

Munim Kumar Barai

POVERTY REDUCTION IN VIETNAM: LESSONS FOR BANGLADESH

Abstract

This paper explores the reasons behind Vietnam's success in reducing poverty, which has come down to 19.5 percent in 2004 from 58.1 percent in 1993. This success is seen as a manifestation of numerous measures including economic, legal and administrative policy reforms under *doi moi* that pushed the economy onto a higher growth trajectory. The reforms-led economic growth has largely remained pro-poor as could be seen by the distribution of per capita expenditure and income from 1995 to 2004 and the growth elasticity of poverty of 0.76 during 1993-2004, one of the highest among the developing countries. The role of agriculture is all too apparent in getting the poor out of the poverty line. At a diminished size from that of the 1980s and 1990s, agriculture still houses 56 percent of the national workforce and constitutes more than 20 percent of the GDP. Success of Vietnam in reducing poverty seems to have important lessons for a country like Bangladesh for drawing its own policies and strategies

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to attack poverty so that it can attain the millennium development goals it has set for itself in terms of poverty reduction.

1. INTRODUCTION

The Vietnamese government made poverty reduction a central goal in its economic management and the issue of poverty was a driving force behind *doi moi* or economic reforms initiated in the late 1980s. For the next one and a half decade, Vietnam's transition to sustained and rapid growth has importantly helped itself increase per capita gross domestic product (GDP) and has given an accelerated pace in the reduction of poverty. In the process, Vietnam is turning out to be a success story in making poverty alleviation a one-generation affair. The silverlining that distinguishes Vietnam from the rest of the developing countries which are trying to do similar is the success of economic measures that have led to a pro-poor growth.

Based on the expenditure approach of poverty measurement¹ and using a poverty line computed according to international standards, the success of Vietnam is remarkable. This is revealed by the data of four household surveys, viz. Vietnam Livings Standard Survey (VLSS) 1993, VLSS 1998, Vietnam Households and Livings Standard Survey (VHLSS) 2002 and VHLSS 2004. During the period of 1993-2004, poverty rate as measured by per capita consumption came down from 58.1 percent to 19.5 percent, a drop of almost 39-percentage point over the eleven years. The poverty rate in 2004 is one third of 1993 level, which is exceptional if it is benchmarked against a major UN's Millennium Development Goals of halving extreme poverty over a longer period from 1990 to 2015 (VASS, 2007).

At a parallel level, a remarkable progress has also been achieved in some of the associated social indicators, like net enrolment rate at all levels of education, access to electricity, clean water, sanitation, health facilities, health insurance coverage, possession of durable

¹ Under this approach the threshold is based on the cost of a consumption basket which includes food and non-food items, with food spending being large enough to secure 2100 calories per day per person.

goods and so on. These variables and poverty have a complementary role to each other's improvement or aggravation.

The rapid and pro-poor pattern of growth is considered to be the main reasons behind Vietnam's impressive success in reducing poverty. The rate and pattern of growth could be explained by a number of factors, the market oriented economic reforms of the late 1980s and 1990s are on the top of these. Actually, most of the economic literature attributes that the remarkable economic growth was made largely possible by *doi moi* or renovation. The leadership of Vietnam intended to make a comprehensive economic, political, and social transformation through *doi moi*. *Doi moi* consisted of two successive reforms: the allocation of means of production to individual households, followed by economic liberalization and the opening up of the external sector. Encouragement of broad-based economic growth with policies that absorb and make productive use of labour was the strategic objective in the reform process. The other factors included in the explanation are the pro-poor growth pattern, pro-poor public spending and investment in infra-structure and greater geographic and occupational mobility (VASS, 2007). Possibly, time has come to look at the role of private sector development, foreign direct investment (FDI) and huge inflow of remittance in terms of both economic growth and poverty reduction in Vietnam.

The agriculture sector still plays a dominant role in the economy of Vietnam by supporting the bigger part of people with food and livelihood. In the reform process, the agriculture sector has experienced transformation in terms of production, consumption and trade. This seems to have affected the overall economic growth in general and poverty reduction of the people in particular. This very aspect of development is interesting from the viewpoint of Bangladesh when we find that some 74 percent of Vietnam's 84 million inhabitants still live in the countryside, and most of them are farmers. While it is predicted that there is plenty more scope for growth of agriculture in Vietnam, Bangladesh seems to be falling behind in this regard.

The paper has been devoted to achieving the following major objectives: (i) to identify different reform measures in the economy in general undertaken by Vietnam, (ii) to investigate into the factors

and embedded strategies in the renovation process that consequentially changed in economic growth and reduced poverty, (iii) to examine the developments in growth in agricultural production, consumption and trade and poverty reduction, and (iv) to identify some of the lessons that Vietnam can offer to countries like Bangladesh in regards to poverty reduction.

To achieve the objectives of the paper, primarily the analytical approach has been used in analysing different economic measures, data and figures. A time period of 1990 to 2006 has been covered for various description and analysis. While dealing with agriculture, ten agricultural products, viz. cashew nuts, coffee, ground nuts, fish, pepper, pig meat, rice, rubber, tea and vegetables have been mainly focused on to demonstrate their effect in the rise of agricultural production, per capita consumption and export income for a period of 1990 to 2006.

The remainder of the paper has been divided into five parts. While section two briefly depicts the picture of poverty including poverty rate, poverty gap, and food poverty and so on in Vietnam since 1993, section three examines the causes of remarkable success that Vietnam has achieved in reducing poverty, owing mainly to the *doi moi* led growth strategies. Section four deals with the role of agriculture of poverty reduction in Vietnam. The role has been analyzed in terms of production, consumption and export of some major agricultural products. Section five identifies some of the lessons Vietnam can offer to a developing country like Bangladesh. The paper ends with some concluding remarks in the sixth section.

2. STATE OF POVERTY: A TALE OF SWIFT GRADUATION

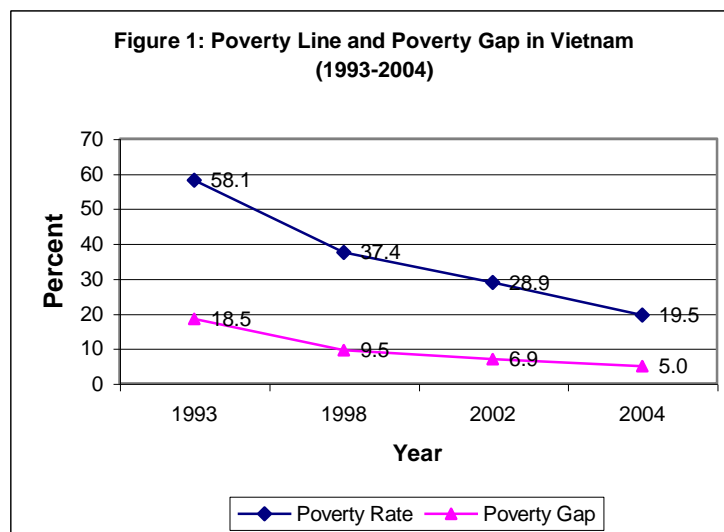
Put in a theoretical perspective, poverty is a state of deprivation involving multiple dimensions, from limited income to vulnerability in the face of shocks to few possibilities to participate in collective decision making. The complexity of the issue makes poverty with no unique definition, and therefore no perfect indicator to measure its change over time. In the context of Vietnam, a variety of poverty and social development indicators are currently available. The Ministry of Labour, Invalids and Social Affairs (MOLISA) uses a methodology based on household income. Households are deemed

poor if their income per capita falls below some conventional threshold that varies between urban, rural and mountainous areas. Poverty rates are defined as the share of the population with incomes below those thresholds. The General Statistics Office (GSO) relies on both income and expenditures to compute a poverty rate. It defines a threshold based on the cost of a consumption basket, which includes food and non-food items, with food spending being large enough to secure 2100 calories per day per person. Households are considered poor when their income or expenditure level is not high enough to afford this consumption basket. The National Centre for Social Sciences and Humanities (NCSSH) computes a Human Development Index (HDI) at the provincial level. The HDI measures a country's achievements in three aspects of human development: longevity, knowledge, and a decent standard of living. Longevity is captured through life expectancy at birth, knowledge through a combination of the adult literacy rate and the combined primary, secondary and tertiary enrolment ratios, and the standard of living through the gross domestic product (GDP) per capita (World Bank et al., 2003). In this paper, we follow the GSO accepted lines of poverty.

Figure 1 has been constructed to show rate of poverty and poverty gap existed in Vietnam between 1993 and 2004. As recently as 1993, 58.1 percent of the population lived in poverty, compared to 37.4 percent in 1998, 28.9 percent in 2002 and only 19.5 percent in 2004. This amounts to halving the share of poverty in less than a decade. Or, put differently, more than a third of the total population was lifted out of poverty in about eleven years. In terms of poverty gap measurement², the gap is also declining over the same period: from 18.5 percent in 1993 to 5.0 in 2004. The measure reflects the depth of poverty as well as its incidence.

The point is there might be slight variation in precise figures if other criteria were used to define and measure poverty, but the accomplishment would certainly remain.

² As we know, poverty gap is the mean distance of population falls below the poverty line, expressed as a percentage of the poverty line. The mean is taken over the entire population, counting the non-poor as having zero poverty gap.

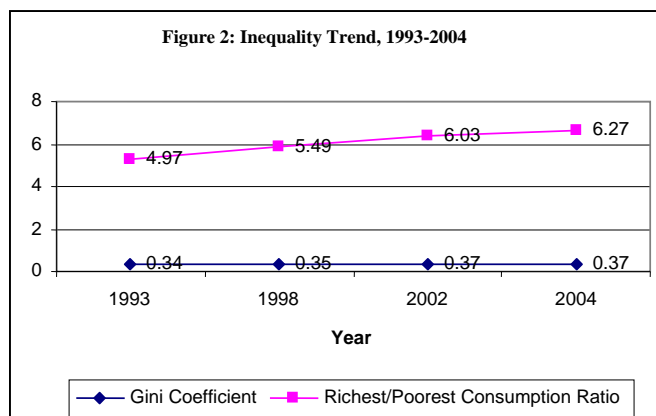


Source: Constructed, data from Appendix Table A1.

Further analysis brings out the following characteristics of poverty in Vietnam:

- 2.1 In all the measurements, viz., poverty rate, food poverty and poverty gap urban Vietnam has done much better than rural Vietnam in improving the poverty position (see Table A1 in the Appendix). This raises the possibility that the reforms related benefits like increase in job, income and education have benefited the urban poor more than the rural ones.
- 2.2 Among the communities, ethnic minorities have remained the most backward in terms of improving the poverty situation. According to VHLSS of 2004 data, there is slightly over ten million of non-Kinh, non-Chinese ethnic population in Vietnam. Though they are 12.6 percent of the total population, they constituted 39.3 percent of the poor population (VASS, 2007). This disparity seems to be growing. A thorough investigation is required to find out the causes of their wide laggardness in improving the economic condition.

- 2.3 There are regional disparities in poverty reduction, a feature that cannot go unnoticed. Of the eight regions in Vietnam - the North West, Central Midlands and North Central Coast are poor zones while the Red River delta and the South East zones are well off zones. In between lies the middle group regions that includes North East, the South Central Coast and the Mekong River Delta. It is not a coincidence that the ethnic minorities mostly live the first three zones which considered poor as per the poverty status.
- 2.4 The rate of poverty reduction has slowed down lately. There could be a number of reasons for this, the foremost being the law of diminishing return from the poverty oriented programmes because the beneficiaries of the programmes might have become 'tolerant' to such programmes. This needs to be investigated.
- 2.5 There is a relative rise of inequality in the Vietnamese society. During the 1993-2004 period, the Gini index for per capita expenditure has seen an overall rise from 0.34 to 0.35 in 1998, 0.37 in 2002 and to 0.37 in 2004. This is, an inequality that has been mainly driven by the increase in equality between rural and urban areas, although the latter has been losing its relative importance in overall inequality change towards the present time. In the meanwhile, the ratio in terms of per capita consumption between the richest and the poorest has widened from 4.97 times to 6.27 times (Thousand Dong 2023: 407 and 5475: 873) between 1993 and 2004 (VASS, 2007).



Sources: Constructed, data from Table A1 and VASS (2007).

This syndrome may tempt many to borrow the words of Friedman: "Communism was a great system for making people equally poor. -----. Capitalism made people unequally rich" (Friedman, 2006). Though the avowed policy of Vietnam is to create market socialism, the signals from emerging relative rise of inequality cannot be missed for further policy interventions.

3. DOI MOI-LED GROWTH STRATEGIES AND POVERTY REDUCTION

The success of poverty reduction in Vietnam is attributed to a number of strategies which were manifestations of *doi moi*, the political engineering that Vietnam initiated in the late 1980s. We need to deal briefly the circumstantial background that led to the acceptance of *doi moi* at that time.

The socialistic model of economy that Vietnam embraced soon after its victory and the two halves of the country got unified in 1975. But the model seemed to have failed to deliver the desired level of economic benefits to the nation together. A number of reasons might have played adversely for the non-fulfilment of its economic promise. These included lack of interest among peasants, especially those in the South where most of Vietnam's agricultural lands are situated, toward collectivization; the primitive infrastructural and material conditions for industrialization; the

wartime situation; and the economic embargo imposed on Vietnam by the United States. By the middle of the 1980s, Vietnam's worsening economic situations were further aggravated when foreign aid, especially Chinese economic aid, was significantly reduced (Le, 2005).

In response to these crises, the Vietnamese Communist Party, at the Sixth Party Congress held in December 1986, decided to carry out a far-reaching political and economic reform programme, commonly known as *doi moi*. The initial reforms under *doi moi* included the measures that we can divide into the following categories:

- **Industrial Sector Reforms:** Measures included decentralization of state economic management which allowed state industries some local autonomy, state and privately owned industries to deal directly with the foreign market for both import and export purposes, divestment of the state-owned enterprises, official sanctions for companies and private enterprises and so on.
- **Monetary Reforms:** Replacement of administrative measures by economic ones, including a market orientated monetary policy to control money supply and inflation, halt in credit to the budget, restrained overall growth of credit, etc.
- **Fiscal and Financial Reforms.** Reduction in the size of the military, other expenditure restraints combined with tax increases to bring the fiscal deficit down, decontrolling of prices for market mechanism to work, separation of state-owned commercial banks, raising interest rates to positive real levels and elimination of intersectoral differentials, permission to private and foreign banks, etc. These were undertaken to consolidate the stabilization programme.
- **External Sector Reform:** Adoption of an outward orientated policy in external economic relations; exchange rates to respond to the market, reduction and replacement of quantitative restrictions with tariffs, gradually access to

foreign trade permits and a liberal foreign investment law to attract FDI.

- **Agricultural and Rural Reforms:** Largely dismantling of collective system, returning of agricultural land to family farming, passing the Land Law that formally gave land use rights to peasant households and freedom to buy inputs and market products.
- **Changes in Social Policies.** A number of forward looking programmes were initiated to deal with the transitional unemployment caused by the reform programme, including severance pay, retraining schemes, and soft loans for the small-scale private sector (World Bank, 1995).

As it turned out, these policies not only helped restore the economy but also turned it into a vibrant one. In fact, by the early 1990s Vietnam's economy became one of the fastest growing economies in the world. In 1996 Vietnam became a member of the Association of Southeast Asian Nations, an economic integration that was unimaginable only a few years ago. Although Vietnam had not officially abandoned its economic system, the existing economic structure was radically altered. In fact, only a few years after the implementation of *doi moi*, many western economists had already classified Vietnam's economy as a market economy. Its joining the World Trade Organization (WTO) in 2006 will further widen and deepen the marketization process of the economy and its economic integration with the rest of the world.

As we have pointed out, poverty reduction in Vietnam is largely seen as a consequence of successful implementation of *doi moi*. However, in broader perspective, the following strategies/factors could be identified to have played an important role in reducing poverty in Vietnam.

3.1. Reforms-Led Growth

Between 1990 and 2006, Vietnam has, on an average, been able to achieve 7.5 percent growth per year, one of the highest among the developing countries. This has made it an economy of about \$61 billion in 2006 from a tiny one of about \$8 billion in 1990. During

the period, the per capita GDP of the people of Vietnam has increased to \$722 from \$118, making a rise of more than 6 times in 17 years. Vietnam's transition to sustained and rapid growth has importantly helped increase the size of the domestic market and national economy. This growth has led to the rise of per capita gross domestic product (GDP) and has given an accelerated pace in improving position in most of the indicators of social development.

Both initial and subsequent reform measures seemed to have played a role in increasing growth rate in the economy. Thanks to the Resolution 10 (known among Vietnamese farmers as *Khoan 10* or the contracted system) and the Land Law of 1993, the production of agriculture sector boomed. Similarly, due to the Enterprise Law of 2000 and Law of Foreign investment, Vietnam has seen a dramatic rise in the registration of new local enterprises and foreign investment. The economic dynamism that has been generated in the private sector could be understood from the increase of active private enterprises since 2001. In 2006 Vietnam received investment proposal worth more than \$10 billion and actual inflow reached \$4.08 billion. The employment and income impacts of this economic vibrancy are obvious. The combined employment in the state, non-state and foreign invested sector (FIS) rose to 43.35 million in 2006 from 37.61 million in 2000.

3.2. Pro-Poor/Pro-People Growth

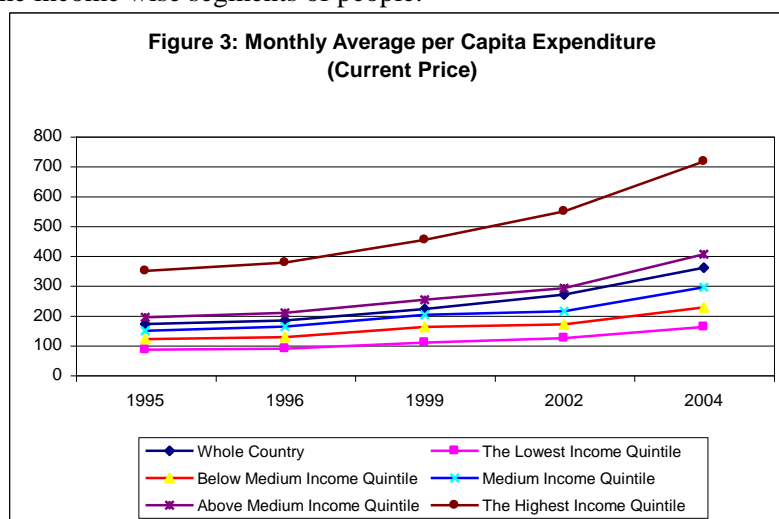
Poverty reduction has remained a major development policy concern in Vietnam and the pro-poor growth is considered to be the principal reason behind Vietnam's impressive success in reducing poverty. In turn, this focus on poverty reduction has generated interest in pro-poor growth. There are lots of intellectual and policy debates about the definition of pro-poor growth, and identifying one for Vietnam could be interesting.

In this context Hyun Son opines, "Poverty reduction depends on two factors: (i) growth and (ii) how the benefits of growth are distributed across the poor and non-poor. One major stream and indeed general definition of pro-poor growth is growth where poverty declines, irrespective of (i) or (ii) or both. Using this definition, growth will always be pro-poor whenever poverty falls"

(Son, 2007). Vietnam's approach to poverty reduction may also be aligned to the general definition of pro-poor growth.

This is reinforced by the fact that the benefits of the relative higher economic growth in Vietnam have been distributed across the poor and non-poor, rural and urban areas and between regions. A number of supportive figures could be produced in this regard. Between 1995 and 2004, average per capita income in all six trend lines, viz., national, lowest, below medium, medium, above medium and highest income quintiles has steadily increased. Though the amounts of increase for different quintiles are unequal, incomes in all these categories for the period simply have doubled.

The same has happened to the monthly average per capita expenditure also. From Figure 3, we can find the distribution of per capita average expenditure for national, rural, urban and the five quintiles of people divided as per the level of income or expenditure. There also we find that spending for consumption has increased for the income wise segments of people.



Source: Constructed, data from GSO (2007).

Though the rise of income and expenditure is a common phenomenon to all sections of the society, it has remained an unequal one. That means in both measures of income and consumption expenditures both the poor and non-poor have benefited, though the

quantity of benefits is much larger for the highest income group than the lowest income people, thus raising the scope for growing inequality.

There are other measures through which the pro-poor nature of growth in Vietnam could be understood. These include the growth elasticity of poverty and also the counting of the percentage of people whose monthly average expenditure falls below the poverty line and the number of people who graduated above the line during 1993 to 2004. Putting focus on the growth elasticity of poverty in Vietnam, we find that the association between growth and poverty has remained very strong since 1993 to 2004. It was estimated at 0.95 for 1993-1998 and 1.32 for 1998-2002. Between 2002 and 2004 the relationship stood at as high as 2.63. A measure for the overall period of 1993-2004 shows that the growth elasticity of poverty was 0.76, which is considered to be highly pro-poor (VASS, 2007). So when these are the characteristics of growth, then it could be better termed as pro-people as well.

3.3. Public Investment in Infrastructure and Rural Development

The linkage between development of different hard and soft infrastructure with rural focus may have an important role in reducing poverty. Vietnam has been investing a higher share of its annual budget for development of hard and soft infrastructure. In the Appendix Table A2, we have included share of three budget expenditure items, viz. development expenditure, education and training, and health. The consideration for inclusion of budget spending on education and health is simple – development of human capital is a must for high and sustainable economic development.

In 2006, the total share of these three heads stood to be more than half of the expenditure budget or 51.7 percent of the total. This shows a remarkable rise from their combined share of 34.5 percent in 1990. During the period, budget expenditures for both development and education and training rose consistently. It is important that the Vietnamese Government consistently pursues the 'education for all' policy, particularly universal primary education. As we can see, presently the government is spending about 16 percent or about 6 percent of GDP of the budget expenditure for education, which is much higher than average level of 3.8 percent in Asia. In that

expenditure for education, spending on primary and lower secondary education reached 53 percent of the total (VASS, 2007). It is to be noted that public spending, particularly for primary education, is progressive in the sense that poorer households receive larger share of the subsidy than richer households.

Since 1998, a substantial part of the development expenditure has been channelled to the national target programme for especially disadvantaged and remote communes (often referred to as Program 135) for investment in basic small scale infrastructure facilities like electrification of villages, development of roads usable by motorized vehicles, building schools and health clinics, small scale irrigation, market places, clean water supply and upgrading roads that link poor regions and poor communes with more developed centres. The effort is seen to have played a role in strengthening infrastructure and household facilities in many rural areas which resulted in positive changes in economic situation and the life of people have gradually improved. From 1999 to 2004, public investment of around Vietnamese Dong (VND) 8.9 trillion was disbursed for communes included on the list of disadvantaged communes. As per the VASS estimate, these communes managed to make operational more than 22,000 projects by the end of 2004. The Program report suggests that 90 percent disadvantaged communes now have access to electricity, a broadcasting station, primary school, nursery school and kindergarten, small scale irrigation, 97 percent have vehicle-passable roads to the commune centre, 100 percent communes have health clinics, and 100 percent districts have upper secondary schools (VASS, 2007). The irrigation systems and post offices have strongly developed in some regions. The ratio of working time in rural areas rose from 72.5 percent in 1996-2004 to 76.6 percent in 2001-2004 (Phat, 2006).

Because of increased vehicle ownership, even among the poor, and the dominance of household owned enterprises in transport services, rural roads can be expected to make a substantial contribution to economic activity at the local level, hence to poverty reduction. Results from econometric analysis of Household survey of VHLSS 2004 done by Le et al. indicate that the availability of rural roads to communes is one of the significant factors determining per capita expenditure in 2004 (Le et al., 2006). There are 8,213 markets

in the country with the average of 1.1 per 10,000 people, or 0.8 per village.

The co-relationship between rural public spending and poverty reduction is visible from study conducted by Fan et al. (2003). They tried to measure the effects in numbers of poor people lifted out of poverty per billion VND spent. The most important information they provide refers to the ranking of poverty alleviation impacts across different types of spending. From this perspective, investing on rural roads has the largest payoffs. For every billion VND spent, 270 people would be lifted out of poverty. The impact of spending on education ranks second, as for every billion VND spent, 47 people would escape poverty (World Bank et al., 2003).

3.4. Reorientation of Social Safety Net

Targeting poor population with specific programmes under the coverage of social safety net has an important effect reducing poverty. Vietnam has a series of programmes that transfer resources to specific population groups in communes. What is common in these programmes is that they explicitly favour or compensate households or communes with specific characteristics. Some of these programmes have a deliberate poverty alleviation objective. Household-level benefits under the Hunger Eradication and Poverty Reduction (HEPR) program and commune level investments under the so-called Program 135 fall into this category. Other social transfers included social insurance, social assistance and education fee exemption. There are also transfers aiming at mitigating adverse shocks, even if the beneficiaries are not poor to begin with, for job loss, paid for by the Social Safety Net Fund for redundant state owned enterprise (SOE) workers.

HEPR provides a nation-wide framework to coordinate and integrate efforts of various sectors at different levels. Some of its benefits are targeted to poor households and others to poor communes. For the former are the provisions of “poor household certificates” and “health insurance cards”. Both of them are given some entitlement to free medical treatment in government hospitals and clinics. A different component of the HEPR programme provides partial or full exemptions to school fees, and yet another provides access to subsidized loans. However, the coverage rate of

these three components is low yet. In contrast, the education fee exemption programme for poor households and ethnic minorities has a higher coverage rate. It reaches almost one seventh of all the poor, and a fifth of the foodpoor.

Looking at the health insurance coverage figures of 1998 and 2004 in Table A3 we find that a substantial improvement has taken place in all segments of the income group, particularly in the poorest and the near poorest groups. A most recent study by Hansen and Le carried out an incidence analysis of social transfers which include social insurance, social assistance and education fee exemptions using the VHLSS 2002 and 2004 surveys finds that the absolute value of the transfers mostly benefit the poorest quintile of the income group, and also the richest quintile. Results of their analysis indicate that social transfers had sizeable effects on the poverty levels in 2002 and 2004, provided significant protection against falling into poverty (Hansen and Le, 2006).

3.5. Geographic and Inter-Job Migration

When it comes to the question of physical migration of the people – Vietnam is experiencing that in two ways. *Firstly*, some people are leaving the country for foreign lands in the quest of better jobs and higher standard of living. This constitutes the case of export of human being. *Secondly*, there is another group of people who are moving from one province to another, generally from the poorer to a richer one, within the national boundary in search of occupation they have experience in or entirely to a new field. From the first type of migration Vietnam is presently earning a substantial amount of forex remittance, the second one produces inter-provinces wealth transfer mostly in the form of VND. Interestingly, but not surprisingly, internal migration is proving more significant in reducing poverty in Vietnam as external migration benefits mostly the higher income group people. This is substantiated by the VASS study that by analysing the VHLSS 2004 finds that average overseas remittances per household for the poorest quintile (they can be classified as poor, given the poverty rate of 19.5 percent in 2004) was as low as VND 99,000 against VND 3,153,000 for the richest group (VASS, 2007).

In fact, internal migration is a common livelihood strategy for poor people in most of the developing countries. In case of Vietnam, inter-province migration has a pattern that poor people leave the provinces with low GDP per capita, low HDI and high unemployment rates for the provinces with high GDP per capita, high HDI and low unemployment rates. This internal manoeuvre has both developmental and distributive effect of wealth as well as poverty reduction effect. A study found that 85 percent of the respondents said that there had been many people in their community working away from home and 36 percent of them said that migration helped substantially raise incomes of the recipient households (Thang, 2005).

3.6. Private Domestic and Foreign Investment

The rise of quantity of private domestic and foreign investment in Vietnam's economy has started showing an increasing role in different socio-economic fields. Understandably, it is a bit difficult to figure out all the effects they might have on the economy as a whole, on the poverty reduction in particular, because they could be direct, indirect and multi-dimensional.

The Enterprise Law of 2000 led to the elimination of over one hundred business licenses that in turn reduced the registration time and cost for enterprises. Not to be surprised, the number of private enterprises registered every year has been increasing steadily ever since. The vibrancy this has generated in Vietnam's private sector could be understood from the fact that the number of active private enterprises since 2001 increased from 22,777 to 35,001 in 2005. The employment and income effects of this development and their impact on poverty should be a matter of thorough investigation.

The role of foreign investment in this regard is another issue that merits an examination. To show its importance we have constructed Table A4 taking the following economic variables, viz. share of GDP of the foreign invested sector, growth rate of industrial output value of FIS, its share of investment in the economy, share in employment providence and its overall share of trade including both exports and imports. Due to data constraints it has not been able to give picture for all of them for the same time period, but the available data in the

respective areas could provide an idea on the role that foreign investments have had in the economy.

In 1990, the foreign invested sector constituted only 2.6 percent share of the GDP. This has been increased to 12.7 percent of the \$60b plus economy in 2006. The share of FIS in terms of investment in the economy has nearly tripled in the dongs in a period of 12 years from 1995 to 2006. The job market is the area where the FIS seems to have an increasing role when we find that in 2000 this sector employed only 226.8 thousand persons while the level of employment has grown to 700.4 thousand persons in 2006, marking a growth of more than 208 percent in seven years. Available data for 1995 to 2005 show that the FIS has consistently remained net exporter during the period. In 2005, the share of FIS was more than \$32 billion or about 47 percent of the total trade. This is a rise from 21.6 percent of the total trade in 1995.

What are the direct and indirect linkage effects of private investment and FDI in reducing poverty in Vietnam? This seems to have remained a least explored area of research. But common sense economics indicates the overall effects of their level of involvement should have an interface with the reduction of poverty as well.

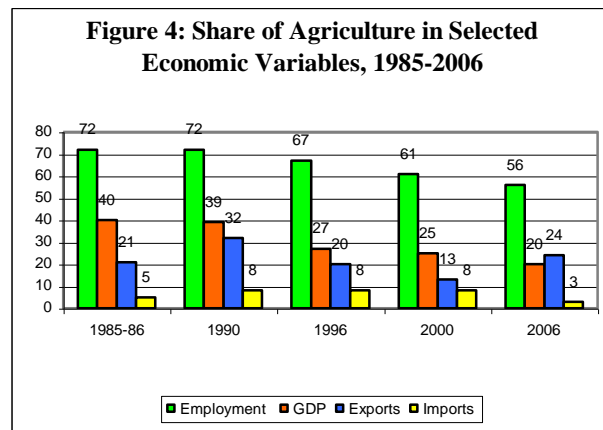
4. ROLE OF AGRICULTURE

As we know, growth response of the renovation measures was large enough to doubling Vietnam's GDP between 1991 and 2000. In the meantime production of agriculture sector boomed. Vietnam has progressed from a nation of chronic food shortages to one of the world's top three suppliers of rice, coffee, cashew nuts, pepper, rubber, etc. And its agri-products export list has become a longer one over time.

But it also needs to be pointed out that over the years Vietnam is showing a gradual shift from a primary sector to manufacturing and service sectors dominated economy. Interestingly, since 2003 manufacturing sector has emerged to be the largest sector in the economy. The distribution of GDP for 2006 shows that the shares of the agriculture, service and manufacturing sectors were 20.4, 38.0 and 41.6 percent respectively. This is not surprising, but the importance of agricultural sector has not totally diminished. This

could be understood from the fact that even in 2006, this sector housed 55.7 percent of total employment, employing over 24 million people of Vietnam (GSO, 2006, 2007), indicating the relative importance of agriculture in their overall well-being.

We have constructed Figure 4 to show the relative position of the agricultural sector in the economy of Vietnam. When it comes to the trade of importance of agriculture in the overall export, its share has increased in the recent years and in 2006 it stood to be 24 percent making it a hugely net exporter of agricultural product.



Source: Constructed from data GSO (2006, 2007), World Bank (2003)

Note: Import data of agriculture for 2005 has been shown in 2006.

In the discussion on role of agriculture in poverty reduction we can identify the following channels through which agriculture can affect poverty: increased production-led consumption or calorie intake, income (returns to labour, assets and production) through domestic and international trade, provision of public goods (health, education etc) and security (capacity to mitigate risk and cope with shocks) (Conway, 2004). In most cases, however, analysis is conducted largely in terms of income poverty. But the relative merits of agri-exports and production for domestic consumption have received little attention.

4.1. Production

Data for ten products viz., cashew nuts, coffee, groundnuts, maize, pepper, rice-paddy, rubber, sugarcane, tea, vegetables, fisheries (both catch and aquaculture), pig meat and poultry have been assembled for 1990 to 2006 to calculate the growth of total and per capita level of agricultural production. They constitute the largest share of the total agricultural production in Vietnam.

As can be seen in Table A5 in the Appendix, agricultural development is largely due to the increase in crop output. During the period of our analysis, all of the major products have grown, but some of them have registered extraordinary growth in quantities. For example, production of cashew nuts grew from 23.7 thousand tonnes (tts) in 1992 to 235.4 tts in 2006 (990 percent rise), coffee from 92 tts to 853.5 tts between 1990 and 2006 (930 percent), maize from 671 tts to 3819.4 tts (570 percent) in the respective years. Production of other heavy weighted products among our selected group like rice (186 percent), sugar cane (290 percent), vegetables (236 percent in 2005), pig meat (344 percent) also registered growth. The combined production of these products was 30966 tts in 1990, 547780 tts in 1998 and 70987 in 2005. It was only in 2000 when the total production registered a decline from the previous year. Though production is growing since then, the growth seems to have substantially slowed down in these products in 2003, 2004 and 2005 as could be seen from the Table. This has happened because of the decrease or very slow growth of sugar cane and paddy. When it comes to the question of per capita production of the selected products, we also find a similar trend visible in the figures from 1990 to 2006. In quantitative figure, the capita/kg distribution of the products shows that while the production was 469 kg per person in 1990, the amount rose to 857 kg in 2005 (Table A6).

4.2. Consumption

Table A7 in the Appendix contains the growth of per capita calorie intake per day (Kcal/capita/day) products of cashew nuts, groundnuts, maize, rice, sugarcane, vegetables, freshwater fish, and marine fish and pig meat. It shows that a significant improvement has taken place in the consumption characteristics in Vietnam during the period of 1990 to 2005.

Rice is by far the most important staple in the Vietnamese diet. In 1990, out of total 1774 calorie that a person could take from all the products listed, rice accounted for 87 percent (1546 calorie) of the total per day. Pig meat, sugar and maize were the other three products in our basket that also supplied about 11 percent of the total. The rest came from the others. But the consumption level of these products has over the years increased that matched the growth of these products as well. Interestingly, though calorie intake from these products has risen 1774 per day to 2046 between 1990 to 1999, or a rise of 272 per person per day (an annual average of 34 calorie), it has seen a quick rise to reach 2457 Kcal/capita/day in 2005, or an increase of 411 calorie in 6 years (annual average of 68.5 calorie).

4.3. Agricultural Trade

Due to rapid growth in agricultural GDP of Vietnam over the 1990s as a result of the various measures in the 1980s and 1990s, Vietnam became a major factor in the world coffee, rice and rubber exports. Exports of pork, aquaculture seafood products, and some horticultural products increased substantially. We have seen a general increasing trend of domestic consumption in the major agricultural products, which means that there was an expansion of domestic demand for different agricultural commodities. Within 1985 to 2005, agricultural export revenues rose from around US\$ 100 million up to more than US\$ 4.467 billion. For the producer, there was an increase in income generation from the agricultural products in domestic markets as well. This could be seen from the producer's price index of agricultural, forestry and fishing product which, by taking 1995 as 100, rose to 118.3 in 2000, 126.2 in 2003 and 145.2 in 2005 (GSO, 2007). A study estimated that rural household's annual income for 1998 indicates that Vietnamese households do access off-farm income to a moderate extent. For an average rural household income of about US\$700, 47 percent of that income came from agriculture, 19 percent from non-farm enterprises, and 34 percent from wage and other income (Barichello, 2004).

We have constructed Table A8 in the Appendix to analyze contributions of the selected products in exports from 1990 to 2005. In 1990, in the export of agricultural products rice, fish, cashew nuts, rubber and coffee constituted to be major income earners in the total

export of \$853 million of the selected products. Over the years their importance in Vietnamese exports has remained, though fishery has emerged to be top earner. As an individual export item, it crossed the value of rice in 1993 and in 2005 it accounted for more than 48 percent (\$ 2732.5 million of the total of \$ 5790.1 million) of the earnings of our selected group. This was followed by coffee (\$847.9 million), rubber (\$787 million), rice (\$612.1 million) and so on. The combined earnings from these products have increased to \$2,196.0 million in 1995, \$3079.1 million in 2000 and to \$ 5790.1 million in 2005.

An estimate of per capita export income from these products shows that it increased from \$12.92 in 1990, to \$30.50, \$39.66 and \$68.47 in 1995, 2000 and 2005 respectively. That is, between 1990 and 2005, per capita export incomes from these agricultural products have grown about 530 percent. Putting the fact a bit differently, if we consider the export value from these products in 1990 as 100, then it has risen to 306.9 in 2000 and 529.8 in 2005.

So the impacts of the growth in production, consumption and trade of various agriculture products in reduction of poverty can not be missed. In a separate study, the author of this paper has found that production of the selected agricultural products, their consumption, and export value of the products and development expenditure including expenditure for education and health care can explain 99.4 percent of changes in poverty in Vietnam (Barai, 2007).

5. SUCCESS OF POLICY ISSUES IN THE COMPARATIVE SETTING

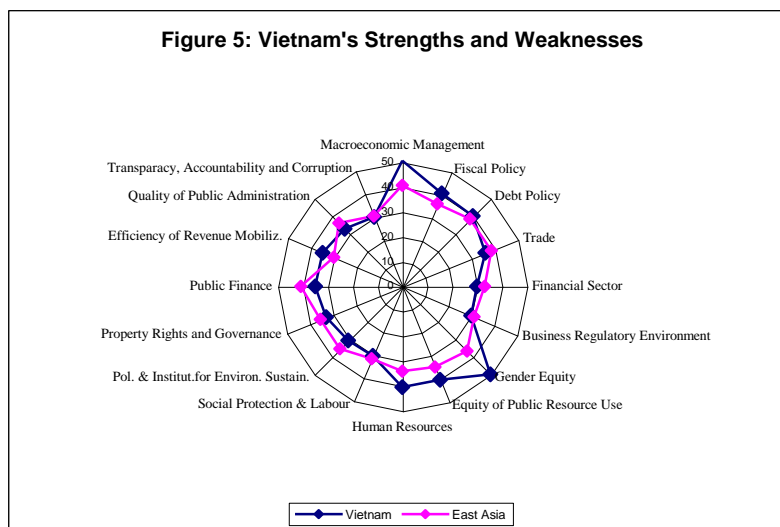
This is an interesting area in the context of discussion on poverty reduction in Vietnam. The International Development Agency (IDA), an organ of the World Bank, makes a comprehensive assessment of the strengths and weaknesses of policy issues of a country through its Country Policy and Institutional Assessment (CPIA). A high CPIA is in principle associated with potentially better economic performance, which in turn could help reduce the poverty situation in a country.

The CPIA index groups 20 indicators into 4 broad categories: economic management, structural policies, policies for social

inclusion and equity, and public sector management, and institutions. Each of these four areas is disaggregated into a series of more specific indicators.³ Countries are rated on their current status in each of these performance criteria, with scores from 1 (lowest) to 6 (highest). This index is updated annually.

When considered on an indicator-by-indicator basis, the resulting ratings help identify a country's strengths and weaknesses. When taken together, under the form of an aggregate rating, they provide information on the country's relative position in the world. Disaggregated CPIA ratings suggest Vietnam's main strengths are in macroeconomic management and in fiscal policies. Public financial management gets relatively high ratings too. But it still has important weaknesses. One of them is related to structural reform: for trade policies, the financial sector and the regulatory environment for businesses. Vietnam's other weakness concerns the institutional area, with the ratings on the efficiency of revenue mobilization, on transparency, accountability and corruption, and on social protection, being below the average for other East Asian countries (World Bank et al., 2005).

³ Macroeconomic management includes macroeconomic stability, fiscal policy and debt policy. Structural reform refers to trade integration, financial sector policies and the business regulatory environment. Policies for social inclusion and equity consider gender equality, equity in the use of public resources, human resource development, social protection and labour, and environmental sustainability. Finally, public sector management and institutions cover property rights and governance, budgetary and financial management, the efficiency of revenue mobilization, the quality of public administration, and transparency, accountability and corruption.



Source: World Bank et al. (2005).

Although these indicators seem to have more relevance in assessing the investment environment in a country, some of them are very much indicative of the existing social condition and its management. In the context of Vietnam, we find that it has a higher rating in the social areas, including gender equality, the equity in the use of public resources and the quality of its human resources. Combined with a better macroeconomic management, the advantage in social development might have played an important role in reducing poverty at a faster rate in Vietnam.

6. LESSONS FOR BANGLADESH

Bangladesh is still considered to be one of the world's poorest and least developed nations despite sustained national and international efforts to improve its economic and demographic prospects. Like all of them, Bangladesh also suffers from the problems of lack of economic opportunity, low human capabilities, low level of securities and lack of economic, social and political empowerment of the poor. Poverty in Bangladesh has a genesis here as well. Therefore, a convenient starting point for a strategy of poverty reduction would be to unbundle the multi-dimensional nature of poverty. Consequently, it would call for sub-strategies to

address these problems. Successive governments in Bangladesh have accorded priority to reducing poverty and have been trying to draw strategies under different plans.

The poverty reduction objective in Bangladesh had been pursued initially under five Five-Year Plans from 1975 to 2002. These plans had the aim of promoting economic growth, reducing poverty, developing human resources, generating productive employment, ensuring food self-sufficiency, developing infrastructure and strengthening the technological base. But it has thereafter formulated a newer policy umbrella called the Poverty Reduction Strategy Paper (PRSP) that sets out four main courses of action to achieve poverty reduction:

- enhancing pro-poor growth
- boosting critical sectors for pro-poor growth
- devising effective safety nets and targeted programmes
- ensuring human development

Particular attention is being paid to agriculture and the rural non-farm sector as the two main drivers of increased productivity.

A critical examination suggests that the national PRSP is a rich diagnostic document which contains a cogent set of strategic interventions and practical roadmaps towards its implementation. Admittedly, the document suffers from some inadequacies, but these are not binding constraints for realizing its potential, up to a certain degree. Rather, one would argue that the fate of Bangladesh PRSP will be finally defined by the depth of its *political ownership* in the country, and the strength of the *partnership commitments* of the international development partners (Bhattacharya, 2005).

In the context of the Five Year Plans and PRSP, we can have a brief look on the progress that Bangladesh has made in reducing poverty under them. Thanks to steady economic growth from 1991 to 2000, the overall poverty level fell by 9 per cent: in rural areas, it decreased from 61.2 per cent in 1991 to 53 per cent in 2000. This is in the context that about three-fourths of the total population in the country still live in rural areas. The *Economic Review of Bangladesh 2007* gives the statistics that there were still 40.0 per cent people living below the poverty line in 2005, down from 46.2 per cent in

1999 (MOF, 2007). This estimate is based on the calorie intake of a person per day.

Further analysis of the poverty position in Bangladesh brings out the fact that though the population living below the poverty line declined by one percentage point a year in the 1990s and later, this is not enough to achieve the millennium development goals (MDGs) of halving the poor by 2015, a UNDP study of 2003 said. "The reduction of poverty that took place in the 1990s -- at the rate of about one percentage point per year -- was certainly modest by the standards of East and South-East Asia in the last few decades," the study said, urging policy-makers to support growth in non-tradable sector. The report found most of the incremental growth in the 1990s originating from what economists call the 'non-tradable' sectors, mainly services, construction and small-scale industry, a fact confirmed by the changing composition of the labour force -- from farm activities to 'non-farm' activities. The driving forces behind this growth were acceleration in crop production, readymade garment industry and workers' remittances. Crop was by far the biggest driving force (UNDP, 2003).

The UNDP's Human Development Report of 2004 confirmed that Bangladesh has graduated to the "medium human development" league. It is one of the few countries in the Least Developed Countries (LDC) group to attain this status. This graduation was the result of the country's achievements in several areas of social and economic development. The theme of social progress provided the much-needed antidote to the syndrome of aid-fatigue typified by what Hirschman (1991) termed as the "rhetoric of futility". Set against the early trial of the "test case of development" Bangladesh's recent performance appears to be a re-discovery for many (Sen and Hulme, 2006).

The *Labour Force Statistics 1999-2000* estimated that there was a 60.3 million-strong labour force in the country. This has surely increased further by this time. While, service sector has emerged to be the single largest contributor to the GDP constituting about 50 percent, the agriculture remains the third most important sector of the nation's economy accounting for about 21 percent of the gross domestic product. It provides employment for 60.9 percent of the work force and cultivation of rice is the single most important

activity in the economy in terms of the employment generation. So in drawing the poverty reduction strategies, giving more emphasis on the rural economic segment, particularly on agriculture and allied activities, becomes an imperative for the policy makers.

By any standard, success of Vietnam in poverty reduction is simply remarkable and the relevance of its experience, both for rural and urban poverty reduction, for the developing countries is quite apparent. To Bangladesh, it can offer a number of lessons to attack the number one enemy of a large part of the population. Let us list some of them in the following ways:

- 6.1 To begin with, ownership on a piece of cultivable land can make a big difference of one being a poor or non-poor. Leasing the land under government possession/control (khas land) among the landless and marginal farmers could be the first step. There should be a mechanism to check that the leased land does not change hand/transferred immediately after distribution.

Though redistribution of land in Vietnam does not fall in the comparable economic setting of Bangladesh, it could be a pointer. Giving private ownership on land is considered to have triggered the first biggest impetus for agricultural productivity in Vietnam. This very change was strong enough to bring dynamism and energy among the farmers who have tried to turn every inch of land into "an inch of gold" (Vietnamnews, 2005).

The PRSP 2005 has at least 23 references on khas land, but it seems to have not come out with a definite road map and the benefits of redistribution policy (GOB, 2005). In the present circumstances, Bangladesh requires a land reform policy to bring a first real change in the agriculture production system.

- 6.2 To ensure that those who have got the land leased can cultivate and harvest it, necessary support services have to be developed and distributed through some cooperatives of the newly land owners. The support services should include fund, seedlings, tilling equipments, and fertilizer and irrigation facilities.

- 6.3 Target-oriented specific programmes have to be initiated for rural infrastructure development. This includes construction of road, bridges, irrigation project, rural electrification, and market development. The PRSP 2005 seems to favour a *status quo* in the number of the infrastructural facilities and go for deepening them. There is no doubt that the facilities need to be deepened, but putting a freeze on the number may not be a very well opted decision, as Bangladesh still has a low per capita infrastructural density which also serves as a bottleneck for development. For the construction of roads, care should be taken that they go through the centre of the villages' market places and useable for vehicles for all the seasons. A broadcasting system needs to be developed through which information sharing and dissemination of agriculture related information could be done among the stakeholders.
- 6.4 Human resource development requires investment in soft infrastructure creation for education and public health care. This is the long term process and needs consistent investment commitment for a longer period of time. Even in the changed economic circumstances, it was important that the Vietnamese Government consistently pursues the 'education for all' policy, particularly universal primary education with higher budget expenditure for education. This has played an important role in making Vietnam a nation with about 95 percent literacy rate. The domino effect of such higher literacy in the development of a country could be immense. In Bangladesh public spending, particularly for primary education, should be made progressive in the sense that needy households receive larger share of the subsidy than richer households. The universalization of education up to secondary level can be considered seriously. Education encouragement benefits should also be extended to poor male students.
- 6.5 Achieving higher growth and ensuring that growth remains pro-poor has to be made a major objective of the budgets. Targeted intervention plans to boost income and consumption expenditure of the poor need urgent attention as this will help reduce social inequality which is increasing at a faster rate in Bangladesh. Delivering micro-credit through government

financial institutions at a reduced cost could be an alternative than to leaving it mostly for the non-government organizations (NGOs) which are criticised for their much higher interest rate and even harsher methods of credit recollection. This increases the overall economic and social costs of the borrowers who are mostly the poor and vulnerable people of the society.

- 6.6 In Vietnam, there is no ceiling for investment amount and for an investment amount of bellow VND 300 billion (about US\$ 1.8 billion) except in the conditional sector could be registered with the provincial administrative body. Article 46 of the Law on Foreign Investment 2000 makes it mandatory that the appraisal time for an investment proposal should take no longer than 45 days for issuing an investment certificate (Socialist Republic of Vietnam, 2000). With a much higher level of political and policy stability, Vietnam is getting the reward of the law in terms of drawing foreign FDI. An appraisal of performance of Bangladesh in managing investment offers is very poor as could be seen by the handling of some of the big investment proposals in recent times. An investment friendly environment has to be created so that both domestic and foreign investors can invest to create more production and employment avenues. This will bring economic vibrancy needed to push growth up in the country and the poor are benefited from the trickle down effect.
- 6.7 As an economy with dependence of the major segment of population on agriculture, the sector should be managed more efficiently. Running of the irrigation projects, distribution of fertilizer, diesel, electricity in recent years are marked by sheer incompetence. Resent quick rise of prices of most of the food items in the national and international markets makes it imperative to give more focus on the sector. This becomes more important in the apprehension that much of the improvement in poverty condition may again move back due to impending huge food shortage in the country. So the importance of agriculture in reducing poverty by way of more production, consumption and export earnings has to be

reemphasised with supportive measures to help the farmers and producers.

- 6.8 Last, but not the least, the role of good governance of the different economic, political and social policies becomes vital in the short and long run. Improvement in the management of all these policies has much more importance in the context of Bangladesh. Vietnam seems to have done much better in many areas, even in comparison with some of the newly industrializing countries in its neighbourhood, largely because of the political stability it has been enjoying since 1975.

As pointed out earlier, poverty is a multi-dimensional, complex problem. Its reduction, therefore, requires a multi-dimensional strategy. For Bangladesh, such a strategy should include measures to manage better the macroeconomy, accelerate growth, improve human resource, provide safety nets to reduce the vulnerability of the poor, and empower them. Sound micro- and macro-economic policies, stronger institutions and better governance are the key to address the dimensions of poverty more effectively. To win its war on enemy called poverty it will take strong political leadership, prudent policy measures and continuation of commitment.

7. CONCLUSIONS

The success of *doi moi* and the subsequent reforms has turned Vietnam into a land of promises with higher growth, bigger FDI inflows and much less people with the burden of poverty. It has been able to do that by ensuring the benefits of growth to the poor by channeling a large sum of the state budget for rural soft and hard infrastructural development and bringing more people under different social safety schemes. It has also derived the benefits of higher protection on its agriculture sector over a longer period of time by being a late joiner of the WTO. But the delay in joining the WTO seems not to have impacted the growth of private sector that has boomed from the early 1990s and has started showing a greater role in the economy. In fact, only a few years after the implementation of *doi moi*, many Western economists had already classified Vietnam's economy as a market economy.

The role of agriculture in fighting poverty has been very important in Vietnam. This has happened through the increased production, consumption and export of all the major agricultural commodities. Vietnam has emerged to be a major net exporting country of many of the agricultural products.

At the moment, the emerging features of the poverty reduction need to be carefully analyzed and addressed with appropriate intervention measures, particularly to reduce poverty among the ethnic minorities. The role of the government should be instrumental as the actions of other non-governmental organizations may not be effective as they have a minimum presence in the country.

While it is true that Vietnam was a socialist state at the time of its transformation, many of its economic and political characteristics were similar to those of many developing countries, such as the nationalized natural resources, the large public sector, the predominant role of agriculture, and so on. So, the economic transformation in Vietnam may offer valuable lessons to many developing countries like Bangladesh.

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Appendix

Table A1:
Poverty Rates and the Poverty Gap (in percent)

	1993	1998	2002	2004*
Poverty Rate	58.1	37.4	28.9	19.5
Urban	25.1	9.2	6.6	3.6
Rural	66.4	45.5	35.6	25.0
Kinh and Chinese	53.9	31.1	23.1	14.0
Ethnic minorities	86.4	75.2	69.3	61.0
Food poverty	24.9	15.0	9.9	6.9
Urban	7.9	2.5	1.9	3.3
Rural	29.1	18.6	13.6	8.1
Kinh and Chinese	20.8	10.6	6.5	n.a
Ethnic minorities	52.0	41.8	41.5	n.a
Poverty Gap	18.5	9.5	6.9	5.0
Urban	6.4	1.7	1.3	0.7
Rural	21.5	11.8	8.7	6.0
Kinh and Chinese	16.0	7.1	4.7	3.0
Ethnic minorities	34.7	24.2	22.8	13.0
Gini Index for Per Capita Expenditures	0.34	0.35	0.37	0.37
Urban	0.35	0.34	0.35	0.33
Rural	0.28	0.27	0.28	0.30

Source: GSO (2004). World Bank et al. (2003), VASS (2007).

Table A2:
Share of Expenditure on Development Investment in the State Budget
(As a percentage of the Total Budget)

Year	Development Investment	Education and Training	Health Care	Total (1+2+3)	Science Tech and Environment
	1	2	3	4	5
1990	23.10	7.40	4.00	34.50	1.2
1991	17.70	9.30	5.30	32.30	0.9
1992	27.20	7.90	4.50	39.60	1.2
1993	25.90	5.40	4.10	35.40	1.3
1994	25.94	8.20	4.21	38.35	n.a
1995	22.87	8.53	4.36	35.76	n.a
1996	26.59	8.55	4.35	39.49	n.a
1997	24.96	11.17	3.89	40.02	n.a
1998	25.02	11.86	3.74	40.62	n.a
1999	30.94	10.77	3.25	44.96	n.a
2000	27.19	11.63	3.17	41.99	1.14
2001	31.00	11.89	3.24	46.13	1.25
2002	30.51	12.04	3.14	45.69	1.25
2003	32.91	12.63	2.96	48.50	1.02
2004	35.29	13.53	3.21	52.03	1.26
2005	31.71	16.04	4.74	52.49	1.15
2006	32.00	15.37	4.33	51.70	1.20

Sources: GSO (1994), GSO (2000) and GSO (2005) for data 1990-93, 1997-1999 and 2000-03 respectively; Ministry of Finance website for data 2004-2006, and IMF (1998),

**Table A3:
Access to Targeted Benefits by Quintiles of People**

Sl#	Quintiles	1998	2004	
		Having Health Insurance	Having Health Insurance	Having Health Insurance plus Free Health Care Card
1	Poorest People	6.22	22.69	41.81
2	Near Poorest People	9.67	23.22	30.43
3	Middle People	13.59	26.15	31.37
4	Near Richest People	20.18	24.41	38.22
5	Richest People	28.99	44.12	46.40
6	Total	15.73	29.53	37.56

Source: VASS (2007).

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