



Achieving High Economic Growth with Rapid Poverty Reduction: The Case of Vietnam¹

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Since the late 1980s, Vietnam has successfully implemented a national development policy that has combined high economic growth with rapid poverty reduction. Between 1986 and 2007, the country reduced its poverty rate from 75% to 14.7%. In doing so, Vietnam was able to announce to the United Nations General Assembly in November 2006 its fulfilment of the first Millennium Development Goal on poverty alleviation² ten years ahead of schedule.

This brief examines key aspects of Vietnam's socio-economic policy over this period. The analysis identifies four major reasons for the country's success in reducing poverty: 1) The inclusion of poverty reduction as a top priority in national development strategies and policies; 2) The strong integration of poverty reduction initiatives and other social and economic programs; 3) The increasing marketisation, commercialisation and diversification of commodities and other products to create more opportunities not just for the rich, but also for the poor; and 4) The promotion of multi-stakeholder participation in poverty reduction, especially the participation of the poor themselves. The paper concludes that the Vietnamese model of socio-economic development may provide a practical alternative for other developing countries, including Tanzania, to achieve the twin goals of growth and poverty reduction.

Introduction

Over the last few decades, development policy has been dominated by mainstream economic theories that focus on the need for economic growth above all else to achieve sustainable development. But, in practice, many of the developing countries that have undergone radical structural adjustment of their economies to increase growth have not significantly reduced their poverty rates. A new approach is clearly needed such that economic growth translates into poverty reduction. The economic success of Vietnam over the last 25 years may provide a new development model of growth with greater equity.

1. The Rapid and Successful Poverty Reduction Approaches in Vietnam

Remarkably, Vietnam reduced its poverty rate from 75% in 1986 to 14.7% in 2007. This reduction of poverty reflects both rising household per capita expenditure and GDP per capita growth thanks to an increase in real income over these two decades of economic renovation. The period from 1993 to 1998, for instance, showed that the average household per capita expenditure rose by 41% indicating a considerable improvement in living standards. This result was closely linked to the average annual GDP growth rate of around 7.2% per annum, which was much faster than the average annual population

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² The first Millennium Development Goal aims to reduce by half the proportion of people living on less than \$1 per day (Target 1A) and reduce by half the proportion of people who suffer from hunger (Target 1B).

growth rate of 1.6%, leading to a 5.6% annual growth in per capita income in aggregate terms. Vietnam's GDP per capita increased considerably from US\$ 98 in 1990 to US\$ 729 in 2006 at current prices or more than 7 times in real terms.

Why has Vietnam done so well to address the problem of poverty in such a short period of time? This analysis posits the following four main factors behind this progress:

- i) The inclusion of poverty reduction as a top priority in every national strategy, policy and plan;
- ii) The strong integration of poverty reduction initiatives and other social and economic programs;
- iii) The increasing marketisation, commercialisation and diversification of commodities and other products to create more opportunities not just for the rich, but also for the poor; and
- iv) The promotion of multi-stakeholder participation in poverty reduction, especially the participation of the poor themselves.

i) Poverty alleviation: A Top Priority in National Development

The principal objective of poverty alleviation is not simply to support the poor through humanitarian aid or charitable donations since these forms of assistance are temporary and typically only available in response to emergencies. The fundamental and long-term causes of poverty are different. For example, at the household level, poverty is closely associated with a lack of resources (land, labour and capital), lack of education, poor health, disability and old age, exposure to risks, such as natural calamities, and gender inequality. Therefore, the most effective approach to reduce poverty is to support the self-help efforts of the poor to remove the causes of their poverty.

Since renovation commenced in 1986, poverty alleviation has been set as a top priority in all national development strategies and policies. Development strategies have enshrined a pro-poor approach, confirmed the human as the centre of sustainable development, and encouraged all people to enhance their capabilities. Starting in the early 1990s, titles to agricultural land were provided to rural households. This process, one that is eminently vulnerable to capture by local elites, was remarkably egalitarian. The distribution of land was implemented with a strong pro-poor focus and the land allocated has become a guarantee for people's basic needs.

Throughout the renovation period, Vietnam has used its economic growth of around 7% to 8% per annum to facilitate the implementation of social objectives and, in turn, used social development as the driver for economic growth. The country harnessed this growth – and the rising national incomes derived from that growth – to provide public services to poor households through targeted transfers (especially through access to credits), increased funding for education and healthcare, reforestation programs, and the construction of schools, clinics and clean water sources. The provision of healthcare cards, which allow the poor to access health services at a reduced cost, and the improvement of the delivery system through healthcare funds for the poor have both had a positive impact. Other major parts of infrastructure in rural areas (where over 70% of the population live) were also built, including electricity, roads and communication. By 2006, 89% of villages were connected to electricity compared with 60.4% in 1994. Overall, around one-quarter of the State budget annually has been earmarked for social programs.

Along with Government assistance, poor households in Vietnam have access to various sources of credit, both formal and informal, including the Vietnam Bank for Social Policies (VBSP) and the Vietnam Bank for Agriculture and Rural Development (VBARD). In addition, mass organisations, such as the Vietnam Women's Union, the Vietnam Farmer's Union and the Vietnam Youth Union, as well as the Commune People Committee and District Governments, are deeply involved with the micro-credit process at the local level, mainly through the development and certification of credit groups. Currently, there are also over 60 international NGOs engaged in micro-finance activities in Vietnam. In other words, formal and informal sources of credit are diversified and numerous. As a result, about three-quarters of households have been provided with pro-poor credits in one form or another. Micro-credits enabled many low-income households that lacked capital to advance to middle-income status.

ii) An Integrated Approach to Poverty Alleviation

In a number of developing countries, poverty alleviation has been carried out through targeted programs which have not been effectively linked to other development programs. However, in practice, development programs are closely linked across different sectors and require an integrated approach. In Vietnam, an integrated approach has proved to be the most effective solution to poverty. Poverty reduction programs in Vietnam have been closely linked to other social and economic programs

including land reform, job creation, education, family and population planning, the program for the progress of women, healthcare, environmental protection, governance, ethnic equality, construction of pro-poor infrastructure, agricultural and rural development and micro-credit schemes.

One of the typical examples of the country's integrated approach is the link between poverty alleviation and job creation programs – such as the Program for Agricultural Development and Food Production, the Program for Consumer Goods Production, the Program for Export Production, the National Loans Fund for Job Creation, the Handicraft Village Development Program and the Labour Export Program. All of these initiatives relate very closely to the labour-intensive sectors and the country's rural areas where nearly 60% of the 45 million people in the labour force are located. These integrated programs have greatly contributed to the creation of jobs, the reduction of unemployment, the structural transformation of labour in accordance with industrialisation, and the improvement of the living conditions of the poor. From 2001 to 2006, over 7.5 million of new jobs were created, an average of 1.5 million per annum. The private sector which has developed rapidly since the adoption of the Enterprise Law in 2001 is the most significant job creator, creating over 90% of new jobs every year.

iii) Increased marketisation, commercialisation and diversification

As the market economy in Vietnam has gradually been developed under the renovation policy, households in Vietnam have become much more market oriented. For example, the proportion of total household output being sold at market increased in less than a decade from 40% in 1993 to 70% in 2002. Since overall production has also increased, this change has not worsened but contributed to the improvement of the food security and nutritional intake of the people. Increased diversification and commercialisation of crops has generally helped farmers to gain higher incomes, reduce their vulnerability to market shocks and be lifted out of poverty.

Domestic marketisation is closely linked to the development of international trade and to specialisation in the production of goods based upon comparative advantages. Vietnam's industrialisation strategy no longer viewed heavy industries as the only pathway to national development. Rather, the country's economy diversified into labour-intensive and natural resource-based industries, like textile and garments, food production and processing, fisheries, and cash crops such as tea, coffee and rubber. By focusing

on light manufacturing rather than heavy industries, the integration with the world economy helps boost the demand for unskilled workers, thus raising their wages, particularly among young unskilled women who have benefited from the development of the clothing and footwear industries.

International trade has been boosted through bilateral and multilateral trade agreements and membership in regional and global trade bodies, and inflows of foreign direct investment to Vietnam have also significantly increased since the issue of the Foreign Direct Investment Law 1987 from zero to US\$ 12 billion in 2006. Both trade expansion and FDI inflows have greatly contributed to the creation of jobs, the increase of income, especially in the sectors of cash crops and labour-intensive industries. All of which has translated directly into quick reduction of poverty in Vietnam. Between 1985 and 2006, the country increased the number of export products with revenue of over US\$1 billion from zero to nine. Export industries have become the engines of economic growth, the largest creators of jobs and the biggest contributors to poverty alleviation. The country's markets have been diversified from almost a single foreign market - the former Soviet Union which accounted for over 90% of Vietnam's total foreign trade prior to the renovation period - to 122 markets worldwide.

iv) Multi-stakeholder participation

As poverty alleviation is a central issue of national development, it requires the participation and contribution of all sectors and social strata. The participation process in Vietnam is carried out from the top to the grassroots levels. The National Assembly, the country's supreme legislative body, has become a place where representatives from across society, including people of different ethnic groups and religions, contribute their ideas to the formulation of laws and policies, particularly poverty alleviation policies and initiatives. That one-quarter of the deputies in the Assembly are women – the highest rate of women's representation in any National Assembly/Parliament in Asia – reflects the improving and important role of women in society. In addition, 17% of deputies come from ethnic minorities in the National Assembly further indicating the broad-based participation at the top Government level. Female deputies and representatives of ethnic minorities are very important stakeholders in the area of poverty alleviation; their voices in the Assembly have been heard and introduced into policies and laws.

At the local level, the carrying out of grassroots democracy has enabled people to directly participate in the decision making, monitoring and implementing

of projects in their localities. The existence of more than 300 mass and people's organisations at the national level and tens of thousands at local levels make the participatory process more effective and realistic.

The role of the State remains of extreme importance. Though Vietnam has been in the process of transformation from a planned economy to a market economy, the State has not retreated from development as in the case of a number of other developing countries, particularly those in Africa. In Vietnam, the State continues to play an active or "the leading role" in development though it no longer over-intervenes as it did under the planning system. This is reflected in the level of public expenditure in key social sectors which has been maintained almost at the same level throughout the reform period, at roughly one-quarter of the annual Government budget. The delivery of social services to the poor has been highly effective as shown by the fact that Vietnam's social indicators are substantially above those of other developing countries at a similar development level.

The public administration reform program has also established a framework to improve service delivery to the poor. The one-stop-shop model, which has been adopted in two-thirds of the country's 64 provinces and cities, and the decentralisation process which has led to institutional change and transparency in solving the problems of the poor, both confirm the commitment of the Government of Vietnam to

equality and social inclusion, and to the pro-poor growth strategy.

2. Ongoing challenges

Despite the country's substantial progress in reducing poverty, Vietnam faces ongoing challenges in sustaining and extending the gains to date. The gap between the richest and the poorest quintiles of the population is steadily increasing, and poverty in rural areas and among ethnic minorities is considerably more prevalent than in cities and among the majority ethnic group. Most rural households are not yet diversified beyond agriculture; only 23% of households are involved in industries and services. Such an agrarian society is still the main place for low growth with high poverty. Moreover, a large proportion of the Vietnamese population may no longer be desperately poor and living below the minimum needs of food, clothing and a dwelling, but they remain vulnerable, lacking certain essential goods as well as education and primary healthcare. Natural calamities, poor health, social and economic shocks, and other uncertainties may turn the recently out-of-poor households back to being poor again at any time. This situation of "poverty recovery" has already occurred in Vietnam during several typhoons and dry seasons when production was destroyed, and during economic and social crises. Therefore, new innovative strategies will need to be continuously developed and tested to achieve sustainable long-term poverty alleviation and widespread prosperity.

Conclusion – The Case for Adopting the Vietnamese Model for Development

Based on the evidence presented in this paper, the Vietnamese model of comprehensive socio-economic development seems to be a practical alternative for other developing countries, including Tanzania. Under this new model, economic growth is closely linked with social equity. Poverty reduction is a top priority within the larger regime of development and the benefits of high economic growth are used to improve the livelihoods of the poor. Under the guideline of the State and the people working together, all stakeholders contribute to the cause of poverty reduction, especially the poor themselves. By adopting this approach over the last 25 years, Vietnam has been able to achieve the much sought after twin goals of high economic growth and rapid poverty reduction.



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