

# Economic growth and changes in welfares during the economic reforms in Vietnam

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**Abstract.** Over the past 20 years, with the reform policy called *Doi Moi* comprehensively applied to the economy, Vietnam has achieved great results in her economic development process. High rate of economic growth with average of 7-8% per annum sustained for almost nearly two decades has contributed to considerable increase in per capita income, from 180 USD in early 1990s to nearly 1,200 USD in 2010. With the considerable increase in per capita income, there was the improvement of the people's general welfare. However, growth and development in the past 20 years has contributed to increase the gap between rich and poor. By using the qualitative method combined with the data explanatory analysis and the method of computing Gini index of inequality as well as growth model, the findings pointed that generally the income inequality in Vietnam during the 1998-2008 period (irrespective of the source of income) is in increasing tendency. In addition, based on the growth model estimation results, the study proved that the economic growth rate is in positively correlated to inequality in come.

## 1. Introduction

Over the past 20 years, Vietnam's development has shown its mark in its economic history as the economy has restored macroeconomic stability to achieve high rate of growth and an impressive reduction of poverty (World Bank 2001). The achievements were resulted from the government's efforts to recover the country from the deep socio-economic recession in late 1970s and early 1980s, which led the economy into hyperinflation and stagnation that caused deterioration in the people's living standard,

widespread poverty and severe damage of economic structure and infrastructure. Facing these difficulties, the government announced a renovation program called "*Doi Moi*"<sup>(1)</sup> (the pro-market policy) in late 1980s to restore the socio-economic conditions. Main aim of the *Doi Moi* was to implement the comprehensive socio-economic reforms that focused on transforming the country from the central planned toward market-oriented economy. The pivotal point of the "*Doi Moi*" was macroeconomic structural adjustments, microeconomic reforms and transition to a market-oriented economy in order to foster growth and to improve people living standards and welfare. To achieve these, the government implemented the reforms in both agriculture and industry, and gradually opened the

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<sup>(1)</sup> The Vietnamese words *Doi Moi* is analogue to reform and is used as the official words in most documents.

economy to the outside world. With a high rate of economic growth attained, people's welfare has changed. Poverty rate declined sharply as it is recognized that "almost no other country has recorded such a sharp decline in poverty in such a short period of time" (Government of Vietnam-Donor-NGO Poverty Working Group, 1999), and household living standards have been considerably improved. The data from various household living standard surveys revealed the proportion of the population living below poverty line<sup>(2)</sup> measured by head count index significantly declined from 59% in 1993 to just over 14% in 2006.

## 2. A Review of the economic development before *Doi Moi*: Period 1975-1985

After the country's reunification in 1975, Vietnam's economy was characterized by the continuation of socialist transformation nationwide. This is marked by the Fourth National Congress of the Communist party in December 1976, which mapped out the period of transition to socialism throughout the country as "to carry out socialist industrialization and transform the economy from small scale production into large scale socialist production, and to give priority to development of heavy industry based on

development of agriculture and light industry" (Fourth National Congress of the Communist Party, 1976). During this period, the economy was performing poorly. In the North, two decades of war and isolation with inherent problems of applying soviet model central planning to a poor and subsistence agrarian economy had done little to improve the well-being of the population (VGSO, 1992; Fforde and de Vylder, 1996). In the South, war and the distorted structure of incentives that had resulted from large and sustained volumes of US aid had impoverished many and enriched a few (Dacay, 1986). Trapped in both low economic growth and dissimilar economic styles between two regions, the state quickly moved into the Second Five Year Plan<sup>(3)</sup> (1976-1980) and the Third Five Year Plan (1981-1985) to apply the central planning upon the entire country, and to correct the shortcomings of the economy due to the application of central planning across the entire country in the Second Five Year Plan that caused a downturn in the late 1970s as shown in Table 1. As the table revealed the decomposition of growth rate into different categories for 1979 and 1980 was below zero, the consumer price index (free market price) was so high, yearly-basic increase by more than 100%, and high levels of trade deficit.

The Second Five-Year Plan, from 1976 to 1980, contained many points of voluntarism such as: i, to strive for achieving rapid development of agriculture, to improve people's living standard and to accumulate capital for industrialization production (agro-based

<sup>(2)</sup> There are two poverty lines used in Vietnam namely the *national poverty line* and the *international poverty line*. The *international poverty line* is derived by the Vietnam General Statistical Office (GSO) has two components. The lower *food poverty line* is a measure of the expenditure per capita required to secure an intake of 2100 calories a day, regarded as the minimum nutritional requirement. Non-food items are added to obtain the *general poverty line*. The basket of food and non-food items is determined by the consumption patterns of the first quintile of households in terms of capita expenditure. People whose expenditures beneath the poverty line are considered poor. Meanwhile the *national poverty line* was developed by the Ministry of Labor, Invalids and Social Affairs. In the 1990s this line was the income equivalent of buying 15kg, 20kg and 25kg of rice per month as poverty line for food items. In 2001 the line was increased to include non-food items. The poverty rate is the proportion of households that fall beneath the line. In this study, we use the *international poverty line*.

<sup>(3)</sup> After the war with France (First Indochina War) ended in 1954, Vietnam had been partitioned into two regions: North and South. In the recovering period after the war, the North Vietnam's economy grew well, quickly recovering agriculture and transportation. Since 1958, the North has realised socialist transformation in the economy, establishing centralised-economy developing model and nationalising all means of production, planning the national economy centrally. In this period, the North government implemented the First Five-Year Plan which took place from 1961 to 1965, the country moved into a constructing period under central planning.

developing model); ii, to develop heavy industry to support agriculture and then to increase capital accumulation; and iii, to implement basic socialist transformation to the South. In this period, the economic model developed in the North was applied to the South as the government nationalized state enterprises and cracked down private businesses, organized farmers into the northern style of agricultural collectives.

In the Third Five Year Plan from 1981 to 1985, in order to reverse the bad economic situation at the end of the previous plan, the country attempted to break the rigidity of the centrally planned mechanism. Being supported by the top leaders, a new and relatively liberal resolution had been introduced as to encourage the development of a private and household economy, which was strictly prohibited before. Most important breakthrough was the introduction of the product contract system in agriculture, a step further away of the agrarian reform proclaimed in the late 1979s by passing Directive No. 100. In this system, households, rather than cooperatives were considered as the main economic unit, and were assigned lands in a cooperative by signing a contract to deliver a given amount of output at fixed prices as quota for using the cooperative land. The households were allowed to retain and trade surplus output beyond their quota. The cooperative remained responsible for providing various services as ploughing, irrigation and marketing, and supply of seeds, fertilizers and pesticides.

In the industrial sector, a significant change was the application of market-oriented reform, whereby the state-owned enterprises (SOEs) were allowed to operate under the Three Plan System Mechanism. Under Plan One, the enterprises were provided with the inputs at subsidized prices, but were required to supply set quantities of goods to the state. Under Plan Two, the enterprises could produce beyond the amount specified in Plan One and were able to buy additional inputs needed. Plan Three allowed enterprises to engage in sideline

activities as they were permitted to produce and sell surplus products from freely purchased inputs.

However, most targets set by the second five year plan were hard to meet. Collective mechanism in agriculture and nationalization of industry proved its shortcomings and many setbacks as growth of these sectors in the second plan was very little. However, with the introduction of Product Contract System in agriculture and Three Plan System in industry in early 1980s, the economy recovered and was in better prospect. Table 1 reveals total social product and industrial outputs growth rates were negative during 1980-1981, then increased in early years of 1981-1985 before falling again in 1985-1986. For the 1976-80 period, annual agricultural growth was around 1.9%, significantly lower than annual population growth of 2.3%. However, total agricultural output increased in 1981-1982 before declining again during 1984-1986. There was no different story in the industrial and trading sectors. Nationalization of industries and commerce was not successful. Industrial sector had a very low rate of growth. Industrial production was stagnant with an annual growth rate of about 0.4% only (VGSO 1991). As a result of mismanagement and misleading policies, the economy was in very bad condition. Food shortage was so critical that the government is forced to import 1,576 millions tons of food grains in 1980 despite as an agricultural-based economy. Budget deficit was very high, from as low as 2.5% for the 1976-1980 period, it rose to 14% in 1981-1985 and reached peak of 36% in 1985. Gross investment was too low. Prices rose almost more than 50% annually and import was much higher than export. The economy was in short of investment capital leaving many plans unfinished and leading to serious shortage of essential consumer goods. As table 1 showed, after a slight recovery in the early years of the 1980s, the economy was in recession again in the mid 1980s.

Table 1: Selected Macroeconomic Indicators, Period 1976-1986

Indicators	76-80	81-85	1979	1980	1981	1982	1983	1984	1985	1986
Growth rate (% per year)										
Total social product <sup>a</sup>	0.5	6.4	-2.0	-1.4	2.05	8.9	6.7	8.3	5.7	2.2
Per capita social product	-1.8	4.2	-4.2	-3.6	0.3	6.7	4.5	6.1	3.5	2.1
Total industrial output	0.6	9.5	-5.5	-1.4	1.0	8.1	12.8	13.1	11.9	6.5
Total agriculture output	1.9	4.9	1.7	5.2	4.9	10.9	7.0	4.2	4.7	0.3
Retail price index	60.0	74.2	119.4	125.2	69.6	95.4	49.5	64.9	91.6	590.0
Gross investment (as % of net material product)	13.1	13.0	14.0	13.3	11.7	10.8	12.8	14.9	15.0	8.0
Budget deficit (as % of total govern. expenditure)	2.5	14.0	5.2	1.0	17.5	8.0	4.5	4.0	36.0	30.0
Trade deficit (% export/import)	24.2	33.8	33.1	30.3	29.1	32.6	37.5	35.0	35.0	37.0
Per capita staples production (kgs)	259	295	266	268	273	300	296	303	304	301
Unemployment rate (%)	12	20	13	15	29	32	25	19	10	9

Notes: a. The net material product national accounting system is explained in endnote 111.

Sources: GSO of Vietnam and the World Bank Vietnam: various years.

Prior to the Sixth Congress of the Party in 1986, the Government was facing two difficulties. First, the process of the economic transformation was stagnant. In the beginning, especially in 1979 and 1980 there was no output growth but the population grew very fast. Real capita income continued to fall from an already low level with per capita total product declined at 2.0% and 1.4% for respective 1979, 1980 (Table 1). Second, the partial and gradual market-oriented reform was seriously defected. There was output response but the macroeconomic imbalance undermined the support of the reforms. In 1985 and 1986 the price rose almost from 100% to 300 % in the free market retails. To cope with the downturn, in 1985 the state introduced a comprehensive reform in currency, price and wage. The number of goods subject to price controls was reduced. Efforts were made to eliminate subsidies to producers and consumers. However, the efforts to reform subsidies and prices resulted in heavy losses for SOEs. The coverage by the state for the losses of SOEs had a dual impact. First, it boosted the budget deficit, which rose to an unsustainable 12% of GDP in 1985 (World Bank, 1990). Second, the budget constraint of the SOEs stimulated further inflation. The GDP deflator,

which rose from 307 in 1984 to 588 in 1985, took off to reach 3415 in 1986 (World Bank, 1990). As a result, hyperinflation prevailed and domestic saving collapsed (Fforde and de Vlyder, 1996). The economy was again facing severe stagnancy and downturn. Therefore, in December 1986, the Government decided to change the course of the reform toward more intensive to transform the economy from a centrally planned to a market-oriented economy. This transformation had been known as *Doi Moi*. The *Doi Moi* suggests not a full-scale conversion to capitalism, but rather a cautious acceptance of the market as a means for achieving economic growth, improving people's living standard and, thereby, maintaining and strengthening the party's political and economic control.

### 3. Economic reform under *Doi Moi* and its impacts on macroeconomic performance

The severe macroeconomic imbalances in the mid-1980s exposed the inherent contradiction of a state-led, market-subordinated development strategy (Sepehri and Akram-Lodhi, 2002). In addition, the advent of hyperinflation led to a collapse of real

spending and a liquidation of domestic saving. Whilst the state's earlier attempts to sustain central planning and its institutions succeeded in slowing down the growth of the non-planned economy, the symbiotic relationship between the planned and non-planned sectors created more pressure for further intensive reform. Thus, in 1986 the Party launched a comprehensive reform called *Doi Moi*. The basic viewpoints of *Doi Moi* were: i) to develop a multi-sectoral economy; ii) to shift the economy from a planned centralized, state subsidized mechanism to a socialist-oriented market economy under management of the state; iii) to enhance foreign economic efficiency on the basis of expanding economic cooperation to the countries in the region and the world; and iv) to democratize all fields of the socio-economic life, to implement administration reforms, to improve people's living standard and to build a good welfare system.

### 3.1. Economic reform under *Doi Moi*

The start of the reform was applying a set of microeconomic reforms to agriculture in the late 1980s. The most important measure was the introduction of Directive No. 10 in 1988, which formally de-collectivized agriculture. The reform further went beyond the contract system. The quota system on household production was eliminated, allowing farmers to make all decisions regarding resource allocation, production and sales. Crop and input prices were liberalized. Land tenure had been given to the farmers in 1988. Next to the land reform, the new land law was passed by in 1993, which classified those farmers who had right to use land distributed to them for 20 years and the right could be renewed. This gave more opportunities to farmers to sell or mortgage the rights to use their land (World Bank, 1993: chapter 2).

In the industry sector, there were only few reforms initially as there was no attempt to

reform and privatize the state owned enterprises (SOEs). However, private economic activities bloomed in informal commercial and service sectors. SOEs had been granted more autonomy by primarily removing the role of planning targets in the decision making processes. Of greater importance in the reforms in this period were the efforts to strengthen the economic role of the private sector. Prior to the *Doi Moi*, the private sector had not played a significant role in the transition process. Another important step was the elimination of the state monopoly of foreign trade in 1988, allowing the establishment of Foreign Trade Organizations (FTOs) and permitting some firms to engage directly in international trade outside the FTOs. The economy had been opened to foreign direct investment (FDI) by the introduction of the first law on foreign investment in 1987.

There were strong economic responses to market-oriented reforms. Macroeconomic imbalance again continued to undermine the economy. During the 1986-1989, inflation was extremely high, at 487%, 301%, and 394% in respective 1986, 1987 and 1988. The cause of this imbalance was perhaps the deficits of the public sector. The rapid expansion of credit resulted in a sharp increase in prices. The higher the rate of inflation was, the more people shifted from Vietnamese dong to use dollars and gold, which was circulating freely at the time. This behavior had triggered further economic instability. The inflation also undermined international competitiveness, with the dong significantly overvalued in real terms. The trade balance was also at high deficit, up to about 10% of GDP in 1989 (Ministry of Trade, 1990). Although trade with the non-socialist countries covered only 26.8% of import bills over this period as compared to 31% over the period between 1981-1985 (Phong and Beresford, 2000).

Under the pressure of an impending crisis, the government decided to accelerate the transition process with combination of structural reform and stabilization measures.

The main structural reform (adopted in 1989) was the elimination of price control and state procurement system. The dual pricing system under the three-plan system in industrial reform destroyed both efficiency and stability. Firms were to sell at low prices and they then had to be financed by credit from the central bank. This led to the creation of money and, as a result, inflation.

Facing extremely high rates of inflation, the country adopted the stabilization program in 1989. Two key components of the program were to raise and to stabilize interest rates, and devalue and unify the exchange rate<sup>(4)</sup>. In this period, the central planning was abandoned. The authorities readily implemented an IMF type stabilization program without IMF funding. The program called, among other things, for a tight monetary policy, a reduction in government spending, deeper, more profound market liberalization, the introduction of user fee for publicly provided services, the broadening of the tax system, and a drastic devaluation of the dong (Ljunggren, 1993; Fforde and van Vylder, 1996). As a result, inflation was almost brought to a halt by mid 1989. Credit continued to grow but there was a substantial portfolio shift from dollars and gold to dong assets.

In parallel with these measures, in order to reduce the government deficits perhaps caused by the growth of the public sector spending, the government chose to raise taxes and to reform the public sector. In fact, the tax base in Vietnam was very weak. Most of government revenue was from taxing the SOEs, and the price reform undermined the profitability of

these enterprises. The only way that the government was able to bring the budget deficit down was to cut government spending and to cut short the credit subsidized to the SOEs, to improve the fiscal burden and budget deficits. In this process, the government launched the SOE reforms program called equitization in 1989. Before *Doi Moi*, the country had over 12,000 SOEs. The economic performance of these SOEs lagged as they lacked incentives to be more efficient and profitable. Accumulated bad debts of poor performing SOEs led to increased fiscal burdens and budget deficits that caused a protracted problem<sup>(5)</sup> to the Vietnamese government.

In the process of SOEs restructuring, there were a large number of workers left the sector, and the number of SOEs considerably declined to 1,997 in 2003 from 12,000 in 1989. These policies gradually brought the expansion of credits under control. In two years, 1990 and 1991, they reduced the deficits by 6% of GDP by cutting subsidies to state enterprises, reducing investment programs, constraining wage increases to below inflation, and also demobilizing one-half million soldiers. As a result, money growth was under control, and inflation was cut down to a single-digit level. In 1995 domestic credit increased by 20.3%, none of which went toward the budget, credit to state firms increased by 16.7%, and credit to the private sector increased by 37.2%. All these policies along with restrained monetary policy succeeded in bringing inflation down to a one digit figure.

<sup>(4)</sup> Vietnam had a dual exchange rate system prior to the intensive reform in 1989: the official exchange rate and the swap rate. The official exchange rate referred to the exchange rates between Vietnamese Dong and other foreign currencies, as set by the State Bank of Vietnam. Whilst, the swap rates were the rate applied for the purpose of facilitating purchase and sale of foreign currencies between two business entities at non official rates. These swap rates were determined by market supply and demand.

<sup>(5)</sup> In his speech at the National Conference for accelerating SOE reform on March 14 2004, PM. Phan Van Khai said: "Not many SOEs are profitable. The taxes collected from SOEs are just VND 8 billion while the state budget is VND 87 billion. SOEs' bad debts are high as 8.5% while the average rate for the economy is just 6.1%. Total receivable and payable debts of SOEs are VND 300,000 billion (US\$ 20 billion), more than 50% of Vietnam's GDP. I have had to settle bad debts of SOEs at least twice since I was Deputy PM. After just settling VND 18,000 billion, I found another VND 18,000-19,000 billion bad debt "returning". If this situation continues, the growth rate of the economy will be affected."

Another important element in Vietnam's successful stabilization program was the export's growth. Vietnam was critically dependent on some key imported inputs as steel and fertilizer, which came mainly from the Soviet Union and other socialist countries in the Eastern Europe. However, the fall of the Soviet Block has negative impacts on import of these inputs. Shortage of foreign exchange propelled the government to strive for a proper solution as further liberalization of trade and devaluation of dong to stimulate the growth of export to earn more foreign exchange to promote input's import. As a fact, Vietnam was known as one of the transition economies most open to foreign trade and investment (Desai, 1998).

These reforms have brought successes to the economy. The liberalization in agriculture has transformed the country from a rice importer to one of the largest rice exporters in the world. Rice output increased around 25% per year that played an important role and had a very positive impact on exports to convertible currency areas. Further, as a crude oil exporter, when oil became the most rapidly growing export in 1992, it contributed substantially to the country's export's growth. Nevertheless, industrial sector still played a very small role in export, accounting for just 13% of total export in 1992 (Ministry of Trade, 1993). Increases in export of industrial products partly help the

country to solve the problem of foreign exchange and partly meet the demand for import of inputs. With the effectiveness of the first foreign investment law, the FDI was blooming in Vietnam during 1990s (Table 2).

### 3.2. The consequences of economic reforms on macroeconomic performance

The *Doi Moi* brought about tremendous successes to the economy. Certainly, its achievements exceeded what the reformers imagined when they launched the *Doi Moi*. To go through the achievements by the reform, we examine its outcomes in different stages of development.

#### 3.2.1. Economic achievements during the 1986-1993 period

Despite the severe recession in the second half of 1980s, the economy showed the sign of recovery and started to grow in the late 1980s helped by solutions from the government in its attempt to improve economic management, monetary and agricultural policies. As Table 2 reveals, on average, GDP increased by 3.9% per year during this period, per capita GDP increased 2% during 1986-1988, and 4.8% during 1989-1993 despite skyrocket increase in consumer price, which rose to 365.3% per annum during 1986-1988.

Table 2: Selected Macroeconomic Indicators, 1986-1993

Indicators	1986-1988	1989-1993
	<i>Growth rate (% per annum)</i>	
Real GDP	4.4	6.5
Per capita real GDP	2.0	4.8
Inflation (CPI)	365.3	38.9
Unemployment rate	14.6	12.7
	<i>As a share of GDP</i>	
Gross investment	8.4	16.4
National saving	-1.4	11.3
Government deficit	5.9	4.9
Current account balance	-9.8	-5.1
Per capita staples production	296	332

Sources: GSO of Vietnam and the World Bank Vietnam: various years

Since the late 1980s, there have been evidence of positive changes, especially in agriculture. As mentioned, in 1988 the government put forward the new regulation not to fix farm output quotas to each household, and to consider each household as an economic unit. This new regulation brought positive changes in the food grain production. Instead of having to import 450,000 tons of food as in 1988 and before, Vietnam became one of the rice exporting countries one year later in 1989, and became the world third biggest rice exporter in 1990 with export volume reaches 1.5 million tone. In the industrial sector, key industries as electricity, laminated steel, cement and crude oil attained fairly good growth. These improvement in export helped reduce the ratio of import-export 28%, gradually reducing the trade deficit. The ratio of export to import during the 1986-90 was 1/1.8 in comparison with 1/4 during 1976-1980. Another great success was that inflation had been kept under control and driven back from 774.7% in 1986 to 67.4% in 1990.

In short, the successes of the renovation in the 1986-1993 period were a recovery of production, a growing economy and rolled-back inflation. More importantly, there was a fundamental shift to a new management mechanism as application of market-oriented system and private ownership, implementation of trade liberalization and multi-sectoral economy. FDI started to accrue into the country to help boosting production, generating income and employment and improving people living standard. However, it took the country almost 5 years more to get rid of the social-economic crisis which broke out in the first half of 1980s.

### 3.2.2. From 1994: period of high economic growth

With the achievements attained during the 1986-1993 period, the country's confidence had been boosted. The government continued to work out the strategy toward stabilizing and developing socio-economic conditions, putting forward the orientation and tasks for the period

thereafter. The major setbacks for the economy in the end of 1980s and early 1990s were the protracted economic embargo imposed by the US while the Eastern European countries were facing crises during transitional period. These factors has had negative impacts on the economy. Total foreign trade turnover to these countries sharply decreased as trade turnover in 1991 was accounting for only 15.1% of that in 1990. However, it was of great advantage that the renovation started to have effectiveness; economic units were gradually adapted to the new management mechanism. Achievements in this period are as follows:

1. Fundamental mechanism changes: There were multiple sectors functioning in the economy as state-run, state capital, private capital, cooperative, individual, etc. in which non state-run sector accounted for 60% of GDP. Economic sectors were handed with rights of land use and export-import activities. The state-run sector, however, was still given special attention to help it play the decisive role in the economy.

2. Economic structure reform: In pursuing the high rate of growth, the country continued the reform in economic structure. To do this, the government paid attention to raise the proportion of service and industry, steadily reduce that of fishing, forestry, and agriculture. Economic structure began to shift towards establishing essential areas, industrial zones, export processing zones and areas specialized in industrial plants, etc.

3. Inflation was kept under control and driven back: With the development of production, convenient commodities circulation and anti-inflation experiences from several years before, prices were gradually stabilized. Prices of goods and services increased by 67% in 1991, 5.3% in 1993, and only 4.5% in 1996.

4. Establish commercial relations with more than 120 countries helped increase trade turnover by more than 20% a year. Non-refund aids and loans for social-economic development by many countries and international organizations have been granted. Total ODA



loan to Vietnam during 1994 -1997 was 8.53 billion USD. In the field of FDI, during 1988-2008, there were nearly 5,000 projects licensed with total capital of approximately 80 billion US dollars (Ministry of Planning and Investment, 2005).

The achievements resulting from intensive reform had further created stability and fundamental changes in the economy. As a result, fair and high economic growth rate has been attained for over last 15 years, unlike other transitional economies in Eastern Europe and the former Soviet Union as these economies experienced a dramatic decline in the initial period of transition (Ivaschenko, 2001). Vietnam was considered as a success story with high rates of economic growth without any decline, macroeconomic stability, stable prices, and increasing annual rate of employment over the years despite a marginal slump in a very short time in 1986-87 when GDP growth reduced to 0.7% from the level of 2.3% in one year earlier<sup>(6)</sup>. Since 1990, GDP growth rate in the country was always sustained at high level. During the first half of 1990s, the average GDP growth rate was kept at 8.2% annually. In addition, the economy was also registered a very impressive annual growth rate of employment and a low level of inflation rate. As Table 3 shows, during 1996-2008, the rate of economic growth was always more than 7%

on average, and employment rate increased during the period by about 2 to 5%. The growth performance of Vietnam has been among the best transitional economies both in Eastern Europe and Asia. Meanwhile, as shown in Table 3, year-on-year changes in consumer prices kept at a single digit. Stable and low inflation rate for over last 10 years indicate stability in the domestic market. However, there is change recently caused by the global crisis that shows inflation rose to double digit (12.6% in 2007 and 23.9% in 2008).

These successes of *Doi Moi* during the last two decades have changed people's welfare. The economy had sustained a fair growth rate from the beginning years before attaining a very high rate of growth for nearly last 20 years. We cannot deny the fact that there were also negative impacts on the people's welfare as people lost their job during the SOEs reforms, which negatively affected the people's income and household welfare. However, the benefits gained from the reforms have surpassed the loss. As shown in Table 4, the GDP per capita increased almost 4 times during the 1997-2008 period which led to a sharp fall in the poverty rate over times. According to VLSS surveys conducted in 1993, 1998, 2002, 2004 and 2006, the poverty rate was respective 59%, 37%, 29%, 19%, and 14.8%.

Table 3: Selected macroeconomic indicators: 1996-2006

Indicators	'96	'98	'99	'00	'02	'03	'04	'05	'06	'07	'08
Real GDP growth rate (%)	9.3	5.7	4.8	6.8	7.0	7.1	7.5	8.4	8.2	8.5	6.3
Changes in consumer price (%)	n.a	9.2	4.0	7.0	3.8	4.0	9.0	8.4	8.0	na	na
Employment (changes in %)	2.2	2.1	2.1	2.0	3.5	4.2	5.0	5.3	5.4	5.8	5.2
Inflation rate (%)	4.5	9.2	0.7	-.5	2.9	3.0	2.7	8.9	7.8	12.6	23.9
Unemployment rate (%)	5.8	6.8	6.7	6.4	6.0	5.7	5.6	5.3	4.8	4.6	5.4

Note: n.a indicates data are not available.

Sources: General Statistical Office, various years.<sup>(6)</sup>

<sup>(6)</sup> Before 1988, Vietnam's national accounts were calculated using the Net Material Product System (MPS). Subsequently, Vietnam followed the System of National Accounts (SNA) and has calculated GDP in 1989 market prices for 1988. The MPS data for the pre-1988 period excluded some services counted as part of GDP in SNA. More importantly, production data were aggregated using the rather arbitrary fixed prices of 1982.

#### 4. Changes in people's welfare

Vigorous economic growth for the last 20 years has brought changes to living conditions and people's welfare in Vietnam. Over the last two decades, per capita income had increased almost four times and poverty sharply reduced. In parallel, the state of welfare distribution in the country has also changed. It would not be surprising, given such a good economic performance, to see that many economic and social indicators have improved considerably

during the period. Table 4 illustrates the extent of the improvement in a range of welfare indicators showed all the indicators have been improved. The second row of the table shows the real GDP per capita consumption has increased close to six times between 1992-93 and 2004-05. The poverty rate has also declined considerably, from 58% in 1992-93 to only 14.8% in 2007-08. Other key welfare indicators representing education, health and basic needs have also improved indicates a better welfare for people in the country.

Table 4: Key welfare indicators during *Doi Moi*

Indicators	1992/93	1997/98	2004/05	2007/08
GDP per capita consumption (USD)	10	311	720	1024
Poverty rate	58.1	37.4	19.5	14.8
Lower secondary enrolment rate (%)	30	62	90	92
Doctors per thousand population (doctor)	26	38	50	55
Child malnutrition (%)	50	34	26	21
Adult malnutrition (%)	32	27	19	15
Access to clean water (%)				
Rural	17	29	40	48
Urban	60	75	81	87

Source: General Statistics Office of Vietnam

Consequently, the improvement in welfare indicators have raised questions to those concerned about how the patterns of welfare distribution and how welfare inequality have evolved during the *Doi Moi*. Previous studies on household expenditure distribution using Gini index have found the increasing trend in household expenditure inequality (Dollar et al., 1998; Binh Nguyen et al., 2003; World Bank and the GSO, various years). Initial estimates of the Gini for income and expenditure inequality representation for different income categories (Table 5) show the increasing trends of income inequality. In Table 5, we computed Gini coefficient for various types of income and expenditure in order to represent a picture that shows the pattern of income and consumption of the people in the country. These breakdown calculations would further help people understand the way the people spend on their food, non food items. As the breakdown Gini

has shown, inequality in total income increases over the times but it is more moderate than the inequality in non-wage income but inequality in non-farm income has declined between 2002 and 2004 and increased in 2006 and in 2008. In the case of expenditures, as statistics reveal, inequality in total expenditure has increased over the times but that of non-food expenditure and durable consumption declined from 1992 to 2006 but increase in 2008 and Gini for non-durable consumption has increased. These findings reflect the consumption patterns of people in Vietnam as the country records a faster growth, economic situation is improved. As a result, people's income increases which leads to increase in their living standard. It is in line with the consumption behavior theory as that people consumption pattern changes towards spending more on luxury good when they become rich.

Table 5: Gini coefficients for overall inequality in income and expenditures

Gini coefficients	1998	2002	2004	2006	2008
Total income	-	0.409	0.414	0,423	0,431
Income excluding wage	-	0.496	0.498	0,504	0,509
Non-farm income	-	0.609	0.570	0,573	0,592
Total expenditure	0.351	0.368	0.372	0,389	0,401
Non-food expenditure	0.505	0.481	0.472	0,470	0,486
Durable consumption	0.634	0.596	0.564	0,552	0,557
Non-durable consumption	0.336	0.351	0.360	0,373	0,393

Source: Own calculation, based on data from VLSS 97/98, VHLSS 2002, VHLSS 2004 and VLSS2006.

In order to understand fully about the relationship between the economic growth and welfare inequality presented by the composite index of welfare calculated from various key welfare indicators provided in Table 4 for the period 1990-2008, we estimate a simple linear growth model, which takes the form:

$$g_i = a + by_i + II_i + gX_i + e_i \quad (1)$$

Where  $g_i$  is annual GDP growth rate of province  $i$ ,  $y_i$  is logarith per capita GDP of province  $i$  in the beginning year of the studied period,  $I_i$  is welfare inequality of province  $i$  presented by composite Gini of key welfare variables in Table 4, and  $X_i$  is matrix of the control independent variables that affect economic growth such as public investment, human capital and variables that affect social welfare such as dependent rate of province  $i^{(8)}$ .

Table 6: Estimation results of equation  
Dependent variable:  $g_i$

Independent variables	1998	2002	2004	2006	2008
$y_i$	-0.647	-0.416	-0.408	-0.401	-0.396
$I_i$	1.899	1.948	1.956	1.971	1.972
$x_1$	4.189	4.240	4.217	4.219	4.206
$x_2$	0.0005	0.0006	0.0006	0.0007	0.0006
$x_3$	-2.587	-2.698	-2.734	-2.795	-2.668

Source: Author

Results provided in Table 6 pointed out that the rate of GDP growth is positively correlated with welfare inequality, public investment, human resources but negatively correlated with the initial level of logarithm per capita income and dependent rate. These findings are conformity with the literature of economic development which stated that in the beginning of economic development, the rate of economic growth and welfare inequality are proportionally correlated. In addition, public investment and human resources are important factors contributed to economic growth. Further, high level of initial per capita income and high rate of dependency may negatively affect the rate of economic growth.

## 5. Summary and conclusion

In this paper we provided an overview of the Vietnam's economic development process since the country's reunification in 1975. In 1976 the country started to apply the soviet model already existing in the North to the South. The main economic mechanism was centrally planning. However, this economic model performed poorly. The economy was in a severe downturn at the end of the 1970s and the beginning of 1980s. The growth during this period was low, even minus. Inflation was very high and protracted. Trade and government deficits were high. All major macroeconomic

indicators indicated a stagnant economy. The agricultural and industrial production was low that led to food shortages for many years in the 1980s despite the agrarian based country. The entire economy was in an impasse.

In the midst of the recession, the government launched a comprehensive reform program in 1986 to strive for overcoming the crisis and stabilizing the macroeconomic condition. Initially, the reforms were a step to partly abandon the central planning. However, because the old mechanism did not completely give way to the market-oriented system, the economy still faced a downturn in the second half of the 1980s despite the initial recovery recorded. However, the *Doi Moi* succeeded in getting the process of institution building and marketization on track. The government, once again, took a step further to push up to the more intensive reform in the early 1990s. The intensive reforms had been carried out in agriculture, industry, foreign trade and pricing. The trade was liberalized and the economy completely opened to the outside world for foreign trade and investment.

As the reforms took effects, the economy started to grow in the beginning of 1990s. High rates of economic growth have been recorded in nearly last 20 years. The country has become the second biggest rice exporter in the world. Vietnam has been considered as a potential and prospect destination for foreign investment with macroeconomic and political stability and other advantageous conditions. As a consequence, people's incomes almost tripled over the last ten years and the living standard of the people substantially lifted.

Achievements recorded over the last 20 years of economic reforms in Vietnam had tied down to all aspects of the socio-economic changes, and therefore there is no way for Vietnam to drive away from a market oriented economy mechanism. Hopefully, new significant changes in policy direction and reform implementation toward more openness would be made in Vietnam in years to come in order to switch the economy toward complete market system for freer

mechanism and higher growth. The prevailing institutional limitations and constraints mean that there is still a large space for Vietnam to change in order to meet expectation of the initial reforms as to create a stable and strong market economy in its socialist orientation. In addition, the social and investment policies should concentrate more on reducing welfare disparities and promote future sustainable growth.

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## Tăng trưởng kinh tế và những biến đổi về phúc lợi xã hội trong thời kỳ cải cách kinh tế ở Việt Nam

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**Tóm tắt:** Hơn 20 năm qua, với chính sách cải cách kinh tế hay còn gọi là “đổi mới” được áp dụng một cách toàn diện, kinh tế Việt Nam đã đạt được một bước khá dài trong chặng đường phát triển của mình. Tăng trưởng kinh tế cao, đạt bình quân từ 7-8%/năm trong gần suốt hai thập kỷ đã làm cho thu nhập bình quân đầu người tăng mạnh, từ mức 180 USD trong những năm đầu của thập niên 90 của thế kỷ trước lên tới gần 1200 USD trong năm cuối cùng của thập niên đầu tiên của thế kỷ 21. Cùng với sự tăng mạnh của thu nhập bình quân đầu người là sự cải thiện đáng kể mọi mặt cuộc sống và phúc lợi của người dân như các chỉ số về giáo dục, y tế... đã được cải thiện. Tuy nhiên, tăng trưởng và phát triển trong thời gian qua cũng đã làm cho cách biệt giàu nghèo giữa các tầng lớp trong xã hội và giữa các vùng có chiều hướng tăng lên. Bằng việc sử dụng phương pháp phân tích định tính kết hợp với phân tích số liệu theo kiểu giải thích (data explanatory analysis) và sử dụng hệ số bất bình đẳng Gini tính cho các nguồn thu nhập của người dân cũng như mô hình tăng trưởng thể hiện sự tương quan giữa tăng trưởng và bất bình đẳng thu nhập, bài nghiên cứu này đã chỉ ra sự thay đổi thu nhập bình quân đầu người ở Việt Nam trong thời kỳ từ 1998 đến 2008. Kết quả nghiên cứu cho thấy rằng nhìn chung bất bình đẳng thu nhập ở Việt Nam (bất kể là từ nguồn thu nhập nào) đang có xu hướng tăng lên cùng với sự phát triển của nền kinh tế. Một kết quả nghiên cứu nữa dựa vào việc ước lượng mô hình tăng trưởng là tỷ lệ tăng trưởng kinh tế có quan hệ tỷ lệ thuận với bất bình đẳng thu nhập.