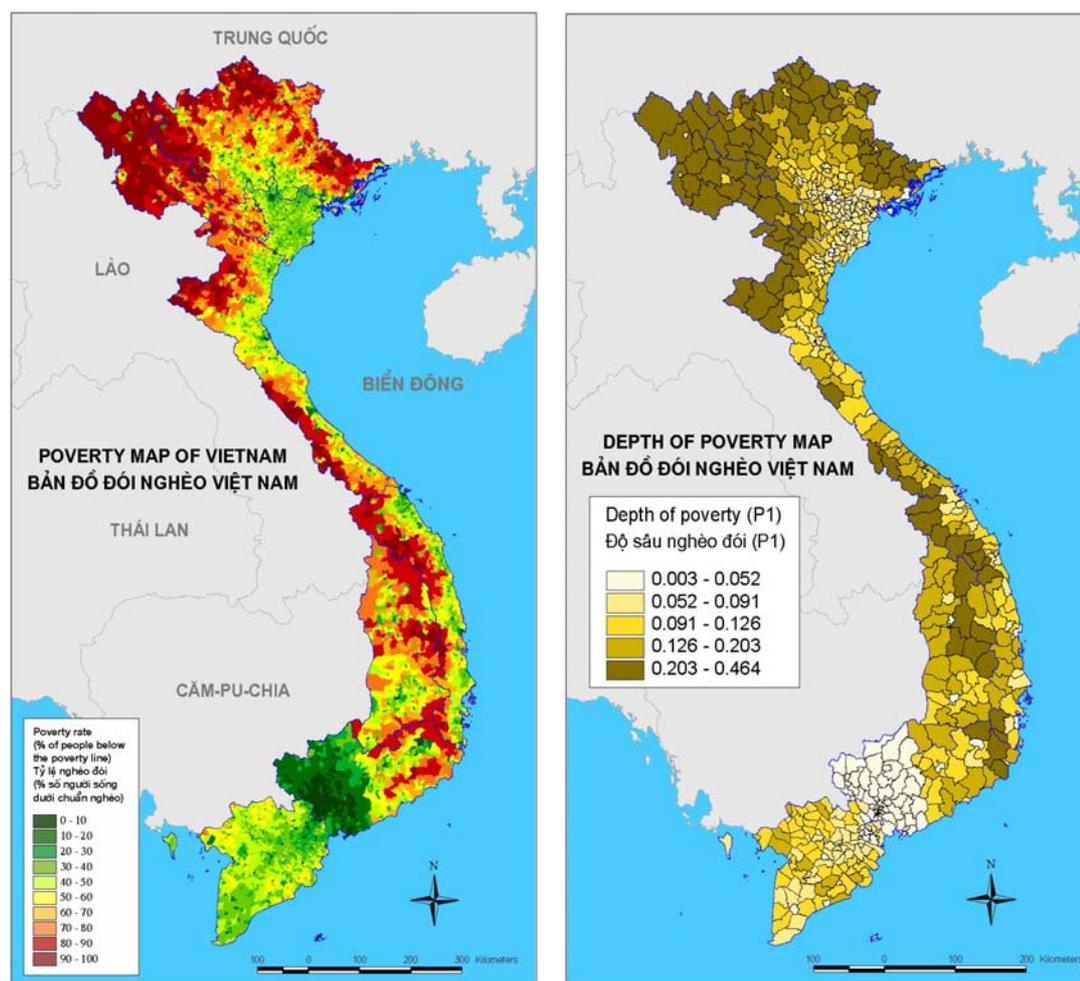


Figure 3: Poverty map of Viet Nam 2002: high poverty rate seems to be associated with mountainous areas where ethnic minorities reside.

### 5.1 Current policies might increase the gap in income among regions and social classes

Inequality within regions is a critical issue for Viet Nam to tackle. This disparity can be attributed to two different dynamics. First, it is the economic geography of mountainous areas that impede private investment and economic growth. Looking at the poverty map of Viet Nam in Figure 3, the poorest regions are the mountainous areas of North-West and Central Highlands where the poverty rates are 58.6 per cent and 33.1 per cent respectively. These landlocked provinces are far from ports, navigable rivers and lack accessible roads to attract investment that is supposed to spill over from the market economy. Second, economic and social policies that reinforce the inequality in economic prosperity.

The Gini index suggests that the inequality of Viet Nam is not yet serious. However, there is increasing concern among policymakers and academics arising from the increase in the absolute gap between the richest and the poorest. According to Nguyen Thang et al, the total expenditures of the richest groups rose from 41.8per cent in 1993 to 44.7per cent in 2004, while that of the poorest groups decreased from 8.4per cent to 7.1per cent. As suggested by Scott Fritzen et al, it might be possible that Viet Nam is following the same general 'unequal development' path that China has experienced. He also warned that the understanding about inequality of Viet Nam is limited and the lack of available data could underestimate the real level of inequality in Viet Nam <sup>37</sup>.

#### Imbalanced investment

Historically, Beresford cited the data of GSO in 1976 to show that the three richest provinces (Hanoi, Hai Phong, Quang Ninh) had 15 per cent of the population but produced half of all industrial output. After the reunification, in 1981 about 14 per cent of population living in Ho Chi Minh City, Hanoi, Vung Tau, Hai Phong and Quang Ninh produced 58 per cent of industrial output. This trend was reinforced due to the restructuring of the industrial sector in 1989 that had a negative impact on locally state run enterprises and cooperatives that were mostly located in rural areas. Conversely, the centrally-run state industries located in big cities were protected.

Recently, this inequality has been reinforced due to the accumulation of private and foreign direct investment in coastal provinces and big cities. According to the GSO 1995, 87 per cent of foreign investment was located in six provinces around HCMC and Hanoi. According to MPI, until the end of 2005, six provinces of HCMC, Hanoi, Dong Nai, Binh Duong, Vung Tau and Hai Phong accounted for 78.59per cent of total active FDI in Viet Nam. In terms of pure economic efficiency, it is not realistic to expect an increase in investment from private and foreign investors in these poor and isolated areas given the current poor level of infrastructure and human capital. As discussed previously about state budget allocation, the Viet Nam government might need to divert its state investment budget more to disadvantaged provinces to lessen the imbalance of investment and economic growth.

The Viet Nam government does care about the North-Central-South regional balance and therefore has made various efforts to invest in 'economic poles', notably Hanoi-Hai, Phong-Quang Ninh for the North, Da Nang for the Central and HCMC, Song Be and Dong Nai for the South. In coming years, the fast economic growth forecast for economic poles would continue attracting migrants from the surrounding areas. Consequently, it is expected that the poverty rate in surrounding areas of these economic centres will continue shrinking. Unfortunately, this 'economic poles' policy might not benefit poor ethnic minorities as much as the poor Kinh majority. Due to the difference in culture, languages and possibly social stigmatisation against ethnic minorities it would be hard for them to migrate and seek jobs in industrial centres around Hanoi or HCMC. Therefore, the government should make more effort to find a balance between rural and urban as well as lowlands and mountains.

#### Human Development Policy

Looking at the trends in development and future inequality, measures of human development inequality could exacerbate the current gap. The disparity in school enrolment, health-care, infant mortality rate, access to clean water and sanitation facilities among social groups is alarming. One typical example is education. According to the WB, in 2002 the net enrolment of children from the poorest households was 85per cent, 54per cent and 17per cent for primary, lower secondary and upper secondary grades respectively. While the enrolment rate of the children from the richest households was 95per cent, 86per cent and 67per cent respectively. The disparities between the Kinh majority and the ethnic minorities and between rural and urban inhabitants were equally striking. These would clearly affect the capability and opportunities in future for children who live in poorer ethnic minority households or in rural and mountainous areas. Consequently, this disparity would reinforce the inequality among groups and regions.

### **Equal in opportunity**

According to Vo Tri Thanh of CIEM, in the Vietnam context the causes of inequality are more important than the gap per se. Inequality in terms of assets and endowments as well as opportunities in lives is serious in Vietnam. The prevalence of corruption is an indicator of the inequality in power and access to public resources. If this cause of inequality is not addressed urgently, despite the average Gini index, Vietnam might face social instability.

#### Access to land and forest for mountain dwelling and ethnic minority inhabitants

More direct support is necessary to release the local resources that input directly to economic growth. After *doi moi*, the inhabitants of the rural lowlands benefited from their right to own agricultural land that led, in turn, to improvement of their livelihoods and living conditions. However, the mountain inhabitants, mostly ethnic communities, have not had the benefit of rights to own forest and forestland despite their livelihoods relying heavily on this natural resource. This lack of endowment is one of the main causes of the high poverty rate among ethnic minorities. It is advisable that the government accelerate the allocation of forest and forestland to ethnic minorities so that they can invest and benefit from this natural capital. By doing so, ethnic minorities would have an opportunity to benefit from the fast growth of the furniture sector, which has reached a billion dollars a year.

#### Urban poor, migration and social safety net

The influx of young people from rural to urban and industrial centres is a consequence of the 'economic poles' policy. According to GSO, the share of agricultural sector in GDP has shrunk from 40 per cent in 1985 to about 21.8 per cent in 2003. However, the share of agricultural labour in employment has reduced much more slowly from 72 per cent in 1985 to 56 per cent in 2003. This indicated that at aggregate level, the income gap between farmers and waged workers in industrial and service sectors has been increasing. According to research commissioned by Oxfam International in Viet Nam, urban incomes in HCMC and Hanoi are on average 5-7 times higher than farming labourers in rural areas<sup>38</sup>. Thus, migration has been pulled by the higher income in urban areas and pushed by the reduction in income in the agricultural sector.

The emergence of urban poverty that seems to be associated with migrants is a new challenge for Viet Nam. Unfortunately, urban poverty is not well understood in Viet Nam. Until recently, many policy makers and academics still believe that poverty in Viet Nam is largely a rural phenomenon and that the urban poverty rate is approaching zero. In reality, the migration of rural poor to industrial centres and big cities has increased dramatically but they are not counted as urban dwellers. The invisibility of migrants is the result of government policies to manage migration. In Viet Nam, it is extremely difficult for migrants to obtain the permanent residency in big cities.

According to Thanh, Anh and Tien (2003), qualitative research in Ho Chi Minh City found that without permanent residential permits, immigrants remain confined to the unskilled, low-paid and low security informal sector. Without permanent residency, they are invisible to many government policies and service coverage. They are not eligible for other services provided by the government such as subsidised interest loans, health-care and education fee exemptions provided by the Hunger Elimination and Poverty Reduction (HEPR) program. Migrants are unlikely to sign on their business, or register for their purchases of assets such as land, house and vehicles. According to Carrie Turk of the World Bank in Viet Nam, 40 and 15 per cent of children aged 11-14 in KT4 and KT3<sup>39</sup> respectively in HCMC are out of school<sup>40</sup>. Clearly, these emerging urban poor suffer not only from income poverty but also non-income poverty. They cannot practice their basic human rights – most seriously, the access to education for their children, rights to own property and their participation to political and social activities.

The mobility of the labour force plays a critical role in economic development. However, the existing social security system is no longer relevant in dealing with emerging problems. According to Scott

Fritzen et al<sup>41</sup>, formal safety nets cover only a small portion of Viet Nam's population and the level of coverage is increasing at a very slow pace. The level of assistance for those who are covered is very modest, on average only some 5per cent of household income for recipients in 1998. In the market economy, people no longer stay in a state-owned enterprise for a life-time. They may change jobs, migrate or lose their jobs for various reasons. Different from farmers who still have land to rely on (except landless farmers<sup>42</sup>), these people do not have any safety net to protect themselves from temporary shocks. Therefore, it is necessary to recognize the full rights of immigrants and transform the social safety net system to buffer the shocks that migrants as well as other workers might face.

#### Democratic governance, the rule of law and human rights

Viet Nam is now in its third wave of reform that started with its efforts to join WTO. Viet Nam will have to reform its internal legal system to comply with its international commitments. It is expected that the power structure that will affect the resource allocation will be transformed. The emergence of the business sector and the decentralisation of the government could jeopardise the representation of the marginalised in the decision-making process.

Recently, there has been an increase in popular political participation through the National Assembly, village meetings and the media. Unfortunately, participation is uneven among social groups and classes. According to McElwee (2006), people who are well educated, or individuals who are retired officials or veterans are the ones who have the self-confidence to make suggestions and voice their concerns. The poor, the marginalised and ethnic minorities are the ones that do not have the connectedness or access to mass media to lodge criticisms and raise their concerns. The influence of the business sector has increased dramatically and that could greatly transform the current power-balance. Corruption, political collusion and poor representation of the marginalised groups in policy making could exacerbate the imbalance, especially when the government faces more pressure from the private sector and international competition following WTO accession.

#### **Increasing power for private sector**

There is an annual meeting between the Prime Minister and the business community to discuss their problems and obstacles – the objective being to smooth the business cycle and protect business interests. This meeting is coordinated by the Vietnam Committee for Commerce and Industry (VCCI) that is very active in advocating a liberal business environment for the domestic private sector. Recently, the revision of the Law on Investment has been greatly influenced by VCCI and the business sector. They also increasingly use the media and networks to influence economic policies (import-export, etc.)

It is likely that the position of the poor and the marginalised would be undermined greatly. Therefore, as suggested by Nguyen Thang of VASS, the transformation of the power structure should be closely monitored. The emergence of a civil society that cares about the interests of the socially excluded should be recognised to keep poverty reduction and social equity high on the government agenda. A Human Rights Based Approach<sup>43</sup> (RBA) should be institutionalised to ensure that decision-making not only takes into account economic efficiency but also the rights of all citizens, especially the poor and the disadvantaged, to enjoy basic living standards and civil participation. This would guide the resource allocation to poorer areas and communities despite possibly higher economic cost.

#### Enforcement of law on environmental protection

Environmental protection and pollution control has become a pressing matter for Viet Nam. According to National Environment Protection Agency (NEPA)<sup>44</sup>, 70per cent of industrial zones have no fluid waste treatment system. The waste treatment is worse in smaller industrial and production workshops with more than 90per cent of them not treating fluid and solid wastes. Consequently, the environment has been heavily polluted, especially in urban and industrial areas. According to Professor Lam Minh Triet<sup>45</sup>, surface water has been contaminated by pollutants at a level 2-5 times higher than government standards. In some places the level of pollutants is 10-20 times higher. The

surrounding areas of industrial zones are also polluted by heavy metals such as lead, mercury, arsenic and phenol. These pollutants have damaged health and caused cancers in surrounding communities.

Consequently, environmental issues have become pressing due to the expansion of industrial sector. According to research by K hospital reported on Viet Nam TV, more than 80 per cent of cancer cases in Viet Nam related to pollution and chemicals. The village of cancer has been spotted and reported in the media frequently. The increasing demand for better health-care, especially for the poor, is a challenge despite the rudimentary public health system presented in all communes of Viet Nam.

## 6 Concluding remarks

There is an obvious correlation between the high economic growth rate and fast poverty reduction pace in Viet Nam. At the aggregate level, the development of Viet Nam is admirable and impressive. Despite the fact that several significant challenges lie ahead, Viet Nam offers several lessons for other developing countries.

1. Viet Nam has established good relations with the outside world and maintained a business-conducive environment to attract FDI and international trade. This harmonious environment has realised its geographical advantage in being located in the heart of an economically dynamic and politically stable region.
2. Viet Nam has successfully maintained its domestic social and political stability by maintaining a high economic growth rate, reasonably fair distribution of tax revenue and high commitment to poverty reduction. Social and political stability, in turn, has promoted economic investment and international trade.
3. Viet Nam has promoted a social structure based on solidarity, humanitarian acts and poverty reduction. These structures have been reinforced via social movements and events organised by the Fatherland Front and its associated mass organisations. The desires for poverty reduction have been institutionalised in the political mission of the VCP and various government social-economic development plans. The sharing of common objectives among VCP, government and the Fatherland Front on poverty reduction is unique to Viet Nam. It helps to mobilise resources and realise the commitment to poverty reduction and social equality.
4. Viet Nam has a strong and functioning government system from central to grass-roots levels that can deal with crises. For example, different from the health system reform in China that disassembled its rudimentary public health system<sup>46</sup>, Viet Nam has been trying to strengthen its communal health-care services. Thanks to this effort, Viet Nam was able to deal successfully with endemics such as SARS and Bird flu.
5. Largely, the role of government in promoting economic growth and poverty reduction is significant in Viet Nam. The national government has created and maintained a stable social and political environment to attract foreign and domestic investment for economic growth. It has a strong role in redistributing resources from rich provinces to the poorer ones through fiscal policies and National Target Programs on poverty reduction. It decisively coordinates external resources and internal efforts to accelerate poverty reduction.
6. There is a constructive and open cooperation between the Viet Nam government, international donors and INGOs in policy discussion and development. It is important to note that the Viet Nam government has been leading the process of nationalisation and institutionalisation of international development goals and commitments. The leading role of the government of Viet Nam has demonstrated the necessity of country's control over its development agenda and planning.
7. Viet Nam's efforts to release its internal and local resources for economic growth and poverty reduction have been confirmed as the most sustainable approach. This also helps Viet Nam to maintain its independence and sovereignty that was deemed extremely important to Viet Nam.
8. Viet Nam promoted the growth of the agricultural sector as one of the key elements in the push for economic growth and poverty reduction. A stable growth rate in agriculture thanks to

- favourable government policies has ensured the national food security that has been extremely important for Vietnamese development.
9. Viet Nam promoted labour intensive manufacturing such as textiles and apparel, shoes and seafood processing after the liberalisation of agriculture. This rung of the development ladder has absorbed millions of young female and male workers that enter the labour force every year. It also helps to reduce the pressure on the agricultural sector that has shrunk relative to other sectors. It helps to lay the foundation for Viet Nam to move to the next phase of industrialisation thanks to a more professional workforce.
  10. Viet Nam has a highly literate and educated labour force that makes economic growth possible. This was the result of good social service coverage during the cooperative era and Viet Nam's efforts to invest in education, health-care and access to amenities. Without an educated and healthy workforce, Viet Nam would not be able to benefit from economic opportunities and achieve a high economic growth rate.
  11. Women contributed greatly to the success of Viet Nam through their great participation in social, economic and political spheres. Investment in education and health-care for girls and women has made the whole workforce more productive and brought about a more equal position and opportunities for women.
  12. Viet Nam intentionally opened the economy before reforming the political structures and ideologies. As the economy expanded and became integrated with the global market, Vietnamese people have been exposed to other beliefs and values, culture and practices. These have increased the need for more political participation among the society. Coupled with the prevalence of corruption and the resulting social grievances, VCP has gradually expanded civil and political participation. This incremental process has helped Viet Nam to achieve high economic growth, social and political stability and a vision for addressing the issues of civil and political rights as an objective of development.
  13. However, there is a gap in understanding of *non-income* poverty in Viet Nam. In previous studies on poverty, non-income aspects of poverty such as civil and political rights, the dynamics of power, and corruption have not been paid enough attention. Consequently, there has been an absence of discussion, policy options and practical programmes to address the non-income poverty causes and consequences.
  14. The transformation of the power structure threatens to undermine the achievements of Viet Nam in poverty reduction and social equality and stability. Viet Nam should recognize the role of civil society as well as the private sector in addressing development issues as well as in achieving civil and political rights.
  15. The Viet Nam government needs to address inequality more aggressively by increasing the recurrent budget transfer as well as the investment budget for poorer provinces. It should accelerate the allocation of forests and forestland to ethnic communities to achieve a boost similar to that which the lowland dwellers had after the liberalisation of agricultural land at the end of 1980s. The investment in human capability such as education and health-care for ethnic minorities is also critical for achieving sustainable development and for curbing the increasing gaps between ethnic minorities and Kinh majority.
  16. The Viet Nam government needs to recognise the reality of migration. It should transform the migration policy by ensuring the property rights of migrants and include them into socio-economic development planning. Ignoring them would not only make it impossible to solve their problems but also prohibit their development potential. It would also increase the probability of controlling communicable diseases and social management.
  17. Clearly, in the medium- and long-term, the cost of pollution would outweigh the benefit that avoidance of pollution control brought about. In 2006, the national assembly agreed to spend not less than one per cent of its state budget on environmental protection<sup>47</sup>. However, the enforcement of law and the balance between economic growth, job creation and environmental protection is another challenge that Viet Nam has to deal with.
  18. The quality of education is an alarming problem that Viet Nam has to address. The fake certificates and degrees, cheating in examinations and research has been rampant in Viet Nam. If

Viet Nam cannot upgrade the quality of education, it would fail to move to the next rung of the development ladder.

## 7 Families' stories

### Family One

Mr. Thach Tot greeted Nhon Hoa and myself with a tender smile on his face. His wife, Thach Thi Sa Vene, looks younger than her age of 44, handed out four clean and shiny glasses of ice-tea sweetened with sugar. This 'luxury' drink impressed me more than a brand new motorbike covered by a piece of cloth that stood in the corner of the house or a flat screen Toshiba TV located on the iron shelf under the big painting of Buddha in the middle of the 'living room'.

*Five years ago, Mr. Thach Tot told us softly, my eldest daughter Thach Thi Sa Quan went to Ho Chi Minh city to work for a leather footwear company. She was eighteen when she went to work far from home. She earned about \$80 a month and sent us \$100 every two or three months. Now she is twenty-three and married to a city man who is working in the same factory. She stopped sending us money but I am happy for her, added Mrs. Vene. I am so proud that she's got married to a city boy. She is still very caring towards us. She has taken me twice to the city. Everything looks so different, especially traffic, buildings and the way people dress.*

Mrs. Vene disappeared for a minute and came back with an album in her hands. She showed us the photos of her daughter's wedding. It was a typical city wedding. The bride was wearing a long white dress and holding a violet orchid bouquet. She was surrounded with relatives who were wearing suits and smiling for her happiness.

Suddenly, the telephone rang. Mr. Thach Tot rushed to pick up the phone and talked in Khmer for several minutes. It was another daughter of theirs, Ms. Thach Thi Sa Huynh, who is working in a foreign factory in HCMC. Huynh is 19 years old and followed her sister to Ho Chi Minh city since last year. She is still single and sends her parents money every two or three months, just like her sister did. She just called to inform them that she and her younger sister, who is working as a domestic helper, are doing fine and they will visit them next month.

Mr. Thach Tot and Mrs. Vene were so happy after the call. They would see their daughters after three months and they know that there would be many guests come to see their daughters too. *When my daughters come home to visit us, said Mrs. Vene, my neighbours also gather to ask for information about the city and job opportunities. My daughters have introduced some girls to work in the shoe factories. There are more job opportunities now than in the past. Unfortunately, they are all far from home.*

*My daughter would never return to work on farm, Mrs. Vene continued. It is much harder to work as farmers. They do not want to live here and I do not want to live in the city. It is fine as they come to visit us and they can call us on telephone. I miss them.*

Mr. Thach Tot prefers his children to work in the city as they can earn more money. He also finds them much better than their rural peers or their brothers in social life and communication (in Vietnamese). *They are so different from my generation, he said. They also have more opportunities than we did in the past. After all, they can earn more money and help their parents. What do you want more?*

Mr. Thach Tot has three sons. Two of them have married and live in the commune as an average Khmer family. They grown peanut, raise pigs and keep cows and goats. They do not have money to give him but they can help on the farm when needed. His youngest son is now 12 year old. He is going to school at grade 6. *I want my son to finish his high school at least to have opportunities that his sisters and brothers do not have now. All his siblings finished grade 6 only and all they can do is working in factories.*

Mr. Thach Tot's family is not rich but their economic and social capital is getting better and better. They now have electricity, TV, a motorbike and wooden furniture. They also have a telephone so that

their daughters can call them anytime necessary. Next year, they will expand their house and construct a new kitchen. Two of their single daughters might get married to city men as their sister did. However, they put a lot of hope in their third son who will have more education and thus more opportunities besides working in the factories making leather shoes.

### **Family two**

Mr. Nguyen Thanh Nhan and Mrs. Nguyen Thi Kim Tuyen have four children. Their main family livelihood was fishing. However, aquatic resources have been getting scarcer and scarcer in last ten years and forced them to stop fishing several years ago. To cope with the challenge, both of them had to migrate and work for other farmers to earn their living and feed their four children. As almost all other poor families in Cho village, they collected natural clams in coastal areas near their village as a supplementary source of food. In 1999, Hiep Thanh communal People's Committee rented the coastal land to a private business for raising clams. Consequently, farmers were banned from collecting natural clams. Because they could not afford to lose this source of food, Mr. Nhan and other farmers started stealing clams from the private sites that were the cause of many conflicts with the business.

In 2003, Oxfam decided to help farmers in Hiep Thanh to organise themselves into a cooperative and provide them with organisational and technical skills as well as financial assistance. Oxfam also successfully convinced Hiep Thanh People's Committee to give the coastal land to farmers so that they can raise clams. Mr. Nhan's family joined the clam cooperative in 2004 with an initial loan of 4 million VND. In 2005, they earned 7 million VND profit. This year, they invested all 7 million VND profit in clams and as a good member of the cooperative, Mr. Nhan got an increase in his loan to 7 millions VND. He expects that next year he will get 14 million VND profit at least. Like the other 137 households in the cooperative, Mr. Nhan was very confident of his life in the future.

Besides profit from the investment in clams, Mr. Nhan's family also works for the cooperative, especially at harvesting time that lasts for three to six months a year. They can earn 40,000 VND a day, which is double the pay they get from other work. Therefore, now both of them do not go out to seek other work. According to Mrs. Hoa – one member of the cooperative management - last year the cooperative spent more than 100 million VND paying farmers who work for them. Together with money contributed by two of their sons who are now working for other fishing small businesses, Mr. Nhan's family has been elevated above the poverty line.

Apparently, collective ownership of natural resources is not always a bad idea. Hiep Thanh clam cooperative is a good example showing that if managed properly and if farmers have appropriate support in production and marketing, they can use these resources for their livelihoods. As the Hiep Thanh People's Committee said, the cooperative has not only raised the income and living standards of poor and landless farmers, it has also reduced significantly the social conflicts among villagers and between villagers and private business. Besides a 634 million VND grant from Oxfam, farmers in Cho village themselves invested 833 million – mostly from their profits. As Mr. Nhan said, clam raising is a very lucrative and sustainable source of income for his family. He does not want to spend money on facilities such as TV or a motorbike but wants to invest in clams to get more money. As Mr. Thanh Em, a district official said, 'clams have now become the top interest in the district'. There are now 1,300 families in six cooperatives investing nearly 19 billion VND in clams and many of them actually diverted their investment from risky shrimp farming to more sustainable and environmentally friendly clams. *'This positive change is definitely attributed to Oxfam's initiative in helping the landless and the poorest farmers in Duyen Hai,'* said Mr. Re, Deputy Chairman of District People's Committee.

### **Family three**

Mrs. Thach Thi Enh, a 65 year-old Khmer widow was crying when she thought of her life 20 years ago. She had to work for others for a meagre daily wage. Her only son had to stay with her and worked for other better-off families raising their cattle. He received reprimands more than food and

wages. She remembers that when her son was sick, she had to sell two water-storing containers to pay for his treatment as she had nothing worth anything.

Her son got married to a poor girl 15 years ago when he was 20 years old. Both of them had to work for others watering vegetables. The only asset that they had was their labour - and hope. Ten years ago, her daughter-in-law went to the market and recognised the difference in the price of vegetables between farm-gate and market. She decided to buy some vegetables from farmers to sell in the market. Then, she expanded her business to grocery and fruits that earned her 70,000-100,000 VND a day. Last year, they bought two cong of farming land (one cong equals to 1000 square metres) and three cows. Her son works mainly on their farm now growing corn and peanuts her family has a motorbike, TV, cassette player and amplifiers. They are going to expand the house at a cost of 10 million VND.

Mrs Enh's son and daughter-in-law are illiterate as they had no opportunity to go to school; her granddaughters and grandson are going to school to learn how to read and write. The eldest boy is studying at grade five; the twin girls are studying at grade three. Mrs. Enh believes that her grandchildren's lives will be much better than their parents' were. With education, they are going to have more choices in their lives.

Apparently, many poor and ethnic minorities benefited from different development and poverty reduction programmes funded by the government, especially ethnic minorities in Ngu Lac commune. In addition, millions of them have helped themselves by taking up opportunities brought about by the market since Viet Nam allowed the free flow of goods and embraced the market economy in 1986. Livelihood strategies are becoming more diverse with different sources of income. Like many other farmers, Mrs. Enh hopes that the education that her grandchildren have will give them more opportunities when markets expand.

#### **Family four**

Despite living in a remote mountainous area, the family of Mr. Ma A Tra does not have much land for cropping. His family income has been diversified by raising animals, providing a motorbike taxi service for tourists in Sapa town and selling handicrafts. Apart from these sources of income, his family also receives much support from the government.

Mr. Tra has been working in Sapa as a motorbike taxi driver for several years. He earns from 30,000 to 100,000 VND a day, which is much better than other types of labour such as construction or weeding. When Mr. Tra works in Sapa he wears Kinh clothes instead of his traditional Hmong outfit. *'I want to team up with other Kinh motorbike drivers and target Kinh customers'*, said Mr. Tra. *'The Kinh customers normally pay better for my service. There are other Hmong people who wear Hmong outfits and they target Hmong customers. Kinh customers normally do not want to take Hmong motorbike taxi because they think we are not good at driving and the dyes of Hmong clothing can dirty their clothes.'*

Some years ago, Mr. Tra sold a piece of his land for 60 million VND. The buyer just paid him half due to the incomplete paper work. He bought a Jupiter motorbike for 25.5 million VND that enables him to work in Sapa. *'When I get the rest of the payment, I will upgrade my house, pay the debts to the banks and keep 10 millions for saving,'* said Mr. Tra, outlining his plan. *'Currently, I have two loans from two different banks - 6 million from the Bank for the Poor and 5 million from the Agriculture and Rural Development Bank. I got these loans to invest in animal husbandry and upgrade my house.'*

Last week, Mr. Tra sold one pig for 480,000 VND to pay part of his loan interest, buy some food and keep the rest as saving. He also slaughtered one pig to have a party with other neighbours who helped him to reclaim a *sao* of paddy land (one *sao* equals with 360 square metres). He still has another pig and a sow that is going to give birth soon.

Mr. Tra has two daughters one is five years old and the other is five months. He knows that having the third child might cost his family a lot. However, he wants to have a son who will 'burn the incense' for him when he dies. *'Before we lived in poverty and hunger,'* Mr. Tra said. *'My parents and I had to eat corn and cassava. We did not have cash and we could not get loans when we needed them. Now, we have enough rice to eat. We can get loans from the governmental banks when necessary. We have a motorbike for transport and business. My life is definitely better than my father's because I feel happier and it is easier to earn money.'*

He values school education very much. He wants to invest in his daughter's education so that they can become 'good people.' *'What do you want your daughters to do when they finish school,'* I asked. *'I will not impose any professional orientation on my daughters but depend on their interests and wishes,'* Mr. Tra replied, much to my surprise. *'As a father, I just support them so they can achieve their dreams. When I was a kid,'* Mr. Tra remembers, *'my father was so poor he could not give me any support for further education. I was crying when my father could not buy new clothes for me so I could look like other class-mates. I do not want my daughters to have to be sad as I was. I want them have good education so that they can read and write and have a permanent job- which their mother cannot do.'*

### **Family 5**

Mrs. Giang Thi May, a Hmong widow in Ma Tra Village, Sapa district, Lao Cao Province has four children. Two of them have their own families but live with her. Two other younger children, 17 and 15, are going to school. As many other Hmong households, Mrs. May's family relies on agricultural production for her livelihood. In the past, her family merely had enough food for domestic consumption. Now, she can produce enough rice from 15 saos of paddy fields, thanks to hybrid seeds that the government introduced. She also has one buffalo and 20 chickens. *'I prefer to grow hybrid seeds because we have more rice to eat. The only thing I do not like about hybrid seed is I cannot reserve it for next year. I have to go to Sapa town to buy it,'* Mrs. May confided.

Beside paddy rice, Mrs. May also grows corn on one hectare of sloping land to feed her six pigs and one sow. *'The government reclaimed my sloping land in the year 2000 to give it to the Viet-My company for a business project. I received 10 million VND as compensation. I bought a sewing machine, covered my son's wedding and repaid a loan of 4 million VND to the bank. I can grow corn on this land still because the Viet-My company does not really use the land yet. I do not know why they have not used it. They said we might have some jobs with them,'* Mrs. May said but she looked confused.

*'Ten years ago we did not keep enough animals for sale,'* Mrs. May continues. *We used to slaughter a pig and salt the pork for later consumption. Now, we sell the whole pig and keep the money instead of the salted pork. I like going to the market to buy whatever I want. There are so many things out there for me to buy, as long as I have money,'* she smiled happily.

Mrs. May also weaves traditional Hmong textiles to sell to tourists and shops in Sapa town. She goes to Sapa every week. Each time, she can earn 60,000 or 70,000 VND. She uses the money to buy vegetables, weaving materials, pork and salt. Going to market is more than fun: she also learns a lot about prices so that when she sells her pigs she knows how much she should ask for.

*'Life is much better now,'* Mrs. May affirmed. *'Before, I had to spend a lot of time to collect fuel and forest products to sell or exchange for food. I had very little time to do weaving. Now, as I can grow enough food and keep enough animals, I have enough time to do weaving, not only for us, but also to sell for extra income.'*

Mrs. May's younger son and daughter are both studying at grade eight, three years and one year behind their supposed grades, respectively. *'I had no school education, but I want my children to go to school as long as I can afford it,'* said Mr. May. *'They know how to read and write so they know the direction when they visit big towns. They can also explain to me the policies and technical guidelines. I want my children to finish high school and possibly do vocational training. I believe that with higher education they will have more opportunities than I do.'*

## Family six

Ma A Pho and his wife have three children. They produce enough rice for family consumption and corn for animal feeding. He has two pigs, one cow, one buffalo and twenty-five chickens. He also works for a seedling farm when he has time and for that he can earn 25,000 VND a day. He participates into many social activities. He is a vet, head of a farmer's group and an alternate militia that pay him some allowances.

His family was poor. Last year, the government helped him to upgrade his house by providing roofing materials. Before, his house was roofed by grass and he had to replace them every two years. It takes a lot of time and money. *'In my village,' Mr. Pho said, 'almost 100per cent of the households have permanent roofs. Our lives are getting better and better. There is a lot of support from the government for Hmong people in my village, especially for the poorer ones. The government provides us with roofing materials, a clean water supply system, an irrigation system, rural transport, fruit tree seedlings, schools, and rice seed subsidies. My children do not have to pay school fees. I think that Hmong and Dao ethnic groups are supported by the government more than their Kinh counterparts are.'*

However, Mr. Pho knows that his community is poorer than the Kinh majority. The improvement in living standards of Hmong people is also slower than that of the Kinh. *'Before, the Kinh in Sapa also had thatched houses like we did but now they have big and good houses,' Mr. Pho said. 'They do not have farming land but they have business and permanent jobs. The problem for Hmong is that we are not good at calculating and running business. Some Hmong set up a shop like the Kinh. However, they went bankrupt because Hmong people bought on credit a lot. We could not prevent that because we did not want to break the good relations with other Hmong.'*

Mr. Pho has eight years of education in school. He was trained to be a vet by Oxfam and now he has been officially recognised as a vet by the district authorities. He values education a lot. He wants his daughters to study so they know how to do business like Kinh people. *'There are very few Hmong people working in the service sector and tourism in Sapa,' Mr. Pho said. 'The population growth is fast therefore there is no land for farming. To escape poverty and to get rich, we have to send our kids to school.'*

Mr. Pho also sees the challenges of economic development and social and cultural integration. *'Hmong people now still wear Hmong costume,' Mr. Pho said. 'However, the younger generation might not wear it. It takes a lot of time to weave and tailor a Hmong costume. Girls go to school now and have no time to learn and to produce Hmong outfits. I want my kids to wear Hmong dress but I also want them to go school.'*

## Annex 1

The first national Hunger Elimination and Poverty Reduction (HEPR) programme was launched by the government of Viet Nam in 1998. The programme aimed to help all the poor who had income below the poverty line. HEPR provided the health-care fee exemption or reduction, school-fee exemption or reduction, credit at subsidised interest rate, agricultural extension assistance and support for resettlement by providing infrastructure and farming land. Different from the HEPR that targeted all the poor in the country, the 135 programme targeted poor communes. In 1998, the programme started in 1,715 poor communes of which 1,568 were mountainous communes and 147 were lowland communes. The total number of beneficiary households was 1.1 million with about 6 million people. The 135 programme spent most money on key infrastructure such as the electricity network, roads, schools, clinics and irrigation systems. Within this programme, there was a big micro-finance component that provided a subsidised interest rate for the poor via the Bank for the Poor – a state-run bank that serves the poor exclusively.

The identification of poor households was a precondition for the success of HEPR. Ministry of Labour, Invalids and Social Affairs (MOLISA) arbitrarily constructed a threshold (poverty line) to guide the selection. At the beginning of the programme, rice equivalence was used to identify poor families. Later on (for the period 2001-2005) income was used instead at \$9.6, \$6.4 and \$5.1 per person per

month for urban, rural lowlands and mountainous areas respectively. After the threshold was constructed, communal people's committees, village heads and mass organisations were to make a preliminary list of poor households to submit to the communal HEPR committee. The HEPR committee was to verify the list and then a village meeting was to be organised with popular participation from the poor and the better-off alike in order to seek their opinions on the proposed list. After this village meeting, the list of the poor households was to be finalised and the poor would be confirmed in their status and benefit. Poor households would be granted a Poor Household Card to access benefits<sup>48</sup>.

Under the 135 programme, poor communes were identified based on some criteria such as location (remote border or island), available infrastructure (road, electricity, irrigation, water and sanitation, schools and clinics), social issues (illiteracy rate, health issues), production conditions (farming land, farming techniques) and living conditions (income poverty). Once identified as a poor commune, the commune would receive an average of 500 million VND a year in five consecutive years to construct its infrastructure. At the beginning of the programme, the priority was largely identified by local leaders. Recently, there has been a greater participation on the part of the poor and villagers in project identification, management and maintenance.

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## Notes

<sup>1</sup> Vietnam Constitution 1992, article 4

<sup>2</sup> The administration system of Vietnam has 5 levels: national, provincial, district, communal and village. However, at village level – the head of village is the only post that is paid from the government payroll.

<sup>3</sup> There are four national mass organisations in Vietnam: the Women's Union, the Farmer's Association, the Veterans' Association and the Youth Union. All of them are operating under the umbrella and leadership of Vietnam Fatherland Front.

<sup>4</sup> The last Party Congress was organised in June 2006 when Nong Duc Manh was re-elected to the General Secretary position – the most powerful post of the Communist Party.

<sup>5</sup> Vietnamese Academy of Social Science. *Vietnam Poverty Update Report 2006: Poverty and Poverty Reduction in Vietnam 1993-2004*. Page 13, The National Political Publisher, Hanoi 2007.

<sup>6</sup> At the same time, there are some concerns that the VHLSS does not capture key groups that may be particularly prone to poverty and vulnerability, most notably unregistered migrants. Because they do not have official residency status in their new areas, they are not recognized by VHLSS enumerators.

<sup>7</sup> Vietnam observes closely multi-party systems in Thailand, Cambodia, the Philippines and Indonesia. Recent political turbulence in these countries has been cited by Vietnam's government as a good reason for not allowing multi-party system in Vietnam. Concurrently, Vietnam also looks at China, Singapore and South Korea for economic and political lessons.

<sup>8</sup> Vietnam followed a rather gradual transformation from a subsidised economy to a market economy. However, around the official announcement of *doi moi* in 1986, there were some radical actions such as the eradication of the price control system and harsh money supply control. I call it a *radical therapy* to distinguish from the *shock therapy* in Eastern European countries and Soviet Union.

<sup>9</sup> For further discussion about the economic transition, see Melanie Beresford for the Vietnam case and *The End of Poverty: How We Can Make it Happen in Our Lifetime*, Jeffrey Sachs, 2005; Penguin Books, London.

<sup>10</sup> The saving and investment rate has been increased due to the increase in government spending, (according to GSO, the investment budget has increased from 27.19 per cent in 2000 to 32.91 in 2003), individual saving due to stable and controlled inflation, a better banking system, higher income and the saving habit of Vietnamese. The mobilization of resources for investment by private sectors and State Owned Enterprises also contributed to the increase in the investment rate.

<sup>11</sup> The wars against France and the US are well known around the world. However, the Japanese military occupation of Vietnam during the WWII that led to a famine killing about two million people and the border war with China in 1979 for which no official death toll has been released, are much less well known outside Vietnam.

<sup>12</sup> MPI website, 2006, [www.mpi.gov.vn](http://www.mpi.gov.vn).

<sup>13</sup> Vietnamese Academy of Social Science, (2007), *Vietnam Poverty Update Report 2006: Poverty and Poverty Reduction in Vietnam 1993-2004*, p. 46. The National Political Publisher, Hanoi.

<sup>14</sup> Made-in-Vietnam products during the subsidy era were of low quality. This image has been ingrained within society for decades. Vietnam now organises yearly mass campaigns to promote high-quality brand names to wash away this negative attitude towards Vietnamese products.

<sup>15</sup> David O. Dapice, *Vietnam's Economy: Success Story or Weird Dualism? A SWOT Analysis*, 2003. Prepared for UNDP and Prime Minister's Research Commission, page 3.

<sup>16</sup> The reform of SOEs is another example of the gradual economic reform that Vietnam pursued. Different from the former Soviet Union that privatized its economy, Vietnam wanted to increase the efficiency of the SOEs and keep it as a key determinant of the economy.

<sup>17</sup> Vietnam Communist Party website, <http://www.cpv.org.vn>, and Ministry of Planning and Investment Website, <http://www.mpi.gov.vn/>, October 2006.

<sup>18</sup> For further discussion, see *State Directed Development – Political Power and Industrialisation in the Global Periphery*, (2004), Arul Kohli, Cambridge University Press.

<sup>19</sup> Human Development Report 2006, UNDP, p. 285.

<sup>20</sup> For detailed analysis, see *Vietnam Gender Assessment* by Froniga Greig, Tran Van Anh and Vu Minh Loi (2006) - draft. This report is still being refined by the authors.

<sup>21</sup> Quoted by UNDP from VCP Congress VIII.

<sup>22</sup> For more information about HEPR program, see Annex 1.

<sup>23</sup> In Vietnam, PRSP was called Comprehensive Poverty Reduction and Growth Strategy (CPRGS) as the government wanted to associate economic growth with poverty reduction.

<sup>24</sup> Frances Stewart and Michael Wang, 'Poverty Reduction Strategy Papers within the Human Rights Perspective', published in *Human Rights and Development – towards Mutual Reinforcement* (2005), Oxford University Press, p. 463.

<sup>25</sup> For details, see National Education for All, 2003. Executive Summary - Page xi.

<sup>26</sup> Robert H. Bates, *Markets and States in Tropical Africa* (1981), University of California Press. Jeffery D. Sachs also discussed the fact that the price of fertilizers was double the world market price in Sauri, Kenya (p. 230) due to unfavorable agricultural policies that caused resources to be removed from the agricultural sector. Food shortage becomes chronic in many African countries.

<sup>27</sup> In Vietnam, land is a state property. However, individuals have the right to use land for long periods with five basic rights to transfer, exchange, mortgage, rent and inherit the land use rights.

<sup>28</sup> Vietnamese Academy of Social Science. *Vietnam Poverty Update Report 2006: Poverty and Poverty Reduction in Vietnam 1993-2004* (2007), The National Political Publisher, Hanoi, p. 44.

<sup>29</sup> GSO website [www.gso.gov.vn](http://www.gso.gov.vn).

<sup>30</sup> Hoang Xuan Thanh, Dang Nguyen Anh, Ha Thi Phuong Tien – *Migration – a viable livelihood strategy of the poor men and women in rural areas* (2003), A consultant Report for Oxfam GB in Vietnam.

<sup>31</sup> GSO website, 2006, state budget revenue structure, <http://www.gso.gov.vn/default.aspx?tabid=389&idmid=3&ItemID=6174>.

<sup>32</sup> GSO website, 2006, State budget spending structure, <http://www.gso.gov.vn/default.aspx?tabid=389&idmid=3&ItemID=6174>.

<sup>33</sup> Vietnam public expenditure review, 2006.

<sup>34</sup> UNDP Vietnam Dialogue Paper, *Deepening democracy and Increasing Popular Participation in Vietnam*, prepared by Pamela McElwee, January 2006.

<sup>35</sup> Vietnamese Academy of Social Science. *Vietnam Poverty Update Report 2006: Poverty and Poverty Reduction in Vietnam 1993-2004* (2007), The National Political Publisher, Hanoi, p. 34.

<sup>36</sup> David Dapice, *Helping Vietnam to make a better choice: a discussion paper*, 2002.

<sup>37</sup> For details see: Fritzen, S and C. Brassard, *Vietnam Inequality Report 2005: Assessment and Policy Choices* (2005), Mekong Economics Ltd. Synthesis Paper of the 'DFID Drivers of Inequality in Vietnam' Project.

<sup>38</sup> Sandra S. Huang, *Situational Analysis on Urban Migrants in Vietnam – a Report for Oxfam International*.

<sup>39</sup> In Vietnam, the classification of residents and non-residents, for management and administrative purposes, is divided into four categories as follows: KT1- permanent registration – non-migrant with household registration; KT2 – permanent registration – intra-district mover with household registration; KT3 - temporary registration – migrant, residing independently or with relative,

without household registration book, 6-12 month registration; KT4 -floating non-registered – migrant, residing in guesthouse or temporary dwelling, without household registration book, 1-3 months or no registration.

<sup>40</sup> Carrie Turk, Poverty in Vietnam (PowerPoint presentation), March 2006.

<sup>41</sup> Fritzen, S and C. Brassard, *Vietnam Inequality Report 2005: Assessment and Policy Choices* (2005), Mekong Economics Ltd. Synthesis Paper of the 'DFID Drivers of Inequality in Vietnam' Project.

<sup>42</sup> Landlessness is a serious issue in rural Vietnam, especially in Mekong Delta. According to a study by WB researchers, landlessness is 'poverty neutral' and not associated with ethnic minorities. However, in research conducted by Vietnam FU with support from Oxfam GB, Khmer minority farmers are disproportionately represented in the Mekong Delta and landless farmers disproportionately represented among the poor.

<sup>43</sup> I use the definition of ODI (1999) for RBA. Basically, ODI defines RBA to Development as an approach to set human rights as an objective of development. Human rights should be the foundation of development policies. International apparatus of human rights should be used to support development actions. In line with Harsh Mander (2004). I think that besides international covenants and conventions on human rights, a national legal framework and moral principles could be used to achieve the realisation of human rights too.

<sup>44</sup> NEPA website, December 2006, <http://www.nea.gov.vn/>.

<sup>45</sup> NEPA website, Lam Minh Triet, 2003, <http://www.nea.gov.vn/>.

<sup>46</sup> Jeffrey D. Sachs, p. 165

<sup>47</sup> NEPA website, December 2006, <http://www.nea.gov.vn/>.

<sup>48</sup> For details, see NTP on HEPR and P135 evaluation, UNDP/MOLISA 2004.