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## Viet Nam: a transition tiger? Poverty alleviation

### Abstract for chapter 14

As well as the 'growing out of poverty' and 'liberalisation as a poverty reduction strategy', the initial conditions inherited from the pre-reform period were important determinants of the general poverty alleviation program.

This chapter indicates that the performance of the Vietnamese economy – in the past decade – in relation to alleviation of poverty has been exemplary, although the alleviation of poverty happened despite the lack of an explicit poverty alleviation strategy or program. In terms of growth and poverty alleviation, market reforms were a key input into the acceleration of agricultural growth, much of it based on the household farm, which has been a critical factor in reducing rural poverty.

However, while poverty has been reduced, the rate of income improvements among the poor is slower than the average rate. The challenge is how to prevent such inequalities from being consolidated and from becoming the basis of an entrenched class society.

#### Keywords:

ethnic groups, food poverty line, Living Standards Measurement Surveys (LSMS), poverty line, poverty reduction, social development, welfare

# 14

## POVERTY ALLEVIATION

### POVERTY ALLEVIATION ISSUES

The performance of the Vietnamese economy in relation to alleviation of poverty in the past decade has been exemplary. This is of considerable interest in the context of the international concern for poverty alleviation throughout the developing world. Donor agencies now place a high priority on poverty reduction, and poverty reduction programs have been enthusiastically adopted in many countries. However, the commitment to poverty alleviation as a goal has not yet been matched by plausible programs or very much success in most of the countries that have adopted poverty reduction as a key policy goal. The Vietnamese success in the 1990s is therefore of more general interest.

Understanding the reasons for past success may also be of importance for future policy in Vietnam. Through 2002, the Vietnamese government continued formulating a comprehensive poverty reduction strategy that was likely to influence the allocation of substantial national and donor resources. The nature of the past achievement might provide some insights into the viability of the new strategy.

However, the lessons are not obvious. One set of issues relates to the balance to be struck between growth and poverty alleviation. The Vietnamese poverty reduction achievement was not the result of focused efforts to reduce poverty. The significant alleviation of poverty during the 1990s happened despite (or perhaps because of) the lack of an explicit poverty alleviation strategy or program.

Poverty alleviation came as a result of the successful pursuit of growth in the context of an economic and social structure that was conducive to the spread of the benefits of growth. Will the new emphasis on focused interventions to tackle poverty improve the link between growth and poverty alleviation, or will it reduce the growth performance by emphasising low productivity investments, and in so doing reduce the rate of poverty alleviation?

One difficulty in interpreting the record is that even if there was some success in achieving growth plus poverty alleviation during the 1990s, it may not be replicable in the future. Although the growth of the Vietnamese economy lifted large numbers of people out of poverty, the reduction in poverty was accompanied by a tendency towards increased inequality between the better-off and the poor and between urban and rural areas. Is increasing inequality a necessary facet of fast market-based growth? Will the tendency to increasing inequality reduce the tendency for the benefits of growth to be diffused, so that future growth could be less rewarding to the poor (and justify the new emphasis on focused poverty reduction programs)?

The discussion in this chapter cannot provide definitive answers to these questions. But examination of the record can provide some pointers to the policy issues that need to be considered in formulating future poverty eradication programs.

## POVERTY ALLEVIATION PERFORMANCE

Definitive evidence is now available on the impact of the high rates of growth on the income of the poor in Vietnam.<sup>1</sup> Before looking at the detailed evidence it might be useful to note how poverty has been defined in the Vietnamese literature. The basic data in use to analyse trends in poverty are those derived from the Living Standards Measurement Surveys (LSMS) conducted in 1992/93 and 1997/98.<sup>2</sup> The results of the 1997/98 LSMS provide a solid basis for judging what happened to absolute poverty and income distribution over the 1992–98 period. This covers the period of dramatic acceleration in Vietnamese growth.

The government also uses the concepts of ‘poor areas and poor communes’ to identify the places where the percentage of poor households is much higher and living standards are much lower than the national average level, areas typically characterised by unfavourable natural conditions (poor land, frequent natural disasters) and underdeveloped infrastructure.

In interpreting the LSMS data, the government of Vietnam has used two poverty lines.<sup>3</sup> 'Poverty' is defined in terms of incomes below the minimum level required to cover basic needs for food, clothes, residence, health care, education, travel and communications. A lower level is defined as a 'hunger' line (or food poverty), in order to distinguish what is described as the 'very poor' population from the 'poor' population.

'Hunger', or food poverty, is defined as a situation in which incomes are below the minimum level required to provide food to eat, enough clothes to wear and enough income to sustain their lives. This lower 'hunger' line is intended to identify the proportion of population that lacks food for several months in a year and who typically have to borrow to survive and lack repayment capacity.

The food poverty line is set at an average of 2,100 kilocalories per person per day, in line with the definition used by most international organisations and developing countries. People whose expenditures are not sufficient to attain this level are considered poor in terms of food.<sup>4</sup>

To define the total poverty line, the cost of minimum necessary non-food items is added to the minimum food expenditures.<sup>5</sup> The 1993 expenditure-based total poverty line was VND1,160,000 and the 1998 line was VND1,789,700.

Based on these poverty lines, the Vietnamese General Statistics Office and the World Bank estimated that the total poverty incidence in Vietnam in 1993 and 1998 was 58 per cent and 37 per cent respectively, while that of food poverty was 25 per cent and 15 per cent respectively. The data were extrapolated by the government to estimate levels for the year 2000 as 32 per cent and 13 per cent respectively.

The evidence provided by the LSMS data is clear. Whatever poverty line is used, poverty decreased substantially between 1992/93 and 1997/98. Poverty declined more rapidly in urban areas than in rural areas. Urban poverty fell from 25 per cent to 9 per cent whereas rural poverty rates dropped from 66 per cent to 46 per cent. Rural poverty therefore remains a critical challenge.

The regional pattern of poverty reduction was quite varied. Poverty levels declined in all seven economic regions, but not at the same pace. The largest decline in overall poverty was in the Red River delta, where poverty dropped from 63 per cent to 29 per cent. In 1992–93, this area had ranked fourth out of the seven regions in terms of the extent of poverty, but by 1997–98 it had

moved to second in the rankings (the only region with less poverty was the Southeast, which includes Ho Chi Minh City). The Southeast, already the least poor region in 1992/93, enjoyed a further significant reduction from 33 per cent to 8 per cent. Central Coast and the Mekong delta had only moderate declines in overall poverty. The poor performance of the Mekong delta probably reflected the impact of Typhoon Linda, which struck the area in November 1997.

Analysis of the distribution of poverty across ethnic groups reveals that the Chinese, who constitute 2 per cent of the population, and are in general better off than the majority Kinh, who constitute 84 per cent of the population. All the other ethnic groups (mostly located in remote and mountainous areas) are much worse off than the Kinh. The incidence of poverty among the Kinh dropped from 55 per cent to 32 per cent from 1992/93 to 1997/98. For all other groups taken together (not including the Chinese), the incidence of poverty was 75.2 per cent in 1997/98, some improvement over 1992/93, when the poverty rate for this group was 86.4 per cent. The survey found poverty levels increasing for some minority groups.

Data on the regional incidence of poverty need to be interpreted with some care. The three regions which have the highest poverty incidence are the Northern and Central Uplands regions (which have a concentration of ethnic minorities), and the North Central Coast, which suffers from an inhospitable environment. As a result, these areas are the focus of government and donor poverty alleviation efforts. It should also be noted, however, that in 1997/98 over one-third of all poor people were residing in the Red River and Mekong deltas.

Some general comments to illustrate the options in tackling poverty alleviation can be drawn from this.

- Remote and mountainous areas (particularly the Northern Uplands,<sup>6</sup> which contains 28 per cent of the poor), where ethnic minorities are concentrated, experience difficult economic conditions because of physical isolation and mountainous terrain. Within these areas, a distinction can be made between those areas that would have economic potential if binding infrastructural constraints could be relaxed (for example, through the improvement in communications opening up access to national markets) and new income possibilities could be developed (for example, high-value tree crops) and those areas with a very poor natural resource base, where

straightforward infrastructure improvement investment may not be very productive in increasing household incomes. It is in these areas that the complex issues related to the development of ethnic minorities must be addressed.

- Many Central Coast areas have poor soils and a negative climate which hold back agricultural development (that is, some disaster management is required to reduce economic risks). Nonetheless, these areas have reasonable access to markets and a well-educated population that could benefit from exploitation of niche markets in agriculture (for example, pepper) and from the promotion of non-agricultural employment opportunities.
- The Red River delta still has many poor people, even though large numbers of others have been lifted out of poverty by fast economic growth. Land scarcity is one critical factor limiting household livelihood options. In the Red River delta, household livelihoods are likely to be improved by further growth in productivity through sophisticated innovations in the

Table 14.1 Food poverty and overall poverty headcounts in Viet Nam, 1993 and 1998 (per cent)

	Food poverty		Overall poverty	
	1993	1998	1993	1998
All Vietnam	24.9	15.0	58.1	37.4
Urban	7.9	2.3	25.1	9.0
Rural	29.1	18.3	66.4	44.9
Region				
Northern Uplands	..	..	78.6	58.6
Red River delta	..	..	62.9	28.7
North Central	..	..	74.5	48.0
Central Coast	..	..	49.6	35.2
Central Highlands	..	..	70.0	52.2
Southeast	..	..	32.7	7.6
Mekong River	..	..	47.1	36.9

**Source:** Food poverty figures are from World Bank, 1999. *Vietnam Development Report 2000: Vietnam attacking poverty*, Joint Report of the Government–Donor–NGO Working Group, Hanoi. Overall poverty figures are from Glewwe et al., 2000. *Who Gained from Vietnam's Boom in the 1990s: the analysis of poverty and inequality trends*, World Bank, Washington, DC.

already highly intensive agricultural systems and from the expansion in off-farm employment opportunities (for example, further development of successful rural and small-town industries).

- The Mekong delta has undergone a less rapid reduction in poverty than the Red River delta despite high agricultural potential. The success of some Mekong households in moving out of poverty has been significantly offset by the incidence of households falling into poverty between the two surveys (see Justino and Litchfield 2002). In the Mekong, there is potential for agricultural expansion both at the extensive margin and from more intensive land use, but difficult issues of environmental and natural disaster (particularly flood) management need to be overcome if large and sustainable increases in household income are to be achieved.

The importance of this distinction between poverty in regions which are 'backward' and poverty in the more 'highly developed' areas is two-fold. First, it would be a mistake to see poverty reduction as mainly a matter of dealing with backward areas. Second, this distinction has implications for policy approaches in different areas. Poverty which results from residence in a poor area will demand a different approach than that appropriate for poverty that results from households failing to participate in the benefits of growth in areas with a high growth performance.

The government, in introducing its poverty eradication strategy in early 2002, noted that living standards improved greatly during the 1990s and that social indicators confirmed a broad improvement in standards of welfare. For example, the under-five child mortality rate and the maternal mortality rate halved between 1990 and 2000. The proportion of the rural population with access to safe water doubled. The net level of enrolment in primary education increased to 95 per cent. Life expectancy rose from 64 in 1990 to 68 in 2000.

By 2000, 88 per cent of communes had access to electricity and 95 per cent of communes were accessible by vehicle. Viet Nam's Human Development Index (HDI) and social service accessibility showed continuing improvement, indicating that Viet Nam's social development was well ahead of what was typical of countries with similar income levels. In 1999, Viet Nam was ranked 167 in the world in terms of per capita GDP, but 101 in terms of its Human Development Index.



## GROWTH AND POVERTY ALLEVIATION

The Vietnamese record of high growth combined with poverty alleviation can be interpreted in many ways, each of which suggest a different approach to poverty reduction.

One possible interpretation is that promoting growth is an effective poverty alleviation strategy. Certainly, during the 1990s the main emphases of Vietnamese policy were economic growth and 'modernisation'. Continuing concern was expressed for the plight of poor people, particularly in mountainous and backward areas, but the main thrust of government investment and incentives was the development of the three growth poles, in the north, centre and south of the country. Growth was achieved, and the evidence set out above demonstrated that substantial segments of the population were lifted out of extreme poverty.

This view is certainly partly correct, and hardly surprising in the sense that, in a country with pervasive poverty of the kind prevalent in Viet Nam in the 1980s, economic growth must be a necessary pre-condition to widespread poverty reduction, and at that stage of growth it does not make sense to divert resources from high growth potential investments to low potential investments on distributional grounds. This suggests that, at very low levels of average income, poverty alleviation should be about the development of productive capacity, rather than redistributive welfare measures. Despite the substantial growth gains during the 1990s Vietnam remains a poor country, with an average income per capita of around US\$400. Given the success of growth in lowering poverty in the 1990s, it is possible that the move to a focused poverty alleviation program may be premature.

At Vietnam's level of development in the 1980s, raising the income levels of a significant segment of the poor was not feasible without high rates of growth in national income. In an economy which was so poor that the average income was not much above the poverty line and more than half the households were classified as poor, there was little scope for poverty alleviation through redistribution, so that economic growth was a necessary condition for poverty alleviation.

However, the composition of aggregate growth will influence the impact on poverty. In the case of Vietnam, the high growth performance included high rates of agricultural growth, resulting in growing rural incomes. Although rural incomes grew much more slowly than urban incomes, large segments of the

Table 14.2      **Poverty gap and poverty severity level headcounts for Viet Nam, 1993 and 1998 (per cent)**

	1993	1998
Ethnic group		
Kinh	55.1	31.7
Tay	81.3	63.8
Thai	82.3	71.1
Chinese	11.8	8.4
Khome	75.4	57.5
Moung	89.6	80.6
Nung	91.8	72.0
H'mong	100	91.8
Dao	88.5	100
Other	90.0	75.8
Education of the household head		
No schooling	69.9	57.3
Primary	58.2	42.1
Low secondary	63.8	38.1
Upper secondary	45.9	24.9
Technical/vocational	47.7	19.2
University	13.4	4.5
Occupation of the household head		
White collar	24.1	10.1
Sales	27.7	13.2
Agriculture	69.0	48.1
Production	44.5	25.8
Other/no work	59.0	26.3
Sex of the household head		
Male	61.0	39.8
Female	48.3	28.2

**Source:** Glewwe et al., 2000. *Who Gained from Vietnam's Boom in the 1990s: the analysis of poverty and inequality trends*, World Bank, Washington, DC.

rural population enjoyed increases in absolute income, and a significant portion of the rural population was raised out of poverty as the benefits of growth were spread beyond the urban growth poles. An emphasis on rural development was consistent with both high growth and poverty alleviation.

The distribution of benefits within the rural economy is also important in determining the poverty impact of growth. In Viet Nam, there was a significant diffusion of the benefits of growth because of the egalitarian social relations in rural areas. Viet Nam does not suffer from the kind of semi-feudal landlord–

tenant relations which has checked the spread of the benefits of growth in other parts of the world (for example, in the Indian sub-continent).

Another possible interpretation of the 'growth and poverty reduction' record is that market liberalisation is supportive of fast poverty alleviation. Again, in this period it was part of the truth in Viet Nam. Market reforms were a key input into the acceleration of agricultural growth, much of it based on the household farm, which has been a critical factor in reducing rural poverty. Moreover, the fast growth of the small and medium-sized enterprise in the liberalised urban economy generated widespread income opportunities and underpinned the fast growth of urban incomes, despite declines in public sector employment.

Against this view, it should also be noted that some aspects of the market-led growth strategy may create difficulties for poverty alleviation in the future. Some indicators suggest that some aspects of wellbeing among the poorest sections of the population are being eroded, for example as a result of reduced access to some public services. Moreover, despite the improvements in rural incomes, the absolute gap between urban and rural incomes is widening persistently and substantially. Although economic growth has contributed to a great reduction in poverty, there has also been an increase in inequality as measured by the gaps between the top and bottom income levels (for example, the top and bottom quintiles) and between town and country.<sup>7</sup>

The government's own analysis notes that the income of the poor has grown at a lower rate than that of the middle-income group, who in turn have experienced lower growth than the high-income group. The gap between the richest and poorest quintiles is widening (from 7.3 times in 1996 to 8.9 times in 1999). Between the two living standard surveys (from 1993 to 1998), the richest 10 per cent of the population increased their spending by 53.3 per cent compared to a 23.3 per cent spending increase by the poorest 10 per cent. So, although poverty has been reduced, the rate of income improvement among the poor is slower than the average rate. Also, the gap in living standards between urban and rural areas remains very large and is growing.

Some increase in income and wealth inequality is a virtually inevitable result of fast growth at the current level of development. The challenge is how to prevent such inequalities from being consolidated generation to generation—that is, from becoming the basis for an entrenched class society. To do this,

conscious and specific efforts will be required to ensure that access to public services is available to the poor, so that there is a reasonable degree of equality of opportunity. At the moment, there are some tendencies pushing the economy in the opposite direction.<sup>8</sup>

Both the 'growing out of poverty' and 'liberalisation as a poverty reduction strategy' have to be tempered by the argument, developed in various places in this volume, that the initial conditions inherited from the pre-reform period were important determinants of the inclusive character of the Vietnamese performance. The sustained commitment to investment in human capital, the lack of great inequalities in the access to rural assets and modest differentials in employment incomes were particularly important.

## NOTES

- <sup>1</sup> World Bank research staff undertook a detailed statistical analysis of the results of the 1998 LSMS and of the lessons to be learnt regarding the changes between 1992 and 1998 (see Glewwe et al. 2000).
- <sup>2</sup> The surveys covered 4,800 and 6,000 households respectively.
- <sup>3</sup> In addition to these poverty lines based on LSMS data on poverty, the Ministry of Labour, Invalids and Social Affairs developed a national poverty line to identify who are the poor, with specific numbers and addresses in order to develop a list of poor households at the hamlet and commune levels and to identify poor communes eligible for support from the National Target Poverty Reduction Programme. In 1997, Vietnam set a poverty line under the national programme (the old poverty line) to apply to poverty measurement in the 1996–2000 period as follows—hungry households: households with average per capita monthly income in rice equivalence of less than 13 kilograms or less than VND 45,000 (in 1997 prices, applied to all regions); poor households: criteria set for different areas/regions. For rural mountainous and island areas, less than 15 kilograms per person per month (equivalent to VND 55,000). For rural plain and midland areas, less than 20 kilograms per person per month (equivalent to VND 70,000). For urban areas, less than 25 kilograms per person per month (equivalent to VND 90,000); poor communes: communes with poverty incidence of 40 per cent and above and lack of infrastructure (roads, schools, clinics, electricity and water for livelihood needs, small irrigation works and markets). A new poverty line was published in 2001 to be applied to poverty measurement in the 2001–05 period. The new poverty line was set at VND 80,000 per month for people in island areas and rural mountainous areas (or VND 960,000 per year), VND 100,000 per

month for people in rural plain areas (or VND1,200,000 per year) and VND150,000 per month for people in urban areas (or VND1,800,000 per year). Localities estimate poor households as a percentage of total households based on these poverty criteria. Provinces and cities are allowed to apply higher poverty standards than the stipulated levels.

- <sup>4</sup> When the 1992/93 survey was conducted, the calculation of minimum expenditures needed to buy the food basket to provide the minimum calorie intake was made using January 1993 prices. The result was VND749,000, which was defined as the food poverty line (US\$65 at 1993 exchange rates). In the 1997/98 survey, the food poverty line was calculated by multiplying the amount of goods in the food basket that was used to calculate the 1992/93 food poverty line by January 1998 prices. The resulting poverty line for 1997/98 was set at VND1,286,000 (equivalent to US\$123).
- <sup>5</sup> This was done by observing the non-food expenditures of those households whose food expenditures just allowed them to purchase the 2,100 calorie food basket.
- <sup>6</sup> The Central Highlands also had more than 50 per cent poor, but it is sparsely populated, so only accounts for 5 per cent of the total poor.
- <sup>7</sup> The social consequences of an increase in inequality may be influenced by the degree of mobility between income groups. A given degree of inequality may in some sense be more acceptable if there is great household mobility. In a paper analysing economic mobility on the basis of the survey data, Glewwe and Nguyen (2002:19) conclude that, although a simple analysis of the data suggests a high degree of mobility, when adjustments are made for measurement error, a much lower degree of mobility is suggested, implying that 'Vietnam's worries about increasing inequality cannot be dismissed by pointing to high economic mobility'.
- <sup>8</sup> See Van de Walle (1998) which highlights the problems of unequal gains from growth and the erosion of social safety nets.