



## VIETNAM: Income gaps are growing

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**SUBJECT:** Growing income disparities.

**SIGNIFICANCE:** During the last ten years, approximately 30 million Vietnamese -- more than a third of the population -- have been lifted out of poverty. However, as the economy expands, disparities in income are widening, despite the government's avowed goal of achieving equitable growth.

**ANALYSIS:** Alongside rapid economic growth, there has recently been significant progress across a number of development indicators. Between 1993 and 2005:

- gross national income per capita rose more than three-fold;
- the poverty incidence declined from 58.1% to 19.5%;
- primary school enrolment rates rose from 77% to 94%; and
- the under-five child mortality rate dropped from 53 per 1,000 to 23 per 1,000.

**Rising incomes.** Over the last decade, average real incomes have risen by around 7% per year, and the World Bank expects Vietnam to reach most of its Millennium Development Goals. More anecdotally, other events in recent months suggest the national economic profile has graduated to a new level:

- The first telecommunications satellite (the 200 million dollar Vinasat-1) was launched.
- A private businessman acquired the country's first executive plane.

According to the local press, the chairman of a property company paid seven million dollars for a 12-seater Beechcraft King Air 350. So unprecedented was this move that reports suggested the businessman would not have to pay import tax, as tax regulations have no classification for executive planes.

Increasing car ownership points to rising incomes in the main urban areas. With the ports heavily congested, some impatient car owners are even paying to have their new vehicles flown in. However, such vehicles are covered by tax regulations, and owners incur an 80% tax on imported cars. Despite such a steep tax, and the fact that it can cost three times more to buy a car in Vietnam compared with the identical model in the United States, car imports have increased four-fold.

**Development challenge.** At the other end of the income spectrum, donor agencies and non-governmental organisations (NGOs) continue to pursue poverty alleviation initiatives in rural areas; Vietnam is a major recipient of donor assistance and funding support. Yet although the overall level of poverty has declined considerably, stubborn pockets of genuine poverty remain, particularly in more remote rural and border areas, including those inhabited by minority ethnic groups.

According to the most recent Human Development Report published by the UNDP, Vietnam ranks 105th out of 177 countries surveyed by the Human Development Index, just below Algeria and just above Indonesia. The national Gini coefficient -- a measure of income inequality -- has been rising, from 0.345 in 1990 to 0.432 in 2006:

- While the poorest 20% of households in Vietnam accounted for 8% of total incomes in 1990, this dropped to 5.6% in 2006.
- Conversely, the most affluent 20% of households saw their share of total income increase from 42.7% to 49.3% over the same period.

**Rising inequalities.** Part of this widening gap in incomes is a function of the industrialisation process. Many young people are leaving rural areas, where reliable work is scarce, and gravitating towards the cities and industrial zones. Each year, around 250,000 people migrate to Ho Chi Minh City. This trend creates problems since cheap accommodation becomes harder to find, and more expensive.

Further, the recent surge in consumer prices (the consumer price index reached 26.8% last month) is having an impact on livelihoods (see [VIETNAM: Signs of fragility sweep optimism aside - June 11, 2008](#) and see [VIETNAM: Rising prices are testing Hanoi - January 29, 2008](#)). With 43% of the consumer price index based on food products, prices of rice, fish, meat and other staples have risen markedly, making life more difficult for low-income urban residents.

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**Poverty pinch.** The greatest incidence of poverty is among ethnic minorities, who are in danger of being left behind by economic growth:

- In the decade up to 2004, there was almost a doubling in the proportion of poor emanating from ethnic minorities.
- In 2004, when it was estimated that just 14% of the majority Kinh were still living in poverty, over 60% of ethnic minority people were classified as poor.
- While ethnic minorities then made up 14% of the population, they represented 39% of all the poor.

A recent paper prepared for the Committee for Ethnic Minorities, under the Ministry of Planning and Investment, cautioned that should this trend continue, the issue of poverty could become synonymous with the issue of ethnicity. This has echoes with neighbouring Laos, where the lowland Lao Loum have benefited more from economic development than the highland Lao Theung and Lao Sung.

At its most extreme, just 4% of the majority Kinh Vietnamese are estimated to have food consumption that was below basic nutritional needs, compared with over a third of all ethnic minorities. There are a number of factors that may explain why ethnic minorities seem to represent such a large proportion of the poor, relative to their small numbers:

- **Location.** Minorities are mostly located in rural -- and often quite remote -- areas, and remain heavily dependent on agriculture, and particularly forestry, for income generation. However, their formal ownership of forested land is quite limited, and much of the land is actually denuded of trees.
- **Welfare.** Until recently they have had limited access to basic healthcare and education. Across all age groups, school attendance is much lower for ethnic minority children than for Kinh children, and this difference is even more pronounced for girls. Less than a third of all ethnic minority adults have graduated from lower secondary school, compared with over 50% for ethnic Kinh adults. Ethnic minorities have not been well positioned, geographically or intellectually, to take advantage of the opportunities arising from industrialisation.

**Rural-urban divides.** Income disparities between rural and urban areas are increasing, and the income divide within rural areas, largely between the majority Kinh and ethnic minorities, is proving difficult to overcome. Within urban areas, there seems to be a growing range of incomes, from the low paid (and inflation-hit) unskilled workers to those who have benefited significantly from opportunities created by economic reform and business liberalisation.

The avowedly socialist government is cognisant of this issue, although efforts to close the disparity gap have been mixed. The government and donor agencies are likely to focus more attention on the issue of equitable growth, and particularly the plight of the ethnic minorities.

**CONCLUSION:** A widening disparity in income is probably to be expected in a large and developing economy that is growing so rapidly. However, there is growing and justified concern that the issue could jeopardise social stability should it continue unchecked.

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